

DONALDSON COMPANY

Investor Presentation

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SAFE HARBOR STATEMENT

This presentation includes 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.

DONALDSON IS A FILTRATION COMPANY

- Technology leader in our markets
- Diversified portfolio of global businesses

VALUE PROPOSITION TO OUR CUSTOMERS

- Technology Advantages
 - Higher efficiency
 - Small system size
 - Longer filter life
 - Reduced operating and maintenance costs
- Better Aftermarket Retention

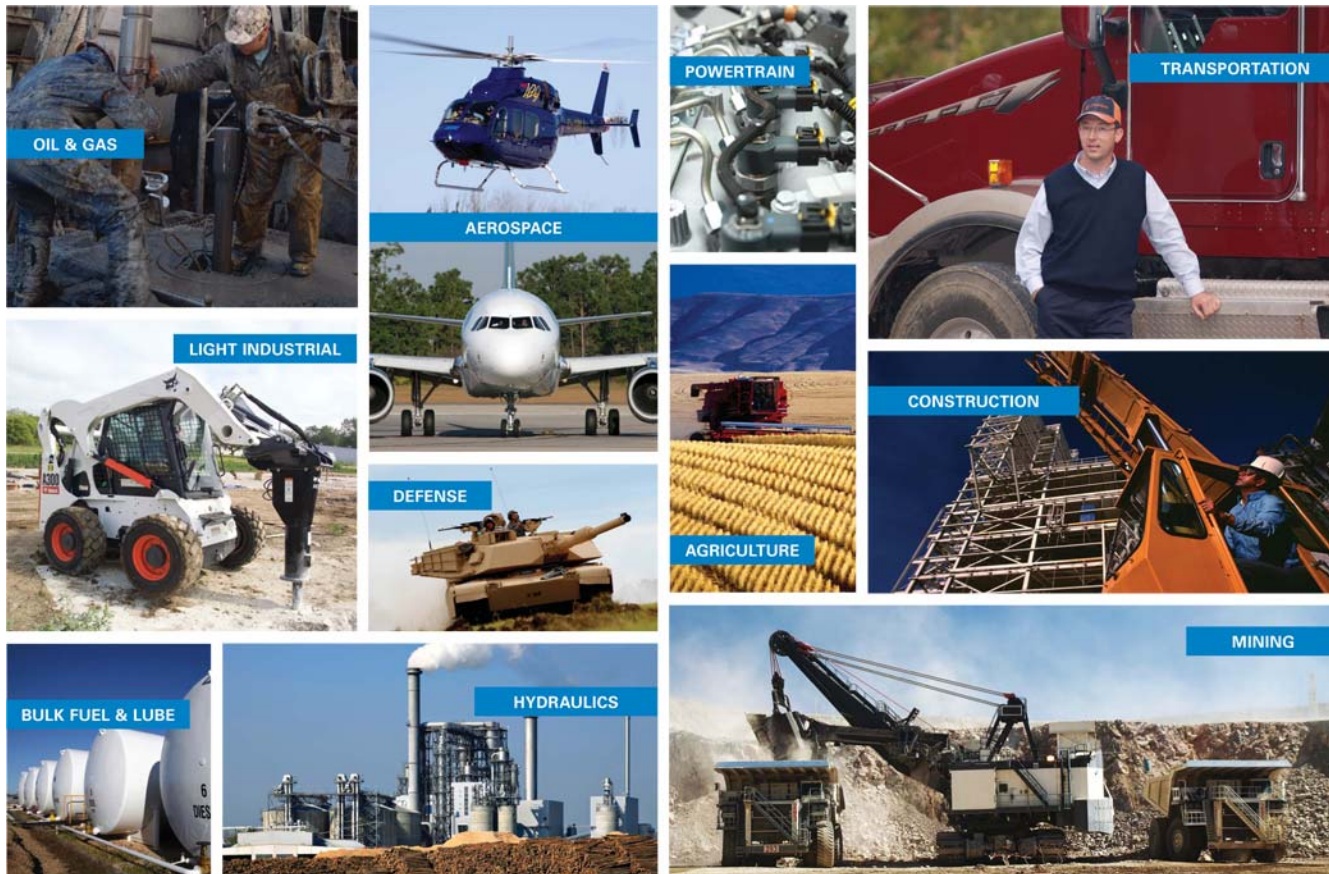
VALUE PROPOSITION TO OUR SHAREHOLDERS

- Diversified portfolio of technology and products
- Global sales, production and distribution footprint
- Committed to growth and financial performance
- Disciplined capital deployment

WE DIVERSIFY THROUGH OUR TECHNOLOGY

Engine Products are ~68% of total revenue*

- ~70% replacement parts; ~30% first-fit products



* Twelve months ended July 31, 2018

WE DIVERSIFY THROUGH OUR TECHNOLOGY

Industrial Products are ~32% of revenue*

- ~40% replacement parts; ~60% first-fit products



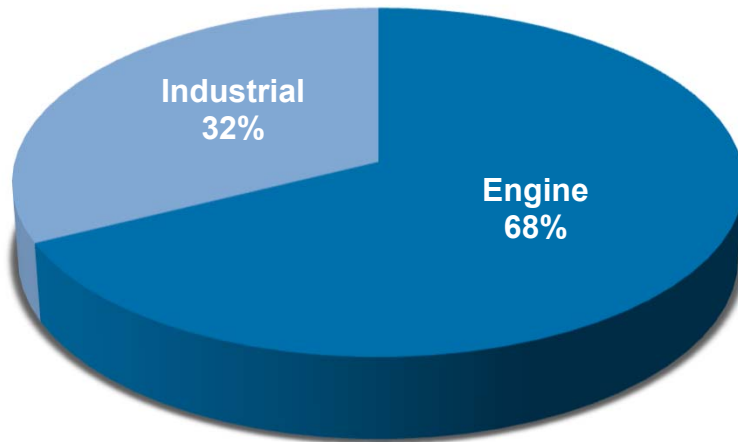
* Twelve months ended July 31, 2018

FINANCIAL PERFORMANCE

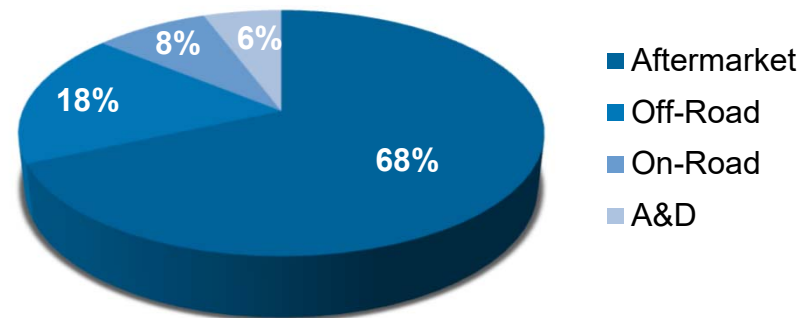
SALES COMPOSITION AND PERFORMANCE*

Fiscal 2018 sales of \$2.73 billion; 15.3% over FY17

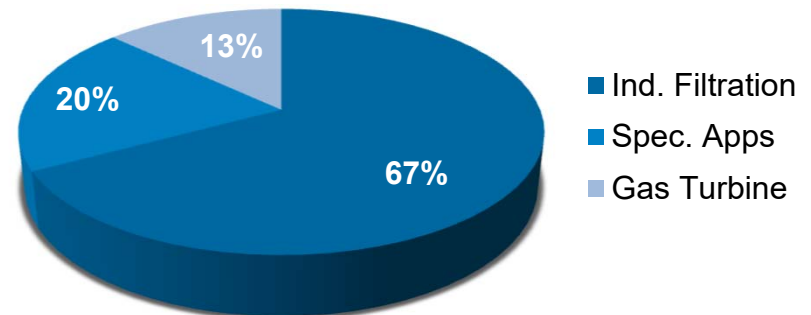
Revenue Composition



Engine: +19.0%



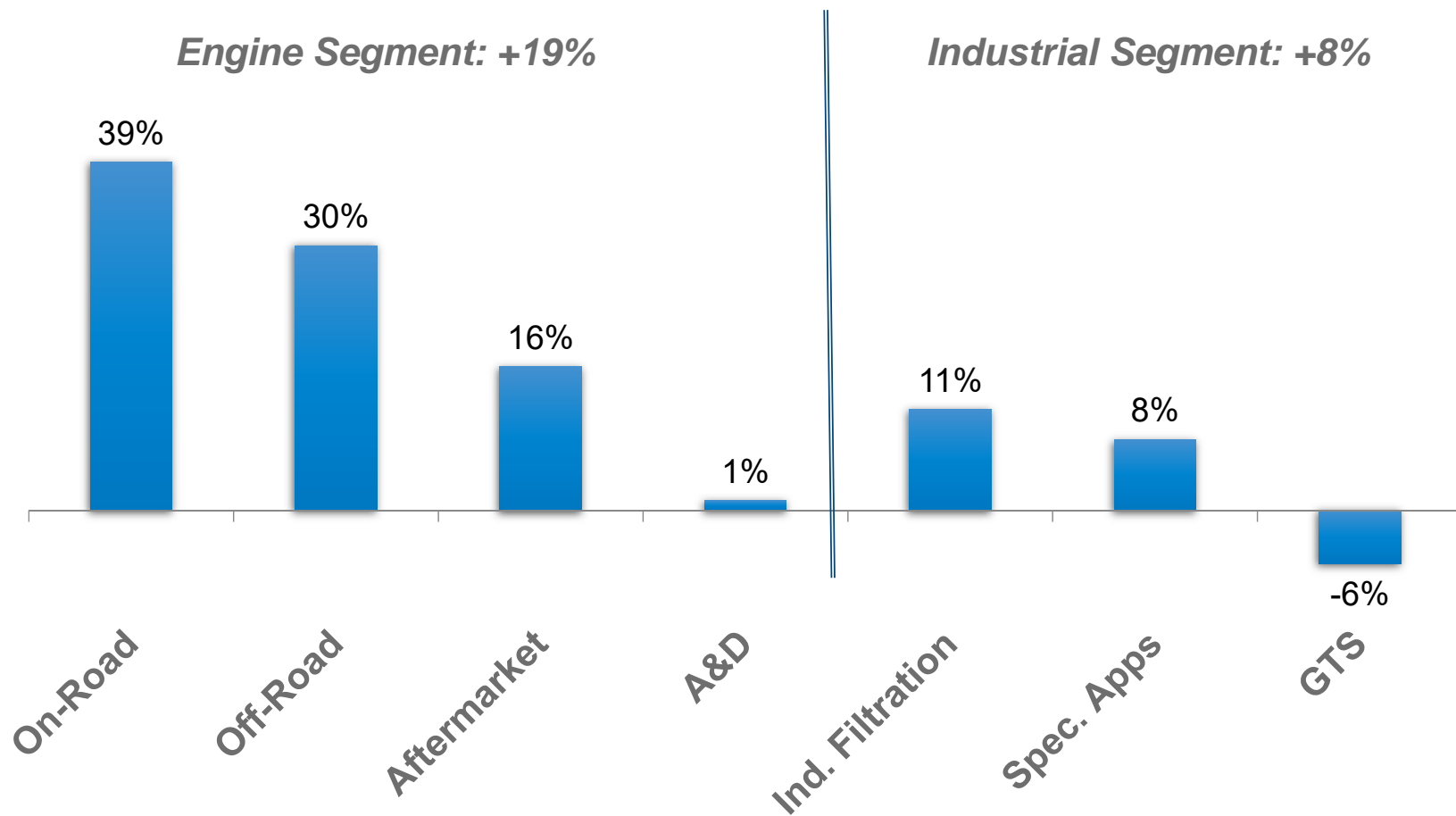
Industrial: +8.1%



* Twelve months ended July 31, 2018

STRONG SALES ACROSS THE COMPANY*

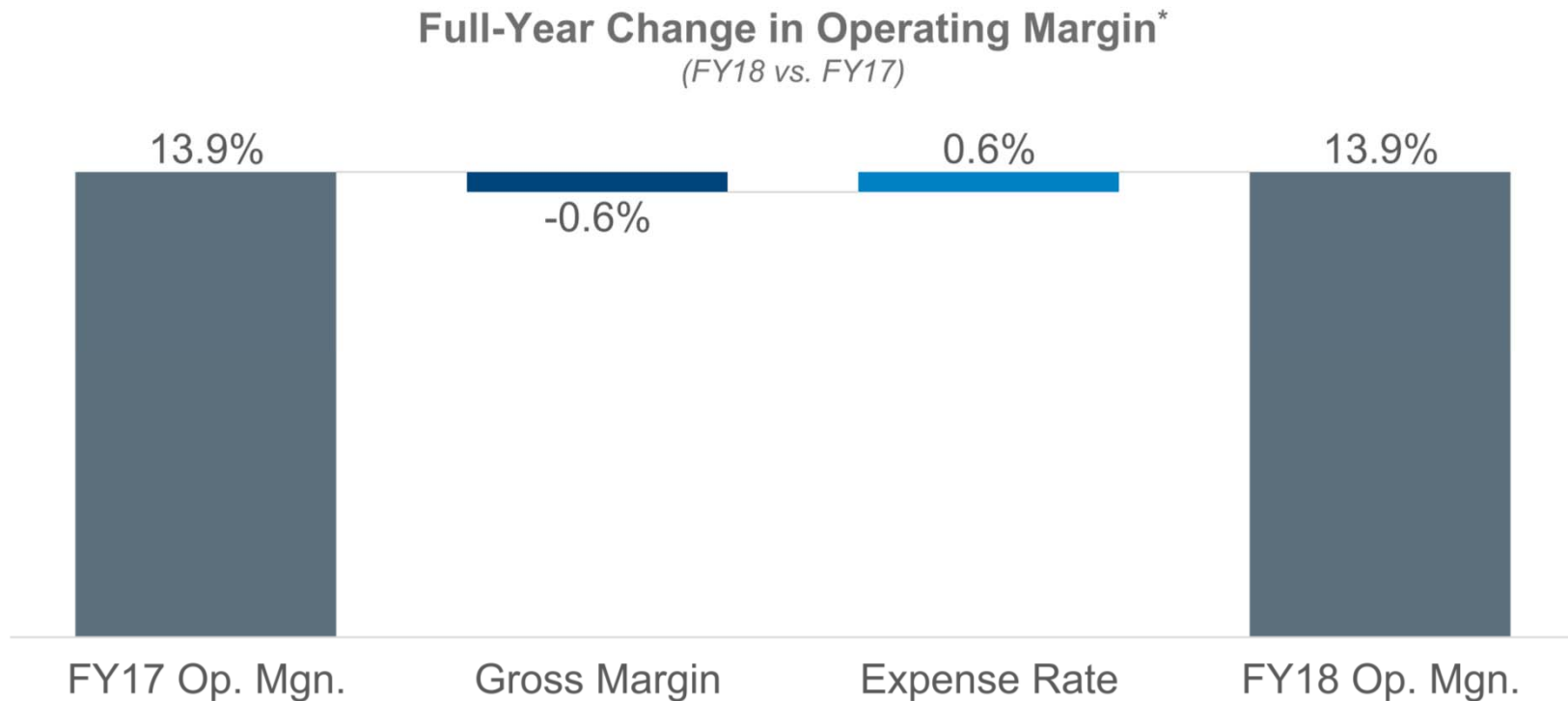
- Past program wins (including share gains)
- Favorable conditions for key markets in both segments



* Twelve months ended July 31, 2018

MIXED CONDITIONS WITH OPERATING MARGIN

- Raw materials, supply chain costs pressuring gross margin
- Disciplined control, higher sales driving expense leverage



* Twelve months ended July 31, 2018

FORECASTING STRONG FY19 PERFORMANCE*

- Expecting another year of record sales and profit in FY19
 - Sales up between 7% and 11%
 - Currency impact of ~(2)%
 - Pricing adds 1% to 2%
 - Acquisition of BOFA adds ~1%, or ~4% to Industrial Products Sales
 - Accounting change** adds sales of ~1% to Engine Products Sales
 - EPS between \$2.31 and \$2.45; including acquisition of BOFA
 - Compares with prior-year GAAP and adjusted EPS** of \$1.36 and \$2.00, respectively
- Incremental margin forecast in the low-20% range
 - Operating margin between 14.2% and 14.6%
 - Reflects increase of 0.3 to 0.7 pp from prior-year adjusted** rate of 13.8%
 - Pricing offsets commodities inflation and higher freight expense in gross margin
 - Continued expense leverage while supporting ongoing investments in future growth

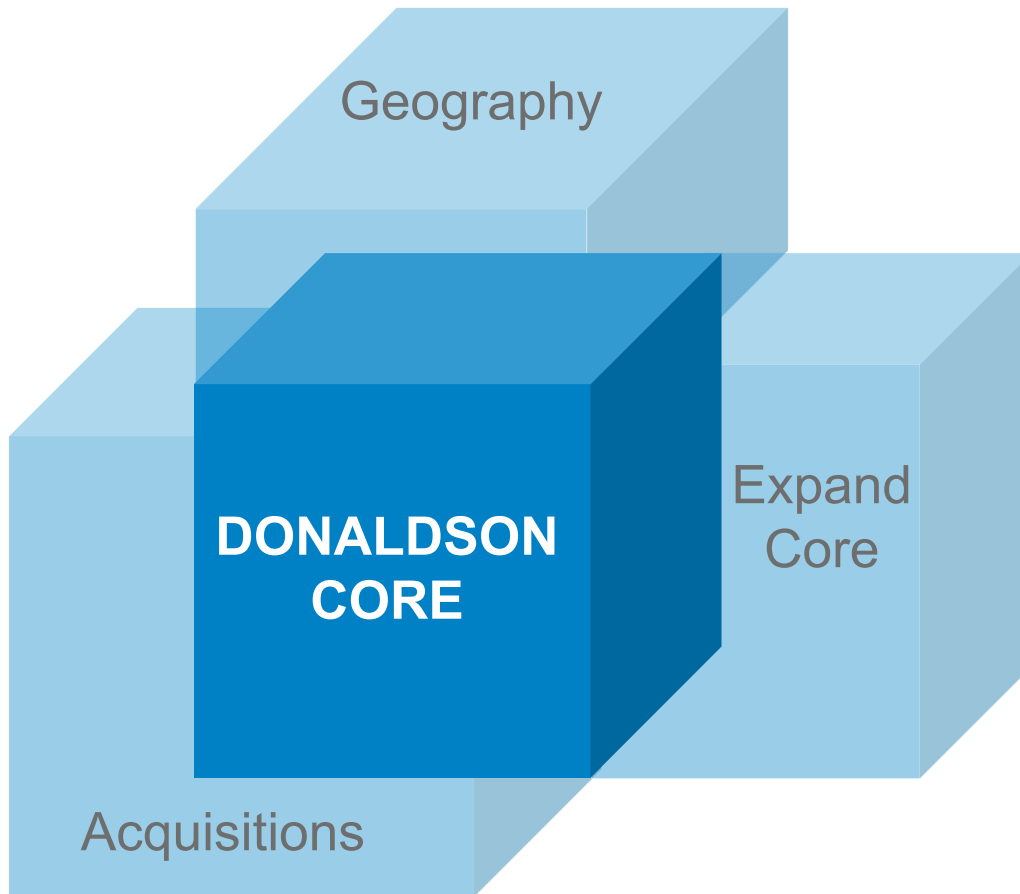
**Reflects guidance, commentary from fourth quarter earnings release and conference call on December 4, 2018.*

*** Donaldson adopted two new accounting standards beginning in fiscal 2019; adjusted EPS is a non-GAAP financial measure that excludes the impact of certain matters not related to the Company's ongoing operations, including charges related to the provisional estimates of the impact from tax reform. See appendix and press release from December 4, 2018, for more information.*



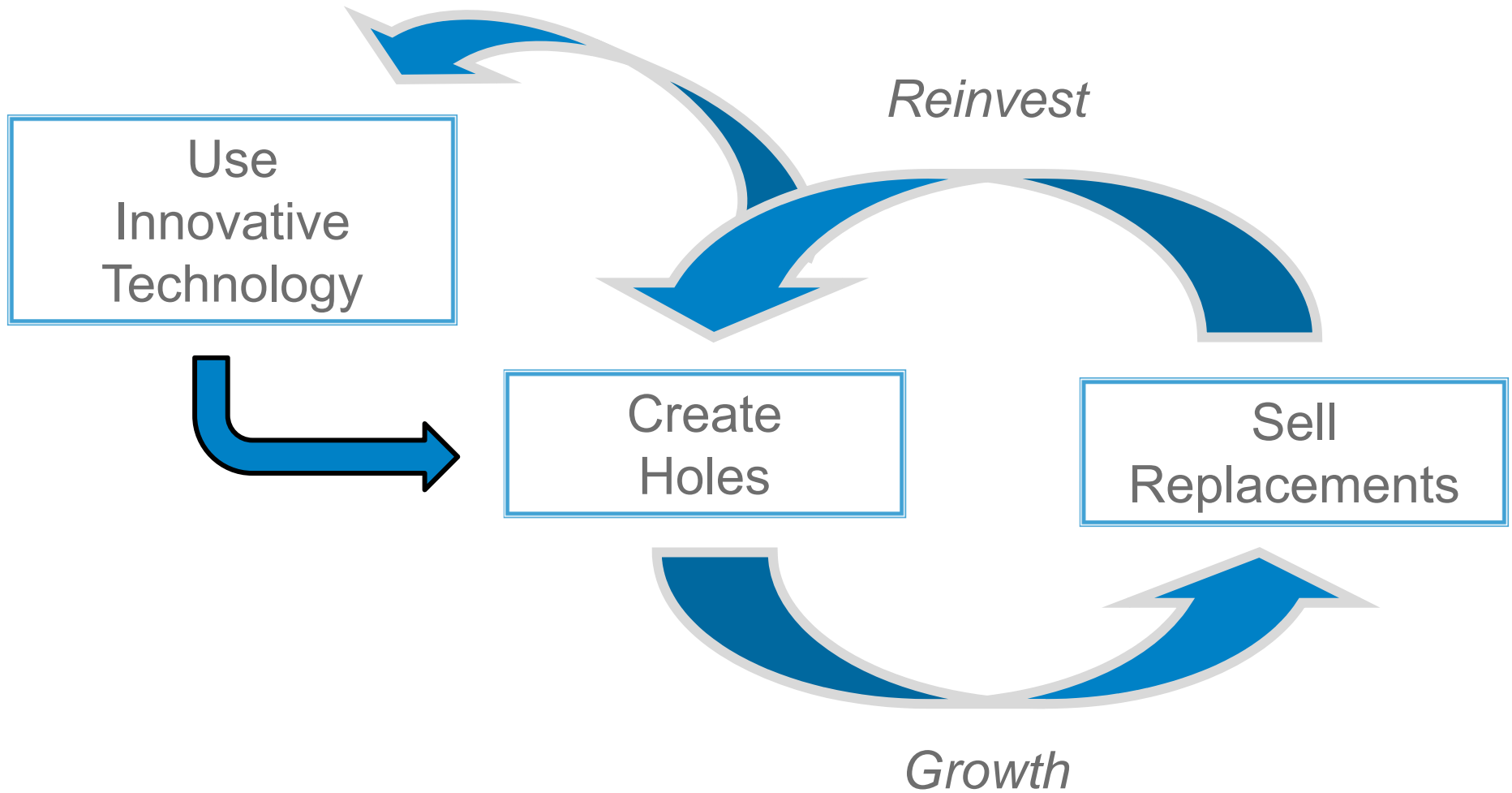
STRATEGIC GROWTH PLANS

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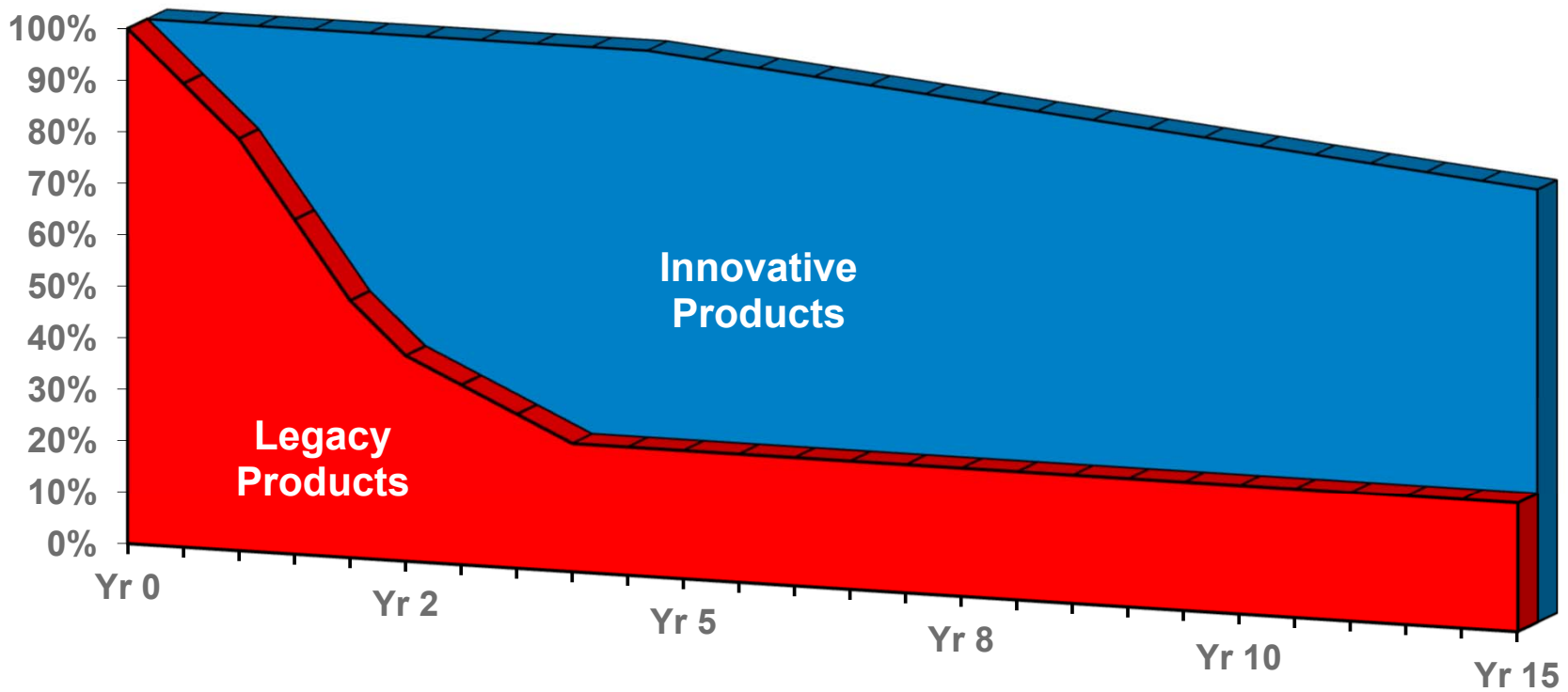
- Expand **core products and technologies**
- Expand **geographically**
- Execute **acquisitions**

SALES GROWTH MODEL



INNOVATIVE PRODUCTS DRIVE RETENTION

Aftermarket retention rate of innovative products is higher than legacy products over time



INNOVATIVE AIR FILTRATION

PowerCore



DownFlo Evolution



INNOVATIVE LIQUID FILTRATION

- Designed for new diesel fuels, higher fuel injector pressure
- Higher efficiency, extended filter life



INNOVATIVE PROCESS FILTRATION

- Filtration for the Food and Beverage industry
- Stronger, longer-lasting, high-efficiency



LONG-TERM CAPITAL DEPLOYMENT PRIORITIES

- Invest in our company
- Pay a dividend
- Repurchase our shares

CURRENT INVESTMENTS IN OUR COMPANY

- Technology development
 - Grow our capabilities with new filtration technologies to further expand into adjacent markets.
 - Develop connected solutions for Engine and Industrial customers
- Capacity expansion
 - Increase our global manufacturing capacity for innovative air and liquid products.
- Sales driving
 - Fully roll out our e-commerce platform, shop.donaldson.com.
 - Expand our sales force for key growth businesses, like process filtration and venting solutions.

REINVESTING OVER TIME

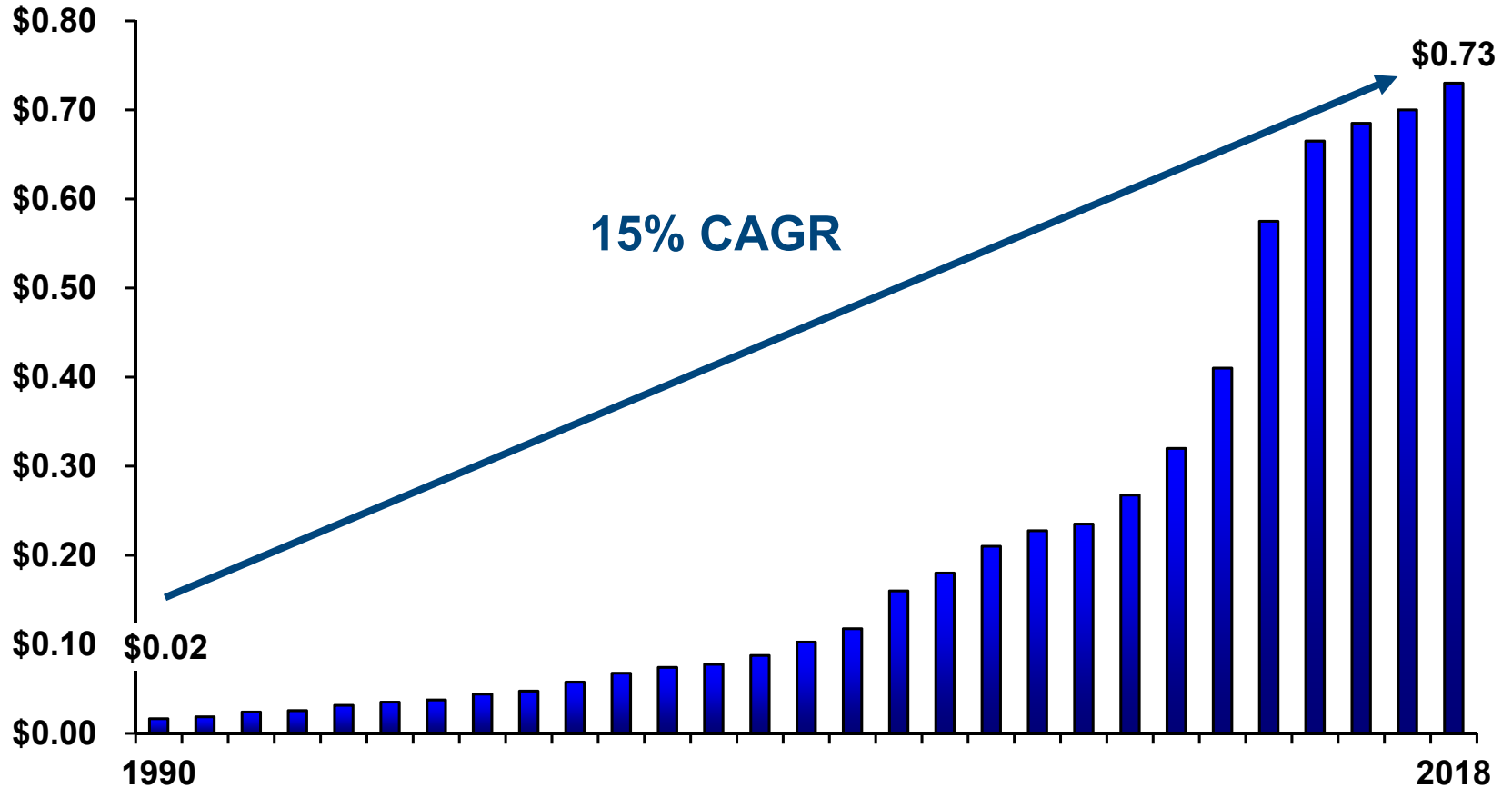
- Organic Growth Investments
 - Development of new and innovative products
 - Lab upgrades and IT investments
 - Production capacity and distribution expansion
- Acquisitions
 - Completed six bolt-on acquisitions since fiscal 2015



CONSISTENT DIVIDEND GROWTH

- Paid quarterly dividend for 60+ years
- Increased annually for 20+ years
- Announced 5.6% increase in May 2018

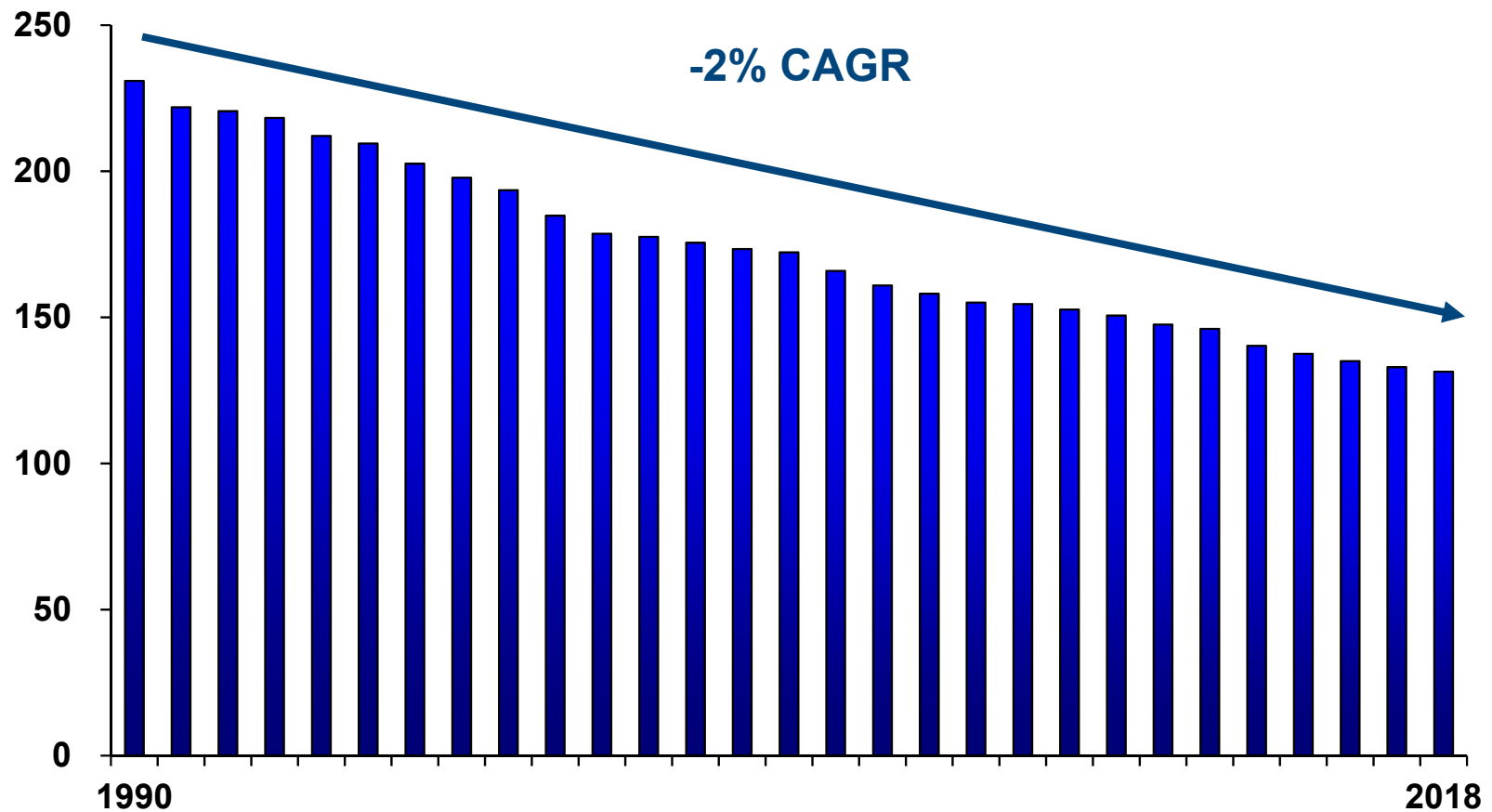
Per Share



CONSISTENT SHARE REPURCHASE

Shares
Outstanding
in Millions

- Very long history of repurchasing shares
- Goal is to at least offset annual dilution of ~1%



VALUE PROPOSITION TO OUR SHAREHOLDERS

- Diversified portfolio of technology and products
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- Committed to growth and financial performance
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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 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. While the assessment of the impact of the revenue recognition standard on future consolidated financial statements is ongoing, the Company has identified one aspect of the new standard that affects the Engine Products segment. Donaldson expects the new standard will increase sales without an associated 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 YTD GAAP TO NON-GAAP

RECONCILIATION OF NON-GAAP FINANCIAL MEASURES

(In millions, except per share amounts)

(Unaudited)

	Three Months Ended		Twelve Months Ended	
	July 31,		July 31,	
	2018	2017	2018	2017
Net cash provided by operating activities	\$ 104.2	\$ 87.0	\$ 262.9	\$ 317.8
Net capital expenditures	(22.8)	(22.3)	(95.9)	(63.5)
Free cash flow	<u>\$ 81.4</u>	<u>\$ 64.7</u>	<u>\$ 167.0</u>	<u>\$ 254.3</u>
Net earnings	\$ 102.4	\$ 68.2	\$ 180.3	\$ 232.8
Income taxes	1.1	23.5	183.3	89.2
Interest expense	5.6	5.1	21.3	19.5
Depreciation and amortization	19.3	19.4	76.7	75.2
EBITDA	<u>\$ 128.4</u>	<u>\$ 116.2</u>	<u>\$ 461.6</u>	<u>\$ 416.7</u>
Net earnings	\$ 102.4	\$ 68.2	\$ 180.3	\$ 232.8
Tax (benefit) expense for Federal Tax Cuts and Jobs Act	(26.0)	—	84.1	—
Settlement, net of tax	—	—	—	(6.8)
Adjusted Net Earnings	<u>\$ 76.4</u>	<u>\$ 68.2</u>	<u>\$ 264.4</u>	<u>\$ 226.0</u>
Diluted EPS	\$ 0.78	\$ 0.51	\$ 1.36	\$ 1.74
Tax (benefit) expense for Federal Tax Cuts and Jobs Act	(0.20)	—	0.64	—
Adjusted diluted EPS	<u>\$ 0.58</u>	<u>\$ 0.51</u>	<u>\$ 2.00</u>	<u>\$ 1.69</u>