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Q1 2024 Donaldson Company Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Donaldson Fiscal First Quarter 2024 Earnings Call. Please note that this call is being recorded. (Operator Instructions)

I will now turn the call over to Sarika Dhadwal, Head of Investor Relations. Please go ahead.

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

Good morning. Thank you for joining Donaldson's First Quarter Fiscal 2024 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 details on our outlook for fiscal 2024.

During today's call, we will discuss non-GAAP or adjusted results. In the prior year period, first quarter fiscal 2023 non-GAAP results exclude restructuring and other charges of $7.6 million. 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. I am pleased to report our first quarter earnings results, which demonstrate our continued ability to deliver to our customers and shareholders despite overhanging macro uncertainty. This quarter, we reported consolidated gross margin at nearly a decade high, driven by our team's efforts on strategic pricing, deflation in select input costs, mix benefits and plant productivity. We focused on executing in and growing each of our three operating segments and laid the groundwork for a record fiscal 2024.

In Mobile Solutions, despite volume weakness from softer end market conditions, we delivered strong profit margins driven by strategic pricing, select input cost deflation, mix benefits and strong plant performance. Our Industrial Solutions business continues to outperform from a top and bottom line perspective. Our create, connect, replace service business model has allowed us to first create high-quality, first-fit solutions through innovation and the addition of connected features.

Second, connect solutions through next-generation gateways and controllers. In fiscal 2023, aftermarket sales growth from connected customers outpaced that of non-connected industrial customers and we launched the connected model in India, Thailand and China. While we're in the early innings, as of the first quarter, we have seen strong growth in the new connections as compared to prior year.

Lastly, we are replacing and servicing equipment through our one-stop shop approach and service capabilities across the full range of Industrial Solutions businesses. Overall, we are gaining market share in industrial as we penetrate key end markets and expand geographically. For example, our Power Generation business drove results this quarter as we benefited from recent customer wins,

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including large urban projects in Asia and the Middle East. Aerospace and Defense also had a strong quarter, and we've increased our outlook for the year, which Scott will discuss later as wins in cabin air filtration, including a major OEM win positively impact results.

In Life Sciences, as expected, we saw sequential improvement in our operating performance. We continue to invest and build the foundation needed to gain share in these highly attractive, high-margin markets by leveraging our competitive strengths and global reach and our pipeline of opportunities is growing.

Now I'll cover some consolidated highlights. Sales of $846 million were flat year-over-year as volume declines were offset by pricing benefits. Currency was also a slight tailwind. Volumes were negatively impacted by OEM aftermarket destocking, off-road end market weakness and continued pressure in disk drive. Conversely, pricing remained a benefit as we added value for our customers and strategically offset ongoing inflationary pressures such as labor rates and energy costs. EPS in the quarter was $0.75, flat to prior year as gross margin gains and favorability in other income were offset by investments in strategically important growth areas, including our Life Science business.

One of the highlights this quarter was the strength and resiliency of our best-in-class operations, one of Donaldson's key competitive advantages. As always, our focus remains on working down our backlogs and improving our fill rates and on-time delivery rates. As supply chain conditions have improved, we have been able to return to the company's longstanding focus on operational excellence and effective cost management. While we execute today, we continue to invest for the future through our CapEx and R&D investments.

With respect to CapEx, while capacity investments continue to be the largest portion as we prepare for future profitable growth, we are also focused on cost reduction initiatives and the further commercialization of our Life Sciences acquisitions. Our strong cash flow generation, combined with the strength of our balance sheet, allows us to continue these exciting investments and drive towards our long-term strategic objectives.

Now I'll provide some detail on first quarter sales. Total company sales were $846 million, essentially flat to prior year. Pricing was an approximate 3% benefit. In Mobile Solutions, total sales were $540 million, a 3% decline versus 2023. Pricing added 3%. Within the mobile segment, performance continued to be mixed. Off-Road sales of $95 million were down 9% due to weakening end market conditions, including in China and the agriculture markets within the Americas and India. Aftermarket sales of $408 million were down 2% year-over-year, driven entirely by the OEM channel. As anticipated, destocking from OEM customers continued in response to normalizing global supply chain conditions. That said, we are now starting to see a stabilization in order patterns and believe the destocking is largely behind us.

In our independent aftermarket channel, sales increased 3% year-over-year. Sales in our On-Road first-fit business of $38 million grew 5%, driven by elevated levels of on-highway equipment production, particularly in China.

Now I will touch on China as a whole within Mobile Solutions as it continues to be an important market for us. Sales declined 14% versus 2023 and declined 11% in constant currency. Conditions within the country continue to be very challenging given the weak broader market conditions, particularly with respect to Off-Road. Despite this, our long-term view remains positive given the market size and our opportunities to gain share.

Turning to the Industrial Solutions segment. The Industrial segment had another robust quarter as sales increased 7% to $246 million. Pricing added 2%. Industrial Filtration Solutions, or IFS, sales grew 7% to $211 million, driven by strong dust collection and Power Generation sales. Aerospace and Defense sales rose 6% due to another quarter of Defense sales strength.

On the Life Sciences segment, Life Sciences sales were $60 million, a 4% year-over-year decrease driven primarily by anticipated ongoing disk drive market weakness. We are seeing early signs of a slow demand recovery and expect a sequential improvement in disk drive sales through fiscal 2024 as data center and cloud computing demand recovers. Along with growing our legacy Life Sciences businesses, including food and beverage, we are focused on scaling our acquisitions and look forward to detailing how these are contributing to our growth in the quarters to come.

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As we close the first quarter of the year, I am proud of our hard-working Donaldson employees around the globe. I'm continually impressed with their dedication to our customers, their fellow employees and to our mission of advancing filtration for a cleaner world. Through our ongoing efforts, we are well poised to deliver value to all of our stakeholders in fiscal 2024. As such, for the full year, our outlook is unchanged as we forecast total sales, operating margin and earnings at all-time high levels.

Now I'll turn it over to Scott, who will provide more details on the financials and our outlook for fiscal '24. Scott?

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

Thanks, Tod. Good morning, everyone. Our first quarter results serve as a solid foundation for us to build upon throughout fiscal 2024 and beyond. I would like to thank our outstanding global teams. I am so impressed by and proud of the way they once again came together, executed and delivered solid results. Donaldson has the right people and strategy in place to drive the company towards our fiscal 2026 financial and strategic targets.

I will provide color on our outlook for fiscal 2024 in a few minutes, but first we'll give additional details on the results for the first quarter. In summary, sales were flat versus 2023, operating income decreased 2% from the prior year, largely driven by ongoing investments in the Life Sciences segment and EPS of $0.75 was flat year-over-year on a comparable basis. Gross margin was 35.6%, a 170 basis point improvement versus the prior year. Pricing was the largest driver of the improvement, followed by benefits of deflation of freight and select material costs and mix.

Operating expenses as a percent of sales were 20.8% compared with 18.9% a year ago. The deleveraging of operating expense in the quarter was due to increased hiring related expenses and notably, nearly half of deleveraging continues to be from incremental expenses related to the scaling of our Life Sciences acquisitions. Operating margin was 14.7%, down 30 basis points versus 2023 as operating expense deleveraging more than offset the year-over-year increase in gross margin.

Now I'll discuss segment profitability. Mobile Solutions pretax profit margin was 17.1%, up 260 basis points year-over-year, driven by gross margin expansion, resulting in large part by pricing and deflation of select input costs. Also, as Tod mentioned earlier, mix and strong plant productivity contributed.

Industrial Solutions pretax profit margin was 17.6%, up 120 basis points as a result of leverage on higher sales. Life Sciences pretax loss was approximately $4 million, including a headwind from acquisitions of roughly $11 million. Pretax profit margin was minus 7% versus minus 12.4% in the fourth quarter and compared to 17.2% a year ago. Incremental investments in our acquisitions continue to negatively impact results. However, through our commitment to long-term profitable growth, we are investing for the future and look forward to seeing these businesses scale.

Turning to a few balance sheet and cash flow statement highlights. First quarter capital expenditures were approximately $23 million. Cash conversion in the quarter was 125% versus 97% in 2023. Conversion was above average, driven by operating performance and focused working capital management.

In terms of other capital deployment, we returned approximately $84 million to shareholders inclusive of $30 million in the form of dividends and $54 million in share repurchases. Importantly, earlier this month, Donaldson's Board of Directors authorized a new share repurchase program, which replaces the previous plan. The new plan allows for the repurchase of up to 12 million shares of common stock or approximately 10% of shares outstanding. Our strong cash flow generation and disciplined capital deployment allows us to maintain a healthy balance sheet. Our net debt-to-EBITDA ratio was 0.7x at the end of the quarter.

Now moving to our fiscal '24 outlook. First on sales. We continue to expect full year total sales to increase between 3% and 7%, which includes pricing of approximately 2% and currency translation benefit of about 1%. For Mobile Solutions, we are forecasting a sales increase of between 1% to 5%, consistent with our previous expectations. Within Mobile, we now expect Off-Road sales to be down mid-single digits versus our previous expectation of up low single digits as end market conditions, particularly in China and the agriculture markets within the Americas and India have softened.

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On-Road sales are forecast to be flat versus up low single digits previously due to weaker-than-expected on-highway vehicle production. Our outlook for the aftermarket is unchanged. Strategic pricing benefits and market share gains are expected to drive mid-single-digit growth over prior year.

For Industrial Solutions, sales are expected to increase between 3% and 7%, in line with our previous guidance. IFS sales are forecasted to grow mid-single digits as strong overall demand and market share gains in dust collection and Power Generation drive results. Aerospace and Defense sales are projected to increase mid-single digits, an improvement from the previous negative low single-digits expectation, due to robust end market conditions and market share gains.

In Life Sciences, our sales and profitability expectations for the year are unchanged. We are forecasting sales growth of approximately 20%, driven by geographic expansion in food and beverage, the scaling and maturation of our bioprocessing equipment and consumables businesses and a return to growth in the disk drive business. We expect full year fiscal 2024 Life Sciences pretax profit margin to be positive and are committed to our longer-term Life Sciences Investor Day targets.

Consistent with our previous guidance, total company operating margin is expected to be within a range of between 14.7% and 15.3%, which at the midpoint, is a 40 basis point year-over-year improvement from adjusted operating margin of 14.6% in fiscal 2023. Year-over-year gross margin expansion is expected to be the driver of the improvement.

Touching on gross margin cadence for the balance of the year, our first quarter performance was very strong. As we look to the remaining quarters, we expect year-over-year gross margin expansion, however, will likely see a sequential step down, particularly in the second quarter due to typical seasonality and a slight moderation in pricing benefits versus the prior year. For the full year, higher operating expenses as a rate of sales are forecast to partially offset gross margin strength. It's worth highlighting once again that our operating margin guidance represents a record for Donaldson, and we are particularly proud of this given our ongoing commitment to investing for the future, including in our Life Sciences segment.

In terms of EPS, we are reaffirming our guidance of a range between $3.14 and $3.30, up from $3.04 in fiscal 2023. In summary, we are committed to delivering higher levels of profitability and higher levels of sales to our shareholders in fiscal 2024 and beyond.

Now on to our balance sheet and cash flow outlook. Cash conversion is expected to be in the range of 95% to 105% above our historical averages. Our capital expenditures forecast of $95 million to $115 million is heavily weighted towards growth initiatives in all three segments. In terms of other capital deployment priorities, our strategy has not changed. We continue to focus on reinvesting back into the company through strategic acquisitions and are committed to returning value to our shareholders through dividends and share repurchases.

Now I'll turn the call back to Tod.

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

Thanks, Scott. As we look to the remainder of the year and beyond, we are focused on continuing to invest and execute on our long-term strategic initiatives, all aimed at building upon our position as the leader in technology-led filtration. We are confident in our balanced growth strategy and in the fiscal 2026 financial targets we laid out at Investor Day.

Our organic growth continues to be fueled by our R&D investments, which we expect to increase more than 20% this year. With respect to our inorganic growth, we are integrating and working to scale our Life Sciences and services acquisitions and our healthy balance sheet continues to afford us significant flexibility in pursuing additional strategic M&A in those areas.

Our purpose of advancing filtration for a cleaner world is at the forefront of our growth and everything we do. Importantly, this purpose serves as the foundation for our sustainability strategy. And through our company principles, we continue to work towards delivering on our 2030 ESG ambitions. These principles include: one, operate sustainably. We're working every day to do our part to help mitigate impacts from climate change. Two, operate safely. We aim to provide safe and healthy workplaces for our global employees. Three, engage and empower employees. We are dedicated to advancing opportunity and equity at Donaldson. And four, enrich our

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communities. We continue to prioritize our commitments to positively impacting our communities with charitable giving through the Donaldson Foundation.

In closing, I would like to thank the entire Donaldson team. Through their demonstrated agility, ability to operate in any environment and dedication, we have and will continue to return value to all our stakeholders.

With that, I will now turn the call back to the operator to open the line for questions.

QUESTIONS AND ANSWERS

Operator

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

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

I was hoping you'd offer a little more color on how you see mobile aftermarket phasing through the year. Some pressure to start was expected given the OE channel dynamics, but you noted stabilization there. So that's certainly positive. Comps obviously ease going forward. Should we see aftermarket return to solid growth in fiscal 2Q? Or is it more of a back half inflection that's contemplated?

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

Yes. So as we talked about before, on the OEM channel relative to aftermarket, we've been going through an extended period of destocking, driven really on a customer-by-customer basis, which prolonged it over time. We believe that we are largely through that piece at this point. And as we look now forward sequentially, we would suggest that it's going to go up, driven by the overall share gains on the independent channel and the stabilization of the OE channel.

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

Again, gross margin was obviously excellent in the quarter. Scott, you said that we should expect there to be some moderation from these levels. Could you offer a little more detail there? And the reason that I ask, just very simplistically looking forward, volume should be stronger, certainly going into the back half per your typical seasonality, and I assume there will be more favorable mix. So I'm just looking for a little more quantification, if you're willing to offer that.

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

Yes, sure. I can try to help you out a bit. So obviously, 35.6% is a really good number for Donaldson. We kind of had all things heading in the right direction this quarter, which is great. We had a good cost picture, really good plant performance. We had a good mix. So things really all came together for us this quarter.

Longer term, we obviously see opportunities to mix our company's gross margin up, and that's something that we're going to -- we've been talking about for a long time, and we continue to work on, and you're seeing some green shoots of that. I don't think 35.6% is necessarily sustainable in the very short term. So we said we expect it to sequentially step down, but we'll still have year-over-year margin improvement throughout the year. So we feel good about where the margin landed for the quarter. We'll have year-over-year gross margin improvement this year. And just sequentially, we're going to step down a little bit from this quarter.

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

Okay. Understood. And I guess sticking with margin. Can you offer some finer points on what you're anticipating by segment for the year? You did specify that Life Sciences is expected to get to a positive level. Started out rather strong, the legacy segments. Just curious how the segment outlook shakes out for you?

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

Yes. I mean, like you said, the first thing we said is we expect the Life Sciences business to get to above breakeven this year. So they're sequentially improving. They sequentially improved from Q4 to Q1, and we expect continued sequential improvement as they scale. We want to continue to invest there. We feel really good about where we're headed and some great opportunities that the team is working

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very hard on.

And our other two businesses had a strong quarter, good solid performance. And it'd be a lot to expect a 35.6% gross margin going forward. So like I said, we don't expect that. But we do expect a 40 basis point improvement driven by all those factors through the year. That will get us to a good point for the company and about 1/3 of our way towards our investor year targets after year 1. So I would say both Mobile Solutions and Industrial will contribute to that improvement. Keeping in mind, we want to continue to invest in future growth.

Operator

Your next question comes from Nathan Jones with Stifel.

Nathan Hardie Jones ***Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst***

I'm going to push a little more on the gross margin piece of the business. I know you guys had some initial trouble with pricing with your OEM customers on the Mobile side, which is not unusual for them. And obviously, realizing some of that price now, seeing some deflation. I think part of the strategy there has been to hold on to that pricing if you saw some deflation. So I'm looking for a little bit of commentary on your ability to hold pricing in a deflationary environment.

I would also imagine that as Life Sciences ramps up as we go through the year, that would be a tailwind to mix. So I'm just looking for a little bit more color on outside of the seasonality in the second quarter, what are the headwinds to gross margin that maybe make that 35.6% not sustainable for the full year?

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

Yes. So I mean I think you've kind of covered it relatively well in your question. We certainly expect a slow and steady mix improvement in our gross margin. So we want to continue to execute on that plan. Like you said, we've worked very hard on pricing. And in some cases, it's taken us a while to get pricing where it needs to be. We've only included in our guidance, a 2% price increase this year. So certainly, price increases are leveling off as kind of the world comes back into balance. We see some of our larger customers are still increasing their prices at a pretty good rate. And we want to have a reasonable commercial discussion with all of our customers on pricing. And certainly, we've never taken advantage of any situation to really push pricing. We want to have reasonable commercial relationships with both our suppliers and our customers.

And so just like on the upside, we're going to manage it if things trend down. Some commodities are down, as you noted, but media is still up and other costs are still up. So we have to manage the price equation on a consistent basis. We certainly want to be fair and expect fairness on the other side as well. And we're going to continue to manage it and update each quarter on our price impact that we can deliver. If things go crazy up or crazy down, obviously, we have to adjust, as we've done recently. And we're going to continue to manage that in what we consider to be a fair and equitable manner.

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

Yes. And maybe just a quick add. The relationships that we have with the customers, I think what really hurt so badly is the degree of change that we experienced through this past cycle. And now as we march forward, we're hoping that the overall range of change would be much smaller than what we've experienced, so we don't get the larger swings which will allow us to really have a more normal type of a pattern on the up and down. And as Scott appropriately said, we're just looking to have good, fair commercial relationships with our customers, and we'll continue to work to do that.

Nathan Hardie Jones ***Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst***

On Life Sciences, to get to 20% growth, you're obviously getting, may I say, a significant sequential ramp up as we go through the year in revenue. Last 4 quarters have been pretty stable at about $60 million of revenue there. Can you talk about how we should think about the cadence of the ramp up through the year? I assume most of that ramp-up is driven by the actual Life Sciences piece, finishing the capacity adds and starting to ramp up volume. So can you just talk about how we should think about that as it goes through the year to get to that 20% growth number?

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

Sure. It's a sequential step up, Nathan. It goes from a very broad-based approach, particularly notably in some of the larger projects that we have in the bioprocessing world that will ship in the back half of the year, as well as more of a stabilization and looking forward -- crawling forward, if you will, in our disk drive base businesses and some of our traditional. Also, wins within more of our venting applications type of programs. But within the bioprocessing side, clearly, we'll be stepping forward on the back half of the year. So I would say it's very broad-based in Life Sciences. And you'll see us have a sequential improvement looking forward and that the backlogs do support the current guide.

Nathan Hardie Jones ***Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst***

And last one for me on turbine projects. It's been a while since I've heard you guys talk about winning large turbine projects. I know it's been something that you've been de-emphasizing because the margin profile wasn't that good. Can you talk about whether or not you've managed to make these projects something that's solid margin for the business or how these came about? It's just been a while since we've talked about any of those things.

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

We talked about some years ago that we were changing our strategy and really entering a very disciplined approach relative to those larger projects and that we felt that we were not getting the overall profitability for those projects. And so we backed down, obviously. However, I would tell you, we also said that should we win large turbine projects, it will be on our terms. And I can tell you, we remain very disciplined in that regard. And so consequently, we're very happy with the large turbine project wins because they're on our terms. And frankly, they're fair with the customer relationships and what we would expect to profit with that type of a business. It is in the neighborhood of, at this point in time this year, of about $30-ish million, give or take a little bit. And so we're really happy with where we are.

Operator

Next question comes from Rob Mason with Baird.

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

Tod, you described the mobile aftermarket business growth, this mid-single-digit growth for the year kind of driven by price and market share gains. Should we infer that volume is neutral there? Or will volumes be down?

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

No, volumes will be up driven by the share gain that we have clearly across the independent channel. So the independent channel is driving the up and then the stabilization of the OEM channel and lapping that destocking activity is really what gives us that kind of an outlook, if you will. And if you just look at what happened year-over-year first quarter, the OEM channel was down high single digits. The independent channel up, obviously, low single digits. But looking forward, we would expect now because we lap the OEM destocking that we'll be up year-over-year. And then on the independent channel, we'll continue the share gain momentum that we have.

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

Okay. So the share gain impact in independent, that is -- you're already seeing that because frankly, aftermarket seasonally was better than typical seasonality, fourth quarter to first quarter. So I'm just curious if that's...

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

It's all share gain, Rob. It's all share gain.

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

Okay. Very good. Maybe I'll get my gross margin question as well, just maybe more pointedly, is 35% handle on fiscal '24 gross margin, I mean, is that a likelihood possibility?

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

35.0% or 35.9%? So I mean when we said we did 35.6%, right, in the quarter, we said we're going to sequentially step down. But we are going to have Qs 2, 3 and 4, we should pretty much have year-over-year gross margin growth. So I'll let you triangulate it and work your calculus from there.

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

Sure. Okay. Very good. Just last question. Just you did tweak the Off-Road as well as the On-Road guidance lower understandably, I think, just given what we're hearing. But if I think -- I know the comps ease in Off-Road for the balance of the year. But if I think about that trending out just in revenue dollars, it seems to suggest that revenue dollars go up from here. That's maybe counter a little bit of what we're hearing from some of the producers. I'm just curious if -- the level of visibility around that as you think about for the remaining 3 quarters?

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

Yes. If I just talk about the On and the Off, I'll start with the On-Road. Yes, we did go from up low-single digits to flat. But I want to point out that it's kind of nuanced. So we were up like plus 1, and now we're flat. And so the overall dollar value of that is like $0 to $5 million. So it's not a lot of movement across the models on the On-Road sector. And so we would tell you that the On-Road sector really is kind of behaving as expected. It's just a nuance, if you will.

And then within the Off-Road sector, we did bring the Off-Road sector down as in our remarks commented by -- or really highlighted by the ag pressures that we are starting to see. However, within the model, the second half in Off-Road is higher than the first half. So I'm not sure you have your model that way based upon the question, but it's important to be that on a dollar basis.

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

Yes. Yes, that was the inference. That was the case. But I was just -- so you're seeing those pressures in Off-Road now, but they -- production rates improve?

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

Yes. But you have to realize that we're typically a 48-52 first half, second half type of company. And based upon what we're seeing, we have that type of a model built in ahead of us. And that's kind of how we built it out and projected it.

Operator

Your next question comes from Brian Drab with William Blair.

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

You obviously had stronger performance in the Aerospace and Defense segment and some share gains and wins there. Can you just elaborate on that? Was that win on the Aerospace side? Or more on the Defense side? It sounds like Aerospace and in a cabin air niche of the market where you've had a presence for a long time. So can you just elaborate on what's happening there?

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

Yes, it's rotorcraft. So it's new programs come on board with -- now we're delivering rotorcraft based project, and that is a very long-term program. So we would expect that new program to deliver for many years to come.

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

Okay. Is that within a Defense program? Or is that commercial?

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

Yes. [CH-53K] helicopter.

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

Great. Okay. And then would you be able to provide an update on some of the bioprocessing pipeline stats that you've shared in the past? You talked recently about having 20 customers, prospective customers, I guess, and a pipeline of over $200 million in revenue, and you mentioned 20% of the pipeline past technical approvals. How is that going? And could you update any of those metrics?

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

Yes. Just generally, Brian, I'd tell you that it continues to grow for us. We still have a really robust pipeline. The pipeline in the last quarter did grow. We continue to add out our sales staff, touching more customers and touching, far more important than that, more laboratories at those customers. So we're really pleased with the progress that we have. And we really have great momentum now. We are not prepared to update those numbers at this point in time. I would just tell you with certainty the numbers are higher.

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

Is some of the bioprocessing revenue starting to hit then in fiscal '24 in a meaningful way such that that's influencing your forecast for Life Sciences up 20% for the year after being down 4% in the first quarter?

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

So what we have in the bioprocessing side, particularly related to the acquisitions that we have, for example, in Univercells Technologies and Solaris, et cetera, is baked into the current guide. There is bioprocessing deliverables, I mean, revenue within the guide for sure.

Operator

Your next question comes from Laurence Alexander with Jefferies.

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

It's Dan Rizzo on for Laurence. So if we talk about pricing, I was just wondering how it works. Is it an ongoing discussion as like monthly reviews or quarterly reviews? How often do you like go to your customers and just discuss the state of the world, so to speak?

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

So you really have to parcel out the company into two buckets. So the first bucket is the independent aftermarket as well as our industrial-based businesses. That is more quick to change, and we take pricing action on an annual basis. We have returned back to a more normalized annual price action in the larger portion of the corporation.

On that smaller portion, that 35% of the company, which is like that OEM or first-fit based project activity, those would have longer-term contracts. And so that is typically now on a quarterly basis, but it is discussed because there's ranges involved and there's particular commodities involved and -- so it's pretty complex models that we continue to work through with the customers and perfect over time. Because there's been a tremendous challenge on the last cycle that really challenged new models to be built, et cetera, and we continue to perfect those looking forward.

So it's ongoing relationship discussions as you talked about, but it's -- but they're pretty frequent. They're -- at this point, I would tell you, they're at least quarterly in discussion.

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

Okay. And then you mentioned the slowness in China. A couple of things. One, can any of that slowdown in China be attributed to seasonality in front of the Chinese New Year? And then outside of China and really in the U.S. and Europe, outside of ag, is it fair to say that things are generally okay or improving or growing? Is that how we're thinking about the rest of the world, at least from here -- for here?

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

Yes. If I look at the rest of the world, I would tell you -- I'll get to your China question in a second, but I would tell you, if we look at the whole world across construction, ag,, mining, on-road sectors, I would tell you, the Americas, so the United States and LatAm, continue to be solid. I would tell you, China obviously is the very troubled. It remains very troubled. I don't think it has anything to do with Chinese

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New Year. It's just a very troubled economy, and we're looking for green shoots to start there, and we just have not seen signs.

I would tell you, Europe -- as we continue to look at Europe, I would suggest we have a tighter eye on Europe to understand maybe a little bit of a more cautious view of Europe, and we'll see how that develops going forward. But that's generally how we would give you the macro view geographically across our end markets.

Operator

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

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

That concludes the call today. Thanks to everyone who participated, and I look forward to reporting our second quarter fiscal 2024 results in February. Have a great holiday, everyone. Goodbye.

Operator

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

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