

Parker Hannifin Corporation

3rd Quarter Fiscal Year 2017 Earnings Release



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April 27, 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.

Among other factors which may affect future performance and earnings projections are: economic conditions within the company's key 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 of the Company are, as applicable: 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, including the integration of CLARCOR; 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 and CLARCOR acquisition expenses (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 and CLARCOR acquisition expenses.

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Agenda

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

Chairman and CEO Comments

3rd Quarter FY2017 Results

- Recordable Accident Reduction of 28% in the Third Quarter
- Third Quarter Sales Increased 10% to \$3.12B, Organic Sales +6%, Orders +8%
- Earnings per Share Increased 28% to \$1.75; or +40% to \$2.11 Adjusted
- Segment Operating Margins of 14.8%; 16.1% Adjusted, up 140 bps

Cash Flow and Capital Allocation 3rd Quarter FY2017

- Year-to-date Adjusted Cash Flow from Operations 11.8% of Sales
- CLARCOR and Helac Transactions Completed
- Extended Record of Increasing Annual Dividends Paid to 61 Consecutive years
- \$50M Share Repurchase

Full Year FY2017 Guidance Increased

- Sales Guidance Increased to \$12.0B
- FY17 EPS Guidance Midpoint of \$7.05 As Reported; \$7.85 Adjusted
- Realignment \$0.25 per share, Acquisition-related Costs \$0.55 per share

Diluted Earnings Per Share

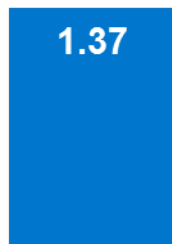
3rd Quarter FY2017

As Reported EPS

Adjusted EPS



FY17 Q3



FY16 Q3



FY17 Q3*



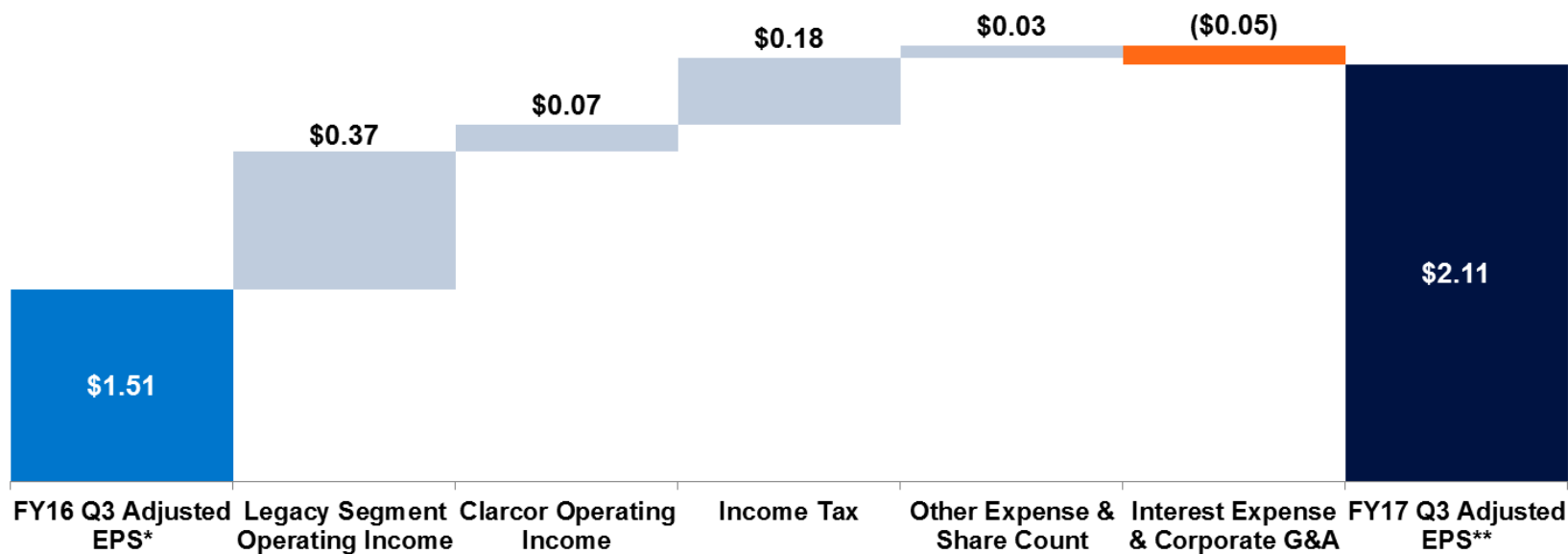
FY16 Q3**

*Adjusted for Business Realignment Charges, CLARCOR Acquisition Expenses

**Adjusted for Business Realignment Charges

Influences on Adjusted Earnings Per Share

3rd Quarter FY2017 vs. 3rd Quarter FY2016



*Adjusted for Business Realignment Charges

**Adjusted for Business Realignment Charges, CLARCOR Acquisition Expenses

Sales & Segment Operating Margin

Total Parker

\$ in millions	3rd Quarter			
	FY2017	% Change	FY2016	
<u>Sales</u>				
As Reported	\$ 3,119	10.3 %	\$ 2,829	
Acquisitions*	159	5.6 %		
Currency	(29)	(1.0)%		
Organic Sales	<u>\$ 2,989</u>	<u>5.7 %</u>		
	<u>FY2017</u>	<u>% of Sales</u>	<u>FY2016</u>	<u>% of Sales</u>
<u>Segment Operating Margin</u>				
As Reported	\$ 460	14.8 %	\$ 392	13.8 %
Business Realignment & CLARCOR Acquisition Expense	43		25	
Adjusted	<u>\$ 503</u>	<u>16.1 %</u>	<u>\$ 417</u>	<u>14.7 %</u>

Sales & Segment Operating Margin

Diversified Industrial North America

\$ in millions	3rd Quarter			
	FY2017	% Change	FY2016	
<u>Sales</u>				
As Reported	\$ 1,413	13.3 %	\$ 1,248	
Acquisitions*	121	9.7 %		
Currency	(3)	(0.2)%		
Organic Sales	\$ 1,295	3.8 %		
	<u>FY2017</u>	<u>% of Sales</u>	<u>FY2016</u>	<u>% of Sales</u>
<u>Segment Operating Margin</u>				
As Reported	\$ 228	16.1 %	\$ 202	16.2 %
Business Realignment & CLARCOR Acquisition Expense	30		9	
Adjusted	\$ 258	18.2 %	\$ 211	16.9 %

Sales & Segment Operating Margin

Diversified Industrial International

\$ in millions

	3rd Quarter			
	FY2017	% Change	FY2016	
<u>Sales</u>				
As Reported	\$ 1,129	10.7 %	\$ 1,020	
Acquisitions*	38	3.7 %		
Currency	(25)	(2.5)%		
Organic Sales	\$ 1,116	9.5 %		
	FY2017	% of Sales	FY2016	% of Sales
<u>Segment Operating Margin</u>				
As Reported	\$ 153	13.6 %	\$ 105	10.3 %
Business Realignment & CLARCOR Acquisition Expense	11		16	
Adjusted	\$ 164	14.5 %	\$ 121	11.9 %

Sales & Segment Operating Margin

Aerospace Systems

\$ in millions	3rd Quarter				
	FY2017	% Change	FY2016	FY2017	% of Sales
Sales					
As Reported	\$ 577	2.8 %	\$ 561		
Acquisitions	-	- %			
Currency	(1)	(0.1)%			
Organic Sales	\$ 578	2.9 %			
Segment Operating Margin					
As Reported	\$ 80	13.9 %	\$ 84	15.0 %	
Business Realignment	2		1		
Adjusted	\$ 82	14.2 %	\$ 85	15.1 %	

Order Rates

	<u>Mar 2017</u>		<u>Dec 2016</u>		<u>Mar 2016</u>		<u>Dec 2015</u>	
Total Parker	+	8 %	+	5 %	-	6 %	-	12 %
Diversified Industrial North America	+	9 %		0%	-	9 %	-	15 %
Diversified Industrial International	+	13 %	+	10 %	-	6 %	-	10 %
Aerospace Systems		0%	+	9 %	+	1 %	-	11 %

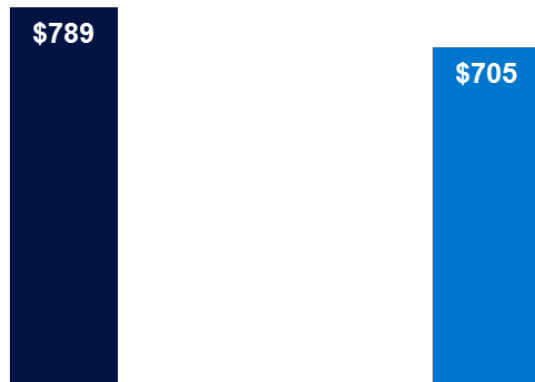
Excludes Acquisitions, Divestitures & Currency
3-month year-over-year comparisons of total dollars, except Aerospace Systems
Aerospace Systems is calculated using a 12-month rolling average

Cash Flow from Operating Activities

FY2017 YTD

Dollars in millions

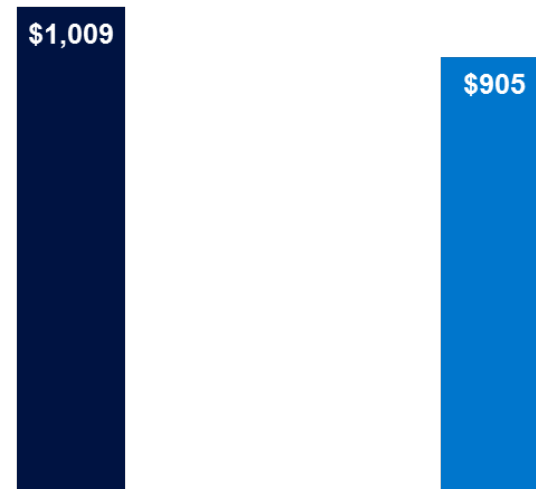
As Reported Cash Flow



FY 2017

FY 2016

Adjusted Cash Flow*



FY 2017

FY 2016

*Adjusted for Discretionary Pension Plan Contribution

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

FY 2017	% of Sales	FY 2016	% of Sales
\$ 789	9.2%	\$ 705	8.4%
220		200	
<u>\$ 1,009</u>	<u>11.8%</u>	<u>\$ 905</u>	<u>10.8%</u>

FY2017 Guidance – Total Parker (incl Clarcor)

EPS Midpoint: \$7.05 As Reported, \$7.85 Adjusted

Sales Growth vs. Prior Year	
Diversified Industrial North America	7.1% - 9.1%
Diversified Industrial International	5.0% - 7.0%
Aerospace Systems	0.1% - 2.1%
Total Parker	4.9% - 6.9%

Segment Operating Margins	As Reported	Adjusted
Diversified Industrial North America	16.1% - 16.3%	17.5% - 17.7%
Diversified Industrial International	13.2% - 13.4%	13.9% - 14.1%
Aerospace Systems	14.4% - 14.6%	14.5% - 14.7%
Total Parker	14.7% - 14.9%	15.6% - 15.8%

Below the Line Items		
Corporate General & Administrative Expense, Interest and Other	\$470 M	\$425 M

Tax Rate	
Full Year	27.0%

Shares	
Diluted Shares Outstanding	136.0M

Earnings Per Share	As Reported	Adjusted
Range	\$6.90 - \$7.20	\$7.70 - \$8.00

Expected FY17 Adjusted Segment Operating Margins, Adjusted Below the Line Items and Adjusted Earnings Per Share exclude CLARCOR Acquisition Expenses of \$103M and Business Realignment Charges of \$48M

CLARCOR Impact on Financial Results

CLARCOR Impact – FY2017

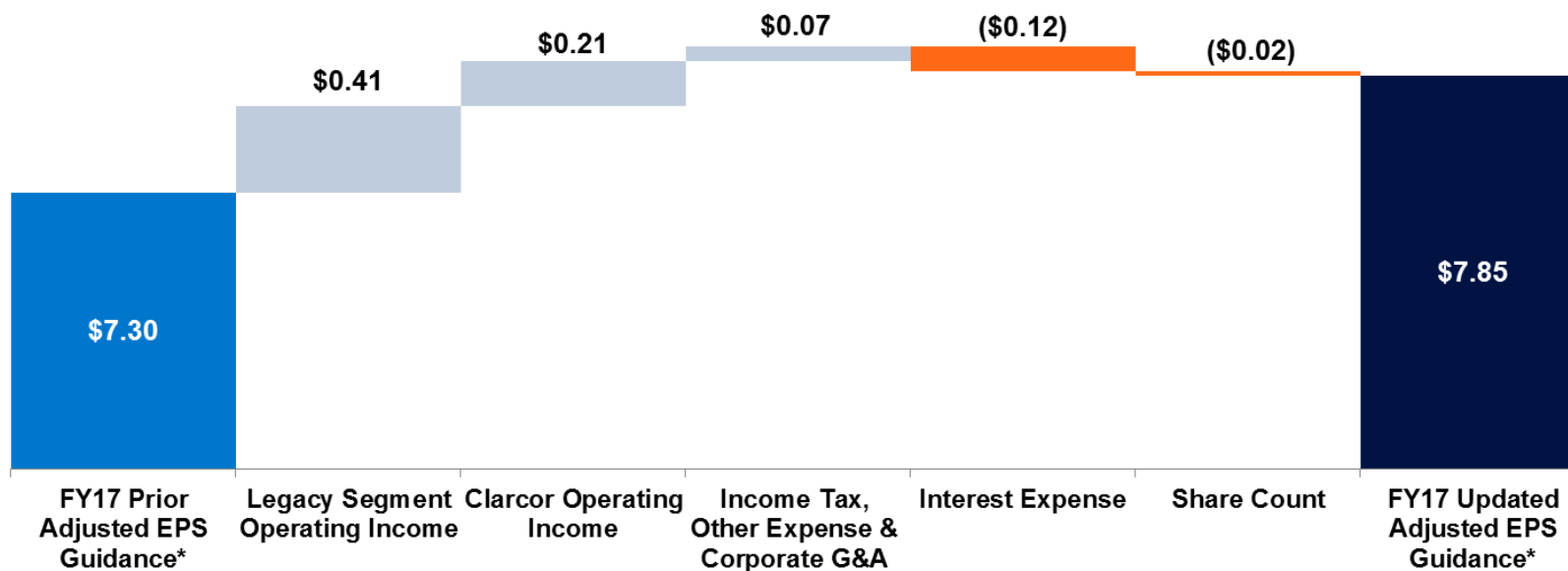
	Q2 Actual	Q3 Actual	Q4 Guide	FY17 Guide
Sales (\$M)	\$0	\$136	\$369	\$505
Acquisition-Related Expenses (\$M)	\$16	\$51	\$36	\$103
EPS* - As Reported (\$'s)	(\$.09)	(\$.24)	(\$.14)	(\$.47)
EPS* - Adjusted for Acquisition-Related Expenses (\$'s)	\$.00	\$.04	\$.04	\$.08

*Includes:

- Amortization estimated at \$130M/year (to be finalized in FY18 guidance)
- Depreciation estimated at \$13M/year (to be finalized in FY18 guidance)
- Incremental Interest costs of \$73M/year

FY2017 Guidance

Reconciliation to Prior Guidance



*Adjusted for Business Realignment Charges and CLARCOR Acquisition Expenses



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Appendix

- Consolidated Statement of Income
- Reconciliation of EPS
- Business Segment Information
- Reconciliation of Total Segment Operating Margin to Adjusted Total Segment Operating Margin
- Consolidated Balance Sheet
- Consolidated Statement of Cash Flows
- Reconciliation of Cash Flow from Operations to Adjusted Cash Flow from Operations
- Reconciliation of EPS
- Supplemental Sales Information – Global Technology Platforms



Consolidated Statement of Income

(Unaudited) (Dollars in thousands except per share amounts)	Three Months Ended March 31,		Nine Months Ended March 31,	
	2017	2016	2017	2016
Net sales	\$ 3,119,139	\$ 2,828,665	\$ 8,533,074	\$ 8,403,603
Cost of sales	2,383,790	2,209,401	6,534,280	6,550,929
Gross profit	735,349	619,264	1,998,794	1,852,674
Selling, general and administrative expenses	392,036	335,908	1,051,583	1,020,788
Interest expense	42,057	33,745	109,649	103,802
Other (income), net	(13,807)	(23,382)	(90,468)	(50,438)
Income before income taxes	315,063	272,993	928,030	778,522
Income taxes	76,216	85,851	237,545	213,217
Net income	238,847	187,142	690,485	565,305
Less: Noncontrolling interests	174	58	378	261
Net income attributable to common shareholders	\$ 238,673	\$ 187,084	\$ 690,107	\$ 565,044
Earnings per share attributable to common shareholders:				
Basic earnings per share	\$ 1.79	\$ 1.39	\$ 5.17	\$ 4.16
Diluted earnings per share	\$ 1.75	\$ 1.37	\$ 5.09	\$ 4.12
Average shares outstanding during period - Basic	133,232,378	134,809,610	133,410,622	135,675,823
Average shares outstanding during period - Diluted	136,102,974	136,552,769	135,527,195	137,311,848
Cash dividends per common share	\$.66	\$.63	\$ 1.92	\$ 1.89

Reconciliation of EPS

(Unaudited) (Amounts in Dollars)	Three Months Ended March 31,			Nine Months Ended March 31,		
		2017	2016	2017	2016	
Earnings per diluted share	\$	1.75	\$ 1.37	\$	5.09	\$ 4.12
Adjustments:						
Business realignment charges		0.09	0.14		0.19	0.44
Acquisition-related expenses		0.27	-		0.36	-
Adjusted earnings per diluted share	\$	2.11	\$ 1.51	\$	5.64	\$ 4.56

Business Segment Information

(Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollars in thousands)	2017	2016	2017	2016
Net sales				
Diversified Industrial:				
North America	\$ 1,413,302	\$ 1,247,904	\$ 3,701,326	\$ 3,695,008
International	1,128,886	1,019,776	3,149,777	3,050,687
Aerospace Systems	576,951	560,985	1,681,971	1,657,908
Total	\$ 3,119,139	\$ 2,828,665	\$ 8,533,074	\$ 8,403,603
Segment operating income				
Diversified Industrial:				
North America	\$ 227,419	\$ 202,180	\$ 612,043	\$ 568,509
International	152,995	105,161	417,708	329,823
Aerospace Systems	79,967	84,238	225,764	240,005
Total segment operating income	460,381	391,579	1,255,515	1,138,337
Corporate general and administrative expenses	45,747	42,322	120,707	126,583
Income before interest and other expense	414,634	349,257	1,134,808	1,011,754
Interest expense	42,057	33,745	109,649	103,802
Other expense	57,514	42,519	97,129	129,430
Income before income taxes	\$ 315,063	\$ 272,993	\$ 928,030	\$ 778,522

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

(Unaudited)

(Dollars in thousands)

	<u>Three Months Ended March 31, 2017</u>	<u>Operating margin</u>	<u>Three Months Ended March 31, 2016</u>	<u>Operating margin</u>
Total segment operating income	\$ 460,381	14.8%	\$ 391,579	13.8%
Adjustments:				
Business realignment charges	16,318		25,030	
Acquisition-related expenses	26,226		-	
Adjusted total segment operating income	\$ 502,925	16.1%	\$ 416,609	14.7%

Consolidated Balance Sheet

(Unaudited)	March 31,	June 30,	March 31,
(Dollars in thousands)	2017	2016	2016
Assets			
Current assets:			
Cash and cash equivalents	\$ 819,563	\$ 1,221,653	\$ 1,034,971
Marketable securities and other investments	36,758	882,342	1,069,658
Trade accounts receivable, net	1,869,303	1,593,920	1,587,785
Non-trade and notes receivable	235,924	232,183	245,248
Inventories	1,538,644	1,173,329	1,248,213
Prepaid expenses	118,962	104,360	124,025
Total current assets	4,619,154	5,207,787	5,309,900
Plant and equipment, net	1,945,739	1,568,100	1,598,758
Deferred income taxes	65,152	605,155	379,541
Goodwill	5,508,712	2,903,037	2,948,284
Intangible assets, net	2,338,364	922,571	961,206
Other assets	848,212	827,492	831,880
Total assets	\$ 15,325,333	\$ 12,034,142	\$ 12,029,569
Liabilities and equity			
Current liabilities:			
Notes payable	\$ 776,159	\$ 361,787	\$ 576,548
Accounts payable	1,209,351	1,034,589	999,159
Accrued liabilities	904,297	841,915	801,716
Accrued domestic and foreign taxes	158,634	127,597	118,802
Total current liabilities	3,048,441	2,365,888	2,496,225
Long-term debt	5,255,156	2,652,457	2,651,906
Pensions and other postretirement benefits	1,787,311	2,076,143	1,483,641
Deferred income taxes	159,666	54,395	68,108
Other liabilities	327,033	306,581	302,706
Shareholders' equity	4,742,139	4,575,255	5,023,612
Noncontrolling interests	5,587	3,423	3,371
Total liabilities and equity	\$ 15,325,333	\$ 12,034,142	\$ 12,029,569

Consolidated Statement of Cash Flows

(Unaudited) (Dollars in thousands)	Nine Months Ended March 31,	
	2017	2016
Cash flows from operating activities:		
Net income	\$ 690,485	\$ 565,305
Depreciation and amortization	236,543	231,777
Stock incentive plan compensation	60,916	53,735
(Gain) on sale of business	(42,994)	(10,668)
Loss on disposal of assets	513	76
(Gain) on sale of marketable securities	(1,032)	(535)
Net change in receivables, inventories, and trade payables	(35,469)	(19,661)
Net change in other assets and liabilities	(169,403)	(115,201)
Other, net	49,734	(262)
Net cash provided by operating activities	789,293	704,566
Cash flows from investing activities:		
Acquisitions (net of cash of \$157,426 in 2017 and \$3,814 in 2016)	(4,067,755)	(67,552)
Capital expenditures	(145,236)	(110,804)
Proceeds from sale of plant and equipment	8,452	14,112
Proceeds from sale of business	85,610	24,325
Purchases of marketable securities and other investments	(451,561)	(1,188,594)
Maturities and sales of marketable securities and other investments	1,264,721	974,417
Other, net	(2,590)	(40,364)
Net cash (used in) investing activities	(3,308,359)	(394,460)
Cash flows from financing activities:		
Net payments for common stock activity	(262,248)	(464,367)
Net proceeds from debt	2,687,761	305,555
Dividends	(257,161)	(256,890)
Net cash provided by (used in) financing activities	2,168,352	(415,702)
Effect of exchange rate changes on cash	(51,376)	(40,017)
Net (decrease) in cash and cash equivalents	(402,090)	(145,613)
Cash and cash equivalents at beginning of period	1,221,653	1,180,584
Cash and cash equivalents at end of period	\$ 819,563	\$ 1,034,971

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

(Unaudited)

(Dollars in thousands)

	<u>Nine Months Ended March 31, 2017</u>	<u>Percent of sales</u>	<u>Nine Months Ended March 31, 2016</u>	<u>Percent of sales</u>
As reported cash flow from operations	\$ 789,293	9.2%	\$ 704,566	8.4%
Discretionary pension contribution	220,000		200,000	
Adjusted cash flow from operations	\$ 1,009,293	11.8%	\$ 904,566	10.8%

Reconciliation of EPS

(Unaudited)

(Amounts in dollars)

	Fiscal Year 2017
Forecasted earnings per diluted share	\$6.90 to \$7.20
Adjustments:	
Business realignment charges	.25
Acquisition expenses	.55
Adjusted forecasted earnings per diluted share	\$7.70 to \$8.00

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	September 30, 2016	December 31, 2016	March 31, 2017
Net sales						
Diversified Industrial:						
Motion Systems	\$ 741,650	\$ 754,772	\$ 856,388	\$ 741,650	\$ 1,496,422	\$ 2,352,810
Flow and Process Control	824,314	783,864	905,667	824,314	1,608,178	2,513,845
Filtration and Engineered Materials	615,930	588,385	780,133	615,930	1,204,315	1,984,448
Aerospace Systems	561,237	543,783	576,951	561,237	1,105,020	1,681,971
Total	\$ 2,743,131	\$ 2,670,804	\$ 3,119,139	\$ 2,743,131	\$ 5,413,935	\$ 8,533,074