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Q1 2026 DONALDSON COMPANY INC EARNINGS CALL

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An LSEG Business



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- **Tod Carpenter** *Donaldson Company Inc - Chairman of the Board, President, Chief Executive Officer*
- **Brad Pogalz** *Donaldson Company Inc - Chief Financial Officer*
- **Rich Lewis** *Donaldson Company Inc - Chief Operating Officer*

CONFERENCE CALL PARTICIPANTS

- **Operator**
- **Bryan Blair** *Oppenheimer & Co Inc - Analyst*
- **Angel Castillo** *Morgan Stanley - Analyst*
- **Adam Farley** *Stifel, Nicolaus & Company Inc - Equity Analyst*
- **Brian Drab** *William Blair Capital Partners - Equity Analyst*
- **Laurence Alexander** *Jefferies LLC - Analyst*
- **Tim Thein** *Raymond James - Analyst*
- **Rob Mason** *Baird - Analyst*

PRESENTATION

Operator

Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to the Donaldson Company Q1 FY26 earnings webcast. (Operator Instructions)

I would now like to turn the call over to Sarika Dhadwal, Head of Investor Relations. Sarika, please go ahead.

Sarika Dhadwal *Donaldson Company Inc - Investor Relations*

Good morning. Thank you for joining Donaldson's first quarter fiscal 2026 earnings conference call. With me today are Tod Carpenter, Chairman, President, and CEO; Brad Pogalz, Chief Financial Officer; and Rich Lewis, Chief Operating Officer.

This morning, Todd and Brad will provide a summary of our first quarter performance and our outlook for fiscal 2026. During today's call, we will discuss non-GAAP or adjusted results. First quarter 2026 non-GAAP results exclude a pre-tax gain on the sale of fixed assets of \$9.3 million and a pre-tax charge of \$5 million for restructuring and other charges primarily related to footprint optimization and cost reduction initiatives.

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 Todd.

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

Thanks, Sarika. Good morning, everyone. Donaldson Company's first quarter results were strong, and I'm proud of what our team was able to accomplish growing sales, operating profit margin and earnings. We delivered once again on our commitments to all of our stakeholders, our customers, our shareholders and our employees.

We did this through our leadership position infiltration which was built on decades of solving our customers' most difficult filtration problems with our razor to sell razor blades model. Our best in class technology, which is uniquely powerful because we focus on filtration capabilities and then leverage these technologies across markets.

Our ability to help customers meet evolving environmental and operational goals by helping to protect equipment and maintain cleaner work environments and our clear strategic and balanced growth strategy. That is why our success continues. I will start by discussing our first quarter performance, touch briefly on our expectations for fiscal 2026, then Brad will detail our financials. Lastly, I'll provide some closing remarks before opening the call to questions.

In the first quarter, we grew sales to an all-time first quarter high of \$935 million, a 4% year-over-year increase with growth across many key businesses including mobile aftermarket, power generation, food and beverage and disk drive. Expanded operating profit margin to a record 15.5% driven by leverage on higher sales and cost optimization initiatives.

Delivered record earnings per share of \$0.94, 13% above prior year, returned \$127 million to shareholders through share repurchase and dividends and continued cost optimization initiatives, including our footprint optimization, laying the foundation for higher future profitability.

Now a few highlights by segment. In mobile solutions, our razor to sell razor blades model continues to drive through cycle performance. Our aftermarket results are robust. For example, we continue to gain share in the independent channel where sales grew nearly double-digits. We have expanded partnerships with customers like NAPA. Our distribution centers are performing well, stock availability is at desired levels, and our on-time delivery rates are high.

While cyclical headwinds continue our largest first-fit business, Off-Road, grew for the second consecutive quarter with supportive and market conditions in construction more than offsetting muted conditions in agriculture.

In industrial solutions, our power generation business is robust, supported by the current electricity demand super cycle including data center and AI infrastructure buildouts. Our power generation order books are full through the rest of this fiscal year.

Dust collection replacement parts sales growth was solid, another example of our razor to sell razor blade strategy at work as we continue to build out our service and aftermarket capabilities. To that end, this quarter, over half of our total industrial sales were replacement part sales.

In Life Sciences, we're excited by the market share we are gaining in food and beverage where sales grew over 20%. We are winning with key OEMs and channel partners, growing first-fit sales and planting seeds for future replacement parts sales.

Our disk drive business also grew over 20% through share gains and supportive market conditions and we are investing in new technologies to support capabilities for HAMR, pronounced hammer, short for heat-assisted magnetic recording which will contribute to future growth.

Our strong overall results are a testament to the capabilities and agility of the Donaldson team. Our global operations teams in particular continue to deliver for our customers through the changing tariff landscape and with a keen focus on efficiency.

Our global region for region footprint is a strong asset for the company and one of our key competitive advantages. Leveraging this decades-long foundation, we have successfully offset residual tariff impacts through pricing and optimized supply chain.

I am proud of how we are also stepping up and helping our customers mitigate tariff impacts through collaboration, education and production transfers. To that end, our current annualized estimate for the impact of tariffs is approximately \$25 million down from \$35 million previously.

We are also building long-term structural efficiencies through our footprint and cost optimization initiatives. We expect to be mostly complete with our current activities by the second half of this fiscal year. Our commitment to serving our customers through any market conditions while maintaining high on-time delivery rates is driving demand and our backlogs are reflective of the confidence

our customers have in Donaldson.

We are also building for our future through our disciplined investments in R&D and capital expenditures. This quarter, these included continued focused investments in growth areas such as solvent recovery, new disk drive technologies and air and alternative fuels filtration.

Now I'll provide some detail on first quarter sales. Mobile Solutions' total sales were \$598 million, 5% above prior year. Aftermarket sales were \$480 million, up 7%, driven by strength in both the OE and independent channel.

On the first-fit side, Off-Road sales of \$95 million increased 6%. Gains in construction offset continued weakness in agriculture. On-Road sales of \$23 million declined 27% as a result of decreased global truck production.

Within Mobile Solutions, our China business was solid, with overall sales up 15% from strength in off-Road and aftermarket. This marks the fifth consecutive quarter of growth and we recently won another hydraulics program with a top agriculture equipment manufacturer, another sign that customer trust in Donaldson is building in this massive market.

Now on to Industrial Solutions. Industrial sales were \$258 million flat to prior year. Industrial Filtration Solutions or IFS sales of \$216 million grew 2% from continued strength in power generation, particularly in Europe and dust collection replacement parts sales in the US. Aerospace and defense sales were \$42 million, a 7% decrease driven by softer defense sales following the completion of a few large projects.

In Life Sciences, sales of \$79 million grew 13% year-over-year as a result of double-digit growth in food and beverage and disk drive bolstered by project timing in our upstream biotechnology businesses. Given our robust start to the year and our confidence in delivering on our financial and strategic objectives through the balance of the year, we are increasing our operating margin and EPS outlook.

At the midpoint of our updated guidance ranges, we expect record sales of \$3.8 billion and sales growth in each of our segments. Operating margin expansion of 80 basis points to a record of 16.5%, which puts our incremental margin above 40%. And all-time high earnings per share of \$4.03.

With that, I will now turn it over to Brad, who will provide more details on the financials and our outlook for fiscal 2026. Brad?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Thanks, Tod. Good morning, everyone. Before getting into the financials, I want to thank the Donaldson team for producing strong first quarter results, giving us confidence in our ability to deliver on our increased profit guidance for the full year. The team continues to display their talent and focus, quarter after quarter, and we're excited to build on our momentum.

I want to start this morning with a few highlights. Note that my profit comments exclude the impact from the non-recurring net gain that Sarika referenced earlier. Total sales increased 4%. Operating margin was a first quarter record of 15.5%, up 60 basis points over prior year with an incremental margin over 30%. Adjusted EPS was \$0.94, up 13% and cash conversion was strong at 101% due to improved working capital management. Altogether, a solid quarter for Donaldson Company.

Digging deeper into the P&L, our strong first quarter operating margin was driven by expense favorability. Operating expense as a rate of sales improved to 19.9% from 20.7% a year ago, reflecting leverage on higher sales that was compounded by benefits from the structural cost optimization initiatives launched during the prior fiscal year.

Gross margin was 35.4%, down 20 basis points from the prior year and slightly better than our internal expectations. We partially offset increased operating costs with pricing including pricing related to tariffs, as we are successfully mitigating that impact.

We still expect gross margin expansion for the full year with most of the favorability in the second half as our footprint optimization projects come to completion and we benefit from volume leverage that accompanies our typical seasonality.

In terms of segment profitability, Mobile Solutions pre-tax profit margin was 18.6%, up 30 basis points from the prior year. Due to mixed benefits from higher aftermarket sales and leverage on higher sales. Industrial solutions pre-tax margin was 12.5%, down from 15.9% in 2025 due to an unfavorable sales mix and loss of leverage and operating costs.

We expect segment profitability to increase through the balance of the year as sales leverage translates into gross margin and expense rate improvements. Life Sciences pre-tax margin improved notably to 9.2% from a loss of 7.6% a year ago. Strong sales in our higher margin, food and beverage and disk drive businesses combined with benefits from last year's optimization programs,

drove the improvement.

A quick comment on last year's optimization efforts. We initiated the first and most substantial round of restructuring in LIFE SCIENCES late in the first quarter and then performed additional rounds over the course of fiscal '25. Given that cadence, the year-over-year improvement we just recognized in first quarter is at a much higher level than what we expect in future quarters over the balance of this fiscal year.

Turning to our fiscal '26 outlook. First on sales. We are reiterating our sales guidance for every business except on-road within Mobile Solutions. This business represents less than 3% of total company sales. Consequently, the change to the on-road forecast does not have a meaningful impact on our growth expectations for the total company or Mobile Solutions.

We still expect total company sales to increase between 1% and 5%, including pricing of about 1%. And Mobile Solution sales are expected to be flat to up 4%. Within mobile solutions, On-Road sales are now expected to be flat versus 2025. This compares to our previous estimate of high single-digit growth and the change is driven by the timing of a few key projects that were pushed out beyond this fiscal year.

Off-Road sales are forecast to be up mid-single-digits, due in large part to easier comparisons from sharp declines in agriculture a year ago. We continue to see that end market at trough or near trough levels. Aftermarket sales are projected to grow low single-digits due to market share gains and vehicle utilization rates.

In Industrial Solutions, sales are forecast to grow between 2% and 6%, with a mid-single-digit increase in IFS, where sales are expected to grow across all businesses including in strategically important areas such as aftermarket enabled by services and connectivity.

Aerospace and defense sales are projected to be flat after cycling against record levels in the prior year. This forecast also reflects a rebound from the decline in first quarter as the timing of orders can be lumpy in this business.

In Life Sciences, we expect sales growth between 1% and 5% with continued momentum in food and beverage and disk drive. Through benefits from sales leverage and our improved cost structure, we anticipate full year Life Sciences profit margin to be mid-single-digits.

One side note to help with calendarization of this profit. We expect life sciences will be profitable in every quarter but at a lower level than first quarter, which benefited from leverage that was due in part to the timing of project sales in our acquired businesses which we anticipated later in this year.

Overall, we're pleased with our profitability expansion in this segment. Given our first quarter performance and our outlook for the balance of the year, we are increasing our full year operating margin guidance by 10 basis points to between 16.2% and 16.8%. This includes year-over-year sales growth in all three segments, gross margin expansion and expense leverage.

The midpoint of our guidance range implies an incremental margin of more than 40%. With that, we're also increasing our fiscal 2026 EPS guidance by \$0.03 to \$3.95 a share to \$4.11 per share, or \$4.03 at the midpoint.

To help with modeling for the rest of the year, I would like to make a few points on calendarization. As is typical, our sales are weighted towards the back half of the year, representing about 52% of full year sales due to seasonal dynamics, such as holiday timing in the second quarter and peak activity in our end markets in the back half of the year.

Operating profit is even more heavily skewed towards the back half with about 55% of full year profit being generated between February and July. We'll benefit from higher leverage on the normal step-up in second half sales volume and we also expect abating headwinds from footprint optimization initiatives as those projects complete.

Now onto our balance sheet and cash flow outlook. We project cash conversion to be in the range of 85% to 95%, an improvement versus 2025 and consistent with historical averages. Combined with our supportive balance sheet and low net leverage ratio, which currently sits at 0.7 times. Donaldson has the financial flexibility to thoughtfully invest for our future growth. Our strategic capital allocation priorities are unchanged.

First, reinvest back into the company. We are the leader in technology-led filtration and are committed to maintaining our position. We continue to make R&D investments in strategically important, high growth, high margin areas and we also invest in our supply chain and working capital to ensure best in class delivery for our customers, which is part of the value we provide. Our longer-term efforts are also supported by capital expenditures which include investments in new products and technologies across all of our segments.

Our second capital deployment priority is disciplined M&A. We are actively working through a pipeline of opportunities and discipline is key to our approach as we pursue opportunities that meet our strategic and financial criteria.

The value we create comes through reinvestment and also through the return of cash to our shareholders. As such, our third capital allocation priority is dividends. Speaking to our long-standing commitment to our shareholders, this calendar year is our 70th in a row of paying dividends and the 30th in a row of increasing our dividend, maintaining our status as a proud member of the S&P high yield dividend aristocrat Index. Our fourth priority is share purchase. For fiscal 2026, we're forecasting a repurchase of 2% to 3% of shares outstanding, which more than offsets dilution and is in line with our historic levels.

To summarize, we are growing Donaldson Company and growing profitably. Taking the midpoints of our top and bottom line guidance ranges, we're projecting 10% earnings growth and 3% sales growth with incremental operating margin leverage of more than 40%. We have the balance sheet to invest in growth and we'll do that responsibly. We started the year strong and I expect to maintain that momentum well beyond fiscal '26.

Now, I'll turn the call back to Tod.

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

Thanks, Brad. As we turn the page to our second quarter, Donaldson is in a position of strength. We are maintaining our focus on doing what we do best solving our customers' complex filtration challenges through our technology-led products and services.

With this focus and through our execution, key investments and strategic initiatives, I am confident in our ability to create value for all of our stakeholders in the future and we look forward to reporting on our ongoing progress. To close, I want to thank our talented employees around the globe who each day are building our future success.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Bryan Blair, Oppenheimer.

Bryan Blair *Oppenheimer & Co Inc - Analyst*

Thank you. Good morning, everyone.

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

Good morning. Hello.

Bryan Blair *Oppenheimer & Co Inc - Analyst*

Sorry if I missed the detail, but what was IFS first-fit in aftermarket revenue in fiscal Q1, and then how should we think about first-fit and aftermarket contribution to mid-single-digit full year growth? And on the aftermarket side, is it still -- your expectation to increase connected machines by over 30% this year?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Bryan, this is Brad. I'll start with the numbers. In IFS, both first-fit and replacement were up. We didn't go into the details on it. I think notably, power generation continues to do very well for us in terms of the projects and a lot of power needs for data center buildouts. So that business continues to do very well and that's on the new projects and then a little more tepid elsewhere.

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

And relative to -- this is Todd -- and relative to connected solutions, we continue to do well and execute the strategy very well. We do expect to connect between 2,000 and 3,000 dust collectors this year and we continue to be on target.

Bryan Blair *Oppenheimer & Co Inc - Analyst*

Okay, that's great to hear. And you had emphasized a little more so last quarter that the team remains in the heavy lift phase of footprint optimization. That being said, are you willing to speak to what structural benefits have been realized to date and what we should anticipate in terms of pending efficiencies, cost savings, et cetera, as the initiatives conclude the back half of this year into early next year.

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Sure, this is Brad again, Bryan. In terms of structural efficiencies to date, very limited. I think if you look at this morning's report, one notable thing is a gain on sale of \$9 million. So we've been moving a lot of product out of facilities. This was related to a plant in the UK. That's completed now.

So there's two aspects of this work and the heavy lift has been that kind of final wrap up. And then the next tranche of work is going to be -- I'd call it startup in the new home of this production. So as we ramp up there, it's going to be teams getting used to this new delivery, new products and that'll happen over the. Over the course of this fiscal year, but that's where we talk about more of a building benefit towards the back half of fiscal '26.

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

And Bryan, Tod, just a little bit more -- so I also want to emphasize that we have taken out, best shots according to our all the planning that we have. For those benefits that you're looking for, and we have put those in the current guide that you're now in possession of.

Bryan Blair *Oppenheimer & Co Inc - Analyst*

Okay, understood. Appreciate the color.

Operator

Angel Castillo, Morgan Stanley.

Angel Castillo *Morgan Stanley - Analyst*

Hi, good morning, and thanks for taking my question. I wanted to touch on the pricing trends a little bit. You had a 2%, I think, in this quarter, but got the full year guide at around 1%. Can you just talk a little bit more broadly about what you're seeing in terms of pricing dynamics in the market and just how should we think about kind of the full year and ability to potentially have that be closer to what you saw in the first quarter, why that doesn't persist?

Rich Lewis *Donaldson Company Inc - Chief Operating Officer*

Hi, Angel, this is Rich. Yeah, just talking about pricing. I would say in general, if you think about where we're at and I go back to sort of what we're trying to do principally, which is have fair and balanced relationships commercially with our customers.

We are in a fairly normalized pricing cycle after the past few years. And I think what you see in the guide is, exactly that. So costs are being managed well and we are pricing competitively in the market, but again, more normalized to sort of back pre-covid type conditions.

Angel Castillo Morgan Stanley - Analyst

Got it. That's helpful. And then you gave a lot of helpful color on some of the end markets here. I was hoping you could dive a little bit deeper maybe on the regions and what you saw during the quarter and in particular I would be interested to kind of hear what you're seeing in terms of November to date and how some of these trends may or may not be kind of progressing given that most of your guides other than onward were essentially unchanged. So just yeah just how things are progressing in November.

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

Yeah, sure, this is Tod. So the -- say the best region or the most consistent region right now is Europe. Europe continues to actually strengthen a bit. We saw that within the quarter -- from the fourth quarter last year to the first quarter this year. So Europe's doing quite well in a broad-based manner across our businesses.

US, we're seeing a bit more careful, within the first quarter of this year, but still on a solid foundation. Latin America, also we're being very careful across Latin America. It's got some highs and lows. It's really pretty uneven across Latin America. Asia Pacific is doing okay. Obviously, we had a nice quarter in China based upon the wins that we have and the share gains that we continue to have in China, but we're just trying to be very careful on China.

We've had two up quarters in a row, but we're still not really ready to call it economic recovery or green shoots or things like that. We'd really prefer to see more data points. All in all, though, we grow in everywhere in the world. Right now, we're executing really well as a company, and I'd say that's the regional summary.

Angel Castillo Morgan Stanley - Analyst

Helpful, thank you.

Operator

Adam Farley, Stifle.

Adam Farley Stifel, Nicolaus & Company Inc - Equity Analyst

Good morning, everyone.

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

Good morning.

Adam Farley Stifel, Nicolaus & Company Inc - Equity Analyst

We'll start on the Mobile aftermarket piece. Really strong growth there. It's good to see. Did you win any incremental share gains this quarter? Is this mostly carryover benefit from prior wins?

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

Little bit of --

Adam Farley Stifel, Nicolaus & Company Inc - Equity Analyst

You look at the OE aftermarket. What about --

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

Sorry, go ahead, Adam.

Adam Farley Stifel, Nicolaus & Company Inc - Equity Analyst

I was just going to say on the OE aftermarket channel side. Do you think you're seeing any, potential restocking activity?

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

On the independent channel, a little bit of both some share gain, some carryover obviously from share gains that we've been talking about in the prior two quarters, on the OE aftermarket channel. As a reminder, quarter 2, particularly on the OEs, we do see a dip as the OEs, really do some balance sheet management, typical behavior. We did start to see that a little bit in October, and so we think -- it will be on the OE side, the typical behavior for them.

And we put that within the guide, but it's not -- it's not anything more than typical behavior and we're at poultier levels, and we're feeling really good about both the independent and OE channel. On the replacement parts and we're executing very well for our customers.

Adam Farley Stifel, Nicolaus & Company Inc - Equity Analyst

Okay, that's good to hear. Maybe on the industrial side, what were the primary drivers of the decrementsals this quarter? Was it mainly the lower volumes in A&D or were there any other maybe one-time items of note?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Hi, Adam, Brad here. So the decrementsals -- the -- it was about flat for the total segment but definitely pressure in then gross margin from higher operating costs and expense leverage, the pressure on those costs.

So it's kind of the combination of those two things. We do expect it to build up from here over the course of the year. The challenge is timing in these businesses and you touched on it with A&D. This can be a very lumpy business and when that comes through, that's very good, and obviously we'll have some fits and starts like we have for probably the last eight quarters in that business. And then project timing on the IFS side.

Rich Lewis Donaldson Company Inc - Chief Operating Officer

Yeah, Adam, this is Rich. The only other thing I would add is we spoke about our footprint optimization work. The vast majority of that sets in that space, and so that work will continue and we'll see the benefits in the latter part of the year.

Adam Farley Stifel, Nicolaus & Company Inc - Equity Analyst

Okay, thank you for taking my questions.

Operator

Brian Drab, William Blair.

Brian Drab William Blair Capital Partners - Equity Analyst

Hey, good morning. Thanks for taking my questions. The first one I just wanted to dig into the industrial outlook a little bit further, up 1.5% or so in this quarter but the outlook for, stronger growth, so acceleration. Can you just, put some detail around that forecast?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Yeah, Bryan, this is Brad. So I think part of it is this timing that we mentioned. I mean, defense and was particularly challenged in the quarter. There's still some supplier issues that we've been talking about for a while in this business that pushes some of those sales out.

Also some project timing, particularly with PowerGen. I mentioned earlier in this call that we had a good quarter but obviously that this is -- these are big projects and we have a lot in queue that we're working to get out. So those are the couple things that build. I mean it's hard to say exactly the date and we won't go into quarter by quarter guidance, but like I said in the earlier answer industrial we do expect it to build up from here. In terms of sales volume and profitability.

Brian Drab William Blair Capital Partners - Equity Analyst

Okay. Okay. And then in the disk drive business, can you talk a little bit about what's driving that in the near term and you know what are the, what's the long-term secular outlook for that business now and I know you probably don't want to talk about how significant that is in terms of revenue dollars but if you could give any -- give us any sense for how large that business is now, that would be helpful.

Rich Lewis Donaldson Company Inc - Chief Operating Officer

Yeah, Bryan, this is Rich. I'll talk about the outlook and what's driving it. Clearly, our customers in this space continue to evolve their technology. We talked about hammering the script. It's the latest technology driving, really technical challenges in the filtration space and so we're seeing both share gains and market upturn.

A lot of that's being driven by the AI and the cloud-based storage. That's the predominant driver of that. Our expectation is we'll continue to see a lot of strength this year and we believe that, that trend will moderate but still continue to grow in the coming years following that secular trend.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Hey, Bryan, Brad, again. We can triangulate that for you. It's a couple percent of total rep, couple percent of total Donaldson's sales.

Brian Drab William Blair Capital Partners - Equity Analyst

Okay, got it. And by the way, Brad, after like 15 years, I do recognize all of your voices really clearly, but --

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

It's for the AI, man.

Brian Drab William Blair Capital Partners - Equity Analyst

Yeah, no, I know it's not for me, I guess actually it's been like 17 years, so just one quick question, the last question, yeah, so this is Brian Drab at William Blair, one last quick question is data center in general, maybe for your industrial business I'm thinking like [torrent], dust collectors, is this data center opportunity going to materially materially impact your business going forward. Like what are the opportunities --

Rich Lewis Donaldson Company Inc - Chief Operating Officer

Bryan, this is Rich. This crosses actually both our Life Science segment and our Industrial. And so if you think about these data centers, we're touching them in a lot of ways. They use a lot of power. So it's really good for our power generation business on the input side.

We have a microelectronic business where we're doing chips. These are also being fed into these data centers or disk drive business, clearly we just talked about. And we're also seeing some new opportunities using some of our food and bed products in the cooling, the water cooling, and so we've seen some pretty nice upticks in demand.

Based on -- there's a lot of these folks were using air cooling before and they're switching over to liquid cooling and that's driving some nice business opportunities for us so we're coming at it from multiple angles, probably a little bit less so on the dust collection standpoint. That's more of an HVAC play but for the rest of our business is touching this in a lot of ways.

Brian Drab William Blair Capital Partners - Equity Analyst

Okay, very interesting. Thanks very much.

Operator

Lawrence Alexander, Jefferies.

Laurence Alexander Jefferies LLC - Analyst

So good morning. Could you help us with the overall rate of share gains. What the impact is on either the first quarter sales or what you're baking in for the full year. Just to give a sense for how much you're outperforming the end market.

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

Well, just generally, as you look at your models, share gains, typically within our more mature markets, are more low single-digit type of gains that help us to grow on an annual basis. So if you just kind of think of it that way in our mature markets, in our more immature markets, it could be pretty lumpy or in our project-based businesses, it could be lumpy like power generation, obviously, where you have multi-million dollar projects but the best way to look at that is in our mature markets, it's a low single-digit type of a situation.

Laurence Alexander Jefferies LLC - Analyst

So I guess if PowerGen, for example, were to accelerate over the next couple of years, does that mean the net contribution from shared gains is increasing or declining from this year?

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

Increasing because our overall Power Generation business will continue to grow as we look forward. For example, we told you in the script that we are at full capacity for the balance of this fiscal year.

Laurence Alexander Jefferies LLC - Analyst

And then I guess just lastly just if you look out four, five years, what's your view on kind of how much capacity you might need to add in some in those in those businesses to sort of keep up with the projected data center build out.

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

If you look back to the last five years of Donaldson Company and you take a look at our investment levels, our CapEx, et cetera. The new manufacturing facilities that we put, we sit in really strong shape to position ourselves for when the end markets that have headwinds presented to us today, when they recover, we'll be able to answer.

And so we feel as though we sit in really strong position to really take care of our customers. It's one of our guiding principles and that's the way, we invested in the corporation. We'll be fine when that recovery happens and so overall plan expansions, et cetera. It'll just be a normal cadence standard work for Donaldson. There won't be typical rushes that other people may experience that's -- we are really happy with where we sit.

Laurence Alexander Jefferies LLC - Analyst

Thank you.

Operator

Tim Thane, Raymond James.

Tim Thein Raymond James - Analyst

Oh great. Thank you, good morning. The first question was just on the aftermarket business within Mobile and just thinking about this for the balance of the year -- the -- you grew nicely against what was the toughest comp it from last year. So I know it -- it's sometimes these things are you run the risk of cutting it too finely, but the growth that it appears that you're expecting it to maybe settle a bit from what you experienced in the first quarter. Can you just -- is that a fair assumption and maybe just kind of walk through any assumption that may be included as to how you're thinking about the balance of the year for that.

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

Tim, that's a fair assumption and maybe just to be a little bit more granular, when you break up the OE growth versus the independent channel growth in Q1, I would tell you that the OE growth is low single-digits and the independent channels or double-digits. So that kind of shows you the mix. It also speaks to the share games that we continue to win, but we do think, particularly in the second quarter as is typical every single year, the OEs will balance sheet manage, will go more muted and then we'll bounce back in our typical secular fashion year-over-year in the second half.

Tim Thein Raymond James - Analyst

Okay, and alright, and then the -- just on the -- these [4 plus 40%] incrementals are pretty impressive in terms of the benefits related to the footprint optimization. Is there a way to help us think about what that is yielding as you -- as we exit the year, kind of a starting off point thinking about next year once these savings are kind of fully in the numbers. Is there any help you can give us on that?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Thank you. I guess -- Hi, Tim, I point back to the comments I made about triangulating the full year. I won't break it down into the specifics of this is where exactly that number lands but if you think about operating profit tilted 55% comes in the second half and all of the -- I shouldn't say all of them, most of that is gross margin expansion.

We'll continue to get expense leverage as we go through but a lot of that is gross margin, and some of that is from the footprint optimization. We will have the natural volume leverage but we do expect to start to build on the momentum as those projects are complete.

Tim Thein Raymond James - Analyst

Alright. Thank you, Brad. Appreciate it.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Yeah.

Operator

Rob Mason, Baird.

Rob Mason Baird - Analyst

Hi, good morning.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Good morning, Rob.

Rob Mason Baird - Analyst

And congratulations on a good start to the year.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Thank you.

Rob Mason Baird - Analyst

Just around that, Tod, it's somewhat uncharacteristic or at least recently, for you to change guidance or raise guidance after the first quarter and it looks like maybe I can trace that to the improvement in the margin expectations. But if you kind of walked around the world there regionally use the word careful a lot is also, so I'm just maybe a little more context on where the confidence is to go ahead and raise the guidance is this all kind of self-help driven margin controlled or is there anything else moving around within the sales, outlook. Within the ranges that you have that did not change but is anything moving up?

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

Yeah, sure.

Rob Mason Baird - Analyst

So any other context you can give us.

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

Sure, absolutely, Rob. So when we take a look at the portfolio, right, we have a strong, diversified portfolio of businesses, all the puts and takes, we do have some headwinds in portfolio but we are winning share gains. If you look at our aftermarket businesses, industrial, our Mobile Solutions businesses, the way our Life Sciences business, particularly food and beverage performed.

You take. You take the highs are higher -- highs than the lows are on the step down. And so consequently, we pride ourselves on being transparent for all of you and helping you understand our company and we felt, as though we would do that again this time rather than hold back and that's our guiding principle. We feel very good and confident about where we are to execute the year and so that's why we did that.

Rob Mason Baird - Analyst

Very good. Well, maybe I'll press you on the transparency. Can you speak to -- you talked about your PowerGen business having a lot of demand order books full, you also seemingly sound comfortable on where your ability to improve capacity. But yeah, can you give us some feel for how that business can grow this year given it is in kind of a sold out position, yeah, with at least within the context of the mid-single-digit for IFS, where that may land for this year. PowerGen.

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

Yeah, the biggest challenge for us within Power Generation is because of full capacity utilization is the ramp up and ramp up to the level when you see that business really go as hard and as fast forward as it is, are usually more complicated than just kind of running it as you might imagine. These things are, one order could take 40 semi-trucks full of fabricated metal to be shipped somewhere in the world.

So it's really that part of it that will determine our overall growth rates, we baked that into the guide, we've taken our best opportunity to do that. We believe that at this point that year-over-year will be kind of mid-single-digits on the growth.

There is a chance we could have some upside if we execute better but because those projects are also multi-million dollar projects, if you have a site not ready at a customer, they could push out delivery into another quarter as you've been. You've been following this a long time and even into a fiscal year. So we've tried to just balance all those macro factors into the guidance that we gave. It's obviously an important component of our story right now and we're working hard to execute it for our customers.

Rob Mason Baird - Analyst

That's helpful. Thank you.

Operator

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

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

That concludes the call today. Thanks to everyone who has participated. We all at Donaldson wish all of you a safe and happy holiday season and we look forward to reporting our second quarter earnings in about 90 days. Goodbye.

Operator

Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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