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Q3 2026 DONALDSON COMPANY INC EARNINGS CALL

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- **Operator**
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- **Oliver Jiang** *Morgan Stanley - Analyst*
- **Adam Farley** *Stifel - Analyst*
- **Brian Drab** *William Blair Capital Partners - Equity Analyst*
- **Robert Mason** *Robert W. Baird & Co Inc - Senior Research Analyst*
- **Daniel Rizzo** *Jefferies LLC - Analyst*
- **Timothy Thein** *Hill River Capital Inc - Analyst*

PRESENTATION

Operator

Hello, everyone. Thank you for joining us, and welcome to the Donaldson Company third quarter fiscal year 2026 earnings webcast and conference call. (Operator Instructions)

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

Sarika Dhadwal *Donaldson Company Inc - Investor Relations*

Good morning. Thank you for joining Donaldson's third quarter fiscal 2026 earnings conference call. With me today are Rich Lewis, President and CEO; and Brad Pogalz, Chief Financial Officer. This morning, we will provide a summary of our third quarter performance and our outlook for fiscal 2026.

During today's call, we will discuss non-GAAP or adjusted results. For third quarter 2026, non-GAAP results exclude pretax charges of \$9.8 million, including \$9 million of restructuring and other and \$800,000 of business development charges. This compares to prior year pretax charges of \$65.8 million, including \$4.2 million of restructuring and other, \$800,000 of business development charges, \$62 million for the impairment of intangible assets and a \$1.2 million gain on the sale of fixed assets. A reconciliation of GAAP to non-GAAP metrics is provided within the schedules attached to this morning's press release.

Before I turn it over to Rich, a quick note on our recently completed acquisition of Facet Filtration. Facet performance will be included in our consolidated fourth quarter earnings results reported in the Aerospace and Defense business unit within Industrial Solutions.

With that, 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.

I will now turn the call over to Rich.

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Thanks, Sarika, and good morning, everyone. Third quarter was a strong quarter for Donaldson Company and as expected, marked a significant step-up in performance from our second quarter results. I am proud of our team whose hard work resulted in the company's strongest quarter to date with respect to sales, adjusted operating margin, and adjusted EPS.

We successfully navigated macro uncertainty, including uneven cyclical dynamics and the ongoing conflict in the Middle East. To that end, I specifically want to thank our team in Abu Dhabi, whose dedication and resolve have been on display over the last several months. Our leaders have ensured employees feel as safe as possible and that our local operations continue.

Globally, this quarter, we continue to serve our customers through our expanded product portfolio and high on-time delivery rates, including in the higher-margin Mobile Solutions aftermarket business, Food and Beverage, and our Disk Drive business.

We made further progress on optimizing our cost structure as we closed the last two plants identified within our footprint optimization initiative. We are now focused on ramping up production in the receiving sites, which puts us on the path to delivering incremental efficiencies in the future.

Lastly, subsequent to quarter end, we closed our acquisition of Facet Filtration, adding high-performance fuel and fluid capabilities to our expanding Industrial Solutions product portfolio. Facet increases our exposure to durable growing end markets, including aerospace and power generation and strengthens our aftermarket position with approximately 70% of revenues driven by recurring regulated replacement part sales with highly accretive margins. We welcome the Facet team to the Donaldson, and integration efforts are underway.

As demonstrated this quarter, Donaldson is committed to delivering for all our stakeholders, including our customers, shareholders, and employees. We continually do this through our leadership position in filtration, which was built on decades of solving our customers' most difficult filtration problems; our best-in-class technology, uniquely powerful because we focus on filtration capabilities and then leverage these technologies across multiple end markets; our ability to help customers meet evolving environmental and operational goals by helping to protect equipment, processes and people; and our clear strategic and balanced growth strategy. This is how we have and continue to win.

Now I will cover some third quarter highlights. Brad will discuss the quarterly financials and full year guidance in more detail, and then I will return for some closing remarks. At a high level, sales were a record \$995 million, 6% above prior year, driven by currency translation, net pricing benefits and volume growth.

Operating margin was 16.6%, up 30 basis points over prior year and an increase of 260 basis points from second quarter. Expense leverage on higher sales was partially offset by gross margin pressure from production shifts to support customer-specific requirements in Power Generation within Industrial Solutions. Adjusted earnings per share were \$1.06, 7% above 2025.

Now I'll cover some highlights by segment. In Mobile Solutions, sales were \$630 million, up 8%, inclusive of strong volume growth. Aftermarket sales were \$498 million, up 8%, with growth in all regions and in both channels.

We grew double digits in our independent channel, where our product availability, reliability, and consistency continue to drive share gains. This quarter, we had a large competitive win with a major North America fleet operator supplying a mix of air, lube, and fuel products. These types of programs allow us to strengthen our future dealer relationships and create meaningful future pull-through opportunities for incremental sales.

On the first-fit side, Off-Road sales were \$104 million, an increase of 9% versus prior year, led by strength in construction. On-Road sales of \$28 million increased 5% as truck production began to ramp, particularly in EMEA. Touching on China within mobile, sales were up 6% due to strength in Off-Road. Performance in China has been encouraging, and the growing export market is supporting demand for our technology-led solutions.

In Industrial Solutions, sales were \$282 million, down 1%, driven by volume declines, partially offset by net pricing and currency benefits. IFS sales of \$237 million grew 2% from net pricing and Power Generation volume growth, primarily in EMEA, where sales of new equipment more than doubled as we continue to benefit from the super cycle. Partially offsetting this favorability were volume

declines in new equipment sales for industrial gases and dust collection.

Importantly, we are encouraged by the positive macro indicators we are seeing for our CapEx-based businesses, including strengthening industrial production and capital expenditures in certain regions, including North America and APAC. This more supportive backdrop, combined with our new product introductions gives us confidence in our ability to win in these markets.

Last month, we launched our Stratos Mist Collector as part of our dust collection product portfolio. With modern machining operations, elevated levels of smaller mist particles and contaminants need to be captured. We are solving this customer problem through Stratos' reliable, continuous duty filtration, which comes in a space-efficient footprint and supports multiple industries. Early indications are positive, including strong customer interest and quoting activity.

Switching over to Aerospace and Defense. Sales were \$45 million, down 14% versus 2025 due to weaker new equipment sales. Volumes were pressured by ongoing supply chain constraints and project timing.

In Life Sciences, sales of \$84 million increased 13%, largely as a result of robust new equipment volume in Food and Beverage and ongoing strength in Disk Drive. Momentum continues in our Food and Beverage business, where sales grew over 30%, supported by new equipment sales and with a growing installed base driving consumables demand.

We are excited about the customer and channel partner reception to our new technology-led offerings and continue to build out our portfolio. In March, we expanded our LifeTec product line by introducing our most advanced high loading performance filter, largely for use in bottled water filtration applications. This product is built with Donaldson membrane manufactured in our own material research center and is designed to improve efficiency and filter life, driving lower total cost of ownership and value to our customers.

In summary, I am pleased with our third quarter results. We exited the quarter with robust order volumes, elevated backlogs and focused execution, giving us confidence in delivering on our record organic guidance ranges, inclusive of record sales of over \$3.8 billion or a 4% increase over prior year, driven by growth in several key high-margin businesses, operating margin expansion versus 2025, earnings per share roughly 8% above prior year and free cash flow conversion of approximately 90%, important as we remain committed to returning value to our shareholders.

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, Rich. Good morning, everyone. The topic we have been discussing with many of you since our last report was our plan to drive a strong sequential improvement in operating margin, and we're pleased to say, on that point, we delivered.

While the operational work is not yet done in our Industrial segment, our Mobile and Life Sciences segments performed very well, all complemented by sharp prioritization of initiatives across the company. I want to thank my global colleagues for their diligence and commitment as we propelled the company to new records for sales, operating margin, and EPS.

As I detail third quarter results, note that my profit comments exclude the impact from the nonrecurring charges Sarika referenced earlier.

Total sales increased 6% and adjusted EPS of \$1.06 grew 7% over the prior year. Third quarter operating margin of 16.6% was up 30 basis points from the prior year and at an all-time high. Versus second quarter, operating margin increased 260 basis points due to both gross margin improvement and expense leverage.

Breaking down the components of the year-over-year operating margin expansion, expense leverage remains a consistent strength at Donaldson Company. Third quarter operating expense as a rate of sales was 17.8%, an improvement of 40 basis points from the prior year, showcasing the structural expense discipline that affords us the latitude to make investment choices while driving margin expansion.

Third quarter gross margin was 34.4%, down 10 basis points from 2025 as benefits from pricing, volume and mix were more than offset by about 100 basis points of headwinds from short-term operating inefficiencies in our Industrial segment.

More specifically, we realized about 80 basis points of pressure from the production shifts to Mexico for large turbine systems in our Power Generation business. We are seeing improved delivery performance and operational alignment, so we view third quarter as the low point and expect to be fully recovered midway through fiscal 2027.

Footprint optimization initiatives added a little under 20 basis points of pressure due to costs associated with plant closures and transfers of production. These initiatives were designed to improve our cost structure and the last two plant closures were completed during the quarter. The work is now transitioned to ramping up productivity in the new locations. We expect these industrial-based initiatives to generate annualized benefits of about \$10 million once we hit run rate productivity during fiscal 2027.

I want to take a moment to recognize the teams that have been working on these projects. It has been an incredible effort, and we're in the final stages due entirely to their commitment, collaboration, and resilience. The work being done strengthens Donaldson's foundation for long-term success. So I want to especially thank everyone involved in this massive undertaking.

In terms of profitability by segment, the gross margin impacts from power generation and footprint optimization drove pressure on the pretax margin in our Industrial segment, which was 13.4% in the quarter versus 18.1% in the prior year. The margin was lower than we anticipated, but did step up from the second quarter. We expect that trend to continue in the fourth quarter, driven by higher sales and improved operational performance.

In our other two segments, we were pleased with the profit performance. Mobile Solutions margin was an all-time high of 20.2%, 210 basis points above prior year, primarily due to volume leverage and favorable mix related to aftermarket sales strength. Life Sciences pretax margin was 8.1%, up 30 basis points from the prior year.

Importantly, last year's profitability benefited from an earn-out reversal from the Purilogics business. Excluding this prior year one-time benefit, pretax margin would have increased more than 8 percentage points. Volume leverage and favorable mix from our higher-margin Food and Beverage and Disk Drive businesses, combined with a focused expense structure drove the improvement.

As of the end of the quarter, the company remains in a strong position with robust orders, record backlog and notable progress made on the footprint projects, all of that factored into our revised outlook for fiscal '26, which contemplates another sequential step up in sales and margin, and we will also have Facet included in our results for the first time.

Given the newness of Facet, I want to break out our guidance in terms of organic performance and then lay out the impact Facet will have on some key measures. With that, our consolidated organic sales are expected to grow between 3% and 5%, with the midpoint being about 1% higher than prior guidance due to sales strength in our Mobile Solutions and Life Sciences segments. Additionally, pricing and currency translation are each expected to contribute a little more than 1% to growth.

In Mobile Solutions, sales are expected to grow between 3.5% and 5.5%, slightly above our prior guidance, driven by an improved, but still mid-single-digit increase outlook in aftermarket sales as a result of share gains and higher vehicle utilization rates.

In our first-fit businesses, Off-Road sales are projected to grow mid-single digits from improvements in select end markets, and On-Road sales are expected to decrease low single digits versus flat previously as global truck production remains tempered.

In Industrial Solutions, organic sales are forecast to be between flat and up 2%, with the midpoint of this range consistent with the prior guide. IFS sales are expected to grow in the low single digits, driven by robust volume growth in Power Generation and favorable currency and pricing in dust collection.

Aerospace and Defense sales are projected to decline mid-single digits due to the timing of certain programs as we continue to navigate supply chain issues. In Life Sciences, we project sales to increase between 9% and 11%, up from 5% to 9% previously, reflecting continued volume strength in Food and Beverage and Disk Drive. With our focused expense structure, we expect full year pretax margin in the mid- to high single digits.

Driven by our year-to-date performance and reflective of another margin step-up in the fourth quarter, our organic operating margin guidance is now forecast between 15.8% and 16.2% versus 16% to 16.4% previously. The current range implies full year organic operating margin expansion between 10 and 50 basis points with expense leverage being partially offset by gross margin pressure.

It's worth reiterating that our fiscal 2026 margin performance will be at a record level despite dealing with temporary operational inefficiencies, which we advanced meaningfully in the quarter and have a clear path to eliminating. With the strength of our underlying business, I am confident we will get past these headwinds and generate more meaningful margin expansion in future periods.

Now I'll give a few points on Facet's impact to what I just laid out. We expect fourth quarter sales between \$25 million and \$30 million, adding around 70 to 80 basis points to the full year growth rate. The impact on operating margin is likely immaterial this year as robust business performance is offset by amortization costs. Debt incurred from the transaction will add about \$9 million of interest expense in the quarter with the net dilution to EPS of about \$0.03. Excluding Facet, adjusted EPS is projected between \$3.94 and \$4.01 per share, with the midpoint reflecting an 8% increase from the prior year, about double the rate of our sales

growth.

Now on to our balance sheet and cash flow outlook. Our capital expenditures are expected to be between \$60 million and \$75 million, with focused investments, including new products and technologies across all segments. Rich highlighted several new product introductions earlier, and we intend to continue leading in the area. We project cash conversion in the range of 85% to 95%, an improvement versus 2025 and consistent with historical averages.

Our balance sheet remains a strength. Including Facet, our leverage ratio is approximately 1.8 times net debt to EBITDA, still leaving us ample financial flexibility to thoughtfully invest for future growth.

Integral to the Donaldson story is our capital allocation strategy, how we build for our future and simultaneously return value today. Our priorities in that regard are unchanged.

First, reinvest back into the company. We're committed to maintaining our position as the leader in technology-led filtration. We do this through our R&D investments in strategically important high-growth, high-margin areas where we have a clear path to win.

We are proud to have a portfolio of patent-protected products and have nearly 3,000 active US and international patents with over 120 patents awarded in calendar year 2025. In addition to R&D, we think critically about our investments in working capital and capital expenditure, investing for efficiency today and growth for tomorrow by ensuring we meet our customers' needs.

Our second capital deployment priority is disciplined M&A. We will continue to pursue opportunities that strengthen our portfolio and meet our strategic and financial criteria with Facet being an excellent example.

The financial strength of Donaldson is evidenced by our ability to invest for profitable growth and still return cash to shareholders. With that, our third capital allocation priority is dividends. As of the end of calendar 2025, we have paid dividends for 70 years in a row. We've also increased our dividend for 30 years in a row and recently announced an additional 7% dividend increase. We're committed to remaining as a proud member of the S&P High-Yield Dividend Aristocrat Index.

Share repurchase is our fourth capital deployment priority. Share repurchase is our variable lever. And as we indicated last quarter, we have paused our repurchasing activity to focus on paying down our Facet-related debt. Year-to-date, we have repurchased 1.2% of shares outstanding, offsetting stock compensation dilution. As Sarika mentioned, beginning in the fourth quarter, our reporting will include Facet, and I'm excited to fold their financial strength into our results.

We're working towards a strong finish to fiscal 2026, and I'm confident our strategy deployed by the talented Donaldson teams around the world will deliver.

Now I'll turn the call back to Rich.

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Thanks, Brad. While I've been a Donaldson employee for over two decades, my first 90 days as CEO have been remarkable. I've had the chance to meet with countless employees, customers, and investors around the globe, and I am increasingly proud of the work we have collectively done to fulfill our mission of advancing filtration for a cleaner world.

Our deep technical expertise, strong culture, track record, and financial position have allowed us to operate from a position of strength, and I take great pride and responsibility in building upon that success. For more than a decade, our strategic investments have driven the growth and diversification of our high-performing company, and there is ample opportunity for us to further enhance our performance.

We are continuing to invest in attractive markets where we have a clear path to win while also critically evaluating our existing portfolio of businesses, ensuring each business has earned a place in our portfolio. With this rigor, our foundation becomes stronger, positioning us to deliver value for all of our stakeholders. I am excited about the journey that lies ahead and humbled by the opportunity to lead such a talented organization through this next phase of our evolution. I look forward to reporting on our progress.

With that, I 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

I was hoping to level set a bit on footprint optimization, Power Gen ramp-up and the impact on industrial margins there. I realize that most of the pieces are now in place and it sounds like your team is confident in driving better operating leverage going forward, but there's still quite a number of moving parts at hand.

Is the right way to think about this that by the midpoint of fiscal '27, you're back, all else equal, to 18%-ish margin, the prior run rate and then we're layering on the \$10 million in cost savings -- or there -- is that unfair or overly aggressive based on mix outlook or any other consideration?

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Yes. Bryan, I would say if you just take footprint and the Power Gen situation and factor those in, I think that's a fair assessment. That would put us clearly back to prior high watermarks for the Industrial business. And then I think as you look forward from there, we'll have the rolled in savings that we had mentioned.

Of course, if there's other major mix changes that could have an impact, we'll have to explain those and talk about those as those arise. At this point, I would not foresee anything meaningful at this point. But we'll continue to monitor the situation and keep you informed.

Bryan Blair Oppenheimer & Co Inc - Analyst

Okay. Understood. You've, obviously, owned Facet for about a month now, so obviously, in early stage. Maybe offer a little color on the initial steps of integration, remind us of the cost synergies contemplated in your deal model. I believe that's all procurement.

And then most importantly, elaborate on commercial synergy potential. If I recall the phrase correctly, the journey of refinery to the wing. That has a nice ring to it.

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Yes. So as you mentioned, we just closed Facet. And I would just tell you, if you just go back to the sort of the rationale for the acquisition, it's a great end market with a lot of natural tailwinds, higher margins. So I think double our margin profile, higher growth rates. We continue to be encouraged by what we've seen.

We did our first deep business review with the team post close and the outlook for the business over the next 12 months, even in spite of the situation in the Middle East, is still strong. We're very encouraged by what we're seeing with Facet.

From a cost synergy, you're right, it's all on the procurement side. It was in the neighborhood of around \$4 million to \$5 million. Brad can clarify the exact amount. And then on the revenue synergy side, we didn't build any revenue synergies into our justification, but we do believe that there are some. So for example, they'll sell a fuel system into a particular marine application.

It also requires air filtration. So they have relationships with customers that we do not, and we have relationships with customers that they do not. So over time, we believe we'll be able to leverage additional growth synergies. It's not determined at this point how large those will be, but we're encouraged by what we've seen so far.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Nothing to add for me, Bryan. Rich has the cost right. And I think it's just -- it's been a good month of getting to know the team and starting to work the plans together.

Operator

Angel Castillo, Morgan Stanley.

Oliver Jiang Morgan Stanley - Analyst

This is Oliver on for Angel this morning. Just a quick question on your operating margin guide. I mean, that seems to imply a pretty substantial step-up in 4Q in Industrial Solutions. Can you just help us bridge some of the key drivers there? Is it mostly mix or operating leverage or something else there?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Oliver, yes, I mean, you've got it right. We're definitely implying the step-up in Q4. And as I commented in my remarks, we expected more of a step-up in Q3, but we feel good about the end point where we've worked through some things. And as I noted on footprint specifically, two plants were closed, and now it's about that final phase of transitioning and getting productivity in the new homes.

So the step-up there is really about improved operational performance. Volumes are contemplated up from here. And then on top of it, some of the more meaningful headwinds are behind us in terms of overall profit.

Oliver Jiang Morgan Stanley - Analyst

Okay. Great. That's helpful. And then just a question on A&D. I mean, year to date, it seems like we're down kind of in the mid-teens organically. Can you just give us a sense of the orders in the backlog if you can still ship those this year with the supply chain constraints? Or potentially, does this become a tailwind in 2027 if we all ship those orders then?

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Yes. Oliver, if you think about (technical difficulty)

Operator

Please hold for technical delay.

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

All right, Oliver, I think we're back. We lost connection.

Oliver Jiang Morgan Stanley - Analyst

Yes, I can hear you.

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

So A&D, we exited Q3 with near-record backlogs. And it's been increasing steadily throughout the year. So there is an element of, hey, we only have three months left, how much will we be able to get out? And as you mentioned, there are some recurring supply chain issues that we're working through. I -- we do expect that you'll see continued improvement in the next few quarters. But as a tailwind into F27, that's probably a good way to think about it.

Operator

Adam Farley, Stifel.

Adam Farley Stifel - Analyst

Maybe first on the Mobile aftermarket strength, just a little more color on how the OE channel progressed following last quarter's expected balance sheet management? And then what's driving the double-digit strength on the independent side?

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Yes. So Adam, if you think about -- let's just talk about the OE side. We came out of Q2 and the OEs were aggressively managing their balance sheet, as you mentioned. The expectation was we would see a reversal of that. I think clearly, that came through. I would call it, probably, a destocking in Q2 and a little bit of restocking in Q3, and we'll have straight pull-through demand in Q4, albeit at a very high level.

Just in general, utilization rates are really strong right now globally, and we see that very broad based. It's not just one region, it's across the entire world through both channels. On our independent aftermarket side, we mentioned that we had picked up a nice new business award that will start shipping here in Q4 and will be a nice tailwind into next year. So overall, it's a mix of volume, pricing, and we feel really encouraged by what we're seeing out in the market right now.

Adam Farley Stifel - Analyst

All right. That's really helpful. And maybe staying on the Mobile business. On the first-fit side, how do you characterize the end markets maybe on a relative basis? I know you called out construction, but maybe what are you seeing or expecting on some of the other end markets in first-fit?

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Yes. So let's start on the sort of the positive side. So construction, as you mentioned, mining, they continue to run, sort of, I'd call it, mid-cycle levels, good order patterns. On the ag and trucking side, we continue to be at trough levels or near those levels. We have seen pockets of improvement in certain areas of ag. So I think small ag and turf, but those are more niche applications. I'd say broad-based ag remains constrained.

On the trucking side, we're seeing elevated order patterns, especially in North America in the second half as we enter the new EPA regulations in 2027. But overall demand on both of those markets for the first-fit remains muted. And as we spoke a minute ago, most of our revenue, over 75%, is recurring revenue on the replacement side, and we can see those demand and backlog is still remaining pretty strong.

Operator

Brian Drab, William Blair.

Brian Drab William Blair Capital Partners - Equity Analyst

I just wonder if you could talk a little bit more about the Aerospace and Defense business. I know last quarter, I think the main issue you highlighted was project timing. Now I think it sounds like project timing and supply chain. And could you just elaborate on what's happening in the supply chain? And is that your supply chain? Or are you seeing disruptions in customer supply chain that's dampening demand and kind of give us some visibility there to when that gets resolved?

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Sure. Yes. Thanks, Brian. And yes, maybe to start, big picture, we're hearing from our customers. It does sound like from our customers that they have a number of supply chain challenges.

Very rarely are our supply chain challenges the ones that are keeping them from building product. If you look at our specific situation, it's probably twofold. So let's talk about the lumpy project timing we talked about.

We've seen a lot of strengthening coming out of the first half in our Aerospace and Defense backlogs. So that's those project timing, those new orders coming in that we expected. So that has strengthened significantly, really comes down to our ability to ship those. It's primarily on the system side.

So if you think about it, these are large, engineered, highly complex systems that we're selling to our customers. And in many cases, we're waiting on one part or one material to ship those. So there is a handful of challenges that we're working through. Based on our timelines, we would expect the vast majority of these to be recovered through Q1 of next fiscal into calendar year at the latest.

Probably the only one internally would be we did close that plant in California in the last quarter, and we're working on the ramp-up at the new site. Like our supplier challenges, that will also continue into the early part of next fiscal. But overall, we'll carry a strong tailwind into next year, and we would expect most of these issues to get resolved through a series of actions.

Brian Drab William Blair Capital Partners - Equity Analyst

Okay. And then just one more. On the outlook, the 3% to 5% revenue growth, what is the breakdown there between -- in your mind between price and volume? And how much is price contributing? And is this -- are you having to adjust based on tariffs and steel prices, et cetera?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Brian, the price is relatively consistent with where we've been so far this year, probably a little more than 1%. I will point out, though, if you remember, one year ago, we were starting to lap the real hit from tariffs. We were paying those costs. So year over year, it looks a little bit different.

To your question about what we're getting right now, of course, I think the biggest thing that we're all watching is the inflation and the impact from the Middle East conflict. And it really didn't come through in Q3. So I would say we're poised for that.

We'll use surcharges where appropriate. We'll use price increases where appropriate. But that's something we didn't factor in meaningful incremental price in our forecast as a result of that. I would consider it more of an organic forecast in that regard.

Brian Drab William Blair Capital Partners - Equity Analyst

Okay. And Brad, can you just quickly remind me, did the Section 232 change impact anything? I know you moved a lot of volume to Mexico and you're shifting a lot of that into the US.

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Yes. Sorry, I didn't mean to cut you off. Yes, the change there is, at this point, I would say, negligible for us. There's a few parts that we're looking at. And obviously, the metal content is the biggest one.

So think about our hydraulic filters are a good example. But in terms of the net impact to tariffs and despite these changes with 232, it's not something that I would say is material for Donaldson.

Operator

Robert Mason, Baird.

Robert Mason *Robert W. Baird & Co Inc - Senior Research Analyst*

Just first question around Facet. The expectation that, that comes in about \$0.03 dilutive, I guess, more or less on a GAAP basis, that includes the amortization and the thought that the margin impact is immaterial in the fourth quarter. Is that -- are those good benchmarks to annualize and carry into fiscal '27? Or is there anything unique about the fourth quarter? Presumably, you would deleverage some along the way, but how to think about that on an annualized basis?

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Sure. You really touched on an important point is the deleveraging. So thinking about fourth quarter, and we talked about roughly \$9 million of interest expense, all else equal, that ends up being a high watermark as we work to pay it down over the course of the coming quarters.

In terms of the net impact, the other side of it would be the expected and -- expected growth in revenue and then profit expansion that comes with Facet, whereas amortization, of course, ends up being a fixed amount. We'll give some more details on the very specific components of that when we do our fiscal '27 outlook in a few months.

But to your question, I would caution against just saying \$0.03 times 4 is the annualized number. It definitely goes less than that. And as we said on the call last quarter, we would expect Facet accretion on a GAAP basis in year two and its cash basis much more quickly.

Robert Mason *Robert W. Baird & Co Inc - Senior Research Analyst*

Understood. And just as a follow-up, Rich, your commentary around the mobile aftermarket certainly tended to the positive with some things kicking in here even in the fourth quarter on the share gain. But if I step back and look at what that -- your full year guide kind of implies sequentially, it's maybe not as strong seasonal as I would normally expect.

I don't know, maybe my math is off, but is that conservatism on your part? Or is there anything else kind of discrete that is keeping kind of the seasonal lift less than what we've seen historically?

Richard Lewis *Donaldson Company Inc - President, Chief Executive Officer, Director*

Yes. It's a little bit of what we spoke about a minute ago where we had the OEs doing the destocking in Q2 and then they restocked probably, we think, to a little bit more aggressive level than pull-through demand. It's honestly a little bit hard to pin that down exactly. But we're assuming there'll be a slight pullback, and we'll just have pull-through demand, no more stocking, destocking in Q4. I would say to be determined, order rates still look really strong into Q4, but we'll continue to monitor it throughout the quarter, but that's the main impact there.

Operator

Laurence Alexander, Jefferies.

Daniel Rizzo *Jefferies LLC - Analyst*

It's Dan Rizzo on for Laurence. So you mentioned -- I mean, obviously, market share gains are a big part of kind of the growth algorithm. I was wondering if it's -- how we split between increased penetration with existing customers versus new customers, if new customers is harder to get or that's not how we should think about it? Or just any color on how that's working?

Richard Lewis Donaldson Company Inc - President, Chief Executive Officer, Director

Yes. I would say it's really a business-by-business conversation because if you go to some of our businesses like in our mobile OE world, we have business with the vast majority of the large OEs. So it's about taking share with those existing customers.

Disk Drive would be a similar story. But then if you get into like our Food and Beverage business, a big part of their Q3 story was taking share at new customers. We talked about last time the cooling systems for data centers, that's a brand -- that's an adjacency that we've just pushed into.

So I would -- it's a mix, and it probably varies by business and the maturity of the business.

Daniel Rizzo Jefferies LLC - Analyst

Okay. And then I'm sorry if I missed this. So obviously, interest rates going up, but you still have a very healthy balance sheet. But I was wondering if you're shifting your strategic priorities to focus more on debt reduction and lessening share repurchases. I'm thinking more of 2027 and beyond, or just for 2027 really. I don't know if it's going to be a short-term shift in how you kind of allocate your available cash?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Dan, so the share repurchase, as we talked about, we paused to do some paydown on Facet, but I would say this isn't a suspension at all. Share repurchase has always been the variable lever. We've got fresh debt minted right now. Obviously, we'll give more updates on our plans in a few months. But it's something that would ebb and flow based on our opportunities.

And the point to make, too, is that we would still look for M&A opportunities in the market. It's got to be the right strategic fit. It's got to be something like a Facet, good qualifications that come with Facet, but share repurchase will move according to those opportunities.

Operator

Tim Thein, Raymond James.

Timothy Thein Hill River Capital Inc - Analyst

First question, Brad, maybe one for you. Just on the gross margins and circling back to the comments earlier around some of the potential inflation bubbling up that, that hasn't yet flown through the P&L. Did that -- did the gross margin change, did that come into play? Or was it more on the industrial side that impacted that?

And I'm just thinking as we put the calendar to '27 based on where we sit today, which could change tomorrow, obviously, but just how you think you're positioned just from a broader kind of price/cost perspective?

Brad Pogalz Donaldson Company Inc - Chief Financial Officer

Sure. Overall, we're positioned pretty well from price/cost. So the impacts in the quarter, as you point out, it was really about these very specific industrial things. So we talked about essentially reconciling 100 basis points of pressure that are attributable to the Industrial segment for temporary activities. And all else equal, then that would imply gross margin up 90 basis points versus the minus 10% year over year.

Price, volume, and mix were all contributing there. So I feel like our pricing muscle is in a really good spot. To the extent that we see pressure from the Middle East, we'll react and we'll react quickly. And in the past quarter, it was only upside for us.

Timothy Thein Hill River Capital Inc - Analyst

Okay. Interesting. And then on the aftermarket piece within Mobile, how do you -- I know you don't want to go out and talk on '27, but the new contract that you won, we're not talking a scope of the NAPA win from the years past, I assume, right, in terms of how to size that?

Richard Lewis *Donaldson Company Inc - President, Chief Executive Officer, Director*

Yes. Think about it in two pieces. So first, it's not the size of a NAPA win, but it is a sizable win. And what it does strategically is it gets our products on the shelf at a number of dealers that we had not been present before, which then creates future growth opportunities. We actually think the future growth opportunity is bigger than the current business award. So it is a nice catalyst for our growth over the next couple of years.

Brad Pogalz *Donaldson Company Inc - Chief Financial Officer*

Maybe I'll add on that. I talked in my section about capital deployment and working capital. Every quarter, we hear from our aftermarket partners about wins that they've got in the field and some are bigger than others, of course, but it's consistency and reliability that are helping us get share here. So this is a durable part of our growth plans in aftermarket as well.

Operator

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

Richard Lewis *Donaldson Company Inc - President, Chief Executive Officer, Director*

Thank you. That concludes our call for today. Thanks to everyone who participated. We look forward to reporting our fourth quarter fiscal 2026 results in August. Thank you, and goodbye.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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