

# Parker Hannifin Corporation

## 1<sup>st</sup> Quarter Fiscal Year 2017 Earnings Release



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October 21, 2016

# Forward-Looking Statements and Non-GAAP Financial Measures

Safe Harbor Forward-looking statements contained in this and other written and oral reports are made based on known events and circumstances at the time of release, and as such, are subject in the future to unforeseen uncertainties and risks. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the company, including its individual segments, may differ materially from current expectations, depending on economic conditions within its mobile, industrial and aerospace markets, and the company's ability to maintain and achieve anticipated benefits associated with announced realignment activities, strategic initiatives to improve operating margins, actions taken to combat the effects of the current economic environment, and growth, innovation and global diversification initiatives. A change in the economic conditions in individual markets may have a particularly volatile effect on segment performance. Among other factors which may affect future performance are: changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments, disputes regarding contract terms or significant changes in financial condition, changes in contract cost and revenue estimates for new development programs and changes in product mix; ability to identify acceptable strategic acquisition targets; uncertainties surrounding timing, successful completion or integration of acquisitions and similar transactions; the ability to successfully divest businesses planned for divestiture and realize the anticipated benefits of such divestitures; the determination to undertake business realignment activities and the expected costs thereof and, if undertaken, the ability to complete such activities and realize the anticipated cost savings from such activities; the ability to implement successfully the company's capital allocation initiatives; increases in raw material costs that cannot be recovered in product pricing; the company's ability to manage costs related to insurance and employee retirement and health care benefits; threats associated with and efforts to combat terrorism and cyber-security risks; uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals; competitive market conditions and resulting effects on sales and pricing; and global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, deflation, interest rates and credit availability. The company makes these statements as of the date of this disclosure, and undertakes no obligation to update them unless otherwise required by law.

This presentation reconciles (a) sales amounts reported in accordance with U.S. GAAP to sales amounts adjusted to remove the effects of acquisitions and the effects of currency exchange rates, (b) cash flow from operating activities and cash flow from operating activities as a percent of sales in accordance with U.S. GAAP to cash flow from operating activities and cash flow from operating activities as a percent of sales without the effect of discretionary pension plan contributions, (c) segment operating income, marginal return on sales (MROS), defined as the change in segment operating income divided by the change in sales, and operating margins reported in accordance with U.S. GAAP to segment operating income, MROS and operating margins without the effect of business realignment charges and, (d) actual and forecast earnings per diluted share reported in accordance with U.S. GAAP to actual and forecast earnings per diluted share without the effect of business realignment charges. The effects of acquisitions, currency exchange rates, discretionary pension plan contributions, business realignment charges are removed to allow investors and the company to meaningfully evaluate changes in sales, and cash flow from operating activities as a percent of sales, segment operating income, operating margins and earnings per diluted share on a comparable basis from period to period. Full year adjusted guidance removes business realignment charges.

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# Agenda

- **Chairman & CEO Comments**
- **Results & Outlook**
- **Questions & Answers**

# Chairman and CEO Comments

## 1<sup>st</sup> Quarter FY2017

- Recordable Accident Reduction of 35% in the First Quarter
- First Quarter Sales of \$2.74B, Orders Turn Positive
- As Reported Earnings per Share of \$1.55 (\$1.61 Adjusted)
- Impressive Margin & Decremental MROS and Cash Flow Performance

## Full Year FY2017 Guidance

- Sales Essentially Flat for the Year, Increased Earnings
- Holding FY17 EPS Guidance Midpoint of \$6.50 As Reported, \$6.75 Adjusted
- Realignment Expenses of \$48 million or \$0.25 per share

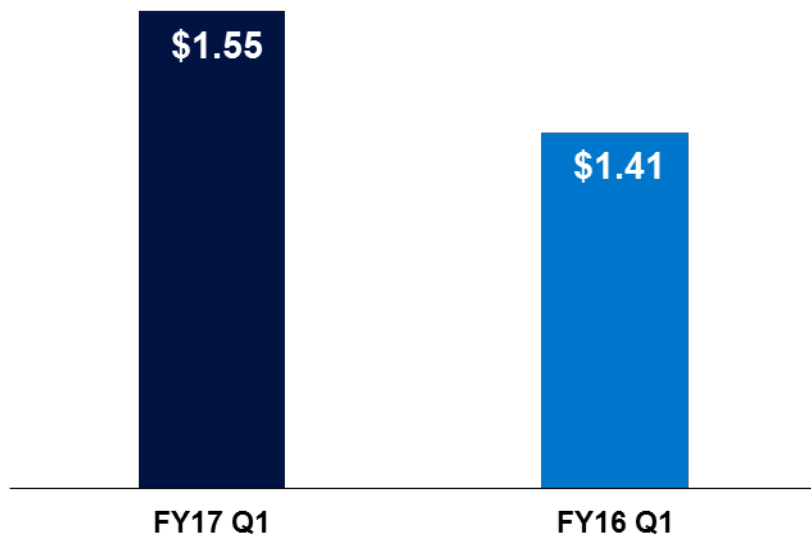
## Win Strategy Execution

- Meaningful Progress Across our Strategic Initiatives
- Confident in Achieving our FY20 Financial Objectives

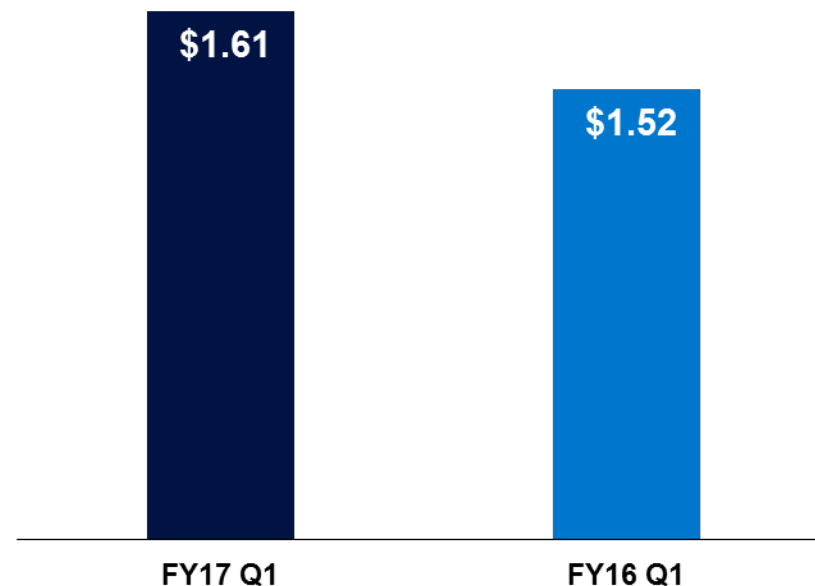
# Diluted Earnings Per Share

## 1<sup>st</sup> Quarter FY2017

As Reported EPS



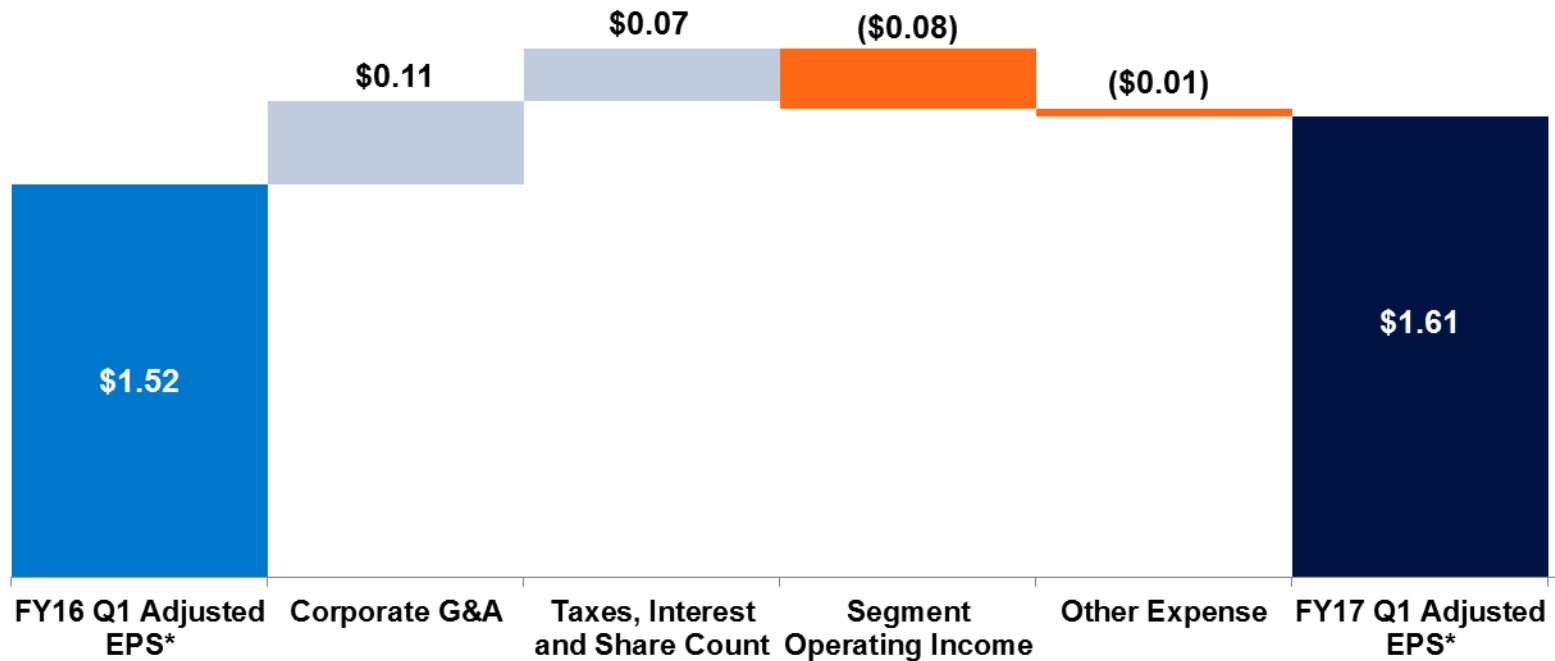
Adjusted EPS\*



\*Adjusted for Business Realignment Charges

# Influences on Adjusted Earnings Per Share

## 1<sup>st</sup> Quarter FY2017 vs. 1<sup>st</sup> Quarter FY2016



\*Adjusted for Business Realignment Charges

# Sales & Segment Operating Margin

## Total Parker

\$ in millions	1st Quarter			
	FY2017	% Change	FY2016	
Sales				
As Reported	\$2,743	(4.4)%	\$2,869	
Acquisitions	9	0.3 %		
Currency	(4)	(0.1)%		
Organic Sales	\$2,738	(4.6)%		
	FY2017	% of Sales	FY2016	% of Sales
Segment Operating Margin				
As Reported	\$ 411	15.0 %	\$ 416	14.5 %
Business Realignment	11		22	
Adjusted	\$ 422	15.4 %	\$ 438	15.3 %

# Sales & Segment Operating Margin

## Diversified Industrial North America

\$ in millions	1st Quarter		
	FY2017	% Change	FY2016
Sales			
As Reported	\$ 1,167	(9.3)%	\$ 1,286
Acquisitions	-	- %	
Currency	(4)	(0.3)%	
Organic Sales	\$ 1,171	(9.0)%	

	FY2017	% of Sales	FY2016	% of Sales
Segment Operating Margin				
As Reported	\$ 201	17.2 %	\$ 213	16.5 %
Business Realignment	4		8	
Adjusted	\$ 205	17.5 %	\$ 221	17.2 %



# Sales & Segment Operating Margin

## Diversified Industrial International

\$ in millions	1st Quarter		
	FY2017	% Change	FY2016
Sales			
As Reported	\$ 1,015	(2.3)%	\$ 1,038
Acquisitions	9	0.9 %	
Currency	-	- %	
Organic Sales	\$ 1,006	(3.2)%	

	FY2017	% of Sales	FY2016	% of Sales
Segment Operating Margin				
As Reported	\$ 137	13.5 %	\$ 129	12.5 %
Business Realignment	7		12	
Adjusted	\$ 144	14.2 %	\$ 141	13.6 %

# Sales & Segment Operating Margin

## Aerospace Systems

\$ in millions	1st Quarter			
	FY2017	% Change	FY2016	
Sales				
As Reported	\$ 561	3.1 %	\$ 545	
Acquisitions	-	- %		
Currency	-	- %		
Organic Sales	\$ 561	3.1 %		
	FY2017	% of Sales	FY2016	% of Sales
Segment Operating Margin				
As Reported	\$ 73	13.1 %	\$ 74	13.6 %
Business Realignment	-		2	
Adjusted	\$ 73	13.1 %	\$ 76	13.9 %

# Order Rates

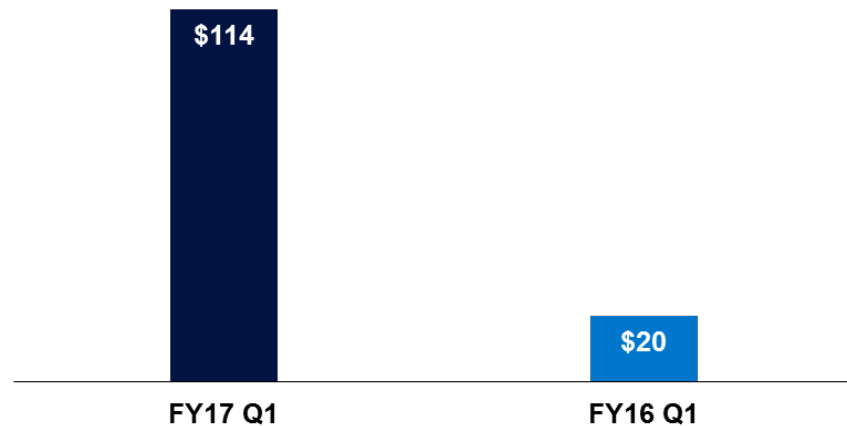
	<u>Sep 2016</u>		<u>Jun 2016</u>		<u>Sep 2015</u>		<u>Jun 2015</u>	
<b>Total Parker</b>	<b>+</b>	<b>2 %</b>	<b>-</b>	<b>1 %</b>	<b>-</b>	<b>11 %</b>	<b>-</b>	<b>9 %</b>
Diversified Industrial North America	-	4 %	-	10 %	-	12 %	-	9 %
Diversified Industrial International	+	3 %	+	3 %	-	8 %	-	5 %
Aerospace Systems	+	14 %	+	14 %	-	16 %	-	14 %

**Excludes Acquisitions, Divestitures & Currency**  
**3-month year-over-year comparisons of total dollars, except Aerospace Systems**  
**Aerospace Systems is calculated using a 12-month rolling average**

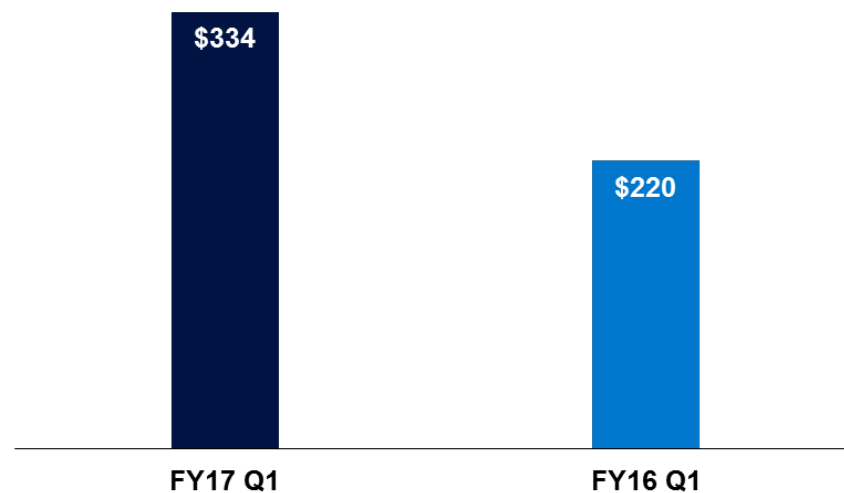
# Cash Flow from Operating Activities

## FY2017 Q1

As Reported Cash Flow



Adjusted Cash Flow\*



\*Adjusted for Discretionary Pension Plan Contribution

As Reported Cash Flow From Operating Activities  
 Discretionary Pension Plan Contribution  
 Adjusted Cash Flow From Operating Activities

### 1st Quarter

<u>FY 2017</u>	<u>% of Sales</u>	<u>FY 2016</u>	<u>% of Sales</u>
\$ 114	4.2%	\$ 20	0.7%
\$ 220		\$ 200	
\$ 334	12.2%	\$ 220	7.7%

# FY2017 Guidance

## EPS Midpoint: \$6.50 As Reported, \$6.75 Adjusted

Sales Growth vs. Prior Year	
Diversified Industrial North America	(5.1%) - (1.1%)
Diversified Industrial International	1.5% - 5.5%
Aerospace Systems	1.1% - 3.1%
<b>Total Parker</b>	<b>(1.5%) - 2.1%</b>

Segment Operating Margins	As Reported	Adjusted
Diversified Industrial North America	16.9% - 17.3%	17.3% - 17.7%
Diversified Industrial International	12.4% - 12.8%	13.1% - 13.5%
Aerospace Systems	14.8% - 15.2%	14.9% - 15.3%
<b>Total Parker</b>	<b>14.8% - 15.2%</b>	<b>15.2% - 15.6%</b>

Below the Line Items	
Corporate General & Administrative Expense, Interest and Other	<b>\$478 M</b>

Tax Rate	
Full Year	<b>28.5%</b>

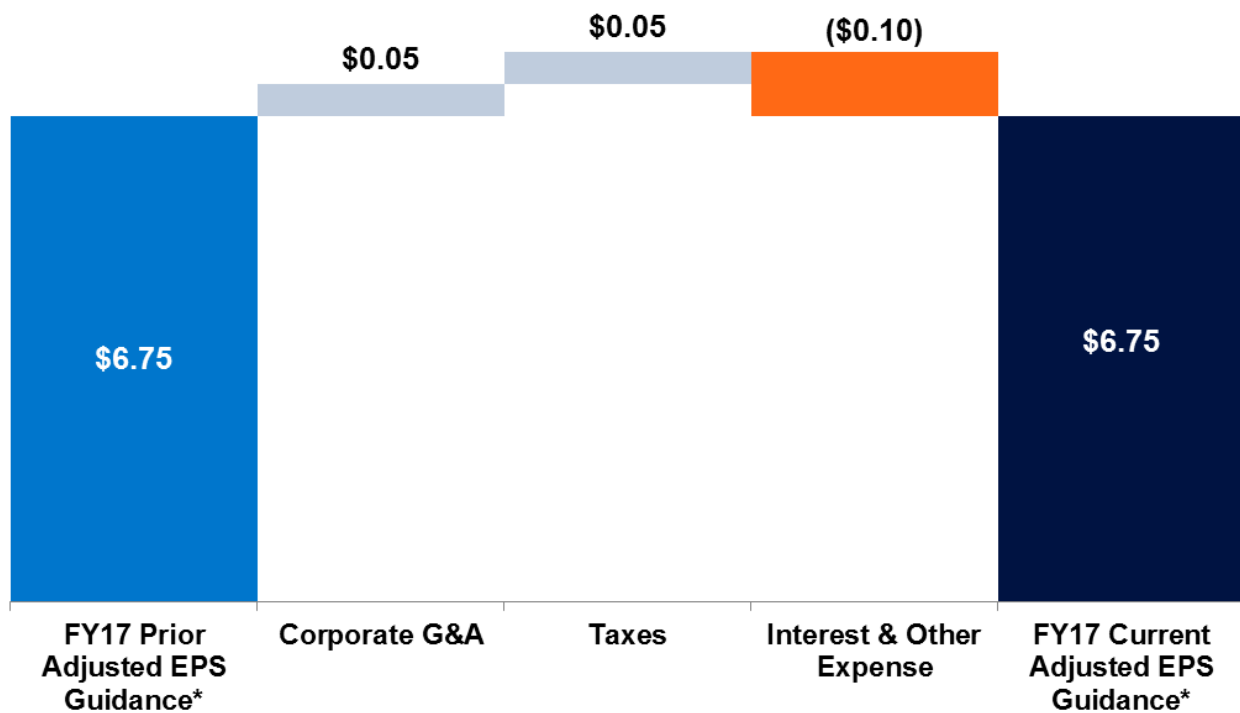
Shares	
Diluted Shares Outstanding	<b>135.5 M</b>

Earnings Per Share	As Reported	Adjusted
Range	<b>\$6.15 - \$6.85</b>	<b>\$6.40 - \$7.10</b>

Expected FY17 Adjusted Segment Operating Margins exclude FY17 Business Realignment Charges  
 Expected FY17 Adjusted Earnings Per Share excludes FY17 Business Realignment Charges

# FY2017 Guidance

## Reconciliation to Prior Guidance



\*Adjusted for Business Realignment Charges



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# Appendix

- Consolidated Statement of Income
- Reconciliation of EPS
- Business Segment Information
- Consolidated Balance Sheet
- Consolidated Statement of Cash Flows
- Reconciliation of Cash Flow from Operations to Adjusted Cash Flow from Operations
- Reconciliation of Net Income and MROS
- Reconciliation of Forecasted Segment Operating Margins and EPS
- Supplemental Sales Information – Global Technology Platforms



# Consolidated Statement of Income

(Unaudited) (Dollars in thousands except per share amounts)	Three Months Ended September 30,	
	2016	2015
<b>Net sales</b>	\$ 2,743,131	\$ 2,869,348
Cost of sales	2,106,006	2,200,904
Gross profit	637,125	668,444
Selling, general and administrative expenses	322,969	370,214
Interest expense	34,148	35,760
Other (income), net	(12,237)	(13,179)
Income before income taxes	292,245	275,649
Income taxes	82,007	80,623
Net income	210,238	195,026
Less: Noncontrolling interests	109	48
<b>Net income attributable to common shareholders</b>	\$ 210,129	\$ 194,978
<b>Earnings per share attributable to common shareholders:</b>		
Basic earnings per share	\$ 1.57	\$ 1.42
Diluted earnings per share	\$ 1.55	\$ 1.41
Average shares outstanding during period - Basic	133,679,378	136,844,504
Average shares outstanding during period - Diluted	135,825,658	138,574,908
Cash dividends per common share	\$ .63	\$ .63

# Reconciliation of EPS

(Unaudited)

(Amounts in dollars)

	Three Months Ended September 30,	
	2016	2015
<b>Earnings per diluted share</b>	<b>\$ 1.55</b>	<b>\$ 1.41</b>
Adjustments:		
Business realignment charges	0.06	0.11
<b>Adjusted earnings per diluted share</b>	<b>\$ 1.61</b>	<b>\$ 1.52</b>

# Business Segment Information

(Unaudited)	Three Months Ended September 30,	
(Dollars in thousands)	2016	2015
<b>Net sales</b>		
Diversified Industrial:		
North America	\$ 1,166,971	\$ 1,286,330
International	1,014,923	1,038,447
Aerospace Systems	561,237	544,571
<b>Total</b>	<b>\$ 2,743,131</b>	<b>\$ 2,869,348</b>
<b>Segment operating income</b>		
Diversified Industrial:		
North America	\$ 200,611	\$ 212,748
International	137,196	129,295
Aerospace Systems	73,281	74,003
<b>Total segment operating income</b>	<b>411,088</b>	<b>416,046</b>
Corporate general and administrative expenses	31,034	53,051
<b>Income before interest and other expense</b>	<b>380,054</b>	<b>362,995</b>
Interest expense	34,148	35,760
Other expense	53,661	51,586
<b>Income before income taxes</b>	<b>\$ 292,245</b>	<b>\$ 275,649</b>

# Consolidated Balance Sheet

(Unaudited)  
 (Dollars in thousands)

September 30, 2016      June 30, 2016      September 30, 2015

## Assets

### **Current assets:**

Cash and cash equivalents	\$ 1,393,850	\$ 1,221,653	\$ 974,268
Marketable securities and other investments	746,708	882,342	815,483
Trade accounts receivable, net	1,498,384	1,593,920	1,561,054
Non-trade and notes receivable	250,520	232,183	315,943
Inventories	1,247,972	1,173,329	1,320,204
Prepaid expenses	144,444	104,360	196,917
<b>Total current assets</b>	<b>5,281,878</b>	<b>5,207,787</b>	<b>5,183,869</b>
Plant and equipment, net	1,562,933	1,568,100	1,632,803
Deferred income taxes	495,708	605,155	381,737
Goodwill	2,910,765	2,903,037	2,947,955
Intangible assets, net	901,939	922,571	1,003,386
Other assets	817,691	827,492	811,012
<b>Total assets</b>	<b>\$ 11,970,914</b>	<b>\$ 12,034,142</b>	<b>\$ 11,960,762</b>

## Liabilities and equity

### **Current liabilities:**

Notes payable	\$ 595,956	\$ 361,787	\$ 630,620
Accounts payable	1,017,905	1,034,589	1,014,265
Accrued liabilities	766,849	841,915	774,145
Accrued domestic and foreign taxes	113,528	127,597	126,487
<b>Total current liabilities</b>	<b>2,494,238</b>	<b>2,365,888</b>	<b>2,545,517</b>
Long-term debt	2,653,008	2,652,457	2,701,098
Pensions and other postretirement benefits	1,806,366	2,076,143	1,480,466
Deferred income taxes	55,079	54,395	66,062
Other liabilities	311,634	306,581	312,868
Shareholders' equity	4,647,281	4,575,255	4,851,518
Noncontrolling interests	3,308	3,423	3,233
<b>Total liabilities and equity</b>	<b>\$ 11,970,914</b>	<b>\$ 12,034,142</b>	<b>\$ 11,960,762</b>

# Consolidated Statement of Cash Flows

(Unaudited) (Dollars in thousands)	Three Months Ended September 30,	
	2016	2015
<b>Cash flows from operating activities:</b>		
Net income	\$ 210,238	\$ 195,026
Depreciation and amortization	75,333	78,222
Stock incentive plan compensation	35,818	35,381
Gain on sale of plant and equipment	(681)	(1,071)
Gain on sale of marketable securities	(167)	(54)
Net change in receivables, inventories, and trade payables	59,690	(35,163)
Net change in other assets and liabilities	(361,999)	(250,118)
Other, net	95,700	(2,284)
<b>Net cash provided by operating activities</b>	<b>113,932</b>	<b>19,939</b>
<b>Cash flows from investing activities:</b>		
Acquisitions (net of cash of \$1,760 in 2016 and \$3,814 in 2015)	(29,927)	(67,552)
Capital expenditures	(32,526)	(38,681)
Proceeds from sale of plant and equipment	4,498	3,847
Purchases of marketable securities and other investments	(189,654)	(430,533)
Maturities and sales of marketable securities and other investments	291,372	371,766
Other, net	1,450	(40,273)
<b>Net cash provided by (used in) investing activities</b>	<b>45,213</b>	<b>(201,426)</b>
<b>Cash flows from financing activities:</b>		
Net payments for common stock activity	(131,738)	(319,435)
Net proceeds from debt	231,948	404,787
Dividends	(84,749)	(85,987)
<b>Net cash provided by (used in) financing activities</b>	<b>15,461</b>	<b>(635)</b>
Effect of exchange rate changes on cash	(2,409)	(24,194)
Net increase (decrease) in cash and cash equivalents	172,197	(206,316)
Cash and cash equivalents at beginning of period	1,221,653	1,180,584
<b>Cash and cash equivalents at end of period</b>	<b>\$ 1,393,850</b>	<b>\$ 974,268</b>

# Reconciliation of Cash Flow from Operations to Adjusted Cash Flow from Operations

(Unaudited)  
(Dollars in thousands)

	<u>Three Months Ended September 30, 2016</u>	<u>Percent of sales</u>	<u>Three Months Ended September 30, 2015</u>	<u>Percent of sales</u>
<b>As reported cash flow from operations</b>	<b>\$ 113,932</b>	<b>4.2%</b>	<b>\$ 19,939</b>	<b>0.7%</b>
Discretionary pension contribution	<b>220,000</b>		200,000	
<b>Adjusted cash flow from operations</b>	<b>\$ 333,932</b>	<b>12.2%</b>	<b>\$ 219,939</b>	<b>7.7%</b>

# Reconciliation of Net Income and MROS

(Unaudited) (Dollars in thousands)	Three Months Ended September 30,	
	2016	2015
As Reported Net Income	\$ 210,238	\$ 195,026
Business Realignment Charges	7,844	15,552
<b>Adjusted Net Income</b>	<b>\$ 218,082</b>	<b>\$ 210,578</b>
Net Sales	\$ 2,743,131	\$ 2,869,348
As Reported Segment Operating Income	\$ 411,088	\$ 416,046
Business Realignment Charges	10,745	21,788
<b>Adjusted Segment Operating Income</b>	<b>\$ 421,833</b>	<b>\$ 437,834</b>
As Reported MROS*	-3.9%	
Change in Business Realignment Charges as % Sales	-8.7%	
<b>Adjusted MROS*</b>	<b>-12.7%</b>	

\*MROS = change in operating income/change in sales

# Reconciliation of Forecasted Segment Operating Margins and EPS

(Unaudited)

	<u>Fiscal Year 2017</u>
Forecasted As Reported Diversified Industrial North America Operating Margin	16.9% - 17.3%
Forecasted Segment Business Realignment Charges as % Net Sales	0.4%
<b>Forecasted Adjusted Diversified Industrial North America Operating Margin</b>	<b>17.3% - 17.7%</b>
Forecasted As Reported Diversified Industrial International Operating Margin	12.4% - 12.8%
Forecasted Segment Business Realignment Charges as % Net Sales	0.7%
<b>Forecasted Adjusted Diversified Industrial International Operating Margin</b>	<b>13.1% - 13.5%</b>
Forecasted As Reported Aerospace Systems Operating Margin	14.8% - 15.2%
Forecasted Segment Business Realignment Charges as % Net Sales	0.1%
<b>Forecasted Adjusted Aerospace Systems Operating Margin</b>	<b>14.9% - 15.3%</b>
Forecasted As Reported Total Parker Operating Margin	14.8% - 15.2%
Forecasted Segment Business Realignment Charges as % Net Sales	0.4%
<b>Forecasted Adjusted Total Parker Operating Margin</b>	<b>15.2% - 15.6%</b>

(Unaudited)

(Amounts in dollars)

	<u>Fiscal Year 2017</u>
<b>Forecasted earnings per diluted share</b>	<b>\$6.15 to \$6.85</b>
Adjustments:	
Business realignment charges	.25
<b>Adjusted forecasted earnings per diluted share</b>	<b>\$6.40 to \$7.10</b>



# Supplemental Sales Information

## Global Technology Platforms

(Unaudited)	Three Months Ended Sept 30,	
(Dollars in thousands)	<b>2016</b>	2015
<b>Net sales</b>		
Diversified Industrial:		
Motion Systems	\$ 741,650	\$ 802,495
Flow and Process Control	824,314	881,911
Filtration and Engineered Materials	615,930	640,371
Aerospace Systems	561,237	544,571
<b>Total</b>	<b>\$ 2,743,131</b>	<b>\$ 2,869,348</b>