NovaRock Global Research

Equity Research Note — Donaldson Company, Inc. (DCI) — Initiating Coverage

REVIEWED AND APPROVED — 2026-10-13

Current Price	$87.56 (as of 2026-10-12)
Fair Value (DCF Base Case)	$88.79 (as of report date)
Implied vs. Current Price	+1.4%
Rating	HOLD (DCF-based; peer multiples disagree) (sensitivity range: $61-$118/share)
Assumptions Used	8.5% discount rate, 3.0% terminal growth
Capital Return	Dividend Yield 1.4% | Buyback Yield 1.1% (Total Shareholder Yield: 2.5%)

Rating Definitions: BUY: every combination in the valuation sensitivity grid implies a fair value above the current price - i.e. even the most conservative reasonable assumptions still suggest the stock is cheap. SELL: every combination implies a fair value below the current price - even the most generous reasonable assumptions still suggest it's expensive. HOLD: the current price falls inside the sensitivity grid's range - reasonable analysts using different defensible assumptions could land on either side, so a confident directional call isn't supported by this analysis. This is a narrower, more literal use of these labels than some research uses - a HOLD here specifically means the valuation math doesn't clear a bar in either direction, not a vague default.

Investment Note

Donaldson Company, Inc. (DCI) — Research Note

Rating: HOLD. At $87.56 (October 12, 2026), DCI sits inside our DCF sensitivity grid ($60.52 to $118.34 per share), and the base case of $88.79 is only 1.4% above the price (a margin of safety of 1.4%), so reasonable assumptions land on either side of the price and our rating rule produces HOLD. The peer multiples do not settle the question: Parker-Hannifin's 33.6x implies $129.35 per share, while Pentair's 13.5x implies $52.12, so we use no peer median and treat the spread as context (see Comparable companies).

Results: FY2026 (year ended July 31, 2026) net sales were $3,885.6M against $3,690.9M, up 5.3% (10-K PDF p.40). Net earnings were $453.8M (PDF p.73) and diluted EPS $3.85 versus $3.05 (PDF p.40); the company reports adjusted EPS of $3.98 (Q4 earnings release of August 26, 2026, p.1). Operating income rose to $599.9M from $495.4M, a 15.4% margin (PDF p.40).

Operating trends: operating income grew 21.1% on sales growth of 5.3%, so profitability recovered faster than volume (10-K PDF p.40, our arithmetic). The Facet acquisition added about $30M of fourth-quarter sales with $0.06 of EPS dilution, and management guides Industrial Solutions sales up mid-teens in FY2027 with $0.12 of Facet dilution in EPS (Q4 earnings release p.1, 4), so the earnings case rests on that recovery and the integration.

Guidance: for FY2027 management expects sales growth of 5.5% to 9.5% and EPS of $4.22 to $4.38, capital expenditures of $70M to $90M, free cash flow conversion of 95% to 105%, and repurchases of about 1% of shares outstanding (Q4 earnings release p.1, 5). The EPS midpoint of $4.30 is 11.7% above FY2026 GAAP EPS of $3.85 (our arithmetic). No earnings-call transcript was supplied, so no analyst Q&A is cited.

Cash flow and the DCF basis: operating cash flow was $493.7M and capital expenditures $67.4M, giving a free cash flow base of $426.3M, about 94% of net earnings (10-K PDF p.73). We apply an 8.5% discount rate (our judgment, reflecting moderate leverage and a steady franchise), 3.0% terminal growth, and an explicit growth path of 14.0%, 9.0%, 7.0%, 6.0%, 5.0%, 4.5%, 4.0%, 3.5%, 3.25% and 3.0% over ten years, a path that compounds at 8.2% for five

years and 5.9% for ten against FY2024 to FY2026 free cash flow growth of 2.4% a year and sales growth of 4.1% a year; terminal value is 60.7% of the total. Year-one free cash flow of $486.0M sits inside the roughly $461M to $529M implied by guided EPS, about 115M average shares and 95% to 105% conversion (our arithmetic; the release gives no dollar cash flow forecast). Using the three-year average free cash flow of $391.0M instead gives $81.44, so the result is sensitive to which year is treated as normal. At the same assumptions the price implies a starting free cash flow of about $420M, 0.99x the FY2026 base, so the market is paying roughly for our path and little more. We chose it over a faster-growing alternative (base $95.84) because that alternative compounds free cash flow at 9.6% for five years, well above anything in the FY2024 to FY2026 record.

Balance sheet: total debt was $1,324.8M (short-term borrowings $44.8M plus long-term debt $1,280.0M) against cash of $250.4M, or net debt of $1,074.4M (10-K PDF p.71). Net debt is shown for context only and is not deducted from fair value, because the cash flow base is already after interest.

Comparable companies: on filings and October 12, 2026 closing prices supplied by NovaRock, Parker-Hannifin trades at 33.6x FY2026 GAAP EPS of $28.48, implying $129.35 per share for DCI on its $3.85; Pentair trades at 13.5x trailing GAAP EPS of $3.88 (FY2025 $3.93 plus first-half 2026 $1.78 less first-half 2025 $1.83), implying $52.12; IDEX trades at 33.9x trailing GAAP EPS of $6.95 (FY2025 $6.41 plus first-half 2026 $3.54 less first-half 2025 $3.00), implying $130.61. DCI itself trades at 22.7x FY2026 EPS. On EV/EBITDA, built from filings as trailing operating income plus depreciation and amortization, DCI trades at 15.9x on $705.9M (enterprise value $11,223.5M), Parker-Hannifin at 21.4x on $6,005M, IDEX at 19.5x on $954.4M and Pentair at 10.7x on $933.8M (trailing operating income of $813.2M plus depreciation and amortization of $120.6M, enterprise value $10,003.0M); applying those to DCI and deducting net debt of $1,074.4M implies $121.19, $109.54 and $55.97 per share (+38.4%, +25.1% and -36.1%). Pentair's trailing figures are its FY2025 results (operating income $857.5M, depreciation $59.6M, amortization $58.1M) plus the first half of 2026 less the first half of 2025 (Q2-2026 release). On trailing P/E the DCF implies +1.4% against the price and the peers imply +47.7% (PH), +49.2% (IDEX) and -40.5% (PNR); we do not average any of them. Pentair reported a 17% sales decline from a Pool channel destock, and Parker-Hannifin is many times DCI's size.

Shareholder base and changes: shares outstanding fell 3.4% in two years, from 120.11M at July 31, 2024 to 115.99M at July 31, 2026 (10-K PDF p.71 and p.107, our arithmetic), with 115,910,129 on the September 11, 2026 cover. Treasury purchases were $163.3M, $333.6M and $108.5M in FY2024 to FY2026 (PDF p.76). DCI has no controlling holder. The 2026 proxy statement (record date September 21, 2026, 115,820,533 shares) lists BlackRock at 10,954,890 shares (9.5%), State Farm at 9,600,103 (8.3%), Vanguard Portfolio Management at 6,535,093 (5.6%) and Vanguard Capital Management at 6,064,424 (5.2%), with all directors and officers as a group (15 persons) at 2,627,045 shares (2.2%) and Tod Carpenter at 1,677,448 (1.4%) (proxy PDF p.15, 17). The BlackRock figure rests on a Schedule 13G/A dated January 24, 2024 (10,954,890 shares, 9.1% of the class at December 31, 2023) and the State Farm figure on a Schedule 13G/A signed February 7, 2024 (9,600,103 shares, 7.99%); the proxy gives February 12, 2024 as State Farm's filing date and expresses both holdings against the smaller record-date share count, which is why its percentages are higher, and the Vanguard figures on Schedule 13Gs of April 29, 2026 (event date March 31, 2026); The Vanguard Group itself now reports zero after its January 12, 2026 realignment. These holders are as of the proxy date, not a current snapshot, and NovaRock reports no later BlackRock or State Farm filing exists on EDGAR.

Capital return: DCI paid $141.2M of dividends and $111.2M of buybacks in FY2026 (cash flow statement, PDF p.73), $252.4M in total, a 1.4% dividend yield and a 1.1% buyback yield, 2.5% in total on a $10,149.1M market capitalization at $87.56 (our calculation; buybacks are gross, not net of issuance). The dividend was $1.24 per share (PDF p.76), 31.1% of reported net earnings, covered 3.0 times by free cash flow; total returns are 59% of free cash flow and do not exceed it.

Conclusion: HOLD, because the price sits inside the range our assumptions produce and the base case is only 1.4% above it. A path to the guided FY2027 EPS of $4.22 to $4.38 with free cash flow near the top of the $461M to $529M

range would move the case toward the upper part of the grid, while slower Industrial recovery or Facet integration would weigh on it. A reviewer who gives more weight to Parker-Hannifin's multiple could reasonably lean positive, and one who weights Pentair's could lean negative.

Key Catalysts

• Facet integration: FY2027 EPS guidance of $4.22 to $4.38 includes about $0.12 of Facet dilution (Q4 earnings release p.4).

• Industrial Solutions recovery: management guides FY2027 Industrial sales up mid-teens (Q4 earnings release p.4).

• Annual meeting on November 20, 2026 (director elections, say-on-pay, auditor ratification; proxy and notice of internet availability).

• Q1 FY2027 results (quarter ending October 31, 2026), the first read on guidance versus Facet integration.

Comparable Companies Cross-Check

DCF implies +1.4% vs. current price; the peer multiples span a wide range and are shown individually with no median or average.

Trailing P/E spans 13.5x to 33.9x (two near 34x, Pentair far lower) and EV/EBITDA spans 10.7x (PNR) to 21.4x (PH), with IDEX at 19.5x; no peer is a close comparable and no median is used.

Peer / metric	Multiple	DCI value/sh	Role
PH - trailing P/E (FY2026 GAAP EPS $28.48)	33.6x	$129.35	Context - much larger, aerospace-heavy
PNR - trailing P/E (TTM GAAP EPS $3.88)	13.5x	$52.12	Context - Pool channel destock
IEX - trailing P/E (TTM GAAP EPS $6.95)	33.9x	$130.61	Context - AI/semiconductor-driven mix
PH - EV/EBITDA (TTM op. income + D&A $6,005M)	21.4x	$121.19	Context - much larger, aerospace-heavy
IEX - EV/EBITDA (TTM op. income + D&A $954.4M)	19.5x	$109.54	Context - AI/semiconductor-driven mix
PNR - EV/EBITDA (TTM op. income + D&A $933.8M)	10.7x	$55.97	Context - Pool channel destock

Peer prices are October 12, 2026 closes supplied by NovaRock (not filing-verified). EPS and share data come from each peer's own filings: PH FY2026 release (Aug 6, 2026), PNR Q2-2026 release (Jul 28, 2026), IEX FY2025 10-K and Q2-2026 release (Jul 29, 2026). All three peers use trailing GAAP EPS through June 2026 against DCI FY2026 GAAP EPS of $3.85 (IDEX TTM = FY2025 $6.41 from its 10-K plus H1 2026 $3.54 less H1 2025 $3.00). Pentair is an outlier: its earnings are depressed by a Pool channel destock. EV/EBITDA is unadjusted trailing operating income plus depreciation and amortization from each company's filings, less net debt from the latest balance sheet (no leases, pensions or minorities); PNR EV/EBITDA uses a price back-solved from the supplied 13.5x P/E ($52.53), the Q2-2026 diluted weighted average share count (161.6M; no period-end count was in the release), and net debt at June 30, 2026 of long-term debt $1,606.0M less cash $91.8M (no short-term borrowings line is reported); depreciation and amortization are from Pentair's FY2025 and Q2-2026 releases.

Balance Sheet & Leverage

Total debt: $1,324.8M | Cash & equivalents: $250.4M | Net position: $1,074.4M net debt

Informational only - not subtracted from the fair value above. This pipeline's cash flow base is already levered (post-interest), so a separate net-debt deduction would double-count it.

Capital Return Detail

Dividends paid	$141.2M (1.4% yield)
Dividend per share	$1.24
Buybacks (gross cash)	$111.2M (1.1% yield)
Total returned	$252.4M (2.5% of market cap)
Dividend payout ratio (reported net earnings)	31.1%
Dividend cover by free cash flow	3.0x
Total returns as % of free cash flow	59%

Gross cash buybacks (not net of share issuance); market cap = price x shares outstanding.

Shareholding Pattern & Changes

Period	Shares out.	YoY	Cumulative	Buybacks ($M)	Source
Jul 2024	120.11M	-	-	163.3	10-K PDF p.71, 107, 76
Jul 2025	116.04M	-3.4%	-3.4%	333.6	10-K PDF p.71, 107, 76
Jul 2026	115.99M	-0.0%	-3.4%	108.5	10-K PDF p.71, 107, 76

Beneficial ownership - 2026 proxy statement (DEF 14A), record date September 21, 2026 (primary source)

Holder	Shares	% out.	As of	Source
All directors and executive officers as a group (15 persons)	2,627,045	2.20%	September 21, 2026	DEF 14A p.15 and 17
Named insider: Tod E. Carpenter	1,677,448	1.40%	September 21, 2026	DEF 14A p.15 and 17
BlackRock, Inc.	10,954,890	9.50%	filing January 24, 2024	DEF 14A p.15 and 17, fn.1 (Schedule 13G/A filed January 24, 2024)
State Farm Mutual Automobile Insurance	9,600,103	8.30%	filing February 12, 2024	DEF 14A p.15 and 17, fn.2 (Schedule 13G/A filed February 12, 2024)
Vanguard Portfolio Management	6,535,093	5.60%	filing April 29, 2026	DEF 14A p.15 and 17, fn.3 (Schedule 13G filed April 29, 2026)
Vanguard Capital Management	6,064,424	5.20%	filing April 29, 2026	DEF 14A p.15 and 17, fn.4 (Schedule 13G filed April 29, 2026)

Individual percentages may overlap through shared voting authority; do not add them.

Later SEC filings (after the proxy record date)

Holder	Shares	% out.	As of	Source
The Vanguard Group (post Jan 12, 2026 realignment)	0	0.00%	event 03/13/2026, filed 03/26/2026	Schedule 13G/A Amendment No. 14, sec.gov (as supplied)

The Vanguard Group (post Jan 12, 2026 realignment): Now reports zero; holdings are reported separately by Vanguard Portfolio Management and Vanguard Capital Management above.

Concentration: no controlling block; the 5%+ holders listed total 28.6% of shares; remainder 71.4%. Our arithmetic as of the proxy record date: the sum of the 5%+ holders' percentages in the proxy table. Later Schedule 13G filings (listed separately) may have changed individual holders.

Data Scope & Exclusions

• BlackRock (Schedule 13G/A dated January 24, 2024) and State Farm (Schedule 13G/A signed February 7, 2024; the proxy gives February 12, 2024 as the filing date) are more than two years old. NovaRock reports that no later filing exists on EDGAR, and both filings were cross-checked to the proxy share counts.

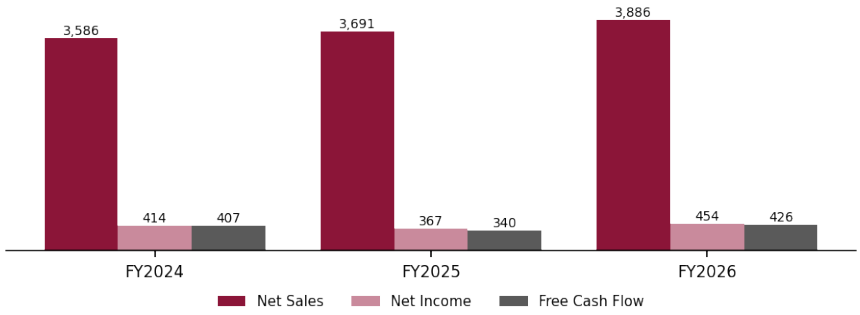
• The proxy expresses the holdings against the record-date share count of 115,820,533, which is why its percentages are higher than the percentages in the older Schedule 13G/A filings.

• The Vanguard Group Schedule 13G/A (Amendment No. 14, event date March 13, 2026, filed March 26, 2026) shows zero after its January 12, 2026 realignment; the holdings are now reported separately by Vanguard Portfolio Management and Vanguard Capital Management, listed above.

• Form 4 insider trades were not collected.

Multi-Year Trend

Metric	FY2024	FY2025	FY2026
Net Sales	$3,586.3M	$3,690.9M	$3,885.6M
Net Income	$414.0M	$367.0M	$453.8M
Free Cash Flow	$406.9M	$339.9M	$426.3M



Financial Summary (Most Recent Year)

Line item	Value	Source
Net sales	$3,885.6M	10-K PDF p.40
Operating income	$599.9M	10-K PDF p.40
Net earnings	$453.8M	10-K PDF p.73
Diluted EPS	$3.85	10-K PDF p.40
Operating cash flow	$493.7M	10-K PDF p.73
Capital expenditures	$67.4M	10-K PDF p.73
Free cash flow (OCF less capex)	$426.3M	computed
Dividends paid	$141.2M	10-K PDF p.73
Treasury stock purchased (cash)	$111.2M	10-K PDF p.73
Cash and equivalents	$250.4M	10-K PDF p.71
Total debt (short-term + long-term)	$1,324.8M	10-K PDF p.71
Total stockholders' equity	$1,764.4M	10-K PDF p.71

Valuation Sensitivity — Fair Value per Share ($)

Rows: discount rate. Columns: terminal growth rate.

Discount Rate	2.0%	2.5%	3.0%	3.5%
7.5%	$95	$101	$109	$118
8.5%	$80	$84	$89	$94
9.5%	$69	$72	$75	$79
10.5%	$61	$62	$65	$67

Methodology & Limitations

• Comps-based relative valuation included above - see Comparable Companies Cross-Check.

• Fair value is highly sensitive to the discount rate / terminal growth pair (see grid above).

• Fair value is an intrinsic-value estimate as of the report date, not a 12-month price target.

• Free cash flow is operating cash flow less capital expenditure; it is not adjusted for stock-based compensation, and per-share values use period-end shares outstanding, not fully diluted shares.

• Data scope & exclusions: (1) peer share prices (October 12, 2026) were supplied by NovaRock and are not filing-verified, while peer EPS and share counts come from each peer's own filings; Pentair's price of $52.53 is back-solved from the supplied 13.5x P/E, and its EV/EBITDA uses the Q2-2026 diluted weighted average share count of 161.6M (no period-end count was in the release) and net debt of long-term debt $1,606.0M less cash $91.8M at June 30, 2026 (no short-term borrowings line is reported); (2) the ten-year growth path is NovaRock's own judgment; (3) FY2027 guidance is taken from the August 26, 2026 earnings release (Form 8-K, accession 0000029644-26-000071); no earnings-call transcript was supplied, so no analyst Q&A is cited; (4) the BlackRock and State Farm holdings rest on Schedule 13G/A filings from early 2024, and no later filing was found on EDGAR (per NovaRock), so they may have changed since; (5) Form 4 insider trades were not collected.

• This note reflects NovaRock's structured multi-stage analytical process (Analyst, Risk Review, Final Edit) and was reviewed and approved by Jasvinder Singh, Founder and Principal Analyst, on 2026-10-13.

Disclosures

Full disclosures, methodology notes, and conflicts-of-interest policy are maintained on novarockcorp.com's legal pages and apply to this note. Drafting of this note used AI-assisted research tools. This report has been reviewed, finalized, and approved by Jasvinder Singh, Founder and Principal Analyst, on 2026-10-13.