

# William Blair 39<sup>th</sup> Annual Growth Stock Conference

Tod Carpenter, Chairman, President and CEO | June 6



**Donaldson.**  
FILTRATION SOLUTIONS

Statements in this presentation regarding future events and expectations, such as forecasts, plans, trends and projections relating to the Company's business and financial performance, are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and are identified by words or phrases such as "will likely result," "are expected to," "will continue," "will allow," "estimate," "project," "believe," "expect," "anticipate," "forecast," "plan," and similar expressions. These forward-looking statements speak only as of the date such statements are made and are subject to risks and uncertainties that could cause the Company's results to differ materially from these statements. These factors include, but are not limited to, economic and industrial market conditions worldwide; the Company's ability to maintain certain competitive advantages; threats from disruptive innovation; pricing pressures; the Company's ability to protect and enforce its intellectual property rights; the difficulties in operating globally; customer concentration in certain cyclical industries; unavailable raw materials or material cost inflation; inability of operations to meet customer demand; difficulties with information technology systems and security; foreign currency fluctuations; governmental laws and regulations; changes in tax laws and regulations and results of examinations; the Company's ability to attract and retain qualified personnel; changes in capital and credit markets; execution of the Company's acquisition strategy; the possibility of intangible asset impairment; the Company's ability to manage productivity improvements; unexpected events and the disruption on operations; the Company's ability to maintain an effective system of internal control over financial reporting. These and other risks and uncertainties are described in Item 1A of the Company's Annual Report on Form 10-K for the year ended July 31, 2018. The Company makes these statements as of the date of this disclosure and undertakes no obligation to update them unless otherwise required by law.

## Strong Value Proposition for Our Stakeholders



1.

Technology-led filtration company with deep customer relationships

2.

Diversified portfolio of global businesses with recurring revenue and expanding addressable market opportunities

3.

Experienced management team and engaged board of directors committed to our long-term strategic goals

4.

Global sales, production and distribution footprint with personalized service of a local firm

5.

Culture of ownership aligns with shareholder interests; disciplined capital allocation strategy to drive strong shareholder returns

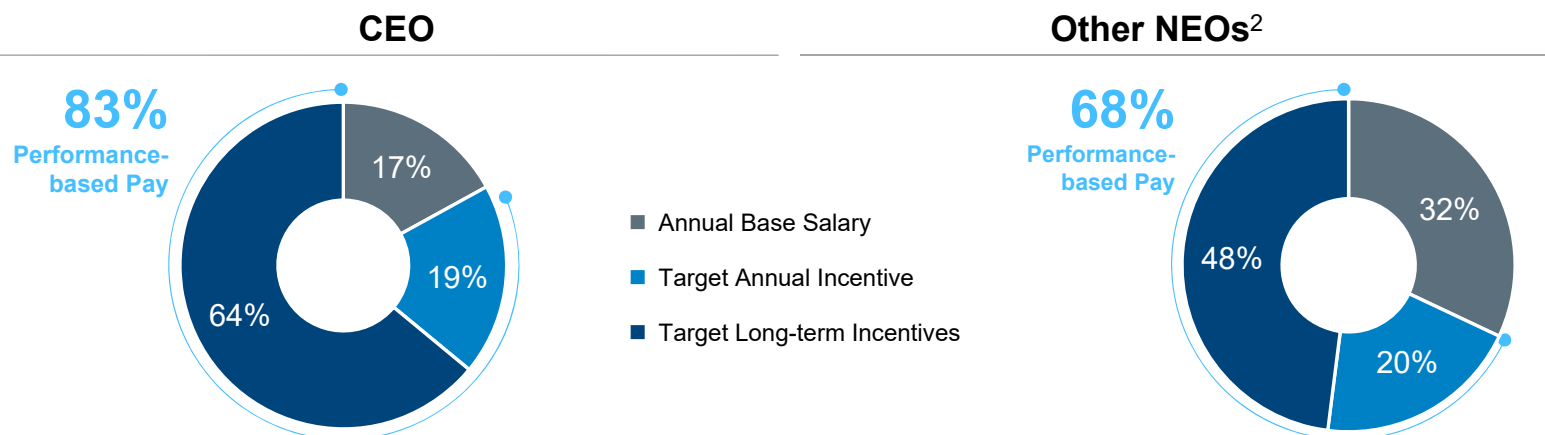
# Strong Alignment with Shareholder Interests



## STOCK OWNERSHIP REQUIREMENTS

	DCI	Common Market Practice <sup>1</sup>
CEO	10x Base Salary	5x Base Salary
CFO & SVPs	5x Base Salary	3x Base Salary
VPs	3x Base Salary	1x Base Salary

### Target Total Direct Compensation Mix



**Long-term Incentives | 50% Tied to ROI Target (Primary Requirement) and 50% to Sales**

<sup>1</sup> Source: Willis Towers Watson and Company estimates. <sup>2</sup> Named Executive Officers (NEOs).

# Donaldson at a Glance

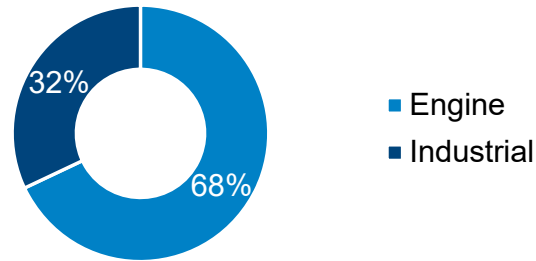


## KEY STATISTICS

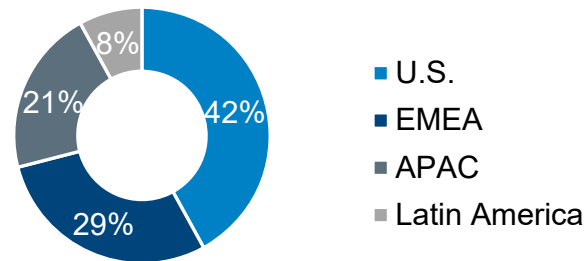
- Founded: 1915
- Employees: ~14,000
- Mfg. Facilities: 43
- Dist. Centers: 20
- Joint Ventures: 3
- Active Patents: 1,800+
- Technical Labs: 100+

## FY19 YTD<sup>1</sup> Revenue: \$2.1B

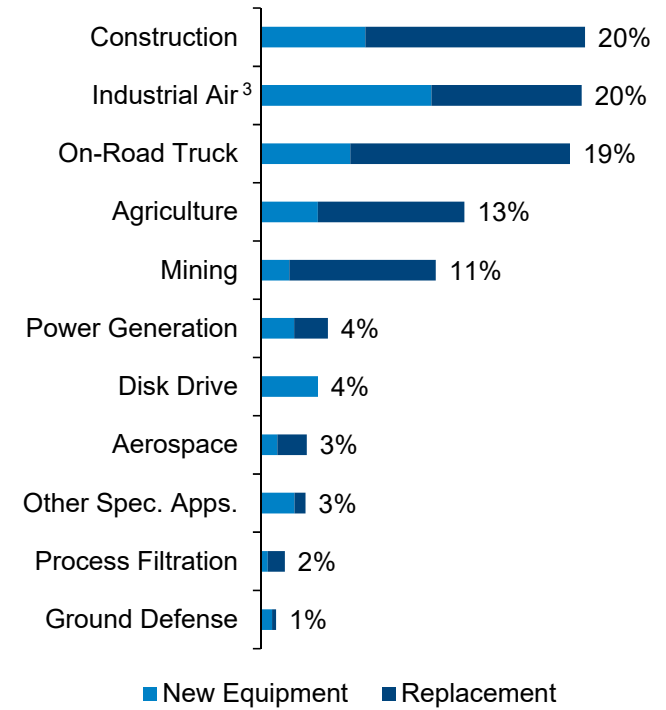
By Segment



By Geographic Region



## End Markets/Applications Served<sup>2</sup>



<sup>1</sup> Nine months ended April 30, 2019; <sup>2</sup> Estimated percentage of FY18 Revenue; <sup>3</sup> Industrial Air sells into a variety of end markets.

# Diverse Product Groups Across Industries



ENGINE  
AIR  
39%



INDUSTRIAL DUST,  
FUME & MIST  
14%



FUEL/  
LUBE  
14%



HYDRAULICS  
11%



GAS  
TURBINE  
4%



EXHAUST &  
EMISSIONS  
4%



COMPRESSED  
AIR & GAS  
4%



DISK  
DRIVE  
4%



OTHER SPECIAL  
APPLICATIONS  
2%



PROCESS  
FILTRATION  
2%



ON-COMPRESSOR  
1%



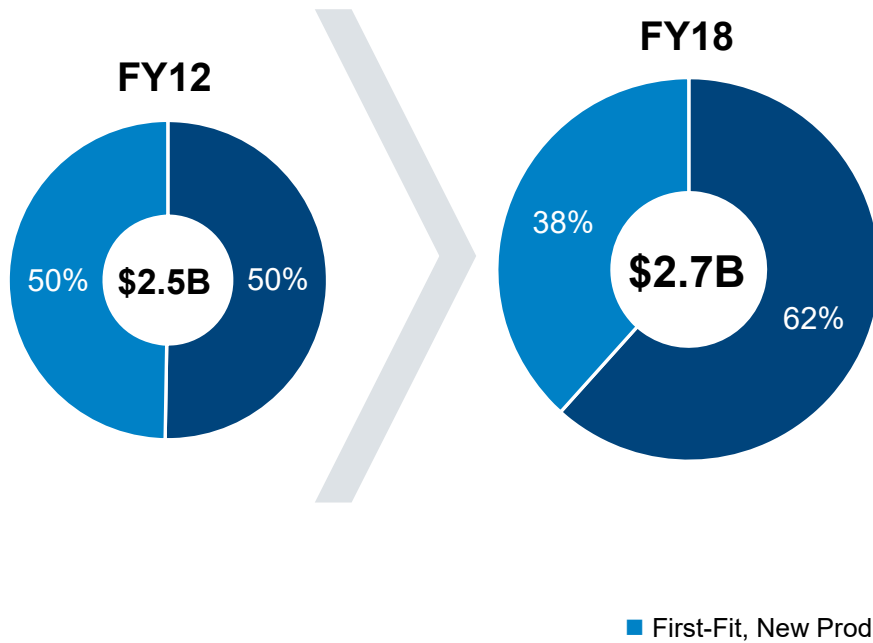
VENTING  
SOLUTIONS  
1%

Note: Percentage of FY18 total revenue.

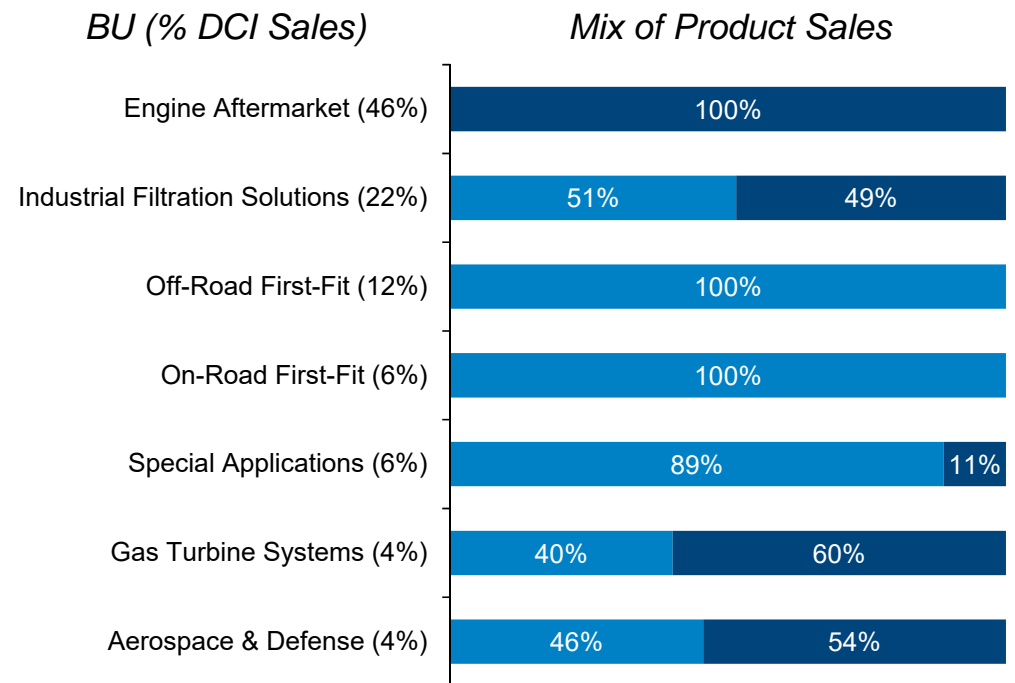
# Growth in Recurring Revenue Creates Long-Term Stability



## First-Fit vs. Replacement



## FY18 Revenue by Business Unit

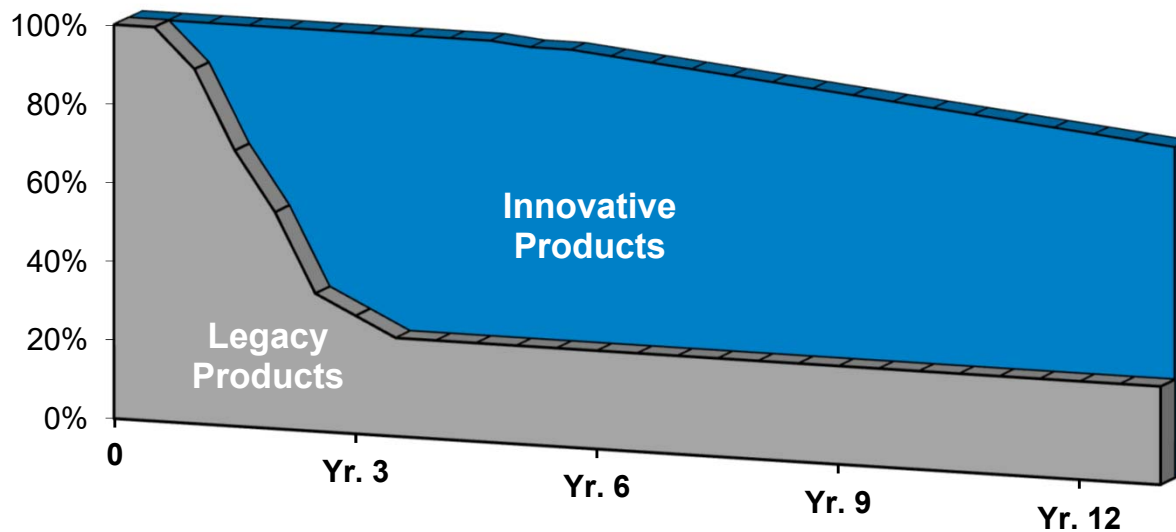


## YTD Sales of Replacement Parts > 10% in FY19<sup>1</sup>

<sup>1</sup> In local currency for nine months ended April 30, 2019.

# Retention Rates of Innovative vs. Legacy Products

## Aftermarket Retention Rate of Innovative Products Is Higher than Legacy Products Over Time



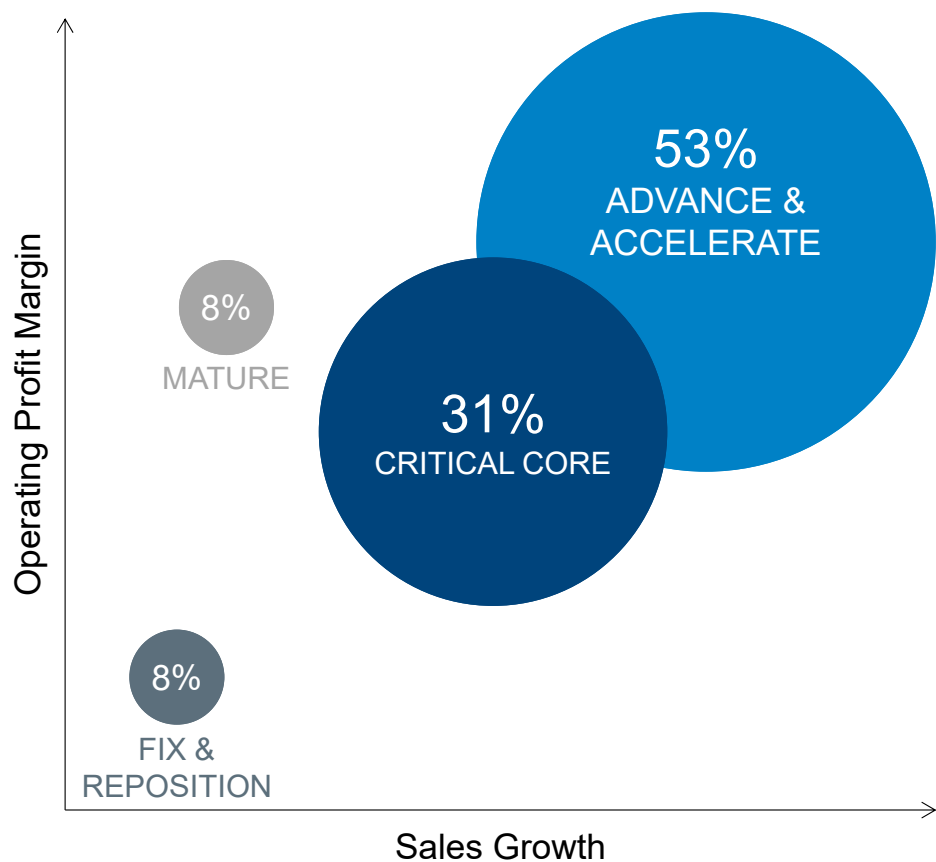
## Innovative Products In Q3'19

- Innovative products in Engine are ~1/3 of first-fit, 1/4 of Aftermarket; and grew in low-double digits
- Sales of PowerCore® Aftermarket grew mid-teens to a quarterly record
- Torit® Downflo® Evolution and PowerCore® products are >10% of Industrial Air Filtration

**Innovative Products Drive Aftermarket Retention in Engine and Industrial Segments**



# Portfolio Analysis and Roles



## • Advance & Accelerate

- IAF<sup>1</sup> Aftermarket
- Engine Aftermarket
- Venting Solutions
- Process Filtration
- Semiconductor
- Industrial Hydraulics

## • Critical Core

- Off-Road First-fit
- On-Road First-fit
- IAF<sup>1</sup> Equipment
- Compressed Air Filtration
- Aerospace

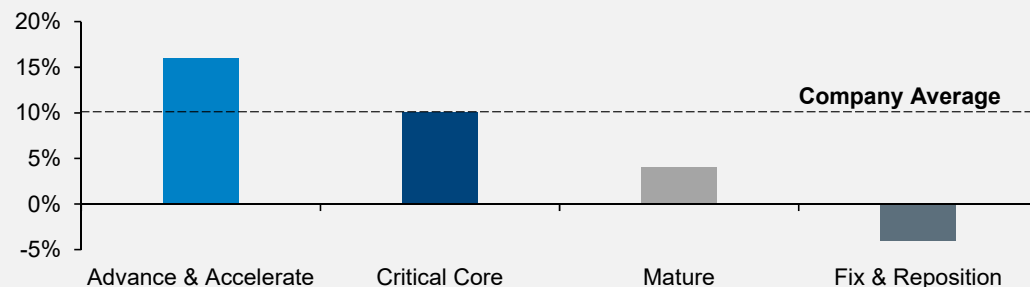
## • Mature

- Disk Drive
- Defense
- On-Compressor
- PTFE<sup>2</sup> Roll Goods

## • Fix & Reposition

- Gas Turbine Systems
  - More selective in large projects
  - Growing aftermarket sales
- Exhaust and Emissions
  - Refining operations to enhance efficiency

FY16-FY18 Average % Revenue Change



Note: Illustrative – chart not to scale. Percentage of FY18 total revenue; <sup>1</sup> Industrial Air Filtration (IAF); <sup>2</sup> Polytetrafluoroethylene (PTFE).



## Gas Power Generation

- Market shifting towards renewables at a slow pace
- Existing gas turbine systems will remain in-service for decades, and new ones still being added
- Shift from new projects towards replacement parts providing long horizon for gaining share and improving profitability



## Disk Drive Market

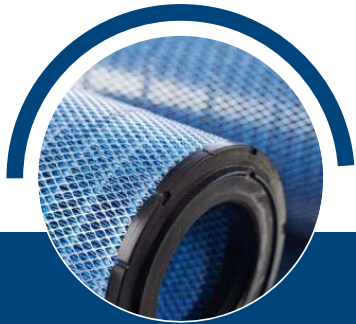
- Industry projections for modest declines over a long horizon
- More significant pressure in personal devices, with cloud storage providing a partial offset
- Continued technology advancements can be leveraged in other applications



## Electrification Adoption

- Minimal impact over the next decade+
- Medium-duty is likely to be fastest adoption (<2% of sales)
- Heavy-duty equipment used for decade(s), creating long aftermarket revenue stream

# Industry Tailwinds and Opportunities



## Increasing Technology Needs Across Industries

Higher-performing equipment and complex processes require advanced filtration



## Increasing Value on Strategic Partnerships

Customers want problem-solvers with deep understanding of their needs and technical expertise



## Increasing Demand for Connected Solutions

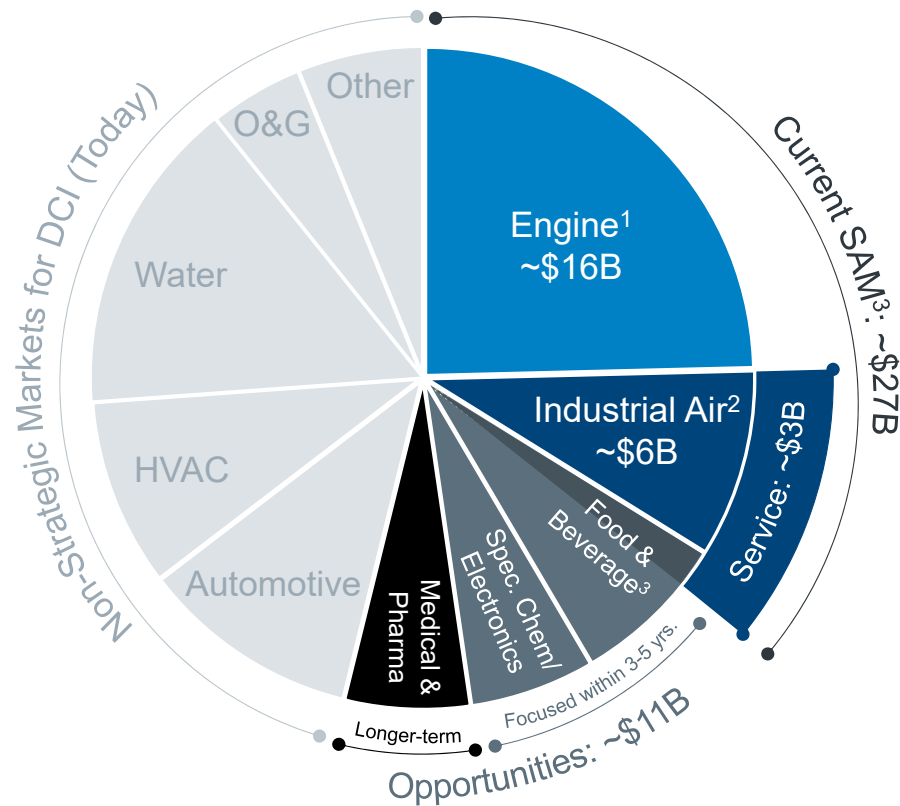
Customers want to reduce total cost of ownership, driving need for sensing and monitoring capabilities



## Increasing Standards Around the World

Meeting performance, safety and cleanliness standards is increasingly important

# Total Addressable Filtration Products Market: ~\$65B



## Opportunities Driven by Our Strategic Technology Evolution

<sup>1</sup> Includes Hydraulics, Fuel, Engine Air, A&D and Lube; <sup>2</sup> Industrial Air Filtration, including industrial dust collection, inlet air filtration for gas turbines, and fume and mist extraction; <sup>3</sup> Served Addressable Market (SAM) including ~\$2B within Food & Beverage.



## Engine segment

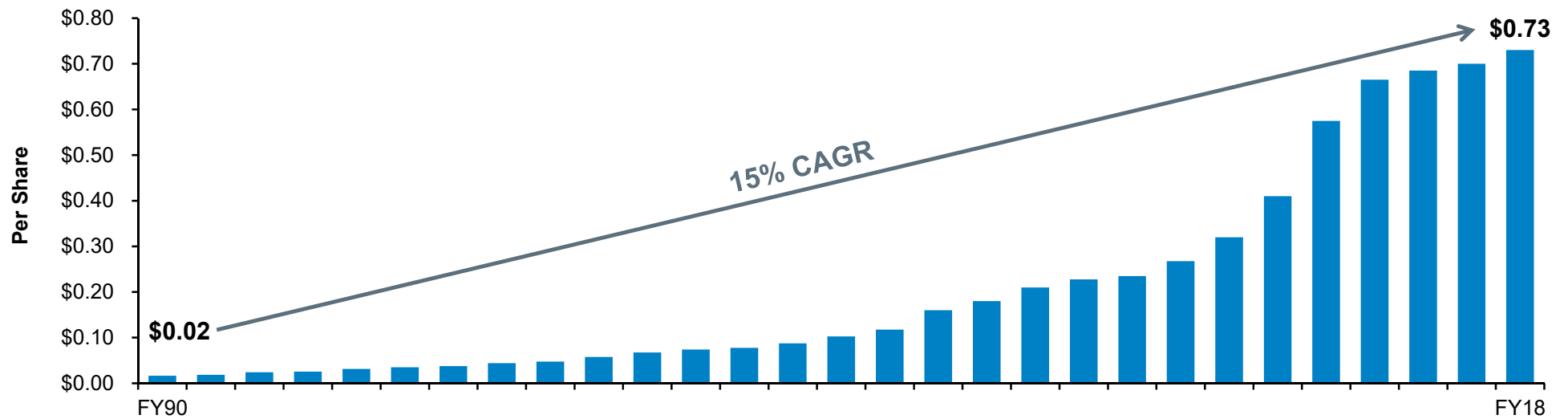
- Grow share with new program wins and new technology (e.g., connectivity, fuel, hydraulics)
- Grow in China and India as local demand for technology increases and users adhere to maintenance cycles
- Acquisitions are geography or capability focused

## Industrial segment

- Growing portfolio of best-in-class technology, products and solutions
- Expand customer access with depth, breadth of capabilities
- Accelerate growth strategy with strategic acquisitions

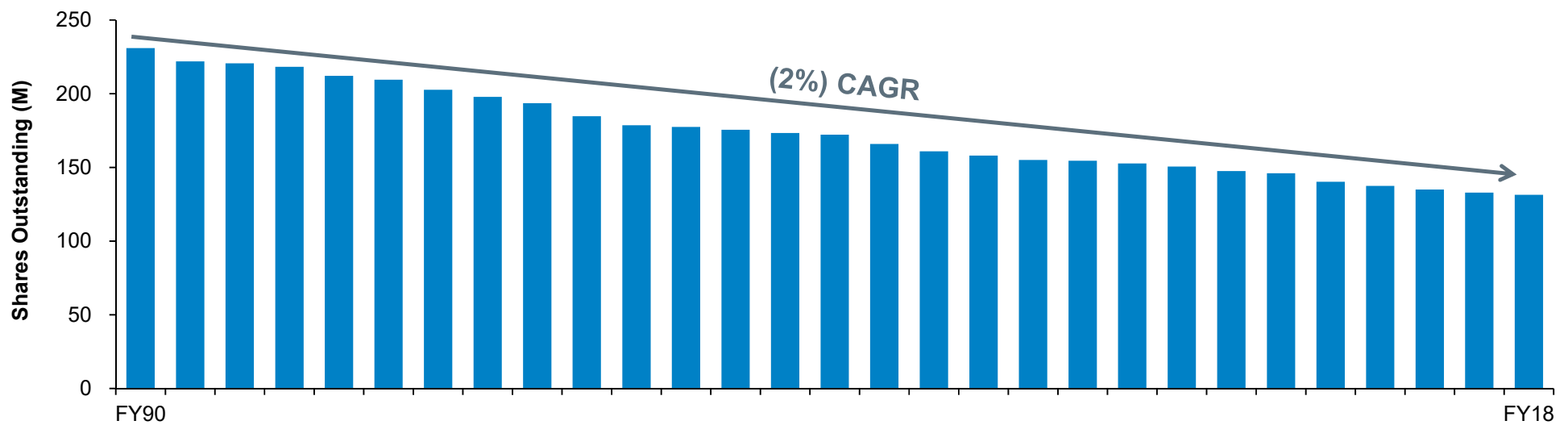
**Investment Agenda Aligned to Support Growth Priorities in Both Segments**

# Longstanding Commitment to Consistent Dividend Growth



- Paid quarterly dividend for 60+ years
- Increased annually for 20+ years; added to S&P High-Yield Dividend Aristocrat Fund in Jan. 2016
- Announced 10.5% increase in quarterly dividend on May 31, 2019

# Consistent Share Repurchase



- Long consistent history of repurchasing shares, announced new share repurchase authorization on May 31, 2019
- Committed to offset annual dilution of ~1%, on track to achieve that goal in FY19
- Level of incremental repurchase governed by balance sheet

Sales<sup>2</sup>

↑ **3.5%-4.5%**

Engine Sales

↑ **3.5%-4.5%**

Industrial Sales

↑ **4%-5%**

Operating Margin

**Flat – ↑0.4 pp**

EPS

**\$2.20-\$2.24**

Sales forecast reflects:

- Lower customer backlogs/orders in Off-Road, Aftermarket and IFS
- No changes to forecasts for On-Road, A&D, GTS, Special Application
- Strong growth in 'Advance & Accelerate' portfolio, including replacement parts

Profit forecast reflects:

- Continued expense leverage
- Sequential gross margin improvement in Q4'19
- Lower tax rate than prior forecast

## Full-Year 2019 Sales and Profit Projected Expected to Achieve Record Levels

<sup>1</sup> Reflects guidance commentary as of June 4, 2019; <sup>2</sup> Includes a currency headwind of ~3% and sales contribution from BOFA of ~1%.



# FY21 Financial Targets



	FY21 TARGETS	FY18 - FY21 FRAMEWORK
SALES	\$3.0B - \$3.3B	3% - 7% CAGR
OPERATING MARGIN <sup>1</sup>	15.0% - 15.8%	+120 - 200 bps
INCREMENTAL MARGIN <sup>1</sup>	22% - 28%	20% - 25%

## FY21 Business Assumptions

- “Advance and Accelerate” portfolio grows 1.5x - 2.0x the company average
- Meaningful improvement in gross margin from FY19
- Continued expense leverage

## Macro Assumptions

- Total industry CAGR of 1% - 3%, with stronger growth in emerging markets
- Stable capital investment environment
- Stable commodity prices, neutral impact from currency

**Committed to Increasing Levels of Profitability on Increasing Sales**

<sup>1</sup> Excludes income from joint ventures and royalties, and other items that are allocated to the segments as well as any restructuring charges that may be incurred.



## *Solving the World's Most Complex Filtration Challenges*

Technology-led  
filtration company  
with deep  
customer  
relationships

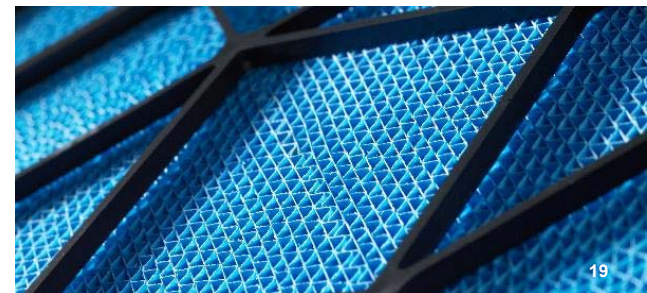
Diversified  
portfolio of global  
businesses with  
recurring revenue  
and expanding  
addressable market  
opportunities

Experienced  
management team  
committed to our  
long-term strategic  
goals

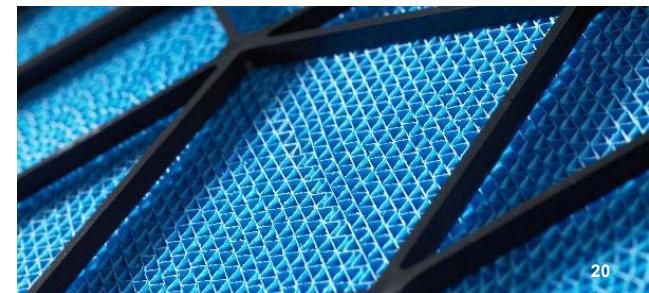
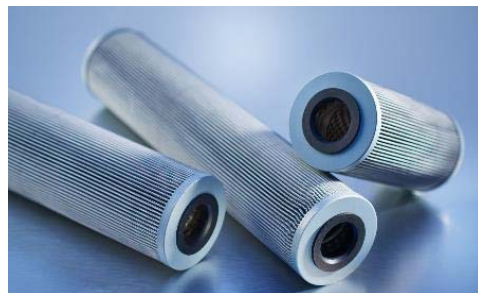
Global sales,  
production and  
distribution footprint  
with personalized  
service of a local firm

Culture of  
ownership aligns with  
shareholder interests;  
disciplined capital  
allocation strategy  
to drive strong  
shareholder  
returns

Thank You



# Appendix



## Adoption of Accounting Standards



**On August 1, 2018, Donaldson adopted the FASB standards ASU 2014-09, Revenue from Contracts with Customers (“revenue recognition”) and ASU 2017-07, Compensation – Retirement Benefits (“pension accounting”).**

**Donaldson elected to use the modified retrospective method in adopting the revenue recognition standard; therefore, fiscal 2019 and future results will be presented in conformity with the new standard, while results prior to August 1, 2018, will conform to the previous revenue recognition standard. Donaldson expects the new standard will increase sales without a commensurate change to gross profit, effectively reducing the Company’s gross margin and operating margin when compared to rates reported in prior fiscal years.**

**Under the new pension accounting standard, Donaldson will continue to report the service component of retirement costs in operating income and the non-service components will now be reported in other income. The new standard requires use of a retrospective method in accounting for the change; therefore, results in all periods presented will conform with the new standard. Restating fiscal 2018 results to conform with the new standard reduces operating income by approximately \$3.0 million, or 0.1 percentage points as a rate of sales, offset by a corresponding increase in other income. Similarly, operating income in fiscal years 2017 and 2016 are reduced by \$5.0 million and \$0.6 million, respectively, with corresponding increases in other income.**

# Reconciliation of GAAP to Non-GAAP



## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(In millions, except per share amounts)  
(Unaudited)

	Three Months Ended		
	July 31,		
	2018 <sup>1</sup>	2017 <sup>2</sup>	2016 <sup>3</sup>
Net cash provided by operating activities	\$ 262.9	\$ 317.8	\$ 286.1
Net capital expenditures	(95.9)	(63.5)	(70.7)
Free cash flow	\$ 167.0	\$ 254.3	\$ 215.4
Net earnings	\$ 180.3	\$ 232.8	\$ 190.8
Income taxes	183.3	89.2	66.6
Interest expense	21.3	19.5	20.7
Depreciation and amortization	76.7	75.2	74.9
EBITDA	\$ 461.6	\$ 416.7	\$ 353.0
Net Earnings	\$ 180.3	\$ 232.8	\$ 190.8
Restructuring charges, net of tax	—	—	11.5
Tax (benefit) expense for Federal Tax Cuts and Jobs Act	84.1	—	—
Settlement, net of tax	—	(6.8)	—
Investigation costs	—	—	2.0
Adjusted Net Earnings	\$ 264.4	\$ 226.0	\$ 204.3
Diluted EPS	\$ 1.36	\$ 1.74	\$ 1.42
Restructuring charges per share	—	—	0.08
Tax (benefit) expense for Federal Tax Cuts and Jobs Act	0.64	—	—
Settlement, net of tax	—	(0.05)	—
Investigation costs	—	—	0.02
Adjusted diluted EPS	\$ 2.00	\$ 1.69	\$ 1.52

For more information, please see the Company's annual report on Form 10-K for FY16, FY17 and FY18. <sup>1</sup> Based on provisional estimates of the Tax Reform impact, Donaldson recorded a charge of \$84.1M for the FY18; <sup>2</sup> In FY17, Donaldson recorded income of \$6.8M related to the settlement of claims against an escrow account that had been established with the Company's acquisition of Northern Technical, L.L.C., which was completed in 1Q15; <sup>3</sup> During FY16, pre-tax charges related to restructuring reduced Donaldson's full-year operating income by \$16.1M. The Company also incurred \$3.1M of expenses in FY16 related to an independent investigation into its GTS business.