



# Donaldson Company (DCI)

Updated June 12<sup>th</sup>, 2025, by Josh Arnold

## Key Metrics

|                             |      |  |             |                                  |                       |
|-----------------------------|------|--|-------------|----------------------------------|-----------------------|
| <b>Current Price:</b>       | \$70 | <b>5 Year CAGR Estimate:</b>               | 10.4%       | <b>Market Cap:</b>               | \$8.2 B               |
| <b>Fair Value Price:</b>    | \$77 | <b>5 Year Growth Estimate:</b>             | 7.0%        | <b>Ex-Dividend Date:</b>         | 08/13/25 <sup>1</sup> |
| <b>% Fair Value:</b>        | 91%  | <b>5 Year Valuation Multiple Estimate:</b> | 1.8%        | <b>Dividend Payment Date:</b>    | 08/28/25              |
| <b>Dividend Yield:</b>      | 1.7% | <b>5 Year Price Target</b>                 | \$108       | <b>Years Of Dividend Growth:</b> | 30                    |
| <b>Dividend Risk Score:</b> | A    | <b>Sector:</b>                             | Industrials | <b>Rating:</b>                   | Buy                   |

## Overview & Current Events

Donaldson has been creating filtration solutions for a wide array of applications since 1915. Its sales consist of filters in various engine and industrial applications as core categories, but continuous innovation and acquisitions have expanded the portfolio. The company is expected to produce about \$3.7 billion in revenue this year and trades with a current market capitalization of \$8.2 billion.

Donaldson posted third quarter earnings on June 3<sup>rd</sup>, 2025, and results were mixed. Earnings-per-share came to 99 cents, slightly ahead of expectations. Revenue was up 1.3% year-over-year to \$940 million, and beat estimates by almost \$7 million. Growth in sales was driven by volume gains that were offset by currency translation headwinds.

Gross margin was 34.5% of revenue, a decline of 110 basis points year-over-year. This was due to higher manufacturing costs and footprint optimization initiatives. Operating expenses came to 18.2% of sales, down sharply from 20.1% a year ago. This gain was driven by reversal of an earnout reserve for the PureLogics business, as well as lower warranty expense. We caution this is a one-time gain.

Segment margins were 18.1% of revenue in Mobile Solutions, 18.1% in Industrial Solutions, and 7.8% in Life Sciences. The company took a pre-tax charge of \$62 million for impairment of intangible assets in Univercells Technologies and Solaris, as well as an additional \$4.2 million in restructuring costs.

Donaldson raised its dividend for the 30<sup>th</sup> consecutive year, this time adding 11.1% to a new payout of \$1.20 annually per share.

## Growth on a Per-Share Basis

| Year                      | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   | 2024   | 2025          | 2030          |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| <b>EPS</b>                | \$1.49 | \$1.42 | \$1.69 | \$2.00 | \$2.05 | \$2.03 | \$2.32 | \$2.68 | \$3.04 | \$3.42 | <b>\$3.65</b> | <b>\$5.12</b> |
| <b>DPS</b>                | \$0.67 | \$0.69 | \$0.70 | \$0.76 | \$0.82 | \$0.84 | \$0.86 | \$0.89 | \$0.96 | \$1.04 | <b>\$1.20</b> | <b>\$1.68</b> |
| <b>Shares<sup>2</sup></b> | 135    | 133    | 131    | 130    | 130    | 128    | 126    | 123    | 121    | 123    | <b>121</b>    | <b>115</b>    |

Donaldson's earnings growth has been inconsistent in the past decade as it is very much beholden to economic conditions around the world. Its customer base is diverse and deep, but growth seems to come in bunches, not in a steady fashion. Looking forward, we are forecasting robust 7% earnings-per-share growth annually. We remain somewhat cautious on the company's ability to grow revenue, as well as expand its margins despite recent pricing increases. However, management is bullish, seeing improvement on the horizon in the near term, and recent results have been supportive of higher revenue and better margins.

The company can grow through a variety of methods. First, sales increases ought to continue from organic growth, pricing increases, and acquisitions, which should amount to mid-single-digit or better growth. We see margin improvement activities as key to the company producing meaningfully higher earnings in the coming years, as well as a rebound in revenue producing leverage on SG&A costs. Margins improved in Q3 once again.

<sup>1</sup> Estimated date

<sup>2</sup> Share count in millions

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Lastly, Donaldson is buying back stock each year. We forecast moderate dividend growth, but Donaldson is not a high-income stock, choosing instead to use its excess cash for acquisitions and share repurchases. Share repurchases are relatively small in any particular year, but over time, add up to meaningful gains for shareholders. With the new authorization, we expect share repurchases to increase. We note repurchases have been modest thus far in 2025.

## Valuation Analysis

| Year      | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | Now  | 2030 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E  | 25.5 | 21.9 | 24.9 | 23.9 | 24.7 | 24.2 | 24.6 | 18.0 | 20.7 | 21.9 | 19.2 | 21.0 |
| Avg. Yld. | 1.8% | 2.2% | 1.7% | 1.6% | 1.5% | 1.7% | 1.5% | 1.8% | 1.5% | 1.4% | 1.7% | 1.5% |

Donaldson’s price-to-earnings multiple has been remarkably steady in the past decade. However, given where shares are today, we are forecasting a modest tailwind to total returns as shares are below our estimate of fair value. Shares go for 19.2 times earnings today, down on our fair value estimate of 21 times.

We are forecasting the yield to stay flat in the years to come as the payout and valuation increases. This is not a stock one buys for the current yield, as the company’s stated strategy requires the use of excess cash for acquisitions and buybacks.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | 2030 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 44%  | 48%  | 41%  | 38%  | 38%  | 41%  | 37%  | 33%  | 32%  | 30%  | 33%  | 33%  |

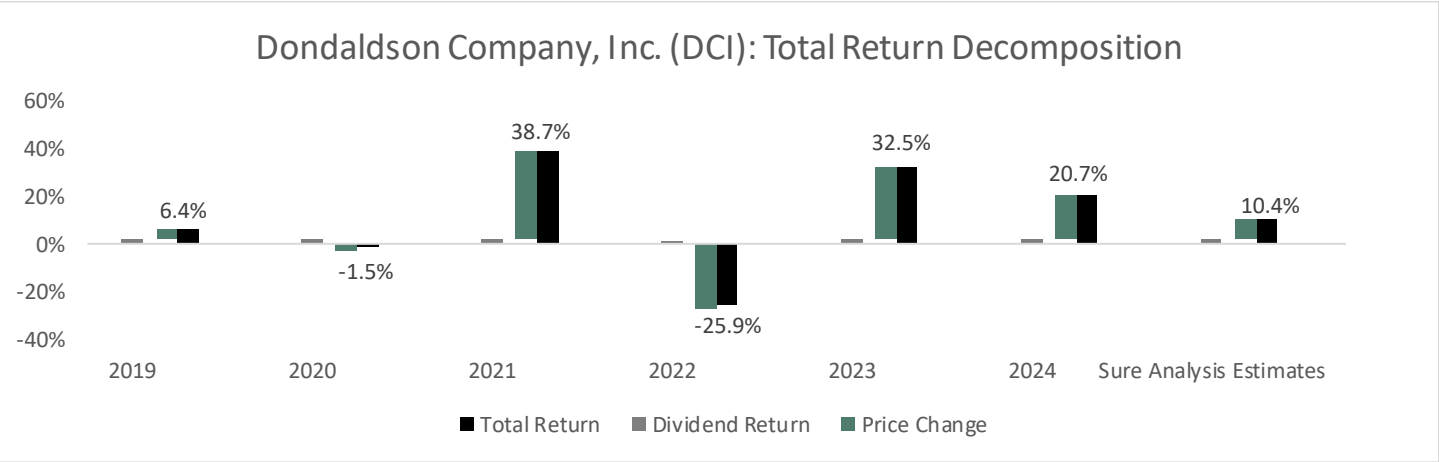
Donaldson’s payout ratio remains around 33% of earnings and we expect that is where it will stay for the foreseeable future. As mentioned, Donaldson prefers to use most of its excess cash for acquisitions and a small amount of share repurchases, but it does raise the dividend regularly, as we note a 30-year streak of dividend increases.

Donaldson’s recession performance is somewhat of an issue, as you’d expect for an industrial stock, and earnings will likely fall significantly during the next downturn. It does enjoy the competitive advantage of more than 100 years of experience in its field, as well as a strong history of innovation and a sizable installed customer base.

## Final Thoughts & Recommendation

Donaldson’s stock price is still undervalued after third quarter results. We are forecasting total annual returns of 10.4%, consisting of the current 1.7% yield, a +1.8% impact from the valuation, and 7% earnings growth. The stock still offers investors growth potential, but the yield is somewhat low for income investors. We’re reiterating the stock at a buy rating following Q3 results given its three-decade dividend history and strong prospective returns.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue          | 2,371 | 2,220 | 2,372 | 2,734 | 2,845 | 2,582 | 2,854 | 3,307 | 3,431 | 3,586 |
| Gross Profit     | 809   | 755   | 821   | 936   | 948   | 872   | 972   | 1,067 | 1,161 | 1,274 |
| Gross Margin     | 34.1% | 34.0% | 34.6% | 34.2% | 33.3% | 33.8% | 34.0% | 32.3% | 33.8% | 35.5% |
| SG&A Exp.        | 460   | 425   | 443   | 499   | 498   | 470   | 519   | 555   | 602   | 637   |
| D&A Exp.         | 74    | 75    | 75    | 77    | 81    | 88    | 95    | 94    | 92    | 98    |
| Operating Profit | 288   | 274   | 324   | 377   | 388   | 340   | 385   | 444   | 480   | 544   |
| Operating Margin | 12.2% | 12.3% | 13.6% | 13.8% | 13.6% | 13.2% | 13.5% | 13.4% | 14.0% | 15.2% |
| Net Profit       | 208   | 191   | 233   | 180   | 267   | 257   | 287   | 333   | 359   | 414   |
| Net Margin       | 8.8%  | 8.6%  | 9.8%  | 6.6%  | 9.4%  | 10.0% | 10.1% | 10.1% | 10.5% | 11.5% |
| Free Cash Flow   | 119   | 218   | 252   | 165   | 195   | 263   | 344   | 168   | 426   | 407   |
| Income Tax       | 81    | 67    | 89    | 183   | 108   | 78    | 94    | 106   | 110   | 121   |

## Balance Sheet Metrics

| Year                 | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets         | 1,810 | 1,787 | 1,980 | 1,977 | 2,143 | 2,245 | 2,400 | 2,600 | 2,771 | 2,914 |
| Cash & Equivalents   | 190   | 243   | 308   | 205   | 178   | 237   | 223   | 193   | 187   | 233   |
| Accounts Receivable  | 460   | 452   | 498   | 535   | 530   | 455   | 553   | 617   | 600   | 630   |
| Inventories          | 265   | 234   | 294   | 334   | 333   | 323   | 385   | 502   | 418   | 477   |
| Goodwill & Int. Ass. | 262   | 268   | 279   | 274   | 374   | 384   | 384   | 446   | 669   | 650   |
| Total Liabilities    | 1,031 | 1,016 | 1,125 | 1,119 | 1,250 | 1,252 | 1,263 | 1,467 | 1,450 | 1,425 |
| Accounts Payable     | 179   | 143   | 194   | 201   | 238   | 188   | 294   | 339   | 305   | 379   |
| Long-Term Debt       | 578   | 567   | 611   | 543   | 637   | 627   | 510   | 648   | 656   | 537   |
| Shareholder's Equity | 775   | 767   | 850   | 853   | 887   | 987   | 1,137 | 1,133 | 1,321 | 1,489 |
| LTD/E Ratio          | 0.75  | 0.74  | 0.72  | 0.64  | 0.72  | 0.64  | 0.45  | 0.57  | 0.50  | 0.36  |

## Profitability & Per Share Metrics

| Year             | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  | 2024  |
|------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 11.1% | 10.6% | 12.4% | 9.1%  | 13.0% | 11.7% | 12.4% | 13.3% | 13.4% | 14.6% |
| Return on Equity | 23.4% | 24.7% | 28.8% | 21.2% | 30.7% | 27.4% | 27.0% | 29.3% | 29.2% | 29.5% |
| ROIC             | 14.9% | 14.2% | 16.6% | 12.6% | 18.2% | 16.3% | 17.6% | 19.4% | 19.1% | 20.7% |
| Shares Out.      | 135   | 133   | 131   | 130   | 130   | 128   | 126   | 125   | 124   | 123   |
| Revenue/Share    | 17.01 | 16.47 | 17.69 | 20.68 | 21.83 | 20.12 | 22.26 | 26.41 | 27.76 | 29.25 |
| FCF/Share        | 0.85  | 1.62  | 1.88  | 1.25  | 1.50  | 2.05  | 2.68  | 1.34  | 3.45  | 3.32  |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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