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PRESENTATION

Operator

Good morning, ladies and gentlemen. Thank you for standing by. Welcome to Donaldson Company's Fourth Quarter and Full Year 2022 Earnings Conference Call. (Operator Instructions). I would now like to turn the call over to Sarika Dhadwal, Director of Investor Relations. Please go ahead.

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

Good morning. Thank you for joining Donaldson's Fourth Quarter and Full Year Fiscal 2022 Earnings Conference Call. With me today are Tod Carpenter, Chairman, CEO and President; and Scott Robinson, Chief Financial Officer. This morning, Tod and Scott will provide a summary of our fourth quarter performance, and details on our outlook for fiscal 2023. New and beginning this quarter, we are also providing investors with a supplemental quarterly earnings presentation summarizing our results and outlook, which can be found on our Investor Relations website at ir.donaldson.com.

As a reminder, during today's call, we will reference non-GAAP metrics. A reconciliation of GAAP to non-GAAP metrics is provided within the schedules attached to this morning's press release. Additionally, please keep in mind that any forward-looking statements made during this call are subject to risks and uncertainties, which are described in our press release and SEC filings.

With that, I'll now call over to Tod Carpenter. Please go ahead.

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

Thanks, Sarika. Good morning, everyone. Fiscal 2022 was a challenging year given the macroeconomic and geopolitical environment, and I'm really proud of the way our team rallied together in support of our mission of advancing filtration for a cleaner world. We ended the year with revenue over $3 billion, including a $1 billion contribution from our industrial business. Adjusted earnings per share were $2.68 and in line with our most recent guidance. We also returned $281 million to shareholders in the form of dividends and share buybacks.

We lived up to our principle of enriching our communities throughout the year and gave back, for example, donating to the relief efforts in Eastern Europe and delivering meals to our employees in Shanghai during the recent COVID-19 lockdowns. We also achieved our fiscal 2022 ESG goal of reducing our CO2 emissions by 6,000 metric tons, representing a 5% reduction from the 2019 baseline.

We invested for our future across several areas. In our customers through our research and development and capacity expansions and our long-term profitable growth through our Advance and Accelerate portfolio, including acquisitions, particularly in the Life Sciences sector, and in our team, including the addition of new leadership positions supporting ESG and diversity, equity and inclusion.

Now on the fourth quarter. We closed the year strong. Sales were up 15% with a pricing contribution of 12% and a negative impact from currency translation of approximately 7%. Adjusted EPS of $0.84 was up 27% versus the prior year despite ongoing inflation and supply chain-related headwinds.

Touching on pricing for a moment. As we have been talking about the last several quarters, our efforts aimed at offsetting increased input costs have been one of our main focus areas. While we have made significant progress in achieving the appropriate levels of price across most of our customer base, in some areas we have more work to do.

Moving to the operational and supply chain side, the challenges we have been facing throughout the year continue. However, in fourth quarter, we began to see some areas of stabilization, including pockets of commodity cost leveling, albeit at high levels and a slight easing of global logistics and labor pressures. With that, we started to move back to relocalizing our manufacturing and capitalizing on our region-for-region strategy. Aided by these dynamics, we are seeing some reductions in our late backlog and improvements in our fill rates. While encouraging, we view these recent trends as fragile and are cautiously optimistic regarding their sustainability.

In fourth quarter, we continued to lay the foundation for our future growth, pursuing organic and inorganic opportunities to ensure we remain the leader in technology-led filtration. In June, we announced the acquisition of Purilogics, another pearl in our string of pearls Life Sciences strategy aimed at creating a comprehensive solution offering across the upstream and downstream bioprocessing value chain for biopharmaceutical and food and beverage products.

Purilogics novel membrane chromatography technology platform, which provides advantages over traditional resin and bead chromatography along with our membrane expertise, global sales and manufacturing footprint will allow Donaldson to bring a broad portfolio of purification tools to the market for a wide range of biologics. I'm excited to welcome the Purilogics' team to Donaldson and look forward to reporting on our progress in the future.

Now, I will provide some segment context on our fourth quarter sales. Total company sales were $890 million, up 15% from last year.

In Engine, total sales were $620 million, up about 18%.

Sales in Off-Road of $108 million were up 21%, with growth in all major regions, driven by continued high levels of equipment production and significant growth in our Exhaust and Emissions business in Europe.

On-Road sales of $35 million were up 5% from the prior year. Excluding currency, sales were up in all major regions with the exception of Asia Pacific, where general market weakness continues to weigh on results. Overall, On-Road growth was positive in the quarter as we began lapping the discontinuation of some directed-by equipment to a large OEM customer in North America. That said, supply chain challenges, including chip shortages are improving more modestly in this segment and limiting growth.

In Engine Aftermarket, sales were $442 million, an increase of 18%. Both the OE and independent channels were up double digits. Proprietary product performance continues to be a very important driver and fourth quarter Aftermarket sales of PowerCore were up 30% year-over-year, in line with performance in the third quarter. On the independent side of the Engine Aftermarket, we continue to build our presence and see encouraging growth rates in underpenetrated markets such as Mexico and Brazil.

In Aerospace and Defense, sales of $35 million were up 21% year-over-year with strength in replacement parts as we continue to benefit from the recovering commercial aerospace industry and market share gains.

Before moving on to industrial, a comment on our Engine business in China. China Engine sales were down 6% versus the prior year and down 2% in constant currency. Overall market weakness, including that stemming from the COVID-19 lockdowns, which resulted in plant closures for 2 weeks in the quarter, negatively impacted results. While our business in China will certainly continue to be impacted by the overall market trends, I remain optimistic and excited about our future growth prospects in country, and we remain committed to growing share.

Now turning to the industrial segment. Industrial sales increased 10% to $270 million. Sales of Industrial Filtration Solutions, or IFS, grew 14% to $196 million, mainly driven by industrial dust collection, new equipment and replacement parts. Our Process Filtration business also delivered robust sales benefiting from new program wins. This business hit an important milestone for the full year, delivering approximately $100 million in sales excluding the impact from currency translation.

Fourth quarter sales of Gas Turbine Systems, or GTS, were approximately $34 million reflecting a 39% increase, bolstered by the timing of replacement part sales in EMEA. Sales of Special Applications were $40 million down 17% as the COVID-19 shutdowns in China continued to dampen Disk Drive sales. Importantly, our venting product sales, which fall within Special Applications were up as customers expand the use of our high-tech vents for batteries and powertrains in the auto industry. This is a key strategic area for Donaldson given the opportunities that lie ahead in this rapidly expanding market.

In conclusion, our fourth quarter sales and earnings were a high watermark in the company's history, and I look forward to carrying that underlying momentum forward into fiscal 2023. Although there are many puts and takes as we think about our outlook for 2023, which Scott will discuss in a minute, we are forecasting another year of record revenue and record earnings. Importantly, we are also expecting year-over-year gross margin expansion in addition to a full year operating margin, which is forecasted to be a multi-decade high.

Now I will turn it over to Scott for more details on the financials and our outlook for fiscal '23. Scott?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Thanks, Tod. Good morning, everyone. I want to start by thanking our Donaldson employees around the globe. I am impressed with how our teams came together and once again delivered a solid year. I am also excited about what is yet to come as we look to fiscal 2023. Before talking through the details on fiscal 2023, I will add some color to fourth quarter results. My comments to follow will focus on adjusted or non-GAAP results, which exclude charges related to the termination of our operations in Russia. These charges totaled $3.4 million pretax and include write-offs for outstanding receivables and customer-specific inventory. Also included are restructuring charges related to the closing of our office in Russia.

To summarize the quarter, sales grew 15%. Operating income was up approximately 19%, and EPS of $0.84 increased 27% year-over-year. Operating margin of 14.9% was up 40 basis points versus prior year as operating expense leverage outweighed gross margin pressure.

Gross margin of 32.9% improved 140 basis points sequentially. However, this represents a 150 basis point decline versus prior year. While our pricing is now offsetting more persistent inflation such as that of commodities and freight, other more transitionary factors such as inefficiencies, labor turnover and training costs as well as sales mix, dampened margins.

Operating expenses as a percent of sales was 18.0%, favorable by almost 200 basis points over prior year, driven primarily by leverage on higher sales.

I'll now briefly talk about fourth quarter segment profitability.

For the first time this fiscal year, Engine pretax profit margin at 16.6% was up 90 basis points year-over-year as our pricing efforts throughout the year began to offset cost pressure in the segment.

On the industrial side, pretax profit margin was 17.8%, up 50 basis points versus prior year, rebounding from a year-over-year decline in the third quarter. As a reminder, our 3 fiscal 2022 acquisitions, Solaris, PAIS and Purilogics fall into this segment. The integration of these 3 businesses is going well. We are continuing to invest in their growth and look forward to seeing them scale.

Now turning to the balance sheet and cash flow statements. Our free cash flow this quarter was pressured by elevated working capital primarily driven by higher receivables from increased sales.

Inventory, while still elevated, was less of a story in the quarter. We have begun to see some sequential stabilization in the global supply chain and continue to work towards increased efficiency. Fourth quarter capital expenditures were $28 million, mainly driven by investments in capacity expansion, particularly in North America.

Cash conversion in the quarter was approximately 80% versus about 40% through the first 9 months of the year as we are beginning to

return to more normalized levels of conversion resulting from inventory leveling. In terms of capital deployment, we paid about $20 million on the Purilogics acquisition and returned $45 million to shareholders with $28 million in the form of dividends and $17 million in share repurchases.

Our balance sheet remains in great shape as we close the year with a net debt-to-EBITDA ratio of 0.8x. The strength of our balance sheet, combined with ample liquidity will allow us to continue pursuing our strategic objectives in 2023 and beyond.

Now I'll walk through our fiscal '23 outlook, beginning with sales. We expect our fiscal 2023 sales to be up within a range of between 1% and 5%, which includes a negative impact from currency translation of about 4%. The currency impact of Engine and Industrial is expected to be similar. Also included in our sales guidance is a pricing benefit of about 6%. To add some color on pricing and sales, in fiscal 2022, the pricing impact on the second half of the year was twice what it was in the first half as actions taken throughout the year layered in. Therefore, 2023 pricing benefits will decrease as we begin to lap the prior year's actions, resulting in stronger gains earlier in the year.

For Engine, we expect a revenue increase between 0% and 4%, driven by growth in Aftermarket and Aerospace and Defense. We are forecasting mid-single-digit growth in both of these businesses while lapping strong fiscal 2022 results. In Engine Aftermarket, robust demand driven by continued high levels of vehicle utilization and market share gains in less material geographies are expected to contribute to growth. Aerospace and Defense sales are expected to be supported by the strengthening commercial aerospace industry, which still has plenty of runway and remains below pre-COVID levels.

For Off-Road and On-Road, sales are forecasted to be down low single digits due in part to the strategic exiting of certain low-margin programs in both businesses. As we think about the company's profitability and customer portfolio management, we are committed to focusing on higher-margin opportunities that better reflect the value we bring to customers and are becoming more selective in the projects we engage in. While this might have a short-term negative impact on sales, we believe this is the right strategy for increasing profits on increasing sales over time.

A few other factors driving our expectations in these 2 businesses are: within Off-Road, our Exhaust and Emissions business is forecasting to slow as volumes related to new Emissions programs are believed to have peaked in fiscal 2022, now returning to a more normal run rate. Within On-Road, sales will likely be range bound due to continued supply chain issues, including chip shortages.

Now I'll walk through the Industrial segment, where we expect sales growth of 3% to 7%, led by strength in IFS. IFS sales are projected to increase high single digits driven by continued dust collection and Process Filtration product demand and contributions from our 3 fiscal 2022 acquisitions.

GTS sales are projected to increase low single digits year-over-year. Special Applications growth is forecast to be flat versus the prior year. APAC market weakness is expected to continue to impact sales, including Disk Drive sales, which will likely still be pressured through the first half of the year.

Now I'll move on to our margin outlook. We are forecasting an operating margin range between 14.5% and 15.1%, up from 13.5% in fiscal 2022. Operating margin is expected to be stronger in the second half of the year, driven by gross margin expansion and operating expense leverage. As we move through fiscal 2023, expense discipline will be critical for the company as we manage through a potential recessionary environment, but also strategically invest for the future.

Moving to EPS. We expect a range between $2.91 and $3.07, which at the midpoint represents an approximate 11% increase versus fiscal 2022.

Now on to our balance sheet and cash flow outlook. As we work towards increased inventory efficiency, we expect working capital to be a source of cash. Driving cash conversion in the range of between 110% and 125%, a higher-than-historical average year.

Capital expenditures weighted towards our long-term growth initiatives are forecast to be between $115 million and $135 million,

including investments in tooling and equipment for new products and technology, maintenance and infrastructure investments, capacity expansion and continuous improvement projects for safety, quality and margin improvement.

As we think about our capital deployment framework for fiscal 2023, our priorities have not changed. We are committed to maintaining our disciplined and strategic approach to M&A with a focus on expanding in Life Sciences markets as well as returning capital to shareholders through dividends and share repurchases.

Now I'll turn the call back to Tod.

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

Thanks, Scott. As we embark on the new fiscal year, I am optimistic and confident in the company's path forward. The opportunities that lie ahead, both within our current core businesses and in our newer, less mature, but higher-margin businesses are abundant. And we have the talent, capabilities and resources to capitalize on them, pushing Donaldson to the next stage of its evolution. In fiscal 2023, our investments in our customers, our people and our communities will continue. With all of that said, I would be remiss if I did not touch on the recessionary concerns that are top of mind for all of us.

At Donaldson, over our long history, we have been well positioned to withstand economic downturns and recessions, have come out on the other side and our playbook approach is proven.

First, cement our position as a leader in technology-led filtration by meeting customer demand as we work down our backlogs and inventory, utilizing our global and growing footprint to circumvent any supply chain issues.

Second, capitalize on our more resilient business such as our replacement parts businesses and growth areas such as Process Filtration and our high-tech vents for batteries and powertrains.

Third, judiciously manage costs to ensure our expense base aligns with our top line results.

Fourth, utilize our strong balance sheet, which allows to invest even in an economic downturn to pursue key opportunities in strategically important areas such as our Advance and Accelerate businesses and the Life Sciences sector.

In closing, while there is, once again, a lot of uncertainty heading into the fiscal year, we feel well prepared for what lies ahead and look forward to improving the company's profitability profile and adding another year of record sales and record earnings to the long history of Donaldson. Our team showed tremendous resilience in fiscal 2022, and our agility will be a key asset in fiscal 2023.

Now I'll turn the call back to the operator to open the line questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) First question comes from Bryan Blair from Oppenheimer.

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

I was hoping you could parse it out for us what you're contemplating in terms of first versus second half volume in your '23 sales guidance? Price impact is reasonably straightforward in terms of the carryover and cadence throughout the year. You've called out potential recessionary impact. And that must be factored in, in some regard. I guess, to be direct, are you assuming that volume goes negative in the back half? Or was that in your current guidance?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Bryan, so we tried to take all available factors into our guidance for the year when coming up with the overall sales number. Certainly, because of the COVID situation, we're going to be lapping some easier comps in the first half of the year. So our sales growth will be

much, much stronger in the first half, for the second half. But if you look at the half, combined, we'd have growth in both halves, although most of it in the first half of the year.

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

Okay. Appreciate the color. Just to level set, what was the growth of your Advance and Accelerate portfolio in fiscal 4Q and the full year? And if you have the metric on hand, where did Advance and Accelerate shake out as a percentage of total revenue for the year?

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

Sure, Bryan, I'll take that one. So in the fourth quarter, Advance and Accelerate was up 18% year-over-year, and it's about 60% of the total business as of the end of the fourth quarter.

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

Okay. And curious if the macro uncertainty that you cited and everyone is clearly focused on, whether that has impacted your deal funnel in terms of pursuing Life Science assets, whether in terms of actionability or perhaps positively with regard to Solar expectations, bringing forward some activity at perhaps more reasonable pricing?

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

Yes. We would say that overall, our M&A pipeline still remains strong. It's very strategic and pointed in nature. That valuations have come down slightly within the last quarter. However, we're talking about filtration companies, and we're talking about Life Sciences. So both of them clearly are above industrial averages where we're targeting. So we have to be careful with them when we say it has come down slightly. Still, we view our efforts as being very strong and look forward to continued success as we completed 3 acquisitions in this fiscal year, and we'll continue to execute our overall -- the inorganic portion of our strategy.

Operator

Our next question comes from Laurence Alexander from Jefferies.

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

It's Dan Rizzo for Laurence. You mentioned the backlog and where it is now. I was just wondering -- just to provide color where it is now versus what is the historical average? How much like higher it is? Or what you expect over the next 12 months?

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

Sure. We would say actually, the channel inventories out there have improved slightly. Our overall late backlog is down slightly. However, our backlog remains strong. And our late backlog, although slightly improved, still remains at uncomfortable levels. And so our backlogs continue to be quite nice.

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

And then you mentioned the lockdowns in China, which are -- I mean, obvious, but I was wondering, as we're coming out of that, are things meeting expectations? Or is there kind of more of a I guess, more of a gradual recovery than would probably would have been expected, say, 2 months ago? Or is it going according to plan?

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

Yes, that's -- it's a great question. We're a bit more guarded there as we contemplate the outlook to China and what we feel we know we have certainly baked into the guidance. But I would tell you, relative to China, we would clearly be a bit more conservative in -- based upon the nature of what we have been experiencing there in country.

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

If we think about the Aftermarket business during the recession, like if you look back to like 2008 or the industrial slowdown, I think, in 2016 or whatever it was, do Aftermarket sales fall or they still (inaudible) volumes anyway or they still remain somewhat positive?

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

Overall vehicle utilization across the world right now still remains very positive and very heavy. So we would tell you the market growth opportunities are still prevalent from just overall utilization and end market strength. But also Donaldson has underrepresented geographies where we have additional growth opportunities that we continue to pursue, and we look to have success over the quarters ahead.

Operator

Our next question comes from Dillon Cumming from Morgan Stanley.

Dillon Gerard Cumming ***Morgan Stanley, Research Division - Research Associate***

I just wanted to put maybe a finer point around the original kind of revenue question that was asked first. I mean, obviously, the guidance does imply that volumes are down, right, for the year, you kind of back out the pricing and the FX headwinds that you guys mentioned. I guess, would your response to that just be that you're still kind of embedding a general level of conservatism, and maybe that's like reflective of some of those product line exits in the Engine segment? Or do you feel like you're actually seeing that materialize in the order book?

So I guess from my perspective, it feels like you're still signing a pretty bullish tone on the overall end market backdrop. So just curious if that negative implied volume guidance is actually reflected in your kind of order trends to date?

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

Sure. If you look at Engine OE, what we're looking at about the OEM sectors is U.S. up, rest of the world more moderated. But we have a couple of headwinds there, roughly a little bit more than 1%, where we have done some product management. We've walked away from some business, but also on our Exhaust and Emissions business, we will see a decline there because last year, we had the benefits of some prebuy. So you get about a little bit more than 1% based upon those choices from Donaldson Company. And then rest of the world, actually, you really start to feel it over in Japan, where you have some volume moderation, but very heavy FX hit. And in Europe where you have some volume moderation and also a very heavy FX hit.

So you couple all those factors into the Engine OE side of our business, and that's how you get the more careful base guide. And I do want to stress that we are being careful relative to the outlook in China as well.

Dillon Gerard Cumming ***Morgan Stanley, Research Division - Research Associate***

Okay. That makes sense. And then maybe just switching over to Europe for a second. Just curious what you guys are seeing in terms of your production preprint over there. I mean, obviously, the energy situation is still pretty volatile. But just curious if that's kind of impacting your ability to produce or if you kind of factor any level of cost inflation on that side of Europe portfolio in fiscal '23?

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

Yes. So as you look really across our Aftermarket side there, again, we will not have Russia-based revenue year-over-year. So that will be a headwind of -- in the neighborhood of 1% or so. So as you look to Europe, please take that into consideration. But overall, we would say that Europe is doing okay or bouncing along. Surely, there's a bit more moderation, some carefulness going. But the business still remains very strong, very positive. We haven't really seen signs of strong pullbacks or anything like that on incoming order activities, et cetera. we would say it's probably just a little bit more careful at this point in time, and we continue to really keep a keen eye on it.

Dillon Gerard Cumming ***Morgan Stanley, Research Division - Research Associate***

Okay. That's helpful. And then just last one for me. In terms of the 6% pricing that you guys guided to, I guess, would you kind of characterize that as just reflective of the carryover that you've had from kind of pricing actions to date? Or is there kind of still scope for you to kind of go out there in the market, particularly in the independent channel, maybe put out some further pricing actions as the year progresses?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Yes. Dillon, this is Scott. So we said 6% for the year. The majority of that relates from carryover from all the prices that we've layered in this year, which will obviously have a bigger impact in the first half than in the back half. We're still going to go out with our typical standard increases that we would normally do on each year. We still have continuing labor cost increases and other cost increases we're going to have to deal with. But the majority of it would be from this year with a few limited actions next year, that will also contribute.

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

Yes. I would say just basically that we've returned -- in the independent Aftermarket channel, we've returned back to a more normal-like behavior. And should inflation kind of stay where it is, at the current levels, we would expect to behave that way through the forward-looking year.

Operator

Our next question comes from Brian Drab from William Blair.

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

I just want to clarify on the revenue growth for the year. When you said a second ago, Tod, that Russia is a 1% impact, that's on a consolidated basis, right?

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

Yes. So -- yes, absolutely. And remember, overall, it's 2%, as you look to prior years in the company. But last year, it's closer to 1% because we had taken on some revenue prior to the conflict in Eastern Europe taking place.

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

Okay. But in terms of year-over-year impact in fiscal '23, saying it's about a 1 point headwind?

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

Yes.

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

Okay. Got it. So when we take the guidance of 1% to 5% and price FX is a net 2%, volume has been down 1% to the range of negative 1% to positive 3%. So ex Russia that range is basically 0% to 4%.

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

Yes.

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

Okay. Got it. Which segment is that impacting more? Russia? I know we talked about some of the food and beverage work that you're doing -- that you were doing in Russia or continue to and are winding down. Is it more of an impact on the industrial side?

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

Engine. And specifically, Engine Aftermarket.

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

Okay. And is that true that you have some in the industrial side, though, in food and beverage. And you mentioned some baby food processing, et cetera. Is that just more much minor relative to what you're doing with Engine?

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

Right. We did have some on the industrial side within food and beverage, yes. But it's largely an Engine story.

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

Okay. And if you aggregate the revenue, I don't know if you've been able to give us your revenue for all the acquisitions precisely. But is that revenue material or immaterial to the revenue for -- growth for 2023?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Yes, it's relatively immaterial.

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

I mean, is it less than $20 million, Scott? Can you give us any ballpark if you add all 3 of them up?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

It's in that range.

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

Okay. All right. And then the last question I'll just ask is, you're talking about strategically moving away from some lower-margin business. And a couple of years ago, you had the operating margin target, which I guess we're already beyond the year for which you gave that target of like 15% to 15.8%. I'm just curious if like that 15.8% high end of the range, potentially goes up over the longer term as you move away from this low margin?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Yes. So I mean, we got to 14.9% this quarter, which was just within a hair of 15%, which is -- would have been a great number, but 14.9% is still a solid improvement. We expect to increase that again next year with our guidance of 14.5% to 15.1%. So for the year, we expect to continue to improve the operating margin. And we're committed to higher levels of profitability on higher sales. We have to continue to leverage the company, invest in higher-margin projects that mix the company up and continue to operate efficiently.

And so we're going to continue to push the balance of our operating margin horizon because we feel as we continue to grow the company, we can leverage our OpEx and bring in higher-than-average margin opportunities. So we do expect to have an Investor Day next spring. And we're working on planning that now we'd like to invite you all to come to beautiful Bloomington, Minnesota and see our headquarters, and we'll have more to say about that then.

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

Just the last question on that, though, is -- did you contemplate moving away from the low-margin business in, I think it was April of 2019, when you showed that slide? Or is that a new addition to the strategy since then?

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

No. Brian, we had that in 2019. And actually some of it was in flight. It's not an easy pivot when you walk away from some of the businesses, especially on the OE base that we've been talking about. So those are multiple quarter-based products when we end up doing that with our customer base.

Operator

(Operator Instructions) Our next question comes from Rob Mason from Baird.

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

Could you speak to what your expectations are around the Advance and Accelerate portfolio for '23 relative to your 1% to 5% overall sales guidance?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Yes. I mean we continue to want to invest in our Advance and Accelerate portfolio that currently represents 62% of the company. And when we think about our investments, we're always asking ourselves, are we drive our investments to the right portion of our strategy and to the right portion of our company. And certainly, our opportunities there are going to drive our revenue growth, this year was

probably a little bit unusual with 30% growth local currency in the fourth quarter in Off-Road and almost 30% in local currency for the full year.

So we had some really strong growth in certain pieces of our portfolio. But longer term, our growth will be driven by our Advance and Accelerate portfolio. And you can see from our guidance in Off-Road and On-Road, you can see that coming through this year.

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

Yes. Just on that point, would you have the number of what the Exhaust and Emissions contributed to Off-Road this past year, say, 29% overall?

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

Between 3% and 4% of total company revenue.

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

Okay. Okay. Also just, you've spoken about the moderation and some raw material prices what's sort of built into the gross margin expectation, gross profit expectation for the year in terms of raw materials, will that actually be still a year-over-year headwind? Or does that provide any relief?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Yes. I mean we would expect relatively consistent levels of cost this year. We're committed to adjusting our prices if certain costs continue to spike or something happened that would drive an unusual cost increase. But we're planning for relatively consistent commodity pricing this year in our gross margin analysis.

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

Okay. Sure. Just last question. Purilogics, the acquisition that was completed during the quarter. I'm just curious, I understand that's small and it's early stage. But how should we be thinking about that business ramping over the next few years? And specifically, I'm curious if you -- as you've done your due diligence there, identified areas their already spec-ed into either vaccines, therapeutics success those may have in clinical trials. I'm just curious what kind of visibility you have on that business.

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

Sure. So it brings in a differentiated membrane chromatography technology to the company. So if you think overall, at the medias that Donaldson uses, we are very good and strong at membrane-based activities. And so this allows their technology and our membrane experience to really combine and go forward. They have patents as well as some important trade secrets, formulations that all have been proven out in our laboratories prior to the acquisition. They really focus on cutting-edge applications such as they'll be applicable in mRNA and pDNA and ion exchange and other affinity-based separation opportunities.

They are already working with over 15 biopharmaceutical manufacturing companies. And so while this is a bit of a longer cycle opportunity because they are pre-revenue Donaldson's strength of the balance sheet, we'll certainly be able to help leverage that company forward. And really, we look forward to really great growth over the years ahead.

Operator

Our last question comes from Nathan Jones from Stifel.

Adam Michael Farley ***Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst***

This is Adam Farley on for Nathan. I wanted to follow up on the strategic exiting of lower-margin programs in On- and Off-Road. Are these exits complete? Or should we expect this to be an ongoing process with maybe more to come in '23?

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

The one that we've been talking about for the past 4 quarters, that one is complete. We've lapped it now with the reporting of the fourth quarter. But obviously, it did have a considerable headwind in the year. So that is behind us. However, we continue to look at our portfolio, particularly in light of the inflationary pressures that we felt throughout the balance of the year. And so that's just standard

work for us now. And we'll continue to take a look at low margin-based products. And frankly, if we're not getting paid for our technology. we have choices to make. And so that's -- we just consider that standard work looking forward.

Adam Michael Farley ***Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst***

Okay. And then turning to CapEx. CapEx is stepping back up to the $115 million to $135 million range. Can you provide some color on where you're deploying that capital organically? And maybe are some of these CapEx-related items related to projects from 2022 that maybe got delayed due to supply chain?

Scott J. Robinson ***Donaldson Company, Inc. - Senior VP & CFO***

Yes. I mean so we -- like you said, we had $115 million to $135 million. We're certainly coming off a lower year. There was certainly some delays in our CapEx. I think we ended up having some delays that pushed some things from this year into next year. If we think overall about our CapEx for next year, we would say it's kind of 75% growth, 25% maintenance. The growth would come in terms of both capacity and new products. So we feel like those are good investments. They have good overall returns for the company and help us -- should help us continue to maintain a very strong return on invested capital.

Operator

We have no other questions. I'd like to turn the call back over to Tod Carpenter for closing remarks.

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

That concludes today's call. I'd like to thank everyone who participated, and I look forward to reporting our first quarter results in late November. I also look forward to hosting all of you in the spring at the Investors Day that we'll be holding with more information to come regarding that. Have a great day. Goodbye.

Operator

This concludes today's conference call. Thank you for your participation. You may now disconnect.