DONALDSON CO INC
Form 10-K
October 01, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended July 31, 2018 or
Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from __________ to __________
Commission File Number: 1-7891
DONALDSON COMPANY, INC.
(Exact name of registrant as specified in its charter)

Delaware	41-0222640
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1400 West 94th Street, Minneapolis, Minnesota	55431
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (952) 887-3131
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, $5 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the

Exchange Act.o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No
As of January 31, 2018, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of voting and non-voting common stock held by non-affiliates of the registrant was $6,563,203,766 (based on the closing price of $50.66 as reported on the New York Stock Exchange as of that date).
As of September 14, 2018, there were approximately 128,068,092 shares of the registrant's common stock outstanding.
Documents Incorporated by Reference
Portions of the registrant's Proxy Statement for its 2018 annual meeting of stockholders (the "2018 Proxy Statement") are incorporated by reference in Part III, as specifically set forth in Part III.

DONALDSON COMPANY, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

Item 1. Business

General

Donaldson Company, Inc. (Donaldson or the Company) was founded in 1915 and organized in its present corporate form under the laws of the State of Delaware in 1936.

The Company is a worldwide manufacturer of filtration systems and replacement parts. The Company's core strengths are leading filtration technology, strong customer relationships and its global presence. Products are manufactured at 43 plants around the world and through three joint ventures.

The Company has two operating segments: Engine Products and Industrial Products. Products in the Engine Products segment consist of replacement filters for both air and liquid filtration applications, air filtration systems, liquid filtration systems for fuel, lube and hydraulic applications, and exhaust and emissions systems. The Engine Products segment sells to original equipment manufacturers (OEMs) in the construction, mining, agriculture, aerospace, defense and truck end markets and to independent distributors, OEM dealer networks, private label accounts and large equipment fleets. Products in the Industrial Products segment consist of dust, fume and mist collectors, compressed air purification systems, gas and liquid filtration for food, beverage and industrial processes, air filtration systems for gas turbines, polytetrafluoroethylene (PTFE) membrane-based products and specialized air and gas filtration systems for applications including hard disk drives and semi-conductor manufacturing. The Industrial Products segment sells to various dealers, distributors, OEMs of gas-fired turbines and OEMs and end users requiring clean filtration solutions and replacement filters.

As a worldwide business, the Company's results of operations are affected by conditions in the global economic environment. Under most economic conditions, the Company's market diversification between its OEM and replacement parts customers, its diesel engine and industrial end markets, its global end markets and its diversification through technology has helped to limit the impact of weakness in any one product line, market or geography on the consolidated operating results of the Company.

The table below shows the percentage of total net sales contributed by the principal classes of similar products for each of the years ended July 31, 2018, 2017 and 2016:

	Year Ended July 31,		
	2018	2017	2016
Engine Products segment			
Off-Road	12 %	11 %	10 %
On-Road	6 %	5 %	6 %
Aftermarket	46 %	46 %	43 %
Aerospace and Defense	4 %	4 %	4 %
Industrial Products segment			
Industrial Filtration Solutions	22 %	22 %	23 %
Gas Turbine Systems	4 %	5 %	7 %
Special Applications	6 %	7 %	7 %

Total net sales contributed by the principal classes of similar products and financial information about segment operations and geographic regions appear in Note 18 in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report.

The Company makes its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements and other information (including amendments to those reports) available free of charge through its website at ir.donaldson.com, as soon as reasonably practicable after it electronically files such material with (or furnishes such material to) the Securities and Exchange Commission. Also available on the Company's website are corporate governance documents, including the Company's Code of Business Conduct and Business Conduct Help Line, Corporate Governance Guidelines, Director Independence Standards, Audit Committee charter, Human Resources Committee charter and Corporate Governance Committee charter. These documents are also available in print, free of charge, to any person who requests them in writing to the attention of Investor Relations, MS 102, Donaldson Company, Inc., 1400 West 94th Street, Bloomington, Minnesota 55431. The information contained on the Company's website is not incorporated by reference into this Annual Report and should not be considered to be part of this report.

Seasonality

A number of the Company’s end markets are dependent on the construction, agricultural and power generation industries, which are generally stronger in the second half of the Company’s fiscal year. The first two quarters of the fiscal year also contain the traditional holiday periods, which are typically characterized by more customer plant closures.

Competition

Principal methods of competition in both the Engine and Industrial Products segments are technology, innovation, price, geographic coverage, service and product performance. The Company participates in a number of highly competitive filtration markets in both segments. The Company believes it is a market leader within many of its product lines, specifically within its Off-Road and On-Road product lines for OEMs, and has a significant business in the aftermarket for replacement filters. The Engine Products segment’s principal competitors include several large global competitors and many regional competitors, especially in the Aftermarket business. The Industrial Products segment’s principal competitors vary from country to country and include several large regional and global competitors and a significant number of smaller competitors who compete in a specific geographical region or in a limited number of product applications.

Raw Materials

The principal raw materials that the Company uses are steel, filter media and petrochemical-based products, including plastics, rubber and adhesives. Purchased raw materials represent approximately 60% to 65% of the Company’s cost of goods sold. Steel, including fabricated parts, and filter media each represent approximately 20% of the cost of goods sold. The remainder is primarily made up of petroleum-based products and other raw material components.

The cost the Company paid for steel during fiscal 2018 varied by grade, but in aggregate, increased during the fiscal year. The steel cost increase was related to U.S. import restrictions placed on foreign-made steel and significant import tariffs placed on steel and aluminum products. The Company’s cost of filter media also varies by type and increased year-over-year. The filter media price increase was driven largely by global price increases on pulp products. The cost of petroleum-based products have also increased year-over-year. The Company anticipates continuing price pressure across our major commodities in fiscal 2019, as compared with fiscal 2018. The Company enters into supply arrangements with certain of its suppliers that allow the Company to reduce volatility in its costs. The Company strives to recover or offset all material cost increases through selective price increases to its customers and the Company’s cost reduction initiatives, which include material substitution, resourcing of vendors, process improvement and product redesigns.

The Company concentrates sourcing of some materials from one supplier or a few supplies, and global supplier production capacity is limited.

Patents and Trademarks

The Company owns various patents and trademarks, which it considers in the aggregate to constitute a valuable asset, including patents and trademarks for products sold under the Ultra-Web®, PowerCore®, Torit®, Synteq™ XP and Donaldson® trademarks.

Major Customers

The Company had no customers that accounted for over 10% of net sales in the years ended July 31, 2018, 2017 or 2016. The Company had no customers that accounted for over 10% of gross accounts receivable at July 31, 2018 or July 31, 2017.

Backlog

At August 31, 2018, the backlog of orders expected to be delivered within 90 days was $467.1 million. The 90-day backlog at August 31, 2017 was $395.5 million. The backlog of orders expected to be delivered within 90 days increased 26.3% for the Engine Products segment and increased 3.7% for the Industrial Products segment. The increase is due to the continued strong demand across multiple product lines. Backlog is one of many indicators of business conditions in the Company’s markets. However, it is not always indicative of future results for a number of reasons, including the timing of the receipt of orders in many of the Company’s engine OEM and industrial markets and the mix and types of orders in backlog.

Research and Development

During the years ended July 31, 2018, 2017 and 2016, the Company spent $59.9 million, $54.7 million and $55.5 million, respectively, on research and development activities, which was 2.2%, 2.3% and 2.5% of net sales, respectively. Research and development expenses include scientific research and the application of scientific advances to the development of new and improved products and their uses. Substantially all commercial research and development is performed in-house.

Environmental Matters
The Company does not anticipate any material effect on its capital expenditures, earnings or competitive position during fiscal 2019 due to compliance with government regulations regulating the discharge of materials into the environment or otherwise relating to the protection of the environment.
Employees
The Company employed approximately 14,000 people as of July 31, 2018.
Geographic Areas
Both of the Company's operating segments serve customers in all geographic regions. The United States (U.S.) represents the largest individual market for the Company's products. Financial information by geographic region appears in Note 18 in the Notes to Consolidated Financial Statements included in Item 8 of this Annual Report.
Item 1A. Risk Factors
There are inherent risks and uncertainties associated with our global operations that involve the technology development, manufacturing and sale of products for highly demanding customer applications throughout the world. These risks and uncertainties could adversely affect our operating performance and financial condition. The following discussion, along with discussions elsewhere in this report, outlines the risks and uncertainties that we believe are the most material to our business at this time. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise, unless required by law.
Economic Environment - the demand for our products is impacted by economic and industrial conditions worldwide. Changes in economic or industrial conditions could impact our results or financial condition as our business can be sensitive to varying conditions in all major geographies and markets.
Products - maintaining a competitive advantage requires consistent investment with uncertain returns.
We operate in highly competitive markets and have numerous competitors that may already be well-established in those markets. We expect our competitors to continue improving the design and performance of their products and to introduce new products that could be competitive in both price and performance. We believe that we have certain technological advantages over our competitors, but maintaining these advantages requires us to consistently invest in research and development, sales and marketing and customer service and support. There is no guarantee that we will be successful in maintaining these advantages and we could encounter the commoditization of our key products. We make investments in new technologies that address increased performance and regulatory requirements around the globe. There is no guarantee that we will be successful in completing development or achieving sales of these products or that the margins on such products will be acceptable. Our financial performance may be negatively impacted if a competitor’s successful product innovation reaches the market before ours or gains broader market acceptance.
Evolving Customer Needs - disruptive technologies may threaten our long-term strategy.
Our long-term strategy guides the decisions we make in operating the Company, but this strategy could be threatened by disruptive technologies. We may be adversely impacted by changes in technology that could reduce or eliminate the demand for our products. These risks include wider adoption of technologies providing alternatives to diesel engines such as electrification of equipment. Such disruptive innovation could create new markets and displace existing companies and products, resulting in significantly negative consequences for the Company. If we do not properly address future customer needs in our strategy, we may be slower to adapt to such disruption, which could adversely affect our results of operations.
Competition - we participate in highly competitive markets with pricing pressure.
The businesses and product lines in which we participate are very competitive and we risk losing business based on a wide range of factors, including price, technology, product performance, product reliability and availability, geographic coverage and customer service. Our customers continue to seek technological innovation, productivity gains and competitive prices from us and their other suppliers. If we are not able to compete effectively, our margins and results of operations could be adversely affected.
Intellectual Property - demand for our products may be affected by new entrants that copy our products and/or infringe on our intellectual property.

The ability to protect and enforce intellectual property rights varies across jurisdictions. An inability to preserve our intellectual property rights may adversely affect our financial performance.

Where possible, we seek to preserve our intellectual property rights through patents. These patents have a limited life and, in some cases, have expired or will expire in the near future. Competitors and others may also initiate litigation to challenge the validity of our intellectual property or allege that we infringe their intellectual property. We may be required to pay substantial damages if it is determined our products infringe on their intellectual property. We may also be required to develop an alternative, non-infringing product that could be costly and time-consuming, or acquire a license on terms that are not favorable to us.

Protecting or defending against such claims could significantly increase our costs, divert management’s time and attention away from other business matters and otherwise adversely affect our results of operations and financial condition.

Global Operations - we have a broad footprint that makes operating globally difficult.

We have sales and manufacturing operations throughout the world. Our stability, growth and profitability are subject to a number of risks of doing business globally that could harm our business, including:

- political and military events, including the rise of nationalism and support for protectionist policies,
- tariffs, trade barriers and other trade restrictions,
- legal and regulatory requirements, including import, export, defense regulations, anti-corruption laws and foreign exchange controls,
- potential difficulties in staffing and managing local operations,
- credit risk of local customers and distributors,
- difficulties in protecting our intellectual property and
- local economic, political and social conditions.

Due to the international scope of our operations, we are subject to a complex system of import- and export-related laws and regulations. Any alleged or actual violations may subject us to government scrutiny, investigation and civil and criminal penalties, and may limit our ability to import or export our products or to provide services outside the U.S.

The enforcement of bribery, corruption and trade laws and regulations is increasing in frequency and complexity on a global basis. The continued geographic expansion of our business increases our exposure to, and cost of complying with, these laws and regulations. If our compliance programs do not adequately prevent or deter our employees, agents, distributors, suppliers and other third parties with whom we do business from violating anti-corruption laws, we may incur defense costs, fines, penalties, reputational damage and business disruptions.

Customer Concentration and Retention - a number of our customers operate in similar cyclical industries. Economic conditions in these industries could impact our sales.

No customer accounted for ten percent or more of our net sales in fiscal 2018, 2017 or 2016. However, a number of our customers are concentrated in similar cyclical industries (e.g. construction, agriculture, mining, power generation and disk drives), resulting in additional risk based on industrial conditions in those sectors. A decline in the economic conditions of these industries could result in reduced demand for our products and difficulty in collecting amounts due from our customers. Our success is also dependent on retaining key customers, which requires us to successfully manage relationships and anticipate the needs of our customers in the channels in which we sell our products.

Supply Chain - unavailable or material cost inflation.

We obtain raw materials, including steel, filter media, petroleum-based products and other components, from third-party suppliers and tend to carry limited raw material inventories. We concentrate our sourcing of some materials from one supplier or a few suppliers. Our success is dependent on our ability to effectively manage our supplier relationships. Additionally, global supplier production capacity is limited and could be disrupted. We may experience significant disruption of the supply of raw materials, parts, components or final assemblies. An unanticipated delay in delivery by our suppliers could result in the inability to deliver our products on-time and meet the expectations of our customers. An increase in the costs of doing business, including increasing raw material commodity prices and transportation costs, could also result in lower operating margins.

Operations - inability to meet demand could result in the loss of customers.

Our ability to fulfill customer orders is dependent on our manufacturing and distribution operations overcoming capacity constraints. Although we forecast demand, additional plant capacity takes months or even years to bring online, and thus changes in demand could result in longer lead times. Efficient operations also require streamlining processes to maintain or reduce lead times, which we may not be capable of achieving. Unacceptable levels of service for key customers may result if we are not able to fulfill orders on a timely basis or if product quality or warranty issues result from compromised production. Our business, competitive position, results of operations or financial condition could be negatively impacted if we are unable to adjust our production schedules to reflect changes in customer demand on a timely basis.

Technology Investments and Security Risks - difficulties with our information technology systems and security.
We have many information technology systems that are important to the operation of our business, some of which are managed by third parties. These systems are used to process, transmit and store electronic information and to manage or support a variety of business processes and activities. We could encounter difficulties in developing new systems, maintaining and upgrading our existing systems, managing access to these systems and preventing information security breaches. Such difficulties could lead to significant additional expenses and/or disruption in business operations that could adversely affect our results.
Additionally, information technology security threats are increasing in frequency and sophistication. We have found and addressed these threats from time to time; however, to date none of them have been material. These threats pose a risk to the security of our systems and networks and the confidentiality, availability and integrity of our data. Should such an attack succeed, it could lead to the compromising of confidential information, manipulation and destruction of data, defective products, production downtimes and operations disruptions. The occurrence of any of these events could adversely affect our reputation and could result in litigation, regulatory action, potential liability and increased costs and operational consequences of implementing further data protection matters.
Currency - an unfavorable fluctuation in foreign currency exchange rates.
We have operations in many countries, with a substantial portion of our annual revenue earned in currencies other than the U.S. dollar. We face transactional and translational risks associated with the fluctuations in foreign currency exchange rates. Transactional risk arises from changes in the value of cash flows denominated in different currencies. This can be caused by supply chains that cross borders resulting in revenues and costs being in different currencies. In addition, decreased value of local currency may make it difficult for some of our customers, distributors and end users to purchase our products. Translational risk arises from the re-measurement of our financial statements. Each of our subsidiaries reports its results of operations and financial position in its relevant functional currency, which is then translated into U.S. dollars. This translated financial information is included in our consolidated financial statements. Significant fluctuations of the U.S. dollar in comparison to the foreign currencies of our subsidiaries during discrete periods may have a negative impact on our results and financial position.
Legal and Regulatory - costs associated with lawsuits, investigations or complying with laws and regulations.
We are subject to many laws and regulations in the jurisdictions in which we operate. We routinely incur costs in order to comply with these laws and regulations. We may be adversely impacted by new or changing laws and regulations that affect both our operations and our ability to develop and sell products that meet our customers' requirements. We are involved in various product liability, product warranty, intellectual property, environmental claims and other legal proceedings that arise in and outside of the ordinary course of our business. We are subject to increasingly stringent laws and regulations in the countries in which we operate, including those governing the environment (e.g. emissions to air; discharges to water; and the generation, handling, storage, transportation, treatment and disposal of waste materials) and data protection and privacy. It is not possible to predict the outcome of investigations and lawsuits, and we could incur judgments, fines, or penalties or enter into settlements of lawsuits and claims that could have an adverse effect on our business, results of operations and financial condition in any particular period. In addition, we may not be able to maintain our insurance at a reasonable cost or in sufficient amounts to protect us against any losses.
Income Tax - changes in our effective tax rate in various jurisdictions.
We are subject to income taxes in various jurisdictions in which we operate. Our tax liabilities are dependent upon the location of earnings among these different jurisdictions. Our provision for income taxes and cash tax liability could be adversely affected by numerous factors, including income before taxes being lower than anticipated in countries with lower statutory tax rates and higher than anticipated in countries with higher statutory tax rates, changes in the valuation of deferred tax assets and liabilities and changes in tax laws and regulations. We are also subject to the prevailing tax laws and the continuous examination of our income tax returns by tax authorities. The results of audits and examinations of previously filed tax returns and continuing assessments of our tax exposures may have an adverse effect on our provision for income taxes and cash tax liability.
Personnel - our success may be affected if we are not able to attract, engage and retain qualified personnel.

Our success depends in large part on our ability to identify, recruit, engage and retain qualified and diverse personnel worldwide and successfully execute management transitions at leadership levels of the Company. Additionally, in some locations we have experienced significant wage inflation due to a shortage of labor amid low levels of unemployment in these markets. If we are unable to attract and retain qualified personnel, it may be difficult for us to compete effectively, which could adversely affect our results of operations and financial condition.

Liquidity - changes in the capital and credit markets may negatively affect our ability to access financing to support strategic initiatives.

Disruption of the global financial and credit markets may have an effect on our long-term liquidity and financial condition. There can be no assurance that the cost or availability of future borrowings will not be impacted by future capital market disruptions. Some of our existing borrowings contain covenants to maintain certain financial ratios that, under certain circumstances, could restrict our ability to incur additional indebtedness, make investments and other restricted payments, create liens and sell assets.

Acquisitions - the execution of our acquisition strategy may not provide the desired return on investment.

We have made and continue to pursue acquisitions. These acquisitions could negatively impact our profitability due to operating and integration inefficiencies, the incurrence of debt, contingent liabilities and amortization of expenses related to intangible assets. There are also a number of other risks involved in acquisitions, including the potential loss of key customers, difficulties in assimilating the acquired operations, the loss of key employees and the diversion of management's time and attention away from other business matters, that may prevent us from realizing the anticipated return on our investment.

Impairment - if our operating units do not meet performance expectations, intangible assets could be subject to impairment.

Our total assets include goodwill and other intangible assets from acquisitions. We review annually whether goodwill and other intangible assets have been impaired, or more frequently if there have been unexpected events or changes in circumstances. If future operating performance at one or more of our operating units were to fall significantly below forecast levels or if market conditions for one or more of our acquired businesses were to decline, we could be required to incur a non-cash charge to operating income for impairment. Any impairment charge would have an adverse non-cash impact on our results of operations and reduce our net worth.

Productivity Improvements - if we do not successfully manage productivity improvements, we may not realize the expected benefits.

Our financial projections assume certain ongoing productivity improvements as a key component of our business strategy to, among other things, contain operating expenses, increase operating efficiencies and align manufacturing capacity to demand. We may not be able to realize the expected benefits and cost savings if we do not successfully execute these plans while continuing to invest in business growth. If difficulties are encountered or such cost savings are otherwise not realized, it could adversely impact our results of operations.

Business Disruption - unexpected events, including natural disasters, may increase our cost of doing business or disrupt our operations.

The occurrence of one or more unexpected events, including a terrorist attack, war or civil unrest, a weather event, an earthquake, pandemic or other catastrophe in the U.S. or in other countries in which we operate or in which our suppliers are located could adversely affect our operations and financial performance. Such event could result in physical damage to and complete or partial closure of one or more of our headquarters, manufacturing facilities or distribution centers, temporary or long-term disruption in the supply of component products from some local and international suppliers, disruption in the transport of our products to customers and disruption of information systems. This could result in a prolonged disruption to our operations. Existing insurance coverage may not provide protection for all costs that may arise from such events. Any disruption in our manufacturing capacity could have an adverse impact on our ability to meet our customer needs or may require us to incur additional expenses in order to produce sufficient inventory, and therefore, may adversely affect our net sales and operating results.

Internal Controls - if we fail to maintain an effective system of internal control over financial reporting, we may not be able to accurately report our financial results and prevent material fraud, which could adversely affect the value of our common stock.

Effective internal control over financial reporting, including controls within the information technology environment, is necessary for us to provide reliable financial reports and effectively prevent and detect material fraud. If we cannot provide reliable financial reports or prevent or detect material fraud, our operating results could be misstated. There can be no assurances that we will be able to prevent future control deficiencies from occurring, which could cause us to incur unforeseen costs, negatively impact our results of operations, cause the market price of our common stock to decline or have other potential adverse consequences.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

The Company’s principal administrative office and research facilities are located in Bloomington, Minnesota. The Company also has administrative and engineering offices in the Europe, Asia Pacific and Latin America regions.

The Company’s principal manufacturing and distribution activities are located throughout the world. The following is a summary of the principal plants and physical properties owned or leased by the Company as of July 31, 2018.

Americas
Auburn, Alabama (E)
Stockton, California (I)*
Valencia, California (E)*
Dixon, Illinois (E)
Anderson, Indiana (E)*
Frankfort, Indiana (E)
Cresco, Iowa (E)
Waterloo, Iowa (E)
Nicholasville, Kentucky (I)
Bloomington, Minnesota (I)
Chesterfield, Missouri (E)*
Chillicothe, Missouri (E)
Harrisonville, Missouri (I)
Philadelphia, Pennsylvania (I)
Greeneville, Tennessee (E)
Baldwin, Wisconsin (I)
Stevens Point, Wisconsin (E)
Sao Paulo, Brazil (E)*
Bucaramanga, Columbia (E)
Aguascalientes, Mexico (E)
Monterrey, Mexico (I)

Distribution Centers
Wyong, Australia
Brugge, Belgium
Sao Paulo, Brazil*
Rensselaer, Indiana
Jakarta, Indonesia
Aguascalientes, Mexico
Johannesburg, South Africa
Seoul, South Korea*

Joint Venture Facilities
Most, Czech Republic (E)
Champaign, Illinois (E)
Jakarta, Indonesia (E)
Dammam, Saudi Arabia (I)

Europe, Middle East, Africa
Kadan, Czech Republic (I)
Klasterec, Czech Republic (E)
Domjean, France (E)
Paris, France (E)*
Dulmen, Germany (E)
Haan, Germany (I)
Ostiglia, Italy (E)
Skarbimierz, Poland (E)
Cape Town, South Africa (E)
Johannesburg, South Africa (I)*
Abu Dhabi, United Arab Emirates (I)
Hull, United Kingdom (E)
Leicester, United Kingdom (I)

Asia Pacific
Wyong, Australia (E)
Wuxi, China
New Delhi, India (E)
Gunma, Japan (E)
Rayong, Thailand (I)

Third-Party Logistics Providers
Santiago, Chile
Wuxi, China
Bogotá, Colombia
Cartagena, Colombia
Chennai, India (E)
Mumbai, India
Gunma, Japan
Auckland, New Zealand
Lima, Peru
Singapore
Greeneville, Tennessee (I)
Laredo, Texas

The Company’s properties are utilized for both the Engine and Industrial Products segments except as indicated with an (E) for Engine Products or (I) for Industrial Products. The Company leases certain of its facilities, primarily under long-term leases. The facilities denoted with an asterisk (*) are leased facilities. In Wuxi, China, and Bloomington, Minnesota, a portion of the activities are conducted in leased facilities. The Company uses third-party logistics providers for some of its product distribution and neither leases nor owns the related facilities. The Company considers its properties to be suitable for their present purposes, well-maintained and in good operating condition.

Item 3. Legal Proceedings

The Company believes the recorded estimated liability in its Consolidated Financial Statements for claims or litigation is adequate in light of the probable and estimable outcomes. Any recorded liabilities were not material to the Company's financial position, results of operations or liquidity, and the Company believes it is remote that the settlement of any of the currently identified claims or litigation will be materially in excess of what is accrued. The Company records provisions when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. Claims and litigation are reviewed quarterly and provisions are taken or adjusted to reflect the status of a particular matter.

Item 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

Current information as of August 31, 2018, regarding executive officers is presented below. All officers hold office until their successors are elected and qualify, or their earlier death, resignation or removal. There are no arrangements or understandings between individual officers and any other person pursuant to which the officer was selected as an executive officer.

Name	Age	Positions and Offices Held	First Year Appointed as an Executive Officer
Amy C. Becker	53	Vice President, General Counsel and Secretary	2014
Tod E. Carpenter	59	Chairman, President and Chief Executive Officer	2008
Sheila G. Kramer	59	Vice President, Human Resources	2015
Richard B. Lewis	47	Vice President, Global Operations	2017
Scott J. Robinson	51	Senior Vice President and Chief Financial Officer	2015
Thomas R. Scalf	52	Senior Vice President, Engine Products	2014
Jeffrey E. Spethmann	53	Senior Vice President, Industrial Products	2016
Wim Vermeersch	52	Vice President, Europe, Middle East and Africa	2012

Ms. Becker was appointed to Vice President, General Counsel and Secretary in August 2014. Ms. Becker joined the Company in 1998 and held positions as Senior Counsel and Assistant Corporate Secretary from 1998 to 2001 and Assistant General Counsel from 2001 to 2014. Prior to joining the Company, Ms. Becker was an attorney for Dorsey and Whitney, LLP from 1991 to 1995 and was a Project Manager and Corporate Counsel for Harmon, Ltd. from 1995 to 1998.

Mr. Carpenter was appointed Chairman, President and Chief Executive Officer in November 2017. Mr. Carpenter joined the Company in 1996 and has held various positions, including Director of Operations, Gas Turbine Systems from 1996 to 2002; General Manager, Gas Turbine Systems from 2002 to 2004; General Manager, Industrial Filtration Systems from 2004 to 2006; Vice President, Global Industrial Filtration Systems from 2006 to 2008; Vice President, Europe and Middle East from 2008 to 2011; Senior Vice President, Engine Products from 2011 to 2014. In April 2014, Mr. Carpenter was appointed Chief Operating Officer and in April 2015, appointed President and Chief Executive Officer.

Ms. Kramer was appointed Vice President, Human Resources in October 2015. Prior to joining the Company, Ms. Kramer was Vice President, Human Resources for Taylor Corporation, a print and graphics media company, from 2013 until September 2015. From 1991 to 2013, Ms. Kramer was with Lifetouch, Inc., where she held various human resources roles including Corporate Vice President, Human Resources from 2009 to 2013.

Mr. Lewis was appointed Vice President, Global Operations in August 2015. Mr. Lewis joined the Company in 2002 and has held various positions, including Plant Manager, Frankfort, Indiana from 2004 to 2007; Plant Manager, Nicholasville, Kentucky from 2007 to 2008; Director of Operations, from 2008 to 2010; General Manager, Liquid Filtration, from 2010 to 2014; General Manager, Operations, from 2014 to 2015. Prior to joining the Company, Mr. Lewis held positions of Operations Manager, Seleco Inc. from 1998 to 2002, and Operations Manager, Ventra

Corporation from 1997 to 1998.

Mr. Robinson was appointed Senior Vice President and Chief Financial Officer in September 2017. Mr. Robinson joined the Company in 2015 as Vice President and Chief Financial Officer. Prior to joining the Company, Mr. Robinson was the Chief Financial Officer for Imation Corp., a global data storage and information security company, from 2014 to 2015. During his 11 years with Imation, he also served as the Investor Relations Officer, Corporate Controller and Chief Accounting Officer. Prior to that, he held positions at Deluxe Corporation and PricewaterhouseCoopers LLP.

Mr. Scalf was appointed Senior Vice President, Engine Products in April 2014. Mr. Scalf joined the Company in 1989 and has held various positions, including Director of Global Operations from 2003 to 2006; General Manager of Exhaust & Emissions from 2006 to 2008; General Manager of Industrial Filtration Solutions from 2008 to 2012; and Vice President of Global Industrial Air Filtration from 2012 to 2014.

Mr. Spethmann was appointed Senior Vice President of Industrial Products in April 2016. Mr. Spethmann joined the Company in 2013 and has held various positions, including Vice President, Exhaust & Emissions from 2013 to 2014 and Vice President, Global Industrial Air Filtration from 2014 to 2016. Prior to joining the Company, Mr. Spethmann held positions of General Manager and President of Blow Molded Specialties, Inc., from 1999 to 2012.

Mr. Vermeersch was appointed Vice President, Europe, Middle East and Africa in January 2012. Mr. Vermeersch joined the Company in 1992 and has held various positions, including Director, Gas Turbine Systems, Asia Pacific from 2000 to 2005; Manager, Aftermarket and Service Industrial Filtration Solutions, Belgium from 2005 to 2006; Manager, Industrial Filtration Solutions, Belgium from 2006 to 2007; Director, Gas Turbine Systems, Europe, Middle East and North Africa from 2007 to 2010; and Director, Engine, Europe, Middle East and North Africa from 2010 to 2011.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company's common stock, par value $5.00 per share, is traded on the New York Stock Exchange under the symbol "DCI." To determine the appropriate level of dividend payouts, the Company considers recent and projected performance across key financial metrics, including earnings, cash flow from operations and total debt. As of September 14, 2018, there were 1,450 registered shareholders of common stock.

The high and low prices for the Company’s common stock for each quarterly period during the years ended July 31, 2018 and 2017 were as follows:

Year Ended July 31,	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018	$48.33 - 42.59	$52.20 - 45.89	$50.73 - 43.35	$48.76 - 43.66
2017	$38.65 - 35.52	$46.29 - 35.85	$47.68 - 41.46	$48.91 - 44.66

The quarterly dividends declared for the years ended July 31, 2018 and 2017 were as follows:

Year Ended July 31,	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2018	$ 0.180	$ 0.180	$ 0.190	$ 0.190
2017	$ 0.175	$ 0.175	$ 0.175	$ 0.180

The following table summarizes information in connection with purchases made by, or on behalf of, the Company or any affiliated purchaser of the Company, of shares of the Company’s common stock during the three months ended July 31, 2018.

Period	Total Number of Shares Purchased (1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs
May 1 - May 31, 2018	—	$ —	—	4,841,152
June 1 - June 30, 2018	310,000	$ 46.18	310,000	4,531,152
July 1 - July 31, 2018	—	$ —	—	4,531,152
Total	310,000	$ 46.18	310,000	4,531,152

(1) The Board of Directors has authorized the repurchase of up to 14.0 million shares of the Company's common stock. This repurchase authorization is effective until terminated by the Board of Directors. The Company had remaining authorization to repurchase 4.5 million shares under this plan. There were no repurchases of common stock made outside of the Company's current repurchase authorization during the three months ended July 31, 2018.

The table set forth in Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters” of this Annual Report is also incorporated herein by reference.

The graph below compares the cumulative total shareholder return on the Company's common stock for the last five fiscal years with the cumulative total return of the Standard & Poor's 500 Stock Index and the Standard & Poor's Industrial Machinery Index. The graph and table assume the investment of $100 in each of the Company's common stock and the specified indexes at the beginning of the applicable period and assume the reinvestment of all dividends.

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN

Among Donaldson Company, Inc., the S&P 500 Index and the S&P Industrial Machinery Index

	Year Ended July 31,					
	2013	2014	2015	2016	2017	2018
Donaldson Company, Inc.	$100.00	$108.53	$95.67	$105.13	$140.51	$143.32
S&P 500	100.00	116.94	130.05	137.35	159.38	185.26
S&P Industrial Machinery	100.00	117.39	124.64	144.34	177.50	200.37

Item 6. Selected Financial Data

The following table summarizes selected financial data for each of the fiscal years in the five-year period ended July 31, 2018 (in millions, except per share data):

	Year Ended July 31,				
	2018	2017	2016	2015	2014
Net sales	$2,734.2	$2,371.9	$2,220.3	$2,371.2	$2,473.5
Net earnings	180.3	232.8	190.8	208.1	260.2
Net earnings per share – basic	1.38	1.76	1.43	1.51	1.79
Net earnings per share – diluted	1.36	1.74	1.42	1.49	1.76
Total assets	1,976.6	1,979.7	1,787.0	1,807.5	1,941.3
Long-term debt	499.6	537.3	350.2	387.2	242.6
Dividends declared per share	0.740	0.705	0.690	0.670	0.610
Dividends paid per share	0.730	0.700	0.685	0.665	0.575

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the Company's results of operations and financial condition for the three years ended July 31, 2018, 2017 and 2016. The MD&A should be read in conjunction with the Company's Consolidated Financial Statements and Notes included in Item 8 of this Annual Report. This discussion contains forward-looking statements that involve risks and uncertainties. The Company’s actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including those discussed elsewhere in this Annual Report, particularly Item 1A, "Risk Factors" and in the Safe Harbor Statement under the Securities Reform Act of 1995 below.

Throughout this MD&A, the Company refers to measures used by management to evaluate performance, including a number of financial measures that are not defined under accounting principles generally accepted in the United States of America (GAAP). Excluding foreign currency translation from net sales and net earnings (i.e. constant currency) and excluding the impact of one-time transactions are not measures of financial performance under GAAP; however, the Company believes they are useful in understanding its financial results and provide comparable measures for understanding the operating results of the Company between different fiscal periods. Reconciliations within this MD&A provide more details on the use and derivation of these measures.

Overview

Net sales for the year ended July 31, 2018 were $2,734.2 million, as compared with $2,371.9 million for the year ended July 31, 2017, an increase of $362.3 million, or 15.3%. Net sales were positively impacted by foreign currency translation, which increased sales by $78.3 million. On a constant currency basis, net sales for the year ended July 31, 2018 increased 12.0% from the prior fiscal year.

Net earnings for the year ended July 31, 2018 were $180.3 million, as compared with $232.8 million for the year ended July 31, 2017, a decrease of $52.5 million, or 22.6%. Net earnings for the current year includes a provisional estimate for tax charges of $84.1 million related to the U.S. Tax Cuts and Jobs Act (TCJA), which was enacted into law during the period. Prior year net earnings do not include TCJA tax charges. Diluted earnings per share were $1.36 for the year ended July 31, 2018, as compared with $1.74 for the year ended July 31, 2017, a decrease of 21.8%. Excluding the impact of the TCJA, diluted earnings per share were $2.00 for the year ended July 31, 2018.

Consolidated Results of Operations

The following table summarizes consolidated results of operations for each of the three fiscal years ended July 31, 2018, 2017 and 2016 (in millions, except per share data):

	Year Ended July 31,			Percent of Net Sales		
	2018	2017	2016	2018	2017	2016
Net sales	$2,734.2	$2,371.9	$2,220.3	100.0 %	100.0 %	100.0 %
Cost of sales	1,798.7	1,548.8	1,465.5	65.8 %	65.3 %	66.0 %
Gross profit	935.5	823.1	754.8	34.2 %	34.7 %	34.0 %
Selling, general and administrative	495.6	439.8	425.1	18.1 %	18.5 %	19.1 %
Research and development	59.9	54.7	55.5	2.2 %	2.3 %	2.5 %
Operating income	380.0	328.6	274.2	13.9 %	13.9 %	12.3 %
Other income, net	(4.9)	(12.9)	(3.9)	(0.2)%	(0.5)%	(0.2)%
Interest expense	21.3	19.5	20.7	0.8 %	0.8 %	0.9 %
Earnings before income taxes	363.6	322.0	257.4	13.3 %	13.6 %	11.6 %
Income taxes	183.3	89.2	66.6	6.7 %	3.8 %	3.0 %
Net earnings	$180.3	$232.8	$190.8	6.6 %	9.8 %	8.6 %
Net earnings per share – diluted	$1.36	$1.74	$1.42			

Net Sales

Net sales by operating segment are as follows (in millions):

	Year Ended July 31,			Percent of Net Sales		
	2018	2017	2016	2018	2017	2016
Engine Products	$1,849.0	$1,553.3	$1,391.3	67.6 %	65.5 %	62.7 %
Industrial Products	885.2	818.6	829.0	32.4 %	34.5 %	37.3 %
Net sales	$2,734.2	$2,371.9	$2,220.3	100.0%	100.0%	100.0%

Net sales by origination(1) for the years ended July 31, 2018, 2017 and 2016 are as follows (in millions):

	Year Ended July 31,			Percent of Net Sales		
	2018	2017	2016	2018	2017	2016
United States	$1,120.8	$990.4	$937.7	41.0 %	41.8 %	42.2 %
Europe, Middle East and Africa	791.5	679.1	665.5	29.0 %	28.6 %	30.0 %
Asia Pacific	599.2	500.5	449.9	21.9 %	21.1 %	20.3 %
Latin America	222.7	201.9	167.2	8.1 %	8.5 %	7.5 %
Net sales	$2,734.2	$2,371.9				