

Parker Hannifin Corporation

2nd Quarter Fiscal Year 2017 Earnings Release



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February 2, 2017

Forward-Looking Statements and Non-GAAP Financial Measures

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. These statements may be identified from use of forward-looking terminology such as “anticipates,” “believes,” “may,” “should,” “could,” “potential,” “continues,” “plans,” “forecasts,” “estimates,” “projects,” “predicts,” “would,” “intends,” “anticipates,” “expects,” “targets,” “is likely,” “will,” or the negative of these terms and similar expressions, and include all statements regarding future performance, earnings projections, events or developments. 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.

The risks and uncertainties in connection with forward-looking statements related to the proposed transaction between CLARCOR and the company include, but are not limited to, the occurrence of any event, change or other circumstances that could delay the closing of the proposed transaction; the possibility of non-consummation of the proposed transaction and termination of the merger agreement; the failure to obtain CLARCOR stockholder approval of the proposed transaction or to satisfy any of the other conditions to the merger agreement; the possibility that a governmental entity may prohibit, delay or refuse to grant a necessary regulatory approval in connection with the proposed transaction; the risk that stockholder litigation in connection with the proposed transaction may affect the timing or occurrence of the proposed transaction or result in significant costs of defense, indemnification and liability; adverse effects on CLARCOR's common stock or the company's common stock because of the failure to complete the proposed transaction; CLARCOR's or the company's respective businesses experiencing disruptions due to transaction-related uncertainty or other factors making it more difficult to maintain relationships with employees, business partners or governmental entities; the parties being unable to successfully implement integration strategies; and significant transaction costs related to the proposed transaction.

Among other factors which may affect future performance and earnings projections are: economic conditions within the company's and CLARCOR's key markets, and the company's and CLARCOR'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 of the Company and/or CLARCOR are, as applicable: changes in business relationships with and purchases by or from major customers, suppliers or distributors, including delays or cancellations in shipments; CLARCOR's potential inability to realize the anticipated benefits of the strategic supply partnership with GE; 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; ability to implement successfully capital allocation initiatives, including timing, price and execution of share repurchases; availability, limitations or cost increases of raw materials, component products and/or commodities that cannot be recovered in product pricing; ability to manage costs related to insurance and employee retirement and health care benefits; compliance costs associated with environmental laws and regulations; potential labor disruptions; 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 and operating margins reported in accordance with U.S. GAAP to segment operating income and operating margins without the effect of business realignment charges (d) below the Line Items reported in accordance with U.S. GAAP to Below the Line Items without the effect of CLARCOR acquisition expenses and, (e) 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 and CLARCOR acquisition expenses. The effects of acquisitions, currency exchange rates, discretionary pension plan contributions, business realignment charges, CLARCOR acquisition expenses 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, below the line items and earnings per diluted share on a comparable basis from period to period. Full year adjusted guidance removes business realignment charges.

Agenda

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

Chairman and CEO Comments

2nd Quarter FY2017

- Recordable Accident Reduction of 31% in the Second Quarter
- Second Quarter Sales of \$2.67B, Orders Increase 5%
- Earnings per Share of \$1.78 (\$1.91 Adjusted)
- Record Segment Operating Margins of 14.4%

Capital Allocation

- CLARCOR Transaction Update
- Acquired Helac Corporation - Strategic Product Line Addition to Hydraulics
- Increased Quarterly Dividend by 5%

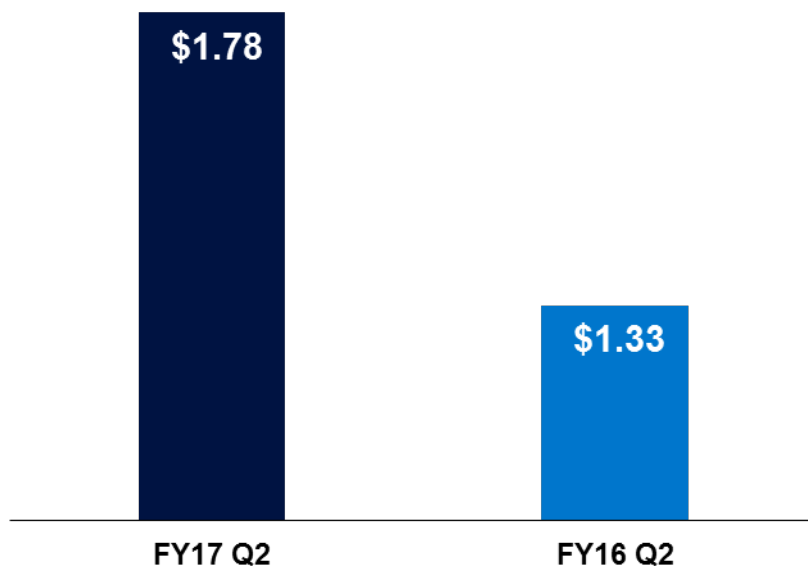
Full Year FY2017 Guidance Increased

- Sales Essentially Flat for the Year, Increased Earnings
- FY17 EPS Guidance Midpoint of \$6.96 As Reported (\$7.30 Adjusted)
- Realignment \$0.25 per share, Transaction Costs \$0.09 per share

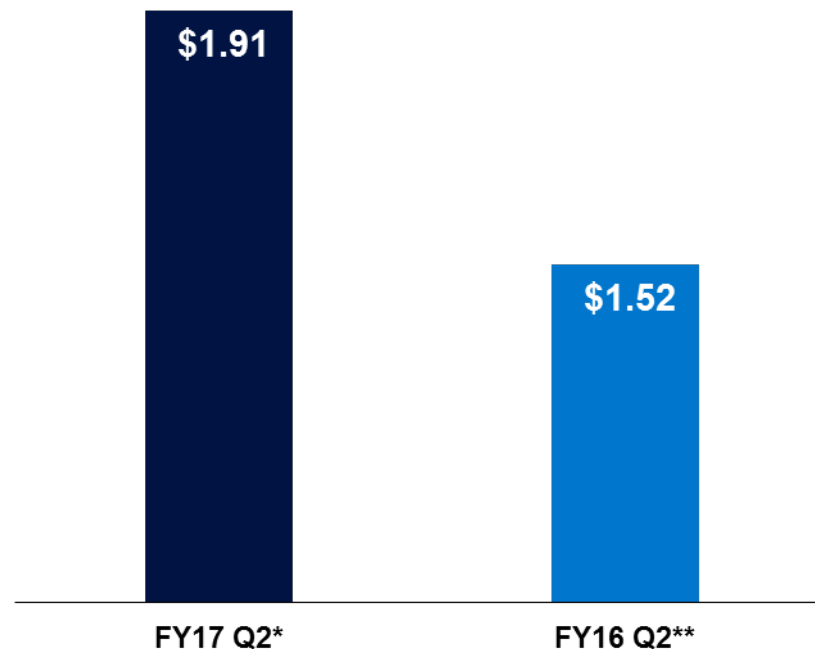
Diluted Earnings Per Share

2nd Quarter FY2017

As Reported EPS



Adjusted EPS

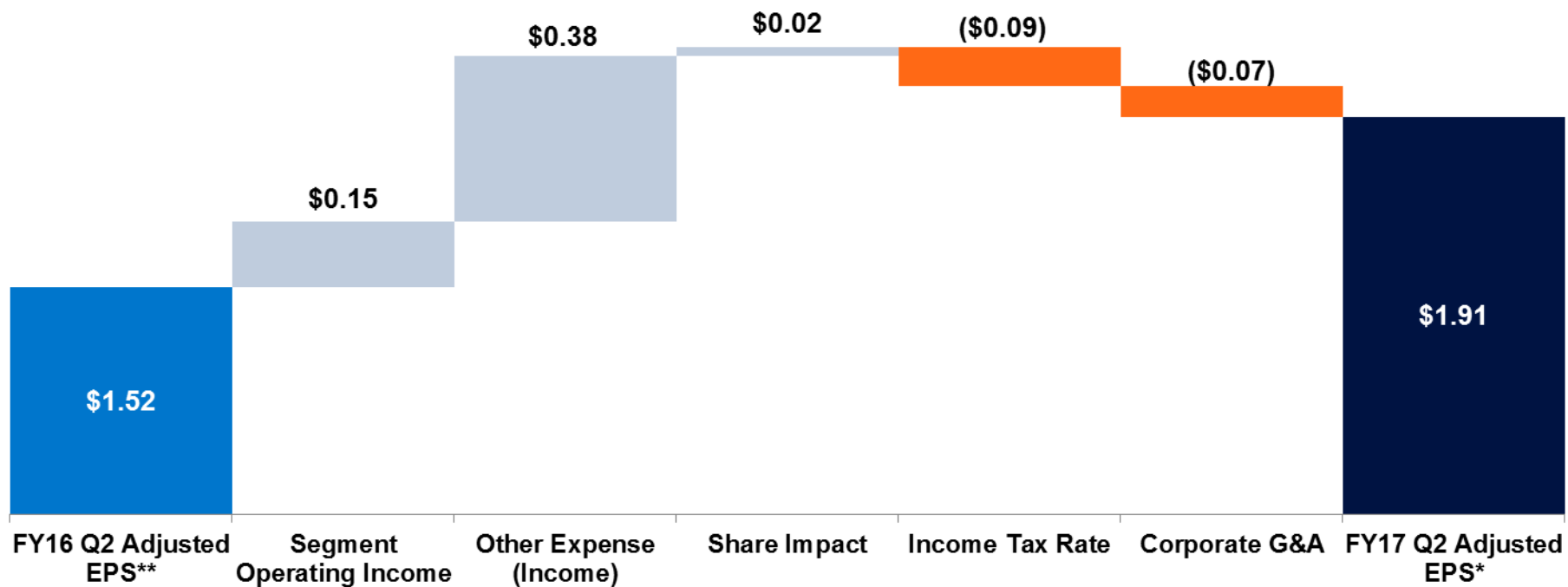


*Adjusted for Business Realignment Charges, CLARCOR Acquisition Expenses

**Adjusted for Business Realignment Charges

Influences on Adjusted Earnings Per Share

2nd Quarter FY2017 vs. 2nd Quarter FY2016



*Adjusted for Business Realignment Charges, CLARCOR Acquisition Expenses

**Adjusted for Business Realignment Charges

Sales & Segment Operating Margin

Total Parker

\$ in millions	2nd Quarter			
	FY2017	% Change	FY2016	
Sales				
As Reported	\$2,671	(1.3)%	\$2,706	
Acquisitions	8	0.3 %		
Currency	(31)	(1.1)%		
Organic Sales	\$2,694	(0.5)%		
	FY2017	% of Sales	FY2016	% of Sales
Segment Operating Margin				
As Reported	\$ 384	14.4 %	\$ 331	12.2 %
Business Realignment	8		35	
Adjusted	\$ 392	14.7 %	\$ 366	13.5 %

Sales & Segment Operating Margin

Diversified Industrial North America

\$ in millions	2nd Quarter		
	FY2017	% Change	FY2016
Sales			
As Reported	\$ 1,121	(3.4)%	\$ 1,161
Acquisitions	-	- %	
Currency	(7)	(0.6)%	
Organic Sales	\$ 1,128	(2.8)%	

	FY2017	% of Sales	FY2016	% of Sales
Segment Operating Margin				
As Reported	\$ 184	16.4 %	\$ 154	13.2 %
Business Realignment	2		20	
Adjusted	\$ 186	16.6 %	\$ 174	15.0 %

Sales & Segment Operating Margin

Diversified Industrial International

\$ in millions	2nd Quarter				
	FY2017	% Change	FY2016	FY2017	% of Sales
Sales					
As Reported	\$ 1,006	1.4 %	\$ 993		
Acquisitions	8	0.8 %			
Currency	(24)	(2.4)%			
Organic Sales	\$ 1,022	3.0 %			
Segment Operating Margin					
As Reported	\$ 128	12.7 %	\$ 95		9.6 %
Business Realignment	4		14		
Adjusted	\$ 132	13.1 %	\$ 109		11.0 %

Sales & Segment Operating Margin

Aerospace Systems

\$ in millions

	2nd Quarter			
	FY2017	% Change	FY2016	% of Sales
Sales				
As Reported	\$ 544	(1.6)%	\$ 552	
Acquisitions	-	- %		
Currency	-	- %		
Organic Sales	\$ 544	(1.6)%		
Segment Operating Margin				
As Reported	\$ 73	13.3 %	\$ 82	14.8 %
Business Realignment	1		0	
Adjusted	\$ 74	13.5 %	\$ 82	14.8 %

Order Rates

	<u>Dec 2016</u>		<u>Sep 2016</u>		<u>Dec 2015</u>		<u>Sep 2015</u>	
Total Parker	+	5 %	+	2 %	-	12 %	-	11 %
Diversified Industrial North America	+	0 %	-	4 %	-	15 %	-	12 %
Diversified Industrial International	+	10 %	+	3 %	-	10 %	-	8 %
Aerospace Systems	+	9 %	+	14 %	-	11 %	-	16 %

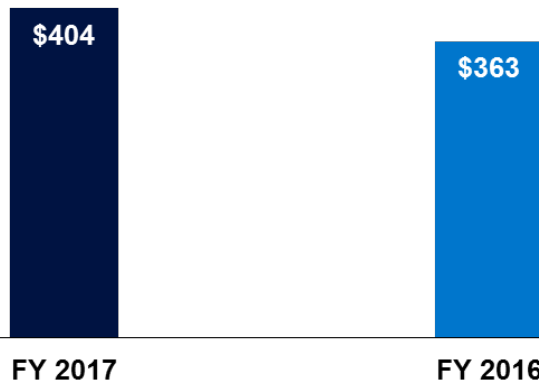
Excludes Acquisitions, Divestitures & Currency
3-month year-over-year comparisons of total dollars, except Aerospace Systems
Aerospace Systems is calculated using a 12-month rolling average

Cash Flow from Operating Activities¹

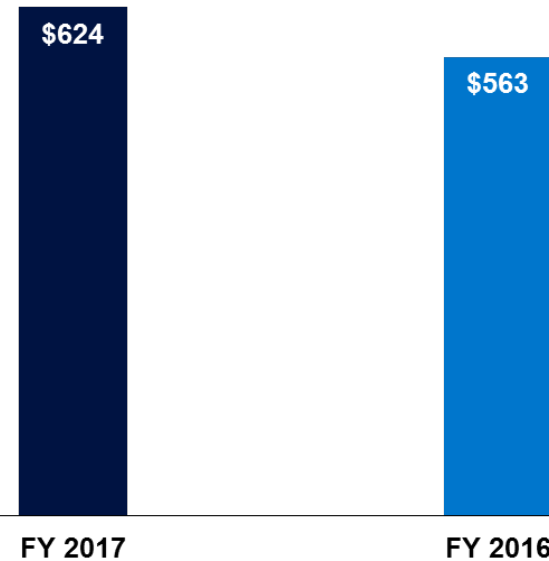
FY2017 YTD

¹Dollars in millions

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

<u>FY 2017</u>	<u>% of Sales</u>	<u>FY 2016</u>	<u>% of Sales</u>
\$ 404	7.5%	\$ 363	6.5%
\$ 220		\$ 200	
<u>\$ 624</u>	<u>11.5%</u>	<u>\$ 563</u>	<u>10.1%</u>

FY2017 Guidance

EPS Midpoint: \$6.96 As Reported, \$7.30 Adjusted

Sales Growth vs. Prior Year	
Diversified Industrial North America	(5.0%) - (1.0%)
Diversified Industrial International	(1.0)% - 3.0%
Aerospace Systems	1.0% - 3.0%
Total Parker	(2.3%) - 1.3%

Segment Operating Margins	As Reported	Adjusted
Diversified Industrial North America	17.2% - 17.6%	17.5% - 17.9%
Diversified Industrial International	12.8% - 13.2%	13.6% - 14.0%
Aerospace Systems	14.9% - 15.1%	15.0% - 15.2%
Total Parker	15.1% - 15.5%	15.5% - 15.9%

Below the Line Items		
Corporate General & Administrative Expense, Interest and Other	\$425 M	\$409 M

Tax Rate	
Full Year	27.5%

Shares	
Diluted Shares Outstanding	135.7M

Earnings Per Share	As Reported	Adjusted
Range	\$6.71 - \$7.21	\$7.05 - \$7.55

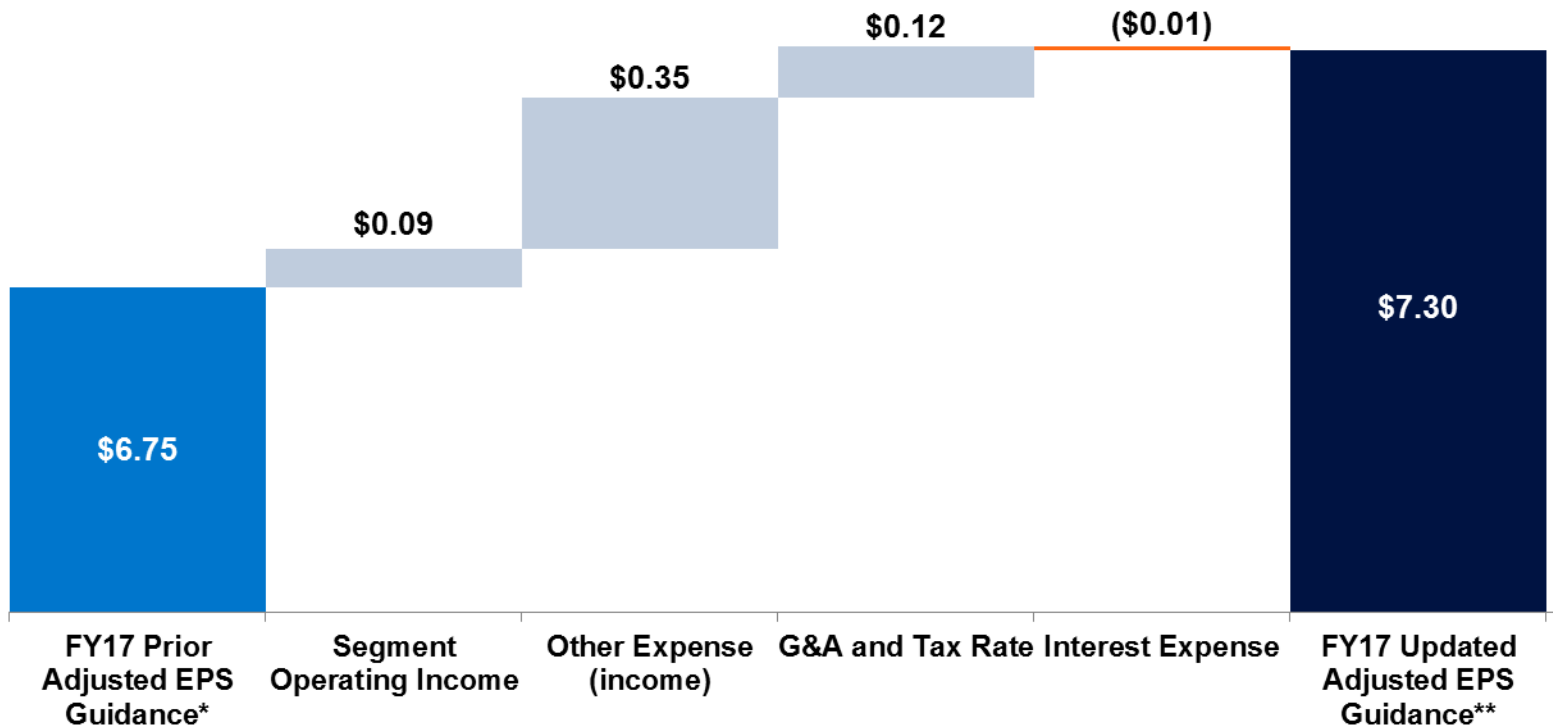
Expected FY17 Adjusted Segment Operating Margins exclude FY17 Business Realignment Charges

Expected FY17 Adjusted Below the Line Items and Adjusted Earnings Per Share exclude FY17 Q2 CLARCOR

Acquisition Expenses and Business Realignment Charges

FY2017 Guidance

Reconciliation to Prior Guidance



*Adjusted for Business Realignment Charges

**Adjusted for Business Realignment Charges and CLARCOR Acquisition Expenses



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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 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 December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Net sales	\$ 2,670,804	\$ 2,705,590	\$ 5,413,935	\$ 5,574,938
Cost of sales	2,044,484	2,140,624	4,150,490	4,341,528
Gross profit	626,320	564,966	1,263,445	1,233,410
Selling, general and administrative expenses	336,578	314,666	659,547	684,880
Interest expense	33,444	34,297	67,592	70,057
Other (income), net	(64,424)	(13,877)	(76,661)	(27,056)
Income before income taxes	320,722	229,880	612,967	505,529
Income taxes	79,322	46,743	161,329	127,366
Net income	241,400	183,137	451,638	378,163
Less: Noncontrolling interests	95	155	204	203
Net income attributable to common shareholders	\$ 241,305	\$ 182,982	\$ 451,434	\$ 377,960
Earnings per share attributable to common shareholders:				
Basic earnings per share	\$ 1.81	\$ 1.35	\$ 3.38	\$ 2.78
Diluted earnings per share	\$ 1.78	\$ 1.33	\$ 3.33	\$ 2.74
Average shares outstanding during period - Basic	133,320,109	135,373,356	133,499,744	136,108,930
Average shares outstanding during period - Diluted	135,812,760	137,065,447	135,596,707	137,788,219
Cash dividends per common share	\$.63	\$.63	\$ 1.26	\$ 1.26

Reconciliation of EPS

(Unaudited)

(Amounts in Dollars)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2016	2015	2016	2015
Earnings per diluted share	\$ 1.78	\$ 1.33	\$ 3.33	\$ 2.74
Adjustments:				
Business realignment charges	0.04	0.19	0.10	0.30
Acquisition expenses	0.09	-	0.09	-
Adjusted earnings per diluted share	\$ 1.91	\$ 1.52	\$ 3.52	\$ 3.04

Business Segment Information

(Unaudited)	Three Months Ended December 31,		Six Months Ended December 31,	
(Dollars in thousands)	2016	2015	2016	2015
Net sales				
Diversified Industrial:				
North America	\$ 1,121,053	\$ 1,160,774	\$ 2,288,024	\$ 2,447,104
International	1,005,968	992,464	2,020,891	2,030,911
Aerospace Systems	543,783	552,352	1,105,020	1,096,923
Total	\$ 2,670,804	\$ 2,705,590	\$ 5,413,935	\$ 5,574,938
Segment operating income				
Diversified Industrial:				
North America	\$ 184,013	\$ 153,581	\$ 384,624	\$ 366,329
International	127,517	95,367	264,713	224,662
Aerospace Systems	72,516	81,764	145,797	155,767
Total segment operating income	384,046	330,712	795,134	746,758
Corporate general and administrative expenses	43,926	31,210	74,960	84,261
Income before interest and other expense	340,120	299,502	720,174	662,497
Interest expense	33,444	34,297	67,592	70,057
Other (income) expense	(14,046)	35,325	39,615	86,911
Income before income taxes	\$ 320,722	\$ 229,880	\$ 612,967	\$ 505,529

Reconciliation of Total Segment Operating Margin to Adjusted Total Segment Operating Margin

(Unaudited)
(Dollars in thousands)

	Three Months Ended December 31, 2016	<u>Operating margin</u>	Three Months Ended December 31, 2015	<u>Operating margin</u>
Total segment operating income	\$ 384,046	14.4%	\$ 330,712	12.2%
Adjustments:				
Business realignment charges	7,897		34,800	
Adjusted total segment operating income	\$ 391,943	14.7%	\$ 365,512	13.5%

Consolidated Balance Sheet

(Unaudited)	December 31,		June 30,	December 31,
(Dollars in thousands)	2016		2016	2015
Assets				
Current assets:				
Cash and cash equivalents	\$ 1,520,736	\$	1,221,653	\$ 1,047,494
Marketable securities and other investments	684,299		882,342	820,682
Trade accounts receivable, net	1,411,074		1,593,920	1,419,934
Non-trade and notes receivable	256,545		232,183	293,913
Inventories	1,241,593		1,173,329	1,279,760
Prepaid expenses	133,592		104,360	141,030
Total current assets	5,247,839		5,207,787	5,002,813
Plant and equipment, net	1,506,201		1,568,100	1,598,185
Deferred income taxes	482,136		605,155	383,805
Goodwill	2,813,238		2,903,037	2,913,065
Intangible assets, net	849,692		922,571	975,515
Other assets	832,507		827,492	840,920
Total assets	\$ 11,731,613	\$	12,034,142	\$ 11,714,303
Liabilities and equity				
Current liabilities:				
Notes payable	\$ 581,487	\$	361,787	\$ 574,302
Accounts payable	997,189		1,034,589	948,157
Accrued liabilities	720,844		841,915	736,145
Accrued domestic and foreign taxes	125,954		127,597	105,130
Total current liabilities	2,425,474		2,365,888	2,363,734
Long-term debt	2,653,560		2,652,457	2,701,121
Pensions and other postretirement benefits	1,766,209		2,076,143	1,475,351
Deferred income taxes	50,809		54,395	64,721
Other liabilities	304,583		306,581	306,655
Shareholders' equity	4,527,709		4,575,255	4,799,406
Noncontrolling interests	3,269		3,423	3,315
Total liabilities and equity	\$ 11,731,613	\$	12,034,142	\$ 11,714,303

Consolidated Statement of Cash Flows

(Unaudited) (Dollars in thousands)	Six Months Ended December 31,	
	2016	2015
Cash flows from operating activities:		
Net income	\$ 451,638	\$ 378,163
Depreciation and amortization	149,085	156,093
Stock incentive plan compensation	47,161	39,026
(Gain) on sale of business	(44,930)	-
Loss (gain) on disposal of assets	310	(336)
(Gain) on sale of marketable securities	(230)	(158)
Net change in receivables, inventories, and trade payables	44,802	41,866
Net change in other assets and liabilities	(313,783)	(239,277)
Other, net	70,123	(12,730)
Net cash provided by operating activities	404,176	362,647
Cash flows from investing activities:		
Acquisitions (net of cash of \$1,760 in 2016 and \$3,814 in 2015)	(29,927)	(67,552)
Capital expenditures	(71,356)	(75,419)
Proceeds from sale of plant and equipment	4,991	8,506
Proceeds from sale of business	85,610	-
Purchases of marketable securities and other investments	(393,909)	(575,183)
Maturities and sales of marketable securities and other investments	506,642	527,819
Other, net	241	(41,450)
Net cash provided by (used in) investing activities	102,292	(223,279)
Cash flows from financing activities:		
Net payments for common stock activity	(194,110)	(410,049)
Net proceeds from debt	222,425	356,591
Dividends	(168,990)	(171,707)
Net cash (used in) financing activities	(140,675)	(225,165)
Effect of exchange rate changes on cash	(66,710)	(47,293)
Net increase (decrease) in cash and cash equivalents	299,083	(133,090)
Cash and cash equivalents at beginning of period	1,221,653	1,180,584
Cash and cash equivalents at end of period	\$ 1,520,736	\$ 1,047,494

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

(Unaudited)

(Dollars in thousands)

	Six Months Ended December 31, 2016	<u>Percent of sales</u>	Six Months Ended December 31, 2015	<u>Percent of sales</u>
As reported cash flow from operations	\$ 404,176	7.5%	\$ 362,647	6.5%
Discretionary pension contribution	220,000		200,000	
Adjusted cash flow from operations	\$ 624,176	11.5%	\$ 562,647	10.1%

Reconciliation of Forecasted Segment Operating Margins and EPS

(Unaudited)

	Fiscal Year 2017
Forecasted As Reported Diversified Industrial North America Operating Margin	17.2% - 17.6%
Forecasted Segment Business Realignment Charges as % Net Sales	0.3%
Forecasted Adjusted Diversified Industrial North America Operating Margin	17.5% - 17.9%
Forecasted As Reported Diversified Industrial International Operating Margin	12.8% - 13.2%
Forecasted Segment Business Realignment Charges as % Net Sales	0.8%
Forecasted Adjusted Diversified Industrial International Operating Margin	13.6% - 14.0%
Forecasted As Reported Aerospace Systems Operating Margin	14.9% - 15.1%
Forecasted Segment Business Realignment Charges as % Net Sales	0.1%
Forecasted Adjusted Aerospace Systems Operating Margin	15.0% - 15.2%
Forecasted As Reported Total Parker Operating Margin	15.1% - 15.5%
Forecasted Segment Business Realignment Charges as % Net Sales	0.4%
Forecasted Adjusted Total Parker Operating Margin	15.5% - 15.9%

(Unaudited)

(Amounts in dollars)

	Fiscal Year
	2017
Forecasted earnings per diluted share	\$6.71 to \$7.21
Adjustments:	
Business realignment charges	.25
Acquisition expenses	.09
Adjusted forecasted earnings per diluted share	\$7.05 to \$7.55

Supplemental Sales Information

Global Technology Platforms

(Unaudited)
(Dollars in thousands)

	Three Months Ending				Fiscal Year-to-Date			
	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017
Net sales								
Diversified Industrial:								
Motion Systems	\$ 741,650	\$ 754,772		\$ -	\$ 741,650	\$ 1,496,422		
Flow and Process Control	824,314	783,864		-	824,314	1,608,178		
Filtration and Engineered Materials	615,930	588,385		-	615,930	1,204,315		
Aerospace Systems	561,237	543,783		-	561,237	1,105,020		
Total	\$ 2,743,131	\$ 2,670,804	\$ -	\$ -	\$ 2,743,131	\$ 5,413,935	\$ -	\$ -