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Q2 2024 Donaldson Company Inc Earnings Call

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CORPORATE PARTICIPANTS

Sarika Dhadwal *Donaldson Company, Inc. - Director of IR*
Scott J. Robinson *Donaldson Company, Inc. - CFO*
Tod E. Carpenter *Donaldson Company, Inc. - Chairman, CEO & President*

CONFERENCE CALL PARTICIPANTS

Bryan Francis Blair *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*
Joseph J. Donahue *Robert W. Baird & Co. Incorporated, Research Division - Research Analyst*
Laurence Alexander *Jefferies LLC, Research Division - VP & Equity Research Analyst*
Nathan Hardie Jones *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

PRESENTATION

Operator

Good morning. My name is Dennis and I will be your conference operator today. At this time, I would like to welcome everyone to the Donaldson Company Second Quarter 2024 Earnings Call. (Operator Instructions)

I would now like to turn the conference over to Sarika Dhadwal, Senior Director, Investor Relations and ESG. Please go ahead.

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

Good morning. Thank you for joining Donaldson's Second 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 second 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, second quarter fiscal 2023 non-GAAP results exclude pretax restructuring and other charges of $9.3 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. Please go ahead.

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

Thanks, Sarika. Good morning, everyone. I am pleased to report our strong second quarter in which all 3 operating segments contributed to our overall sales growth, demonstrating the benefits of our diversified business model. This quarter, despite ongoing macro uncertainty, we worked to deliver Donaldson's technology-led air filtration products and services to our customers. We grew on the top line and once again delivered robust gross margin and earnings. Through the hard work and dedication of the Donaldson team, we are well on our way to a record fiscal 2024.

In Mobile Solutions, overall volumes rebounded this quarter despite pockets of ongoing end market weakness driven by strength in our Aftermarket business, where we continue to gain share. Mobile profitability hit an all-time high, with pretax profit margin in the quarter up 18%, up 300 basis points year-over-year. Mix benefits, strategic pricing as well as freight and select material cost deflation drove the results in the quarter.

Our Industrial Solutions business continues to see broad-based sales strength driven by our create, connect, replace and the service model. Solid end market conditions and our ability to gain share and win programs in key areas such as Dust Collection, Power Generation and Aerospace and Defense have enabled our success in this segment.

In Life Sciences, our sales growth was driven by an expected rebound in Disk Drive as market conditions have improved over prior year. We're focused on growing our legacy businesses through new program wins and market share gains. We are also maintaining our commitment to investing in our acquired businesses and have made progress on the integration and scaling of these businesses. Overall, I'm excited about our current technologies and the pipeline of highly attractive, higher-margin opportunities, and I'll provide additional details on some of these opportunities in a few minutes.

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Now I will cover some consolidated highlights. Sales of $877 million were up 6% year-over-year, driven by an increase in volume and pricing. Currency was a marginal tailwind. The volume growth and market share gains in the quarter underscore the value of our customers see in Donaldson's technology, and we believe tremendous growth opportunities remain across our diversified portfolio. While price was a contributor, we are seeing more normalized pricing and expect this to continue through the balance of the year. That said, our pricing discipline remains critical as we are still experiencing pockets of inflation.

EPS in the quarter was $0.81, an 8% increase versus prior year as gross margin improvement and favorability in other income and tax were partially offset by investments in long-term growth, including in our Life Sciences business. Backlogs remain strong and give us confidence in our outlook through the balance of the year. While overall supply chain conditions have improved, we are seeing some challenging areas such as certain material shortages. That said, our customers come first, and through our global operations teams, we are continually working to improve our on-time delivery rates and work down our backlog.

We are striving for optimal execution today and are also building for tomorrow through our investments in R&D and capital expenditures. As of the end of the second quarter, we remain on track to increase R&D investments by double digits this fiscal year, ensuring we remain the leader in technology-led filtration for decades to come. CapEx this quarter included investments in capacity, IT and infrastructure, as well as new products and technology, including for the support of the further commercialization of our Life Sciences acquisitions.

Now I'll provide some detail on second quarter sales. Total company sales were $877 million, up 6% compared with prior year. Pricing was a benefit of approximately 2%. In Mobile Solutions, total sales were $550 million, a 5% increase versus 2023. Pricing added 3%, and volumes grew year-over-year. Within the Mobile segment, strength in Aftermarket offset declines in the first-fit businesses. Aftermarket sales of $425 million were up 11% year-over-year, driven by market share gains in both the independent and OE channels and by elevated levels of global equipment utilization.

In the independent channel, sales continue to be solid and increased high single digits. OE channel sales grew mid-teens. As we mentioned last quarter, we believe destocking is largely behind us. The destocking began in Q2 of last year, and we are now seeing a return to more normalized growth rates. Sales in On-Road of $34 million declined 3% due to lower levels of equipment production in APAC. Off-Road sales of $92 million were down 13% as weaker end market conditions, including in agricultural markets and in China, persist.

We are generating solid overall growth and strong profitability in the Mobile Solutions segment despite softer first-fit performance and I would like to highlight a few ways in which our strategic execution is driving these results.

First on the Aftermarket side. We are developing and expanding our relationships with key customers in both channels. Our relationship with NAPA, which we announced in August of 2023, is a great example. Through this relationship, our heavy-duty air filtration products are being sold through NAPA's extensive U.S. network. As a reminder, Donaldson is focused on heavy-duty applications and are not targeting the light truck or car market. While we have not provided specifics on the financials around this partnership, this has been and will continue to be a meaningful driver of performance and market share gains.

On the OE side, while first-fit results have been impacted by weaker end market conditions, our customers value our technology and innovation. In air filtration, our PowerCore intake filters provide high-quality compact solutions in demanding commercial applications. Our ability to meet stringent customer requirements recently yielded a significant commercial win in Europe, increasing share in this important category. In China, while the broader market remains weak, we have gained traction with our PowerCore investments and are optimistic about our ability to gain share in the future.

In liquid, we are expanding our position with our Synteq XP advanced fuel filtration technology. This is a specific area in which we see tremendous opportunity and we are seeing growth with OEM customers, particularly in India and Japan. Across the entire Mobile business, we're focused on our profitability enablers, which remain consistent with what we outlined at Investor Day last April. These include continually optimizing our footprint while efficiently managing costs, refining our supply chain while maintaining quality for our customers, optimizing prices, in other words, consistently managing the price equation and consistently striving for operational

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excellence through ongoing initiatives to eliminate waste and improved performance.

Now before moving to the Industrial segment, I'll take this opportunity to make a few comments about performance in China. The market continues to be very challenging. Sales were approximately flat versus 2023 and increased 3% in constant currency. Aftermarket showed particular strength in the quarter, offsetting significant declines in first-fit. It is important to note that while year-over-year performance improved this quarter, prior year's results were negatively impacted by COVID lockdowns and the inclusion of Chinese New Year a year ago. This resulted in fewer shipping days in the prior year period.

Turning to the Industrial Solutions segment. Industrial segment sales increased 7% to $263 million, with our project-based products driving much of the growth. Industrial Filtration Solutions, or IFS, sales grew 6% to $225 million. Market share gains and supportive end market conditions continue to drive IFS sales strength. Aerospace and Defense sales rose 12% to $39 million from program wins in Defense.

On the Life Sciences segment. Life Sciences sales were $63 million, a 6% year-over-year increase driven by a rebound in Disk Drive performance. As expected, sales are slowly recovering, supported by stronger data center and cloud computing demand. With the first half of fiscal 2024 behind us, I'm pleased with our performance, which reflects ongoing efforts and progress on delivering on our commitments to all of our stakeholders including our global customers and shareholders.

Given our strong year-to-date performance and our expectations for the balance of the year, we remain on track to deliver record sales, record operating margin and record earnings in fiscal 2024. Now I will 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. I would like to start by expressing my gratitude to our employees around the globe who once again came together and helped Donaldson deliver a strong quarter. I am continually impressed by their ongoing efforts, which are driving the company forward. 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 second quarter.

In summary, sales increased 6% versus 2023, operating income increased 3% and EPS of $0.81 was up 8% year-over-year. Gross margin was 35.2%, a 70 basis point improvement versus prior year. Benefits from pricing combined with deflation of freight and select material costs were the largest drivers of the year-over-year increase. Operating expenses as a percent of sales were 20.4% compared with 19.3% a year ago. Expense deleveraging in the quarter was driven by increased people-related expenses, due in part to higher headcount, and approximately half of the year-over-year increase in operating expense dollars was related to scaling of our Life Sciences acquisitions.

Operating margin was 14.8%, 40 basis points below 2023, as the operating expense deleveraging more than offset the gross margin increase. Now I'll discuss segment profitability. Mobile Solutions pretax profit margin was 18.0%, up 300 basis points from prior year, as the segment benefited from mix, pricing and deflation of freight and select material costs.

Industrial Solutions pretax profit margin was 18.0%, down 80 basis points year-over-year. We are pleased with the ongoing strength of the Industrial segment, and while margins declined versus 2023 due to a sales mix shift towards lower-margin products, they remain at a high level.

Life Sciences pretax loss was roughly $6 million, including a headwind from acquisitions of approximately $15 million. Our Life Sciences profitability targets have not materially changed, and we are confident in the profitable growth potential of our acquired businesses.

Turning to a few balance sheet and cash flow statement highlights. Second quarter capital expenditures were approximately $22 million. Cash conversion in the quarter was 67% versus 78% in 2023. Conversion was lower year-over-year due to an increase in working capital, including higher receivables as a result of January sales strength. In terms of other capital deployment, we returned approximately $63 million to shareholders, inclusive of $30 million in the form of dividends and $33 million in share repurchases. We ended the quarter with a net debt-to-EBITDA ratio of 0.7x.

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Now moving to our fiscal '24 outlook. First, on sales. We are reiterating our full year sales guidance of an increase between 3% and 7%, which includes pricing of approximately 2% and a currency translation benefit of about 1%. For Mobile Solutions, we are forecasting a sales increase of between 1% and 5%, consistent with our previous expectations. Within Mobile, we are now expecting operative sales to be down low double digits versus our previous guidance of down mid-single digits as end market conditions in agriculture markets and in China continue to soften.

Ongoing sales are forecast to be flat, in line with previous expectations. Our outlook for Aftermarket is unchanged at mid-single-digit growth as market share gains and elevated levels of equipment utilization continue to benefit results.

In Industrial Solutions, sales are expected to increase between 3% and 7%, with IFS sales and Aerospace and Defense sales forecast to grow mid-single digits, consistent with our previous guidance. Within IFS, demand strength and market share gains in Dust Collection and Power Generation are expected to continue. Within Aerospace and Defense, Defense sales strength and support of overall end market conditions are forecast to drive results.

In Life Sciences, we continue to expect sales to increase approximately 20%, with a notable step-up in sales in the second half of the year. We have started to see a return to growth in our Disk Drive business and anticipate continued improvement. We are also anticipating sales momentum through the balance of the year in Food and Beverage as we expand geographically and in Bioprocessing Equipment and Consumables with the scaling of those businesses. With respect to profitability in the segment, we expect to be approximately breakeven.

On a consolidated basis, with the benefit of our first half operating performance, we are increasing total company operating margin guidance to a record level of between 15.0% and 15.4% from the previous range of between 14.7% and 15.3%. The midpoint of our guidance range represents a 60 basis point year-over-year improvement from adjusted operating margin of 14.6% in fiscal 2023. Gross margin expansion is expected to be the driver of the improvement.

With respect to gross margin, we are pleased with our performance through the first half of the year and expect our second half gross margin rate to approximate that of the first half. For the full year, higher operating expenses as a rate of sales should partially offset the gross margin increase as we continue investing for future profitable growth. We are expecting additional benefits for the full year from nonoperating items, including higher other income and a tax rate at the lower end of our previously guided range.

Overall, we are increasing our EPS guidance range to between $3.24 and $3.32, a $0.24 or 8% increase at the midpoint from adjusted EPS of $3.04 in fiscal 2023. In summary, we are on track to deliver higher levels of profitability on higher levels of sales to our shareholders in fiscal 2024.

Now on to our balance sheet and cash flow outlook. Consistent with previous expectations, we plan to deliver cash conversion above historical averages fiscal year and with a range of between 95% and 105%. We are tightening our capital expenditure forecast to between $95 million to $110 million from a range of $95 million to $115 million previously. Capital expenditures are weighted towards growth investments, including capacity and new products and technologies across all 3 segments.

In terms of strategic capital deployment, our strategy has not changed. Our first priority is to reinvest back into Donaldson either organically, as I just outlined, or inorganically through M&A, primarily in Life Sciences or industrial services, both areas in which our pipeline remains strong. We are also steadfast in our commitment to returning value to our shareholders through our dividends, which we have been increasing for 28 consecutive years and paying for 68 years, and also through our share repurchases. Now I'll turn the call back to Tod.

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

Thanks, Scott. Donaldson Company is in as strong a position as ever to remain the leader in technology-led filtration while fulfilling our purpose of Advancing Filtration for a Cleaner World. I am confident in our ability to achieve our Investor Day targets. We are committed to our fiscal 2026 financial and strategic goals including in Life Sciences, and our 2030 ESG ambitions, and I'd like to close with some

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progress we've made on both fronts.

First, on Life Sciences and in particular, our opportunity pipeline for advanced therapies. We are presently supporting the development of over 100 therapies across the cell and gene therapy, mRNA vaccine and traditional vaccine modalities. Most therapies are in the preclinical stage. However, we do have some that are in clinical trials and a few that will likely be entering commercial production this calendar year. Importantly, these include projects originated organically and from our Univercells, Purilogics and Isolere Bio acquisitions.

While the therapy development process can take over a decade, we are extremely happy with the pace at which we are building and executing our pipeline. Our technology significantly increases bioprocessing productivity and purity and is helping bring more affordable life-changing therapies to those in need.

Donaldson is creating long-term value for our stakeholders through our products and also our practices. Through our ESG strategy, we aim to have a positive impact today and create a thriving future for people in the planet. To that end, as of the end of fiscal 2023, we reduced our Scope 1 and Scope 2 greenhouse gas emissions by 25% from our fiscal 2021 baseline, grew our renewable energy usage by approximately 20% over the same period.

And in fiscal 2023, we donated $1.2 million through the Donaldson Foundation to benefit communities with a focus on educational initiatives. We look forward to publishing our full fiscal 2023 Sustainability Report in the spring, which will provide additional details on our accomplishments.

To close, I would like to thank all of the Donaldson employees who are critical every day in our customer success and in building Donaldson's future. 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 is from the line of Nathan Jones with Stifel.

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

I'll start off on Life Sciences. Obviously, there's quite a big ramp in the back half of fiscal '24. We've been expecting that for a few quarters based on the guidance and based on the ramping up of some of these acquisitions. So I'm just initially hoping to get some color on how that ramps up in the back of the year. Is it kind of a linear ramp up as we go into the back half? Or there's some step-up in 3Q and flats out in 4Q? And then just the contribution of the acquisitions ramping up, this is rebounding the Disk Drive business versus expansion of the Food and Beverage business, just any additional color you can give us on how you see the back half playing out?

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

Yes, sure. So this is Tod. So when you really look across the whole portfolio in Life Sciences, everything is contributing. They're contributing as expected, as we have really planned out the full year. And that's the contribution of the acquisitions to the extent that we plan them to with a mix as well as our overall traditional base businesses.

I would tell you that to support the second half ramp-up that it is important that we are ramping up those businesses, and they'll contribute in the second half, that our backlogs do support the second half projections and the math that you properly call out. And additionally, the way to look at that is we have some very large projects, bio reactivities projects out of our Solaris acquisition that go in the second half. And then it's really a myriad of different technologies that will really combine to deliver the outlook.

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

Okay. Then I guess my follow-up is around the investments that you've made, I guess primarily in Life Sciences. We're seeing some increase in SG&A as a percentage of sales. I'm just wondering about the -- how that plays out going forward? Like are you continuing to

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make investments in 2025? Will they kind of be ramping up at the same pace as 2024? Should we start to see a time where we start to see some leverage on the SG&A line rather than building expenses to support this growth? But just how you see that playing out, I guess, maybe '25 and beyond?

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

Yes. Nathan, this is Scott. Certainly, we're seeing an increase in the OpEx associated with the acquisitions this year as we lap the initial completion of the acquisitions. We want to continue to deploy capital into the Life Sciences business. And as you know, we bought some pre-revenue companies that are beginning to scale. So I mean, I think the trends will become less stark in the future as the business scales. We certainly are going to continue to invest in Life Sciences, but we reiterated our Investor Day targets for operating margin today.

So we still see higher levels of profitability on higher sales. So I think we're going to continue to invest. But I think over time, as the revenues start to come at a good rate, the rate of the increases will slow and our margins will mix up, and so we'll be able to deliver higher levels of profitability on higher sales.

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

Yes. And I think, Nathan, just kind of building on that, I would suggest to you that the plateau of those investments is ahead of us.

Operator

Your next question from the line of Angel Castillo with Morgan Stanley.

Unidentified Analyst

This is Grace on for Angel. So you lowered the offer equipment outlook from single digit to low double digits. So can you help us unpack that a bit more and talk about what you're seeing in the various operative markets you serve?

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

Sure. And across that end market, as a reminder, we consider Off-Road to comprise construction, agriculture and mining. Construction and mining had no change within the quarter. This is an agricultural story. And it's a broad-based story globally and that's really why we have reduced the outlook within that category. It's well publicized across our customer base in ag if you just continue to follow the stories that they're telling, we have done everything to bake what we know into this particular guide.

Unidentified Analyst

Got it. Got it. And can you also talk about your M&A pipeline, whether we should view any incremental opportunities as more imminent?

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

We continue to work the M&A portion, the integrating portion of our strategy really quite well. We suggest to you that our pipeline remains strategic, robust, and we'll continue to work on it, directly aligned with our strategies. And as Scott properly called out in the script, we primarily lean toward Life Sciences and industrial-based service acquisitions at this point.

Operator

Your next question comes from the line of Bryan Blair with Oppenheimer.

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

Tod, you offered quite a bit with regard to the Bioprocessing pipeline and the exciting opportunities ahead. And I'm sorry if I missed this within the detail provided, but is there any way to quantify the continued ramp in the opportunity set if we look forward, however many years is appropriate to factor in?

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

Bryan, as you know, we follow them directly where they're at, preclinical, Phase I, Phase II, Phase III. We aren't publicizing where they are, frankly, out of contractual obligation not to do so. That's -- that portion of what we're supporting is really not our story to tell at this point. It's usually our customer base story. We'll do everything in our power to help you understand where we are as far as quantity as we ramp our opportunity backlogs, and that, we feel is the best we approach this.

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

Okay. Understood. That's fair. And your fiscal 2Q beat and the guidance raise were based on margin strength. So solid execution from your team overall. I believe it was noted -- plus correct me if I'm wrong, that Life Sciences should be about breakeven for the year. To level set on your margin outlook, how should we think about the level of margin in Mobile and Industrial in the back half? And then circling back to Life Sciences, what's a reasonable exit rate to assume or jumping off point going into fiscal '25?

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

Yes. So there's quite a bit there in the suit, Bryan. But we -- I said in the script that we expect our gross margins in the back half to be relatively flat as compared to the first half. If you think about our operating margin guidance for the year at the midpoint of 15.2%, you'll see there's a bit of a ramp-up in terms of operating margin in Q3 and Q4. In terms of our revenues, I would say we've kind of returned to normal seasonality in kind of the 48%, 52% range. If you look at the first half and then the total guidance, we mentioned that we expected Life Sciences to be about breakeven. But clearly, as we ramp there, the profitability will improve.

And then kind of for the future, I would kind of direct you back to the Investor Day targets for operating margin. I mean, we're still committed to achieving 16% at the midpoint from our current guidance of 15.2%. So we're on a 3-year journey to deliver higher levels of profitability on higher sales and going from 14.6% to 15.2% this year, with the goal of 16% after the next 2 years, I think, is -- would be a good achievement for the company. It's something that we're definitely focused on.

Operator

Your next question is from the line of Brian Drab with William Blair.

Unidentified Analyst

This is Tyler Hutton on for Brian. Just really quick. You mentioned a discussion with larger customers about pricing before. How have those discussions gone since you're still seeing some material inflation in -- are those same discussions still going on with some of your new China and India customers?

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

Yes. So when you look -- you're right, when you look across the macro situation that we have across our raw materials and such, it's really quite mixed. We certainly have not seen that abating significantly to the point of where pricing discussions are changing. We are -- we've returned back to a more normal pricing cadence, whereby we still have the need to increase pricing. This year, we have said that pricing will be an add of about 2% across the corporation. We did take pricing actions in January. Again, we're back to a more normal cadence. And the conversations really have not turned at all from just trying to deal with what's out there in the world.

Unidentified Analyst

Right, I appreciate the color. And then my final question is just a little more broad. Obviously, artificial intelligence has been a big focus for several industries. How could applications within Donaldson's portfolio benefit from AI? And have you guys been having those discussions? And then kind of along with that, can you just kind of describe your opportunity with data center solutions?

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

Sure. So we continue to obviously talk about AI within the company. There are 2 approaches to that. One is, as you alluded to, what would we be able to put inside our product families. And then the other one is, is there operations or process efficiencies that can we gain by using AI inside the corporation. I would say our focus is more on the internal looking one, relative to the process improvement inside the company using AI rather than on the product-based activities.

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The product-based activities will likely be more in the sense of supporting our connected-based products for quicker analysis in our Industrial base segment for performance of -- and outcomes of those Industrial-based systems that we've put out in the world.

That's the way we look at it. Overall, AI is likely still early innings for us, much like so many other corporations in the industrial space. We'll continue to invest and learn about it.

Operator

(Operator Instructions) Our next question is from the line of Laurence Alexander with Jefferies.

Laurence Alexander ***Jefferies LLC, Research Division - VP & Equity Research Analyst***

Two quick ones. Could you tease out a little bit how you're thinking about sequentially, the development of the On-Road market? And secondly, given how the Life Sciences business is evolving, how has your thinking changed, if at all, around the opportunity set for acquisition targets?

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

Sure. So I'll take On-Road first. I would tell you On-Road for us, as you kind of move around the world, U.S. remains as we would have expected it year-over-year. It's comfortable in higher rates. We expect it to bounce along where it is. In Europe, we have expected On-Road to be, say, a bit more guarded than the United States, probably more of a bit more of a negative outlook, but not dramatically so.

And then over in Asia, obviously, we still have a lot of headwinds in China, as everyone does. And then Japan is also a bit more of a down market in the On-Road sector. And so we've combined that geographical look and bake that within the guide, and that's how we see it planning going forward.

As far as the Life Sciences acquisition piece. So we have a pretty complicated puzzle. I think we showed many pieces of that to you in the Investor Day deck. If you follow along in the Investor Day deck and kind of look where we've added technology or process-type of improvements, you'll be able to see where we believe we still have gaps. We are focused on filling out that puzzle either organically or inorganically. We do not believe we have changed at anything material in approach to what we still have it to buy. And we will remain active to fill out that puzzle either organically or inorganically and build on our Life Sciences segment.

Operator

Next question is a follow-up from the line of Nathan Jones with Stifel.

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

A couple of follow-ups on the Mobile segment, specifically on the margins, obviously, quarterly records, very well done there. I just -- you called out price, lower freight and mix. It doesn't seem like any of those should change in the short term. So is there any reason why the margins at that kind of level are not sustainable in the short term? And then as a follow-up to that, the pricing gains that you've made in Mobile Solutions were very hard for -- during COVID and during the inflationary period. Is there a threat to the pricing on that as your OEM customers are starting to see volume declines, particularly in places like ag? And how you go about defending those price gains? And I'll leave it there.

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

First, Nathan, on your first question relative to do we see anything short term that's going to be changing pricing outlooks or our margin outlook, and we agree with you. There is nothing really short term. I think it's important to understand the mix components of all of that, however, the mix component is very important, right? Because we have volume gains, market share gains, and we have pricing working at our backs on the replacement of our business in the independent channel, particularly, and that mixes up the overall margins.

The -- and then to the other tailwind to us as far as a percentage basis, the OE business is down, particularly in ag. And when we ship less ag, obviously, our margin is going up. So as would come back whenever that market does turn, obviously, we feel some margin-based pressures. But like you mentioned, we don't see that as imminent. And so in the short term, we would not expect that to

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change.

Looking forward, though, the pricing across the OE -- but we're just trying to have fair relationships with our customer base. And yes, they were long and hard-fought battles. But I think we've achieved a good end for both our customer base as well as balancing company. And so far, our customers believe that, too. There's -- we're not trying to maximize margins here. We're just trying to have fair relationships. And that's where, for the most part, where we sit today. And so we would expect it to be able to hold. And so the headwinds we would feel, as to your first point, is more of a mix-based conversation rather than a pricing-based conversation.

Operator

Your next question is from the line of Joseph Donahue with Baird.

Joseph J. Donahue ***Robert W. Baird & Co. Incorporated, Research Division - Research Analyst***

All right. Cool. So just looking ahead, you mentioned these large bioreactor wins potentially shipping in the second half. Does that mean that when we start thinking about the first half of next year, we shouldn't necessarily run rate revenue from the second half? And then I'll just get my second question now. Can you give a little bit more color on what specifically is pushing up R&D spend in the second half to meet the 20% growth?

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

Yes. So as far as next year, we're going to be a lot smarter in -- when we guide next year about -- gosh, maybe [70%] from now. They -- it does make -- when you have large projects like we have, it makes it a bit lumpy. So we'll take that to do it how appropriately looking forward at that time.

As far as the R&D spend, the overall R&D spend is the ramping up of the acquisitions so that we can continue to bring those products to market, et cetera. And that's as we would have expected it. We are intentionally being aggressive in order to bring those products to market as quickly as we can. And the reason why we feel like we can do that is because at the macro, if you just step back at our company, we are -- we have just told you in the last quarter, we put up record top line, record bottom line and we're aggressively investing for tomorrow and building out a new leg to our corporation.

And so consequently, strategically, we're very proud of what we're accomplishing. And what you're calling out in the R&D spend for Life Sciences, we feel is building a stronger company for our shareholders and for our future.

Operator

At this time, there are no further questions. I will now turn the call over 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 third quarter fiscal 2024 results in June. Have a great day. Goodbye.

Operator

This concludes the Donaldson Company's Second Quarter 2024 Earnings Call. Thank you for your participation. You may now disconnect.

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