Donaldson Company Announces Record Fourth-Quarter and Full-Year Results
MINNEAPOLIS, Aug 26, 2002 (BUSINESS WIRE) --

Company achieves 13th consecutive year of double-digit earnings growth; record full-year EPS up 14 percent to $1.90; record fourth-quarter EPS up 10 percent to 55 cents

Donaldson Company, Inc. (NYSE:DCI), today reported record net earnings for the fiscal year ended July 31, 2002 of $86.9 million, up 15.0 percent from $75.5 million last year. Record diluted earnings per share of $1.90 were up 14.5 percent from $1.66 last year. Revenue was $1.126 billion, down 1.0 percent from $1.137 billion last year. Excluding foreign currency translation, revenue would have decreased 0.5 percent from last year.

For the fourth fiscal quarter, net earnings totaled a record $24.9 million, up 9.3 percent from $22.8 million last year. Record diluted earnings per share of $0.55 were up 10.0 percent from $0.50 last year. Revenue was a record $303.9 million, up 2.0 percent from $297.8 million last year. Excluding foreign currency translation, revenue would have been flat compared to last year.

"The Donaldson people, all around the world, turned in a terrific performance in a very difficult revenue environment," said Bill Van Dyke, chairman, president and chief executive officer. "Their commitment and Donaldson's model of providing consistent earnings growth, through a diversified portfolio of filtration businesses, drove our 13th consecutive year of double-digit earnings growth. Dramatically improved operating performance, particularly in our North American engine business, continued growth in our global gas turbine business, and strong international revenue (outside of Japan) offset flat-to-declining end markets in many of our other operations. Even with revenue down 1 percent for the year, gross margin improved - both in real dollars and as a percentage of sales. We held the line on operating expenses across the business and significantly improved our working capital utilization. Strong operations gave us the cash flow to repurchase 1.5 percent of our outstanding shares and to fund most of the purchase price of ultrafilter international AG ("ultrafilter")."

Van Dyke added the company remains committed to providing consistent earnings growth in fiscal 2003.

"We recognize that the anticipated downturn in gas turbine sales in North America will bring another revenue challenge for the company as a whole. However, the ongoing gradual upturn in the rest of our business, coupled with the new blocks of business coming on line this year, should roughly offset the gas turbine drop. These factors, combined with the first year operations of the ultrafilter acquisition, should achieve at least high single-digit revenue growth for the company."

"The improvements made to our manufacturing infrastructure, product costs, and expenses have tuned our organization so that it is operating more efficiently than ever. Still, we have a good deal of forward momentum on these efforts, so we are planning on additional incremental benefits from work yet to be completed. It is not easy work, but our focus remains on making these improvements and delivering our 14th consecutive year of double-digit earnings growth."

Income Statement Discussion

The impact of foreign currency translation, mainly due to the recent strength of the Euro and Yen against the U.S. Dollar, increased net sales by $6.0 million, or 2.0 percent, from the fourth quarter last year and increased net earnings by $0.5 million. For the year, foreign currency translation decreased net sales by $5.2 million, or 0.5 percent, and had a nominal impact on net earnings. On a local currency basis, revenues outside the U.S. increased 8.3 percent in the quarter and increased 4.1 percent for the year.

Gross margin for the quarter improved to 31.2 percent versus 30.3 percent last year. Ongoing efforts to reduce product costs and improve our manufacturing infrastructure continued to drive margin improvements, more than offsetting continued strong pricing pressures from major customers. Costs incurred for continuing plant rationalization came to $0.02 per share in the quarter and $0.05 for the year, versus $0.05 per share in last year's fourth quarter and $0.17 per share for the year. Year-to-date, gross margin improved to 31.0 percent versus 30.1 percent last year.

Fourth-quarter operating expenses were 19.2 percent of sales, down from 19.5 percent last year. The company continued its expense reduction initiatives, implemented late in fiscal 2001, which reduced the number of contractors and temporary employees and managed discretionary spending levels. For the year, operating expenses were 20.0 percent, down from 20.2 percent last year.

Interest expense was $1.5 million, down from $2.2 million last year. Lower debt levels prior to the ultrafilter acquisition, completed late in the quarter, and lower interest rates drove the 30.2 percent decrease. Year-to-date, interest expense was $6.5 million, down 43.7 percent from $11.6 million last year.

Other income totaled $0.8 million expense, down from $1.8 million income last year. The decrease was primarily due to foreign exchange losses as cash was moved into Europe to complete the ultrafilter acquisition. For the year, other income was $1.7 million, down from $4.4 million last year, reflecting $2.5 million in funding to the Donaldson Foundation.

The income tax rate remained at 27.0 percent, down from 28.0 percent a year ago. The company anticipates maintaining the current 27.0 percent tax rate for the foreseeable future.

Free cash flow, operating cash flows less capital expenditures, totaled $40.7 million, up 80.4 percent from $22.5 million last year. Working capital improvements generated $18.3 million during the quarter versus using $2.7 million last year. For the year, free cash flow totaled $110.8 million, up 152.4 percent from $43.9 million last year. Working capital improvements in fiscal 2002 generated $43.8 million versus using $24.8 million last year.

Backlog

Total backlog of $308 million was down 8 percent from the prior-quarter end and 13 percent from the same period last year; the decrease attributable to the cyclical downturn in the North American gas turbine market. In the Engine Products segment, total backlog increased 5 percent from the prior-quarter end and 3 percent from the same period last year. In the Industrial Products segment, total backlog decreased 22 percent from the prior-quarter end and 29 percent from the same period last year, again reflecting the North American gas turbine downturn.

The 90-day backlog was $178 million, down 8 percent from the prior-quarter end and 1 percent from the same period last year. In the Engine Products segment, 90-day backlog increased 8 percent from the prior-quarter end and 9 percent from the same period last year. In the Industrial Products segment, 90-day backlog decreased 23 percent from the prior-quarter end and 11 percent from the same period last year.

Neither the total backlog nor the 90-day backlog reflects amounts attributable to the recently acquired ultrafilter.

Engine Products Segment

Engine Products sales for the fourth quarter were $163.4 million, an increase of 7.7 percent from $151.7 million last year. All three product groups reported year-over-year revenue increases in the fourth quarter as business conditions continued to improve. For the year, revenues were $611.6 million, an increase of 0.8 percent from $606.8 million last year.

The North American truck market is in the midst of a demand bubble as orders for new trucks are pulled ahead of the October 2002 diesel emission regulations. Results were also strong in Europe and Asia, with double-digit sales increases in both regions. For the quarter, truck sales were $25.9 million, an increase of 30.3 percent from $19.9 million last year. For the year, sales were $91.2 million, an increase of 14.5 percent from $79.7 million last year.

Worldwide sales of off-road products in the quarter were $48.2 million, an increase of 7.4 percent from $44.9 million last year. Flat U.S. results were offset by strong results in Europe and Asia. For the year, sales were $185.6 million, an increase of 2.1 percent from $181.8 million last year.

Aftermarket comprised 55 percent of total Engine Product sales in the quarter at $89.3 million, an increase of 2.7 percent from $86.9 million last year. The increase was driven by strong increases in both Europe and Asia, which offset weakness in U.S. truck and construction equipment utilization. For the year, sales were $334.8 million, a decrease of 3.1 percent from $345.3 million last year.

Industrial Products Segment

Record gas turbine results offset most of the weakness from anemic but stabilizing industrial capital spending, generating Industrial Products sales in the fourth quarter of $140.4 million, a decrease of 3.8 percent from a record $146.0 million in the prior year. For the year, Industrial Products sales were $514.4 million, a decrease of 3.0 percent from a record $530.2 million in the prior year. Neither the fourth quarter nor the full year sales totals include amounts from ultrafilter, which was acquired immediately prior to year-end.

Gas turbine product sales for the fourth quarter were a record $68.6 million, an increase of 1.0 percent from a record $68.0 million last year. Sales were strong in both Europe and Asia, as market conditions remain steady outside of North America. For the year, gas turbine sales were a record $230.9 million, up 18.4 percent from a record $195.0 million last year.

Industrial air filtration sales (formerly referred to as dust collection) in the fourth quarter were $45.8 million, a decrease of 10.4 percent from $51.1 million last year. On a sequential quarter basis, sales improved 21.8 percent from $37.6 million in the third quarter, the first meaningful improvement since the fourth quarter of fiscal 2000. The pace of recovery in the U.S. manufacturing economy remained slow as manufacturers wrestled with historically high levels of excess capacity. International business conditions improved modestly during the quarter as sales decreased single-digits in Europe and increased slightly in Asia. For the year, industrial air filtration product sales were $175.7 million, down 19.2 percent from $217.3 million last year.

Sales of special application products in the fourth quarter were $26.0 million, a decrease of 3.6 percent from $27.0 million last year. Disk drive filter sales were down year over year, and photolithography filtration sales and aircraft cabin air filtration sales remained sharply down, reflecting the weakness in the semiconductor and aircraft markets. For the year, special application sales were $107.8 million, a decrease of 8.5 percent from a record $117.8 million last year.

Outlook

Within the Engine Products segment, the company expects North American market conditions to remain strong for on-road trucks through the first quarter due to the emissions prebuy now under way. The expected weakening of the North American heavy-duty truck market in the second and third quarters will be softened by continued growth in European and Asian truck markets and increased sales from new light-duty diesel truck programs. Overall, the company expects truck revenues for fiscal year 2003 to see mid-to-high single-digit growth from fiscal 2002. Off-road markets are expected to remain steady, as strong international sales will continue to mitigate North American weakness in non-residential construction and agriculture markets. Sales growth in engine aftermarket products is expected to continue improving as North American freight volumes and vehicle utilization rates recover and international markets remain strong.

Within the Industrial Products segment, the company expects gas turbine sales to begin declining in the first quarter due to the end of the North American demand bubble, as public comments from gas turbine manufacturers suggest order decreases of 30 percent to 50 percent in calendar 2003 compared to calendar 2002. The effect on the company of the North American downturn will be softened by continued steady gas turbine demand outside of North America and growth in replacement filters for the units installed during the demand bubble. Overall, the company anticipates global gas turbine revenues to decrease 20 percent to 25 percent in fiscal 2003. The company expects industrial air filtration products to benefit from easier comparisons as capital goods markets have begun to stabilize. With the exception of aircraft cabin air and photolithography filtration, order backlogs indicate improving conditions for special applications products. Compressed air products, comprised of the recently completed ultrafilter acquisition, is expected to experience revenue growth but to be earnings neutral in fiscal 2003 as operating profits are expected to be offset by integration costs.

Facing a softening gas turbine business while our other businesses slowly progress toward normalized levels, Donaldson remains committed to maximizing the operating efficiencies of the business until the economy improves, focusing on product cost reductions, manufacturing infrastructure improvements, discretionary expense controls, and completing the integration of ultrafilter. The company remains focused on delivering its 14th consecutive year of double-digit earnings growth in 2003.

About Donaldson Company, Inc.

Donaldson Company, Inc., headquartered in Minneapolis, Minn., is a leading worldwide provider of filtration systems and replacement parts. Founded in 1915, Donaldson is a technology-driven company committed to satisfying customer needs for filtration solutions through innovative research and development. Donaldson serves customers in the industrial and engine markets including dust collection, power generation, specialty filtration, compressed air purification, off-road equipment, industrial compressors and trucks. More than 9,000 employees contribute to the company's success at 40 manufacturing locations around the world. In fiscal year 2002, Donaldson reported sales of more than $1.1 billion and achieved its thirteenth consecutive year of double-digit earnings growth. Donaldson is a member of the S&P MidCap 400 Index and Donaldson shares are traded on the New York Stock Exchange under the symbol DCI. Additional company information is available at www.donaldson.com.

SAFE HARBOR STATEMENT UNDER THE SECURITIES REFORM ACT OF 1995

The company desires to take advantage of the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995 and is making this cautionary statement in connection with such safe harbor legislation. This earnings release, the Annual Report to Shareholders, any Form 10-K, 10-Q or Form 8-K of the company or any other written or oral statements made by or on behalf of the company may include forward-looking statements which reflect the company's current views with respect to future events and financial performance, but involve uncertainties that could significantly impact results. The words "believe," "expect," "anticipate," "intends," "estimate," "forecast," "plan," "project," "should" and similar expressions are intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. All forecasts and projections are "forward-looking statements" and are based on management's current expectations of the company's near-term results, based on current information available pertaining to the company.

The company wishes to caution investors that any forward-looking statements made by or on behalf of the company are subject to uncertainties and other factors that could cause actual results to differ materially from such statements. These uncertainties and other risk factors include, but are not limited t risks associated with currency fluctuations, commodity prices, world economic factors, political factors, international operations, highly competitive markets, changes in capital spending levels by customers, changes in product demand and changes in the geographic and product mix of sales, acquisition opportunities and integration of recent acquisitions, facility and product line rationalization, research and development expenditures, including ongoing information technology improvements, and governmental laws and regulations, including diesel emissions controls. For a more detailed explanation of the foregoing and other risks, see Exhibit 99, which is part of the company's Form 10-K filed with the Securities and Exchange Commission. The company wishes to caution investors that other factors might in the future prove to be important in affecting the company's results of operations. New factors emerge from time to time and it is not possible for management to predict all such factors, nor can it assess the impact of each such factor on the business or the extent to which any factor, or a combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Investors are further cautioned not to place undue reliance on such forward-looking statements as they speak only to the company's views as of the date the statement is made. The company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

CONDENSED STATEMENTS OF CONSOLIDATED EARNINGS
DONALDSON COMPANY, INC. AND SUBSIDIARIES
(Thousands of dollars, except per share amounts)
(Unaudited)

	Three Months Ended July 31		Year Ended July 31	
	2002	2001	2002	2001
Net sales	$303,872	$297,794	$1,126,005	$1,137,015
Cost of sales	208,948	207,512	776,513	795,281
Gross margin	94,924	90,282	349,492	341,734
Operating expenses	58,443	58,165	225,642	229,626
Operating income	36,481	32,117	123,850	112,108
Other (income) expense	797	(1,775)	(1,699)	(4,428)
Interest expense	1,540	2,207	6,531	11,608
Earnings before income taxes	34,144	31,685	119,018	104,928
Income taxes	9,219	8,872	32,135	29,380
Net earnings	$24,925	$22,813	$86,883	$75,548
Weighted average shares outstanding	44,060,632	44,359,153	44,158,074	44,381,082
Diluted shares outstanding	45,671,462	45,577,495	45,714,409	45,612,165
Net earnings per share	$.57	$.51	$1.97	$1.70
Net earnings per share assuming dilution	$.55	$.50	$1.90	$1.66
Dividends paid per share	$.080	$.075	$.310	$.295
Capital expenditures	$4,755	$11,939	$40,529	$38,924
Depreciation and amortization	$7,889	$11,202	$31,751	$38,577
EBITDA	$43,279	$44,683	$156,381	$153,962

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Thousands of dollars)
(Unaudited)

	July 31 2002	July 31 2001
ASSETS		
Cash and cash equivalents	$45,586	$36,136
Accounts receivable - net	251,417	230,046
Inventories - net	117,691	112,634
Prepaid expenses and other		

current assets	41,790	28,411
TOTAL CURRENT ASSETS	456,484	407,227
Other assets and deferred taxes	152,734	91,945
Property, plant and equipment - net	240,913	207,658
TOTAL ASSETS	$850,131	$706,830
LIABILITIES AND SHAREHOLDERS' EQUITY		
Trade accounts payable	$115,299	$100,287
Employee compensation and other liabilities	77,274	57,576
Notes payable	60,337	59,393
Income taxes payable	19,823	--
Current maturity long-term debt	57	23
TOTAL CURRENT LIABILITIES	272,790	217,279
Long-term debt	105,019	99,259
Other long-term liabilities	89,701	71,199
TOTAL LIABILITIES	467,510	387,737
EQUITY	382,621	319,093
TOTAL LIABILITIES AND EQUITY	$850,131	$706,830

DONALDSON COMPANY, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Thousands of dollars)
(Unaudited)

	Year Ended July 31	
	2002	2001
OPERATING ACTIVITIES		
Net earnings	$86,883	$75,548
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation and amortization	31,751	38,577
Changes in operating assets and liabilities	43,836	(24,835)
Other	(11,181)	(6,491)
Net cash provided by operating activities	151,289	82,799
INVESTING ACTIVITIES		
Net expenditures on property and equipment	(40,529)	(38,924)
Acquisitions and investments in unconsolidated affiliates net of cash acquired	(68,349)	--
Net cash used in investing activities	(108,878)	(38,924)
FINANCING ACTIVITIES		
Purchase of treasury stock	(21,271)	(10,297)
Net change in debt	4,528	(16,091)
Dividends paid	(13,713)	(13,092)
Other	1,689	525
Net cash used in financing activities	(28,767)	(38,955)
Effect of exchange rate changes on cash	(4,194)	(801)
Increase in cash and cash equivalents	9,450	4,119
Cash and cash equivalents-beginning		

of year	36,136	32,017
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Cash and cash equivalents-end of period	$45,586	$36,136
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