

# Parker Hannifin Corporation

**1<sup>st</sup> Quarter Fiscal Year 2018**

**Earnings Release**



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**ENGINEERING YOUR SUCCESS.**

**November 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.

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 organic sales, which are 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) as reported and forecast segment operating income and operating margins reported in accordance with U.S. GAAP to as reported and forecast segment operating income and operating margins without the effect of business realignment charges and CLARCOR costs to achieve, (d) Below the Line Items reported in accordance with U.S. GAAP to Below the Line Items without the effect of a loss related to the sale of an investment, and (e) as reported and forecast earnings per diluted share reported in accordance with U.S. GAAP to as reported and forecast earnings per diluted share without the effect of business realignment charges, CLARCOR costs to achieve and a loss related to the sale of an investment. This presentation also contains references to EBITDA and adjusted EBITDA. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before business realignment charges, CLARCOR costs to achieve, and a loss related to the sale of an investment. Although EBITDA and Adjusted EBITDA are not measures of performance calculated in accordance with GAAP, we believe that it is useful to an investor in evaluating the results of this quarter versus one year ago. The effects of acquisitions, currency exchange rates, discretionary pension plan contributions, business realignment charges, CLARCOR costs to achieve and a loss related to the sale of an investment 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, CLARCOR costs to achieve and a loss related to the sale of an investment.

# Agenda

- **Chairman & CEO Comments**

- **Results & Outlook**

- **Questions & Answers**

# Chairman and CEO Comments

## Summary

- Broad based increase in orders
- Growth greater than industrial production growth
- Win Strategy generating improvements in growth and margins
- Started FY18 well - Expect a record year ahead

## Great Start to Fiscal Year - Q1 FY 2018

- Safety - 24% Reduction in recordable injuries
- Sales a first quarter record up 23% - organic growth above 7%
- Order rates increased at double digits – highest since Q4 FY11
- Segment operating margins continued improvement
- EPS - first quarter record, + 36% as reported, +40% adjusted

## Going Forward

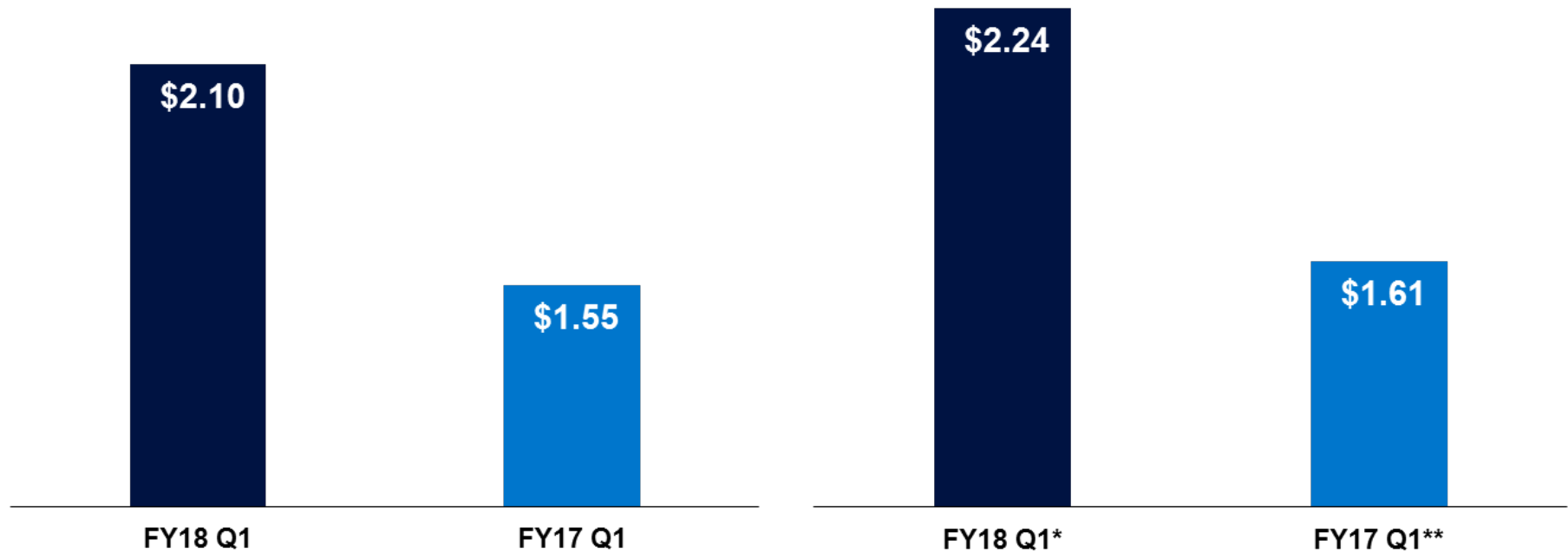
- Increased adjusted EPS Guide by 60 cents – record year in FY18
- Continue Driving Win Strategy

# Diluted Earnings Per Share

## 1<sup>st</sup> Quarter FY2018

As Reported EPS

Adjusted EPS

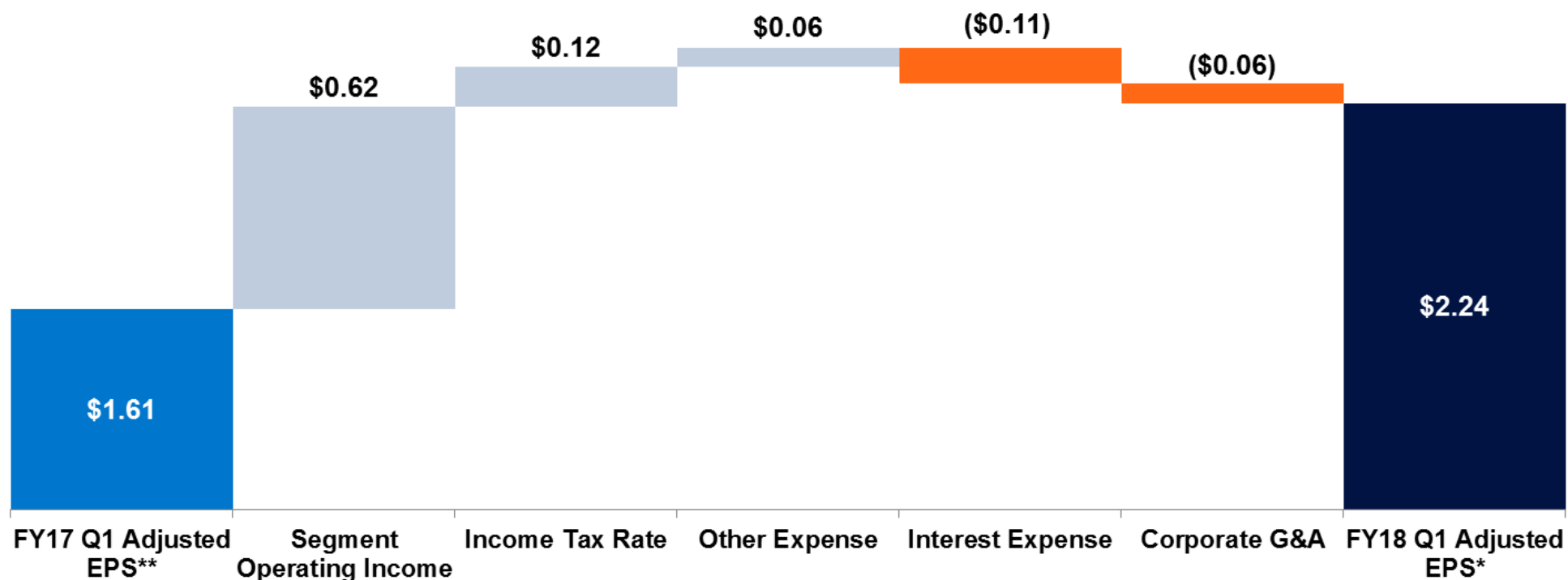


\*Adjusted for Business Realignment Charges, Clarcor Costs to Achieve, Loss Related to Sale of Investment

\*\* Adjusted for Business Realignment Charges

# Influences on Adjusted Earnings Per Share

## 1<sup>st</sup> Quarter FY2018 vs. 1<sup>st</sup> Quarter FY2017



\*Adjusted for Business Realignment Charges, Clarcor Costs to Achieve, Loss related to sale of investment

\*\* Adjusted for Business Realignment Charges

# Sales & Segment Operating Margin

## Total Parker

\$ in millions	1st Quarter				
	FY2018	% Change	FY2017	FY2018	% of Sales
<b>Sales</b>					
As Reported	\$ 3,365	22.7 %	\$ 2,743		
Acquisitions	382	13.9 %			
Currency	38	1.4 %			
Organic Sales	\$ 2,945	7.4 %			
<b>Segment Operating Margin</b>					
As Reported	\$ 525	15.6 %	\$ 411	15.0 %	
Business Realignment	8		11		
CLARCOR Costs to Achieve	6				
Adjusted	\$ 539	16.0 %	\$ 422	15.4 %	

# Sales & Segment Operating Margin

## Diversified Industrial North America

\$ in millions	1st Quarter			
	FY2018	% Change	FY2017	
Sales				
As Reported	\$ 1,595	36.7 %	\$ 1,167	
Acquisitions	308	26.4 %		
Currency	7	0.6 %		
Organic Sales	\$ 1,280	9.7 %		
	FY2018	% of Sales	FY2017	% of Sales
Segment Operating Margin				
As Reported	\$ 256	16.1 %	\$ 201	17.2 %
Business Realignment	5		4	
CLARCOR Costs to Achieve	5			
Adjusted	\$ 266	16.7 %	\$ 205	17.5 %



# Sales & Segment Operating Margin

## Diversified Industrial International

\$ in millions	1st Quarter				
	FY2018	% Change	FY2017	FY2018	% of Sales
<b>Sales</b>					
As Reported	\$ 1,239	22.0 %	\$ 1,015		
Acquisitions	74	7.3 %			
Currency	30	3.0 %			
Organic Sales	\$ 1,135	11.7 %			
<b>Segment Operating Margin</b>					
As Reported	\$ 192	15.5 %	\$ 137	13.5 %	
Business Realignment	3		7		
CLARCOR Costs to Achieve	0				
Adjusted	\$ 195	15.7 %	\$ 144	14.2 %	

# Sales & Segment Operating Margin

## Aerospace Systems

\$ in millions	1st Quarter			
	FY2018	% Change	FY2017	
<b>Sales</b>				
As Reported	\$ 531	(5.4)%	\$ 561	
Acquisitions	-	- %		
Currency	1	0.1 %		
Organic Sales	\$ 530	(5.5)%		
	FY2018	% of Sales	FY2017	% of Sales
<b>Segment Operating Margin</b>				
As Reported	\$ 77	14.6 %	\$ 73	13.1 %
Business Realignment	1			
Adjusted	\$ 78	14.7 %	\$ 73	13.1 %

# Order Rates

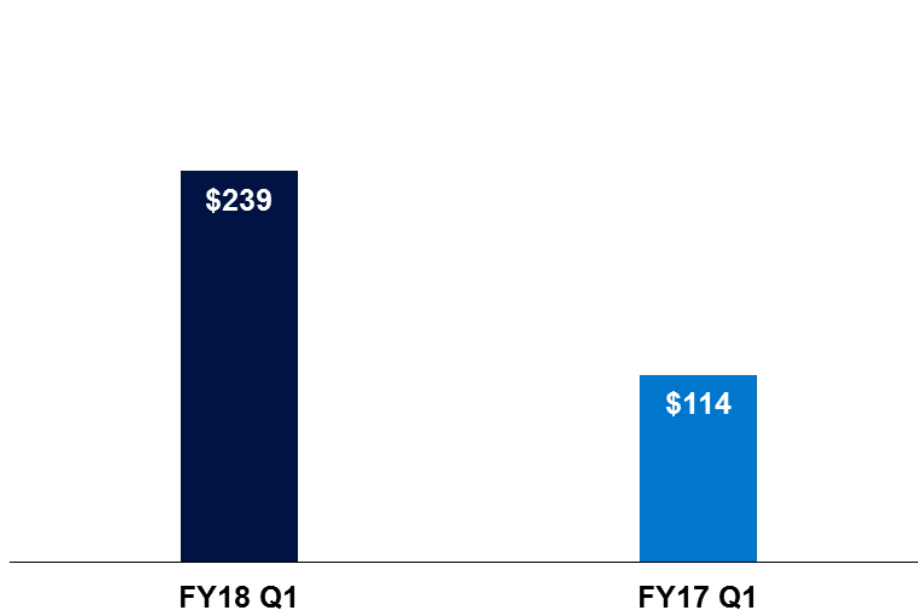
	Sep 2017	Jun 2017	Sep 2016	Jun 2016
<b>Total Parker</b>	<b>+ 11 %</b>	<b>+ 8 %</b>	<b>+ 2 %</b>	<b>- 1 %</b>
Diversified Industrial North America	+ 10 %	+ 10 %	- 4 %	- 10 %
Diversified Industrial International	+ 15 %	+ 10 %	+ 3 %	+ 3 %
Aerospace Systems	+ 4 %	+ 1 %	+ 14 %	+ 14 %

**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**

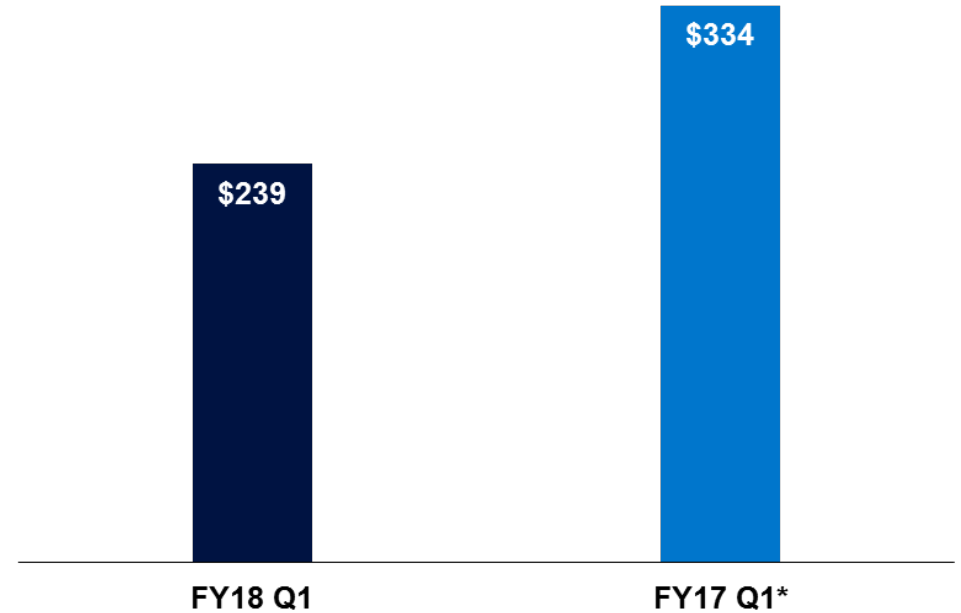
# Cash Flow from Operating Activities

## FY2018 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 2018</u>	<u>% of Sales</u>	<u>FY 2017</u>	<u>% of Sales</u>
\$ 239	7.1%	\$ 114	4.2%
\$ 239	7.1%	\$ 334	12.2%

# FY2018 Guidance

## EPS Midpoint: \$8.75 As Reported, \$9.40 Adjusted

Sales Growth vs. Prior Year	
Diversified Industrial North America	19.4% - 23.4%
Diversified Industrial International	14.9% - 18.9%
Aerospace Systems	0.3% - 2.3%
<b>Total Parker</b>	<b>14.2% - 17.8%</b>

Segment Operating Margins	As Reported	Adjusted*
Diversified Industrial North America	16.2% - 16.6%	17.0% - 17.4%
Diversified Industrial International	14.1% - 14.5%	15.2% - 15.6%
Aerospace Systems	15.4% - 15.8%	15.5% - 15.9%
<b>Total Parker</b>	<b>15.3% - 15.7%</b>	<b>16.1% - 16.5%</b>

Below the Line Items		
Corporate General & Administrative Expense, Interest and Other	<b>\$513 M</b>	<b>\$499 M</b>

Tax Rate	
Full Year	<b>28%</b>

Shares	
Diluted Shares Outstanding	<b>135.6 M</b>

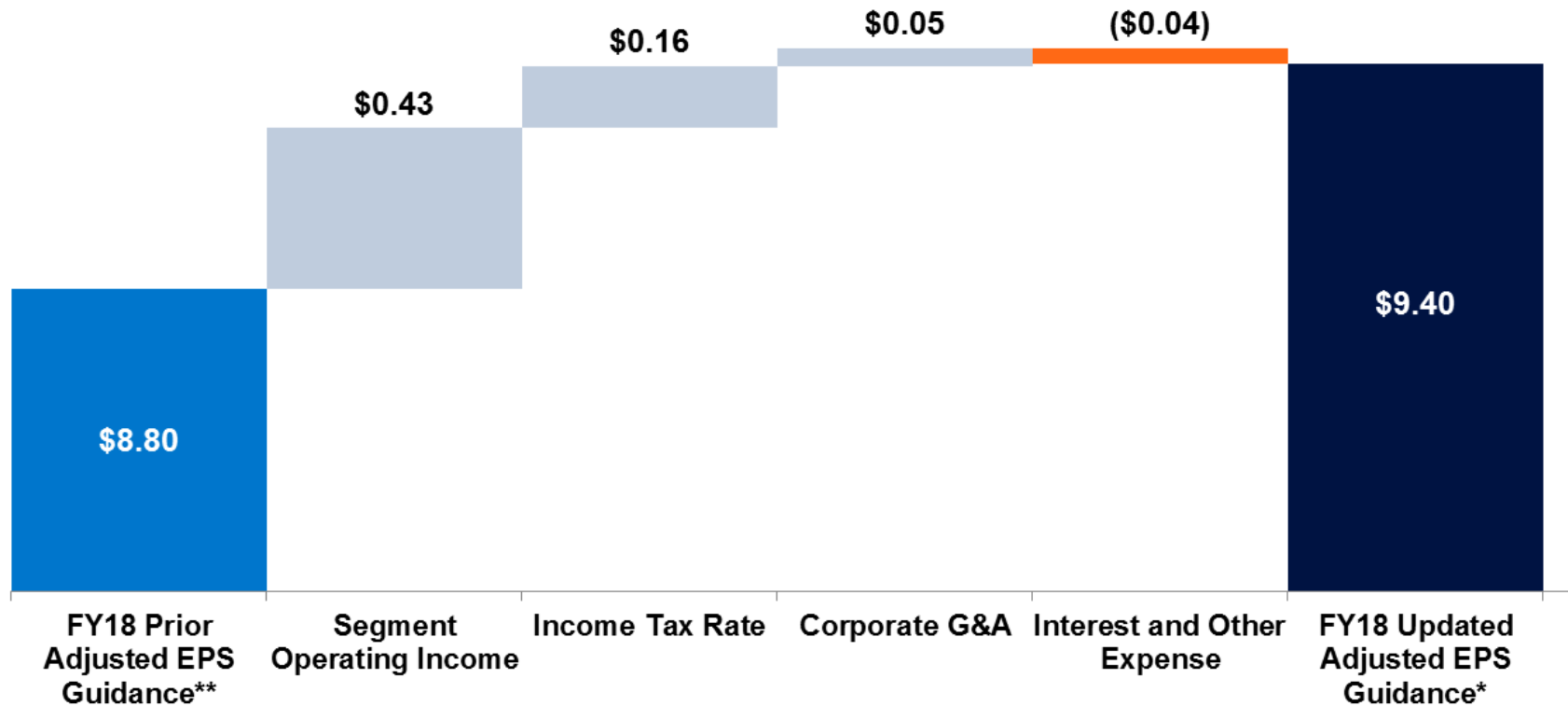
Earnings Per Share	As Reported	Adjusted**
Range	<b>\$8.45 - \$9.05</b>	<b>\$9.10 - \$9.70</b>

\*Expected FY18 Adjusted Segment Operating Margins exclude FY18 Business Realignment Charges, Clarcor Costs to Achieve

\*\*Expected FY18 Adjusted Earnings Per Share excludes FY18 Business Realignment Charges, Clarcor Costs to Achieve, Loss Related to Sale of an Investment

# FY2018 Guidance

## Reconciliation to Prior Guidance



\*Adjusted for Business Realignment Charges, Clarcor Costs to Achieve, Loss related to sale of investment

\*\*Adjusted for Business Realignment Charges, Clarcor Costs to Achieve



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# Appendix

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



# Consolidated Statement of Income

(Unaudited) (Dollars in thousands except per share amounts)	Three Months Ended September 30,	
	2017	2016
<b>Net sales</b>	<b>\$ 3,364,651</b>	<b>\$ 2,743,131</b>
Cost of sales	2,532,878	2,106,006
Selling, general and administrative expenses	401,672	322,969
Interest expense	53,555	34,148
Other expense (income), net	2,244	(12,237)
Income before income taxes	374,302	292,245
Income taxes	88,767	82,007
Net income	285,535	210,238
Less: Noncontrolling interests	138	109
<b>Net income attributable to common shareholders</b>	<b>\$ 285,397</b>	<b>\$ 210,129</b>
<b>Earnings per share attributable to common shareholders:</b>		
Basic earnings per share	\$ 2.14	\$ 1.57
Diluted earnings per share	\$ 2.10	\$ 1.55
Average shares outstanding during period - Basic	133,176,964	133,679,378
Average shares outstanding during period - Diluted	135,794,270	135,825,658
Cash dividends per common share	\$ .66	\$ .63

# Adjusted Amounts Reconciliation

## FIRST QUARTER 2018 U.S. GAAP TO ADJUSTED AMOUNTS RECONCILIATION INCOME STATEMENT

	FIRST QUARTER FY 2018				
	As Reported Sep-17	Business Realignment	Costs to Achieve	Loss Related to Sale of Investment	Adjusted Sep-17
<b>Net sales</b>	3,364,651				<b>3,364,651</b>
Cost of sales	2,532,878	5,320	3,376		<b>2,524,182</b>
Gross profit	831,773	(5,320)	(3,376)		<b>840,469</b>
Selling, general and administrative expenses	401,672	2,906	2,424		<b>396,342</b>
Interest expense	53,555				<b>53,555</b>
Other expense (income), net	2,244			13,777	<b>(11,533)</b>
Income before income taxes	374,302	(8,226)	(5,800)	(13,777)	<b>402,105</b>
Income taxes	88,767	2,443	1,723	4,092	<b>97,025</b>
Net income	285,535	(5,783)	(4,077)	(9,685)	<b>305,080</b>
Less: Noncontrolling interests	138				<b>138</b>
<b>Net income attributable to common shareholders</b>	<b>285,397</b>	<b>(5,783)</b>	<b>(4,077)</b>	<b>(9,685)</b>	<b>304,942</b>
<b>EPS attributable to common shareholders:</b>					
Diluted earnings per share	2.10	(0.04)	(0.03)	(0.07)	<b>2.24</b>

## FIRST QUARTER FY 2018 U.S. GAAP TO ADJUSTED AMOUNTS RECONCILIATION SEGMENTS

	FIRST QUARTER FY 2018				
	As Reported Sep-17	Business Realignment	Costs to Achieve	Loss Related to Sale of Investment	Adjusted Sep-17
<b>Segment Operating Income</b>					
Industrial:					
North America	256,027	4,587	5,506		<b>266,120</b>
International	191,791	2,876	294		<b>194,961</b>
Aerospace	77,434	763			<b>78,197</b>
Total segment operating income	525,252	(8,226)	(5,800)		<b>539,278</b>
Corporate administration	41,350				<b>41,350</b>
Income before interest expense and other	483,902	(8,226)	(5,800)		<b>497,928</b>
Interest expense	53,555				<b>53,555</b>
Other expense	56,045			13,777	<b>42,268</b>
Income before income taxes	374,302	(8,226)	(5,800)	(13,777)	<b>402,105</b>

# Reconciliation of EPS

(Unaudited)

(Amounts in dollars)

Three Months Ended September 30,

	2017		2016	
<b>Earnings per diluted share</b>	\$	<b>2.10</b>	\$	1.55
Adjustments:				
Loss on sale of investment		<b>0.07</b>		-
Business realignment charges		<b>0.04</b>		0.06
Clarcor costs to achieve		<b>0.03</b>		-
<b>Adjusted earnings per diluted share</b>	\$	<b>2.24</b>	\$	1.61

# Business Segment Information

(Unaudited)	Three Months Ended September 30,	
(Dollars in thousands)	2017	2016
<b>Net sales</b>		
Diversified Industrial:		
North America	\$ 1,594,691	\$ 1,166,971
International	1,238,774	1,014,923
Aerospace Systems	531,186	561,237
<b>Total</b>	<b>\$ 3,364,651</b>	<b>\$ 2,743,131</b>
<b>Segment operating income</b>		
Diversified Industrial:		
North America	\$ 256,027	\$ 200,611
International	191,791	137,196
Aerospace Systems	77,434	73,281
<b>Total segment operating income</b>	<b>525,252</b>	<b>411,088</b>
Corporate general and administrative expenses	41,350	31,034
<b>Income before interest and other expense</b>	<b>483,902</b>	<b>380,054</b>
Interest expense	53,555	34,148
Other expense	56,045	53,661
<b>Income before income taxes</b>	<b>\$ 374,302</b>	<b>\$ 292,245</b>

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

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30, 2017	<u>Operating margin</u>	Three Months Ended September 30, 2016	<u>Operating margin</u>
<b>Total segment operating income</b>	\$ 525,252	15.6%	\$ 411,088	15.0%
Adjustments:				
Business realignment charges	8,226		10,745	
Clarcor costs to achieve	5,800		-	
<b>Adjusted total segment operating income</b>	<b>\$ 539,278</b>	<b>16.0%</b>	<b>\$ 421,833</b>	<b>15.4%</b>

# Reconciliation of EBITDA to Adjusted EBITDA

(Dollars in thousands)  
(Unaudited)

	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016
<b>Net sales</b>	\$ 3,364,651	\$ 2,743,131
Earnings before income taxes	\$ 374,302	\$ 292,245
Depreciation and amortization	116,107	75,333
Interest expense	53,555	34,148
<b>EBITDA</b>	543,964	401,726
Loss on sale of investment	13,777	-
Business realignment charges	8,226	10,745
Clarcor costs to achieve	5,800	-
<b>Adjusted EBITDA</b>	\$ 571,767	\$ 412,471
Adjusted EBITDA margin	17.0%	15.0%

# Consolidated Balance Sheet

(Unaudited)	September 30,	June 30,	September 30,
(Dollars in thousands)	2017	2017	2016
<b>Assets</b>			
<b>Current assets:</b>			
Cash and cash equivalents	\$ 874,766	\$ 884,886	\$ 1,393,850
Marketable securities and other investments	99,792	39,318	746,708
Trade accounts receivable, net	1,922,288	1,930,751	1,498,384
Non-trade and notes receivable	266,421	254,987	250,520
Inventories	1,707,001	1,549,494	1,247,972
Prepaid expenses	134,350	120,282	144,444
<b>Total current assets</b>	<b>5,004,618</b>	<b>4,779,718</b>	<b>5,281,878</b>
Plant and equipment, net	1,962,846	1,937,292	1,562,933
Deferred income taxes	35,194	36,057	495,708
Goodwill	5,679,239	5,586,878	2,910,765
Intangible assets, net	2,215,297	2,307,484	901,939
Other assets	834,085	842,475	817,691
<b>Total assets</b>	<b>\$ 15,731,279</b>	<b>\$ 15,489,904</b>	<b>\$ 11,970,914</b>
<b>Liabilities and equity</b>			
<b>Current liabilities:</b>			
Notes payable	\$ 1,144,054	\$ 1,008,465	\$ 595,956
Accounts payable	1,304,260	1,300,496	1,017,905
Accrued liabilities	845,524	933,762	766,849
Accrued domestic and foreign taxes	173,286	153,137	113,528
<b>Total current liabilities</b>	<b>3,467,124</b>	<b>3,395,860</b>	<b>2,494,238</b>
Long-term debt	4,788,147	4,861,895	2,653,008
Pensions and other postretirement benefits	1,391,820	1,406,082	1,806,366
Deferred income taxes	212,334	221,790	55,079
Other liabilities	341,195	336,931	311,634
Shareholders' equity	5,524,940	5,261,649	4,647,281
Noncontrolling interests	5,719	5,697	3,308
<b>Total liabilities and equity</b>	<b>\$ 15,731,279</b>	<b>\$ 15,489,904</b>	<b>\$ 11,970,914</b>

# Consolidated Statement of Cash Flows

(Unaudited) (Dollars in thousands)	Three Months Ended September 30,	
	2017	2016
<b>Cash flows from operating activities:</b>		
Net income	\$ 285,535	\$ 210,238
Depreciation and amortization	116,107	75,333
Stock incentive plan compensation	43,211	35,818
(Gain) on disposal of assets	(256)	(681)
(Gain) on sale of marketable securities	-	(167)
Loss on sale of investment	13,777	-
Net change in receivables, inventories, and trade payables	(129,061)	59,690
Net change in other assets and liabilities	(104,163)	(361,999)
Other, net	13,814	95,700
<b>Net cash provided by operating activities</b>	<b>238,964</b>	<b>113,932</b>
<b>Cash flows from investing activities:</b>		
Acquisitions (net of cash of \$1,760 in 2016)	-	(29,927)
Capital expenditures	(79,336)	(32,526)
Proceeds from sale of plant and equipment	12,448	4,498
Purchases of marketable securities and other investments	(70,253)	(189,654)
Maturities and sales of marketable securities and other investments	12,499	291,372
Other, net	6,365	1,450
<b>Net cash (used in) provided by investing activities</b>	<b>(118,277)</b>	<b>45,213</b>
<b>Cash flows from financing activities:</b>		
Net payments for common stock activity	(76,915)	(131,738)
Net proceeds from debt	29,606	231,948
Dividends	(88,104)	(84,749)
<b>Net cash (used in) provided by financing activities</b>	<b>(135,413)</b>	<b>15,461</b>
Effect of exchange rate changes on cash	4,606	(2,409)
Net (decrease) increase in cash and cash equivalents	(10,120)	172,197
Cash and cash equivalents at beginning of period	884,886	1,221,653
<b>Cash and cash equivalents at end of period</b>	<b>\$ 874,766</b>	<b>\$ 1,393,850</b>



# Reconciliation of Forecasted EPS

(Unaudited)  
(Amounts in dollars)

	<b>Fiscal Year</b>
	<b>2018</b>
<b>Forecasted earnings per diluted share</b>	<b>\$8.45 to \$9.05</b>
Adjustments:	
Business realignment charges	.31
Clarcor costs to achieve	.27
Loss on sale of investment	.07
<b>Adjusted forecasted earnings per diluted share</b>	<b>\$9.10 to \$9.70</b>

# Supplemental Sales Information

## Global Technology Platforms

(Unaudited)  
(Dollars in thousands)

	Three Months Ending				Fiscal Year-to-Date			
	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018	September 30, 2017	December 31, 2017	March 31, 2018	June 30, 2018
<b>Net sales</b>								
Diversified Industrial:								
Motion Systems	\$ 809,747		\$ -	\$ -	\$ 809,747			
Flow and Process Control	995,347		-	-	995,347			
Filtration and Engineered Materials	1,028,371		-	-	1,028,371			
Aerospace Systems	531,186		-	-	531,186			
<b>Total</b>	\$ 3,364,651	\$ -	\$ -	\$ -	\$ 3,364,651	\$ -	\$ -	\$ -