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An LSEG Business

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- **Operator**
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- **Robert Mason** *Robert W. Baird & Co. Incorporated - Analyst*
- **Brian Drab** *William Blair & Company, L.L.C. - Analyst*
- **Laurence Alexander** *Jefferies Financial Group Inc. - Analyst*
- **Stefan Diaz** *Morgan Stanley & Co LLC. - Analyst*
- **Adam Farley** *Stifel Financial Corp - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. My name is Christa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Donaldson's second quarter fiscal year '25 earnings conference call and webcast. (Operator Instructions).

I would now like to turn the conference over to Sarika Dhadwal, Senior Director, Investor Relations and ESG. You may begin.

Sarika Dhadwal *Donaldson Company Inc - Investor Relations*

Good morning. Thank you for joining Donaldson's second quarter fiscal 2025 earnings conference call. With me today are Tod Carpenter, Chairman, President, and CEO; and Brad Pogalz, Chief Financial Officer. This morning, Tod and Brad will provide a summary of our second quarter performance and our updated outlook for fiscal 2025.

During today's call, we will discuss non-GAAP or adjusted results. For second quarter 2025 non-GAAP results exclude pretax restructuring charges of $2.2 million related to footprint optimization and cost reduction initiatives as well as $4.4 million of business development charges. 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 will now turn the call over to Tod.

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

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Thanks, Sarika. Good morning, everyone. I am proud of what the Donaldson team accomplished this quarter through resilience and dedication. We delivered for our stakeholders. Total sales increased in constant currency and earnings rose at a faster pace, reflecting overall margin improvement.

We executed on what was in our control in light of macro headwinds. Our team navigated a choppy operating environment and with the benefits of our diversified portfolio of businesses delivered higher sales in key higher-margin businesses.

We diligently managed cost and pricing and exercised strong expense discipline while still investing for the future. Now some highlights from each of our segments. In all three segments, sales were impacted by weak end market conditions, including in agriculture, transportation, industrial gases, dust collection and bioprocessing.

In spite of that backdrop, in Mobile Solutions, sales grew in constant currency driven by solid aftermarket performance where we continue to gain share. Our recently opened distribution center in Olive Branch, Mississippi, is allowing us to deliver products with speed and reliability and our fill rates remain at almost 100%. We are also planning ahead and ensuring we are well positioned to address all future engine adoption scenarios with our alternative power solutions.

In January, we announced a partnership with Daimler Truck North America on their hydrogen fuel cell project. Donaldson's advanced air filter technology will be featured in the next-generation Freightliner Super Truck 2 solidifying our position at the forefront of hydrogen fuel cell innovation.

In Industrial Solutions, our Aerospace and Defense business is outperforming our expectations. Demand for new equipment in commercial aerospace has been at record levels and defense orders and quoting activity are very strong.

Overall, we continue to build our Industrial business through our create, connect, replace, service, business model, the number of connected machines and customer facilities is growing and both metrics were up double digits in the quarter. Our Services businesses are performing well, and our most recent acquisition, EasyFlow which expanded our capabilities and presence in the Southeast United States is outpacing our sales expectations.

In Life Sciences, pretax profit margin improved sequentially and year-over-year. The cost reduction actions we implemented last quarter are taking hold and we are now leveraging with higher sales, and more focused cost structure.

We are working to grow our high-margin legacy businesses, such as disk drive and food and beverage and scale our acquired businesses. In bioprocessing, early-stage capital spending is still constrained. However, our therapy pipeline remains solid, and we look forward to continuing to expand our presence.

Now I'll cover some consolidated company highlights. Sales of $870 million decreased 1% year-over-year, driven by a 170 basis point negative impact from currency translation. Excluding currency, sales increased 1% with a pricing benefit of approximately 1%. Adjusted EPS in the quarter was $0.83, up roughly 3% versus prior year. Margins remained strong, including operating margin, which expanded year-over-year as a result of expense discipline.

Our global operations teams in several cases, working through supply chain challenges delivered on our backlogs. We've maintained strong on-time delivery rates and focused on serving our customers. Importantly, while we tightly managed our expenses in the quarter, we did invest for the future, ensuring we maintain our leadership position in technology-led filtration.

Capital expenditures included investments in capacity expansion and new products and technologies, R&D investments continued across all segments. We are committed to leveraging our robust free cash flow generation and strong balance sheet to continue targeted strategic investments, both organic and inorganic.

Now I'll provide some detail on second quarter sales. In Mobile Solutions, total sales were $548 million, down 1% versus 2024. Excluding currency, sales grew 1%. Aftermarket sales of $442 million were up 4% year-over-year, driven by low double-digit growth in the OE channel. OE demand was particularly strong this quarter and independent channel sales declined low single digits but were roughly flat on a constant currency basis.

Importantly, independent channel sales strengthened as the quarter progressed. With respect to first-fit sales, off-road sales of $80 million were down 13% due to ongoing weakness in the agriculture market. On-Road sales of $25 million declined 24% driven by an exit from nonstrategic product sales and a decrease in global truck production.

Now on China. Mobile Solutions China sales increased 1% with aftermarket sales offsetting first-fit softness. Macro weakness continues in the region. However, we do believe we are near trough levels. We are also encouraged by market trends in off-road, including a recent large OEM program win and what we believe is a structural shift towards larger and more sophisticated equipment which bodes well for our technology-led products.

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Turning to the Industrial Solutions and Life Sciences segments. Industrial sales decreased 4% to $254 million. Industrial Filtration Solutions, or IFS, sales decreased 8% to $208 million, driven by slower investments in CapEx-based businesses and power generation project timing. Aerospace and defense sales growth of 19% partially offset IFS weakness.

Life Sciences sales of $69 million grew 9% compared with the prior year due to ongoing strength in disk drive. Overall, I'm encouraged by the results we were able to deliver this quarter and confident in our ability to achieve record earnings in fiscal 2025. Now I will turn it over to Brad, who will provide more details on the financials. Brad?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Thanks, Tod. Good morning, everyone. Second quarter results reflect a team effort. Across the company, Donaldson colleagues banded together to prioritize opportunities and control we can, all while keeping an eye on the future by pushing forward our strategic initiatives. As I walk through some key points from the quarter, please keep in mind my profit comments will exclude the impact from the charges Sarika referenced earlier.

At a high level, second quarter total sales were down about 1% versus 2024. Currency was a headwind of approximately 2% and pricing was a 1% benefit. Disciplined expense control drove operating margin up 40 basis points and EPS of $0.83 was 3% above last year.

Gross margin of 35.2% was flat to the prior year with an unfavorable sales mix being fully offset by select input cost inflation. Operating expense as a rate of sales was 20%, compared with 20.4% a year ago with this strong leverage driving operating margin up 40 basis points to 15.2%.

In terms of segment profitability, Mobile Solutions pretax profit margin was 17.4%, down 60 basis points year-over-year driven primarily by an unfavorable sales mix and expense deleveraging. Similarly, expense deleveraging on softer sales brought the Industrial Solutions pretax margin down 190 basis points to 16.1%.

As we mentioned last quarter, we expect industrial pretax profit margins to improve throughout the year, supported by the execution of our projects and backlog and leverage on higher sales. Life Sciences had a pretax loss of approximately $500,000 in the quarter, which is less than 1% as a rate of sales and significantly better than the prior year performance. The margin improvement was driven by cost optimization actions taken earlier this fiscal year, which were related to prioritization efforts, and we also benefited from leverage on higher sales.

Now our updated fiscal '25 outlook, first, on sales. We are forecasting full year total sales to be flat to up 4% versus the prior guidance of a 2% to 6% increase. Half of the change comes from an FX headwind, which is disproportionately weighted to the second half of the fiscal year. We also factored in the impact from softer-than-expected end markets, particularly in agriculture and some of our industrial and life sciences project-based businesses. We continue to expect a pricing benefit of approximately 1%.

For Mobile Solutions, we're forecasting sales down 1% to up 3%, 100 basis points below our previous expectation driven by ongoing weakness in the agriculture market. As such, the only change we made to our mobile solutions forecast is an off-road where sales are now projected to be down mid-single digits versus our previous guidance of a low single-digit increase.

Our on-road forecast is unchanged at a low double-digit decrease due to a decline in global truck production. We continue to project growth in aftermarket with sales up low single digits stemming from strong demand in the OEM channel and market share gains in the independent channel.

In Industrial Solutions, sales are projected to increase between 1% and 5% versus an increase of 4% to 8% in our previous guidance. IFS sales are forecast to grow low single digits, down from our prior high single-digit expectation as market conditions have weakened and capital spending on new equipment in areas such as dust collection has slowed.

Aerospace and defense sales are projected to increase in the high single digits, up from our previous flat guidance as robust end market conditions continue. For Life Sciences, we now project sales will increase in the high single-digit range compared with a low double-digit increase previously.

Growth in our larger businesses, disk drive and food and beverage is partially offset by ongoing weakness in bioprocessing. With respect to Life Sciences profitability, we continue to expect we'll be breakeven for the full year, reflecting modest profitability in the second half.

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On a consolidated profit basis, we plan to more than offset sales pressure with disciplined expense management. As such, we are increasing the midpoint of our operating margin guidance range by 20 basis points. bringing the full year forecast between 15.6% and 16%. The midpoint of this range is 15.8%, which is up 40 basis points from last year and clearly demonstrates our focus on expanding our margin profile.

In terms of adjusted EPS, we are tightening our guidance range to between $3.60 and $3.68 per share. The midpoint of this range is in line with our previous guidance and represents a 6% year-over-year increase.

Before moving to the cash flow forecast, I want to touch on the topic of tariffs. The situation is dynamic, and there is still a high level of uncertainty and ambiguity regarding global tariff policies. Because of that, our guidance does not include any adjustments related to newly announced tariffs, but I want to stress that we are prepared to act. I'll talk more about our plans in a moment. But first, I want to make a couple of points about how our operating structure creates some natural hedging.

To start with, the US is a net exporter of products. Next, we have often talked about our region to support region manufacturing and distribution network. What that means is that about 75% of goods produced in a certain region stay in that region. Given these organic hedges, our biggest exposure to incremental tariffs is more limited because we ship from Mexico to the US.

If specific tariffs are enacted, we have plans to mitigate those impacts through a combination of supply chain and price adjustments, including the application of surcharges. We will certainly quantify any meaningful impact if we see that emerge.

Now on to the balance sheet and cash flow outlook. Our capital expenditures are forecast between $85 million and $100 million. With the majority tilted towards growth initiatives, including capacity expansion, new product development and technology projects. Cash conversion is expected to be in the range of 85% to 95% on par with historical averages, and we project cash conversion in the second half will be higher than the first half due to normal seasonality and a reduction in working capital, namely inventory as we continue to work down our backlogs.

Lastly, on capital deployment. Our priorities are unchanged. First, we invest. We are growing Donaldson Company, organically through capital investments and inorganically through strategic M&A with a focus mainly on life sciences and industrial services. We paid dividends.

Our membership in the S&P high-yield dividend aristocrat index is important to us, and we intend to maintain our status. Calendar 2024, mark Donaldson's 69 consecutive year paying a quarterly cash dividend and the 29 year in a row of annual dividend increases.

Finally, we repurchased shares. We expect to repurchase between 2% and 3% of our outstanding shares this year, consistent with prior guidance and slightly above our average over the last several years of about 2%. In closing, the outcome of our team's effort this quarter was strong margin performance, a higher full year margin projection and an earnings forecast that remains at a record level. We recognize the work is not done, but I am confident that the Donaldson team is prepared to deliver. Now I'll turn the call back to Tod.

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Thanks, Brad. When we held our Investor Day in April of 2023, we laid out our long-term strategic vision and fiscal 2026 financial targets. The close of this second quarter marks the halfway point to our three-year journey. Despite difficult conditions in many of our end markets, we have delivered on our expectations through the hard work and commitment of the Donaldson team, executing our strategy while making timely tactical adjustments along the way.

As the leader in technology-led filtration, we have and continue to position ourselves to consistently create value for our shareholders through market share gains in many key businesses and through record earnings results. We intend to remain on this trajectory by continually evolving to meet the needs of our expansive and diversified customer base.

Our earnings, combined with our robust balance sheet, allow for continued focused investments in growth initiatives as we build on our success. Across all three segments, our R&D and CapEx investments are aimed at driving sales and efficient execution. Our M&A pipeline is robust and strategically focused.

Finally, I want to thank our talented employees for helping us build our future. I'm proud of the work they do, and I'm impressed by their unwavering dedication. With that, I will now turn the call back to the operator to open the line for questions.

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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Bryan Blair, Oppenheimer.

Bryan Blair *Oppenheimer & Co. Inc - Analyst*

Tod, you called out a recent win in China that's perhaps reflective of a structural shift that works in Donaldson's favor. I found that commentary intriguing. It would be great to hear more about the noted win and more importantly, the implications of that and what's the cited shift transition could mean for Donaldson going forward?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

It's just a continuation of technology wins for us within the overall sector of China. Remember, we've been talking for a number of quarters of really bringing our technology-based platform, proprietary razors to sell razor blades across that particular sector, and we have done that. This particular win happened in the liquid sector in hydraulics, specifically for tractors. And so you see us now gaining traction within that in its type of an application in addition to the momentum that we have on air-based applications.

Bryan Blair *Oppenheimer & Co. Inc - Analyst*

Understood. I appreciate the color. And a level setting question. Within Life Sciences, if we were to simplify the segment to disk drive food (technical difficulty) and bev, bioprocessing and other or even just bioprocessing and legacy applications. What is the split of profitability at this point and the impetus here is trying to gauge as you gain scale, have top line inflection in bioprocessing.

What that's going to mean on a run rate basis when that business is on the trajectory that your team is targeting?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

So the way to think about that is if you take the traditional businesses that we had, they're all profitable. Remember that the acquisitions that we did were pre-revenue largely. And so consequently, obviously, those have headwinds really mixing down the overall current profitability of the segment as we continue to push those new products out, which we fully expect to happen here within the next year or 12 months or so, you'll start to see some of those new products come out and we gain traction. That will only lift the overall sector even more positive.

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Bryan, this is Brad. I'll just add a point and reference back to my remarks to remember, in the first quarter, we did some restructuring, and that was all about prioritization within these specific businesses. As Tod mentioned, we have a -- we have a project pipeline that we're working on to bring some of these items to -- from free revenue to revenue. And so the teams have done really good work to try and sharpen the pencil on where are we really going to invest and that's giving us some momentum in Life Sciences profitability as well.

Operator

Rob Mason, Baird.

Robert Mason *Robert W. Baird & Co. Incorporated - Analyst*

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The first question is around the mobile solutions, just the aftermarket in general. There's a couple of quarters now, we've seen a meaningful divergence between the OED channel and the independent channel. And I was just curious what better explains that if that's just focus from the OED on their parts business or share gains, what have you? That's one.

And then the second question, still in aftermarket is, I know you didn't change the outlook there, but it doesn't look like for the second half, there's much in the way of normal seasonality built into the guidance. And I'm just curious if that's conservatism or if that's reflecting somewhat underlying weaker demand or how you're viewing that?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes, sure. So when you look at our aftermarket business, what ended up happening here, within the quarter is a little bit of a shift in the behavior between the independent and the OE channel. The OE channel clearly has some more focus from the OEs on their parts based businesses, as you call out, we clearly see that and we see that in a little bit more demand from that side.

On the independent channel, which is -- if I remind you, it is about 60% of the overall business, that felt a little bit more of a pullback, a little bit more cautious tone. And net-net, we were up -- now that's kind of some interesting adjustments for us that we see in the behavior changes. However, the story remains for us is share gains and how we continue to execute really, really well.

Our fill rates are near 100% when the customer wants the product. We're doing very well within that channel, servicing that channel, and we're very happy overall with where we are. Now we didn't change the guide, but we didn't change the guide because one basically offsets the other. And so net net, it felt about a push.

Robert Mason *Robert W. Baird & Co. Incorporated - Analyst*

Understood. And just as a follow-up, you just talked, Tod, just around the visibility in IFS. I understand that can be lumpier with the projects that move around, and you did pull the guide down there. But how are you -- I guess, risk adjusting for those projects in the second half of the year? And are those biased either to Power Gen? Which my impression is maybe those could be larger or the dust collection business?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So Power Gen is clearly the larger base projects, and they move from quarter-to-quarter based upon site availability, et cetera. We did see movement on power generation. it is about half -- that represents about half of down in the quarter, if you will, year-over-year, but those move out. And so consequently, that revenue will come.

But in the quarter, it's clearly a notable headwind. Our car generation business remains very strong. We expect it to remain strong at a minimum for another year, a year, and a half. We have that much visibility. So very, very positive things. That's not really the story here for us in the change of the guide, because we're still very bullish on power generation.

The story really for us is in our capital-based project businesses that are more related to manufacturing. Specifically, we saw some movements within what we would say is the automotive arenas of that particular business where projects really pulled back. And you could say that's more related to an electrification type of a situation, so battery manufacturing, electric power manufacturing, those kind of activities, certainly abated in the quarter more than we had expected.

All other industries feel pretty good, quotes remain still at a good level, but that meaningful shift is really more further indication that this electrification phenomenon is clearly not going to happen as quickly as many had hoped.

And you see that over -- also in our vehicle electrification programs, supporting automotive for specifically electric cars in inventing based applications where that also felt a lot of pullback. So electrification really in the auto sector really explains a lot of that, and we did not see that meaningful shift for coming, but it certainly happened within the quarter.

Operator

Brian Drab, William Blair.

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Brian Drab *William Blair & Company, L.L.C. - Analyst*

I think that you touched on this somewhat, but can you just further elaborate on the IFS segment, average about $210 million a quarter in the first half of the year? And then is this project-based business? Is that what's driving this big step up to the guidance implies going to more like $250 million a quarter in the second half?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So it's clearly project based. And again, Brian, so the power generation business really saw timing, [Moving to] half of the reduction in this quarter. But those project-based businesses for power generation move -- they just moved into the next quarter, the third or fourth quarter. And in fact, in the company within power generation, we did not change our annual guide for that business at all.

Brian Drab *William Blair & Company, L.L.C. - Analyst*

Okay. So that's all -- that's the -- that's all-power generation. The call is actually cutting in and out a little bit, so I'm not catching everything. So sorry if I ask something that was -- if I'm repeating a question. On the aerospace and defense side, can you talk a little bit about where the particular strength is there more on the aerospace or more on the defense side? And just kind of give us a little more granularity there?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So it's both. And what -- we have good strength in both pieces of the business. What we had factored in when we gave our original guide this year in supply chain problems and difficulties within supply chain that we had expected, keeping in mind that if we were to try to requalify a new supplier for a particular part of that business, that could take as much as a year or a year and a half or two and so we had expected that kind of a situation to give us headwinds and therefore flat.

The supplier, of course, that we do have has actually improved performance to a little bit of our surprise, but through some fantastic work of -- hard work of our people here, working with that supplier. And so consequently, that's why it's up. The backlog has always been there. The orders have always been there. It was more of a reflection of the supply chain and with us now knocking down some of those supply chain hurdles. That's what you're seeing in the guidance.

Operator

Laurence Alexander, Jefferies.

Laurence Alexander *Jefferies Financial Group Inc. - Analyst*

Just a question about the dynamics you're seeing in off-road, I guess, two parts. One, to what degree are the auto OEMs talking about if there are tariffs that it triggers a destock cycle? Or do they see sort of a bit of a prebuy to get ahead of it. So can you just give a sense for kind of do you see kind of the initial impact kind of which way it swings. But then secondly, when you think about your overall outlook adjustment for this year, how much of that do you think is lost demand as opposed to pent-up demand that comes back in 2026?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So let me take the first one. Within the off-road sector, we have not had pre-buys. We have not had any of those kind of activities out of our customers as a result of any of the tariff type of activities that -- remember, some of those off-road markets like (technical difficulty) are really difficult for them to see them taking on inventory right now would be kind of an interesting move as

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they try to really work down the inventory that's out of the channel.

So -- so we'll see. We'll keep an eye on that. We don't really see that happening. It's a bit more, frankly, as the macro business as usual across that base relative to manufacturing and delivering for them. I would say that the one change that maybe has happened or accelerated in the behavior is asking our -- specifically always asking us our capability of building their products outside the United States.

So as Brad said in his in his script that we are a net exporter from the US. And so to the extent that OEs will want to have us rotate and build it more closely to their factories rather than having in US and export it, that we have received questions regarding that. That's the only behavioral change really. And then the second question?

Laurence Alexander *Jefferies Financial Group Inc. - Analyst*

It's just around to what degree do you see kind of the slightly softer near-term outlook being kind of a sign of pent-up demand for next year? Or is it just going we're resetting the level?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Right. That's really tough to say because we're really being driven by the end markets. Nobody is behaving differently as a result of the uncertainties that are clearly being introduced into the business markets, if you will. And so to suggest that people are holding back or pulling forward, that's not what we're seeing at all. Now that's not to suggest that it won't happen.

But for us, that's not the macro that we see. And for our guide, we're taking what we know, and we applied that within today's guidance.

Operator

Angel Castillo, Morgan Stanley.

Stefan Diaz *Morgan Stanley & Co LLC. - Analyst*

This is actually Stefan Diaz sitting in for Angel. Maybe if we could dig back into Mobile Solutions aftermarket growth. Would you be able to parse out share gains versus market growth? And then maybe what sort of line of sight do you have into share gains continuing into your fiscal '26?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

So at the macro, we have internal models to really track us against competition, et cetera. The benefit for us is we have factual data. Even though our quarters may be very different, et cetera, we have factual data that we can track. And that specifically tells us we are winning share gains, and we have won share gains quarter after quarter after quarter. And so we're really very, very proud of our internet market team and what's taking place out there, and we expect those share gains to continue looking forward.

Stefan Diaz *Morgan Stanley & Co LLC. - Analyst*

Great. And then I believe last quarter, you mentioned some CapEx projects being pushed out within Life Sciences. Can we have an update there? Like has there been any step change in either bringing projects back forward or maybe pushed out even further?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So remembering Life Sciences, specifically in the bioprocessing, you have an upstream process, and you have a downstream process. And those larger projects are in the upstream process, specifically with bioreactors and activities like that. Last year, we

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had very large projects, $5 million, $6 million, $7 million projects that were in flight. Those have now shipped giving us tougher comps as we look ahead within Life Sciences in the second half.

And this is the reason why our commentary says that it's certainly more guarded in that industry because those projects have not been replaced. And [our life] sciences companies are not taking off multiple million-dollar CapEx-based projects. And specifically, our Solaris business tells us that.

So we've not seen green shoots in that area at this point. But we'll continue to press forward and manage our business appropriately.

Operator

Nathan Jones, Stifel.

Adam Farley *Stifel Financial Corp - Analyst*

This is Adam Farley on for Nathan. I wanted to start on operating margins within Mobile. How should we think about margins for the remainder of the year? I think in the quarter, called out a little bit of a mix headwind, but with aftermarket growth, how should we think about margins?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Adam, this is Brad. All three segments pick up from here at this point if you look second half versus first half. So some of it comes with the natural leveraging on sales and then some of it comes with the quality of the work that the teams have done around the company to be smart about where we're pulling out expenses. Just a side note on that, we're not just -- there isn't a mandate that says take x percent out. Its teams reflecting what they need in certain regions or in certain businesses and then prioritizing that.

So I think that's where you'll see this tick up. Again, it's across the company.

Adam Farley *Stifel Financial Corp - Analyst*

Turning back to industrial and your connected solutions, are you seeing any changes there on the adoption rate just given some of the -- it sounds like there might be some deceleration in industrial markets?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So we are, we've actually picked up our overall connectivity. So for example, year-to-date growth in connected machines alone is 30% so far through the first six months in facilities. So remembering a facility can have multiple machines is 29%. So we're getting a broad adoption across the customer base as well as customers often put more than one machine on base.

So I can tell you a story that happened within the quarter that was very fun. One particular customer I won't mention by name, but they contracted to hook up all 60 collectors on their site and very large manufacturing site after they hope the very first one and ran it for a while.

So we're really starting to get a name out there now, gather momentum and looking to continue the pace quickly to hook them up. Keep in mind that each time we look those up, what we have seen is an increase in really customer relationships that do that relationship, and more importantly, an increase in parts and replacement part sales. So we're really proud of the efforts. We think we have really the best-connected product out there, and we'll continue to push forward that strategy.

Operator

(Operator Instructions) Brian Drab, William Blair.

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Brian Drab *William Blair & Company, L.L.C. - Analyst*

I just want to ask one follow-up question. I was wondering, Tod, if you could talk about irrespective of what's happening in the Life Sciences market and the challenges there. How is the development of the technology going and just kind of the pipeline that you're developing for when the market improves within bioprocessing, therapeutics, the bioreactor products that you're developing? Just how is the technology development going?

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So Brian, what we did as Brad mentioned earlier, is we had a very broad agenda products that we have in flight, all kind of fun ideas. And clearly, the markets that, hey, you better focus. And so that's what we did do as a corporation. But those that we focus on has come a really nice week.

We really are pretty happy with the disruptive based technologies that we have going forward. Still some time ahead of us before we rebuild out to the market. But for example, we have some in testing right now. So we're not -- it's not years away. I would say it's quarters away, and we've made significant process.

Operator

Rob Mason, Baird.

Robert Mason *Robert W. Baird & Co. Incorporated - Analyst*

Brad, you may have addressed this just a moment ago with your commentary around margins, but just maybe to put a finer point on it. It sounds like for the second half of the year, it looks like your guidance kind of implies about a 50 basis points or so of year-over-year margin expansion. You're saying that we will see both gross margin expansion and OpEx leverage in the second half?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

First versus second, yes. Now again, the OpEx leverage will be (technical difficulty)

Robert Mason *Robert W. Baird & Co. Incorporated - Analyst*

Brad, you broke up for me a little bit.

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Yes. The first half is -- it will improve in the second half from the first half. And then and I want to say operating expense leverage is a more meaningful contributor to that.

Robert Mason *Robert W. Baird & Co. Incorporated - Analyst*

Okay. Because I know your SG&A in the second quarter was kind of unseasonably low. Does that carry forward? Or are there just some adjustments in the second quarter specifically?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

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No, we expect that to carry forward. So we've got lower head count year-over-year. We've got a real focus on any sort of discretionary activities. Again, it's really broad-based. This is about the whole company sort of rallying around. We have this unexpected FX headwind, for example, that we have to address. And we're pulling down where it makes sense and prioritizing.

Operator

That concludes our question-and-answer session, and I will now turn the conference back over to Tod Carpenter for closing comments.

Tod Carpenter *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*

That concludes the call today. Thanks to everyone who participated. We look forward to reporting our third quarter fiscal 2025 results in June. Have a great day. Goodbye.

Operator

Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation, and you may now disconnect.

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