

# Parker Hannifin Corporation

## Investor Meeting 2020



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**Robin Davenport**

Vice President Corporate Finance

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March 12, 2020

# 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 the 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. Parker cautions readers not to place undue reliance on these 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. Additionally, the actual impact of changes in tax laws in the United States and foreign jurisdictions and any judicial or regulatory interpretation thereof on future performance and earnings projections may impact the company's tax calculations. 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, including the integration of CLARCOR, LORD Corporation or Exotic Metals; 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; global competitive market conditions, including global reactions to U.S. trade policies, 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, as well as uncertainties associated with the timing and conditions surrounding the return to service of the Boeing 737 MAX and the recent outbreak of coronavirus. 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 contains references to non-GAAP financial information including adjusted operating margin, adjusted EBITDA margin, adjusted cash flow from operating activities, free cash flow, and adjusted earnings per share. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before business realignment, voluntary retirement, gain or loss on sale and write-down of assets, Integration costs to achieve, and acquisition related expenses. Free cash flow is defined as cash flow from operations less capital expenditures plus discretionary pension contribution. Although adjusted operating margin, adjusted EBITDA margin, adjusted cash flow from operating activities, free cash flow, and adjusted earnings per share are not measures of performance calculated in accordance with GAAP, we believe that they are useful to an investor in evaluating the company performance for the periods presented. Detailed reconciliations of these non-GAAP financial measures to the comparable GAAP financial measures have been included in the appendix to this presentation.

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# Today's Presenters



**Tom Williams**

Chairman and  
Chief Executive Officer



**Lee Banks**

President and  
Chief Operating Officer



**Cathy Suever**

EVP – Finance &  
Administration and  
Chief Financial Officer



**Robin Davenport**

Vice President  
Corporate Finance

# Today's Program



## **Welcome & Introductions**

Robin Davenport, Vice President Corporate Finance

## **Parker's Transformation, The Win Strategy™ 3.0 & Parker's Purpose Statement**

Tom Williams, Chairman & Chief Executive Officer

Lee Banks, President & Chief Operating Officer

## **Performance Review, Forecast & FY23 Targets**

Cathy Suever, EVP Finance & Administration and Chief Financial Officer

## **Q&A**

Tom Williams, Lee Banks, Cathy Suever

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Chairman & CEO

**Lee Banks**  
President & COO

**Cathy Suever**  
EVP Finance & Admin. & CFO

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# Agenda



- **Parker's Transformation**
- **The Win Strategy™ 3.0 & Purpose Statement**
- **Strategies to grow organically & expand margins**
- **Portfolio & capital deployment strategy**
- **Performance review, forecast & FY23 Targets**

# Key Messages



- **The Win Strategy™ 2.0 drove substantial performance improvements**
- **Strategic portfolio transformation – CLARCOR, LORD & Exotic**
- **Strength & interconnectivity of Parker's portfolio**
- **Improving financial performance over the cycle**
- **The Win Strategy™ 3.0 & Purpose Statement will accelerate performance**

**Confident in achieving FY23 Targets**

# Parker's Transformation



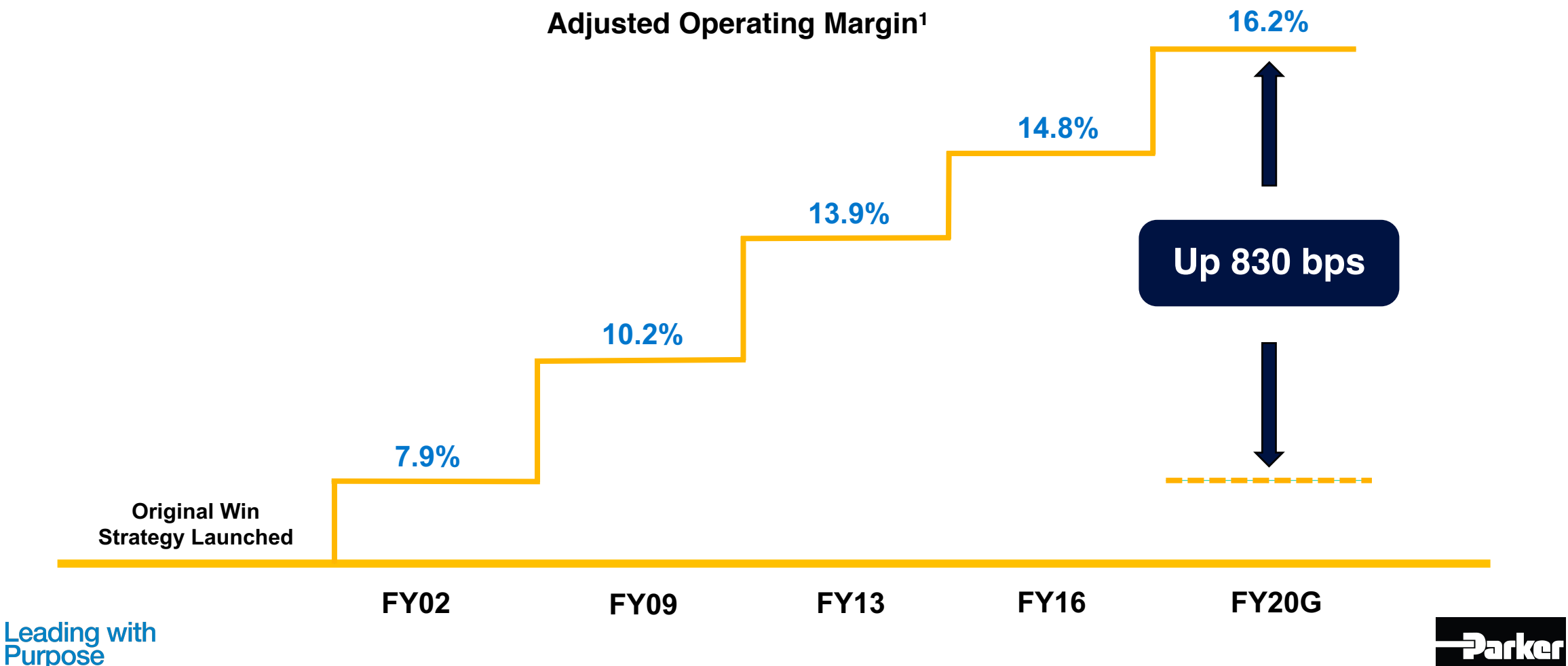
# Parker's Transformation – What's Different

- Strategic restructuring FY14-FY16 has reduced cost structure
- Simplification has streamlined organization structure:
  - 126 to 84 divisions with acquisitions
- Two major enhancements to the Parker Business System:
  - 2015 – The Win Strategy™ 2.0
  - 2019 – The Win Strategy™ 3.0
- Great cash generation with a more strategic capital deployment
- Enhanced performance resilience over business cycle

**Purpose Statement provides alignment & inspiration**

# Raising the Floor on Operating Margins

Last five manufacturing recessions

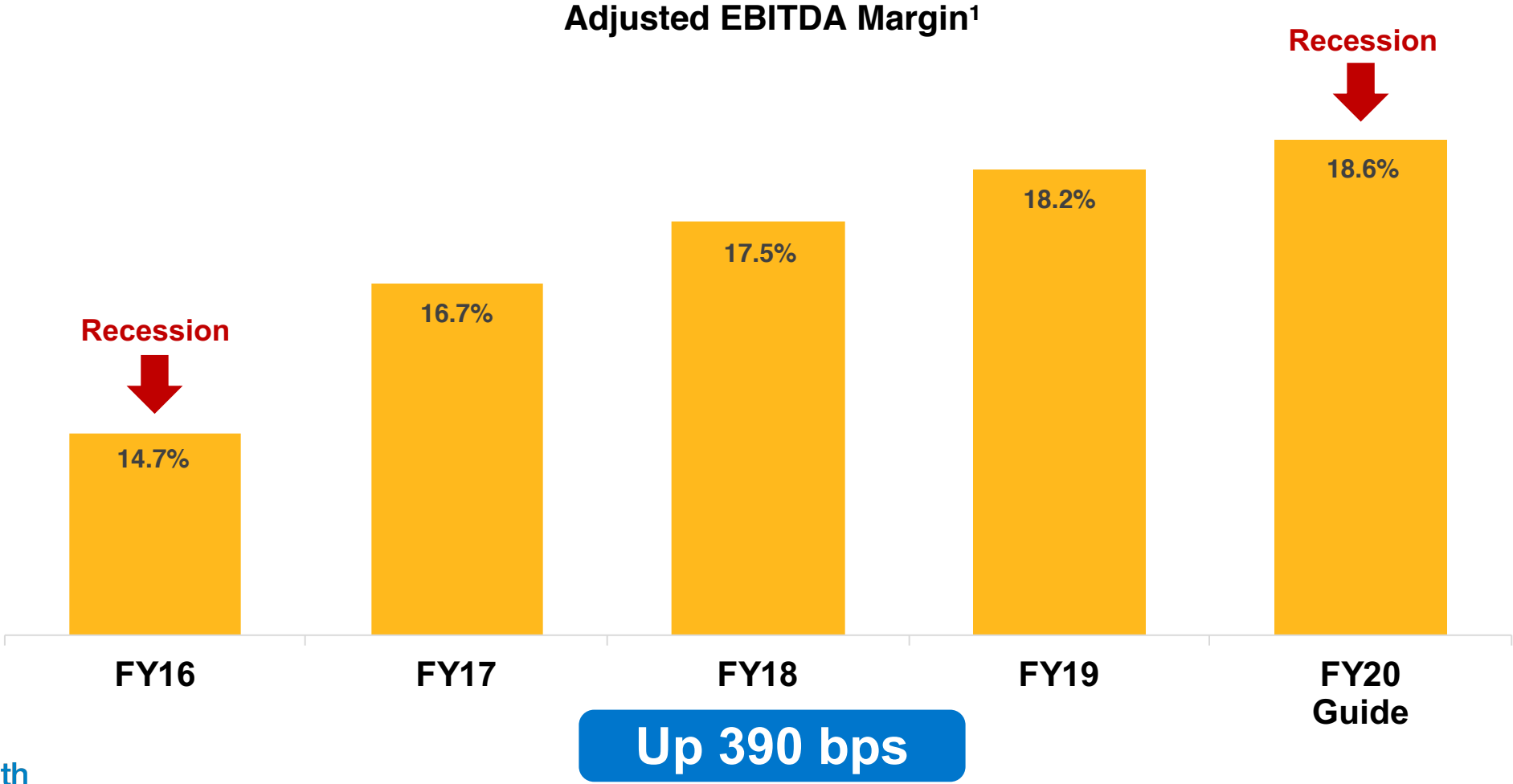


1) Adjusted numbers include certain non-GAAP financial measures. See Appendix for additional details and reconciliations.



# Financial Performance

Expanding profitability



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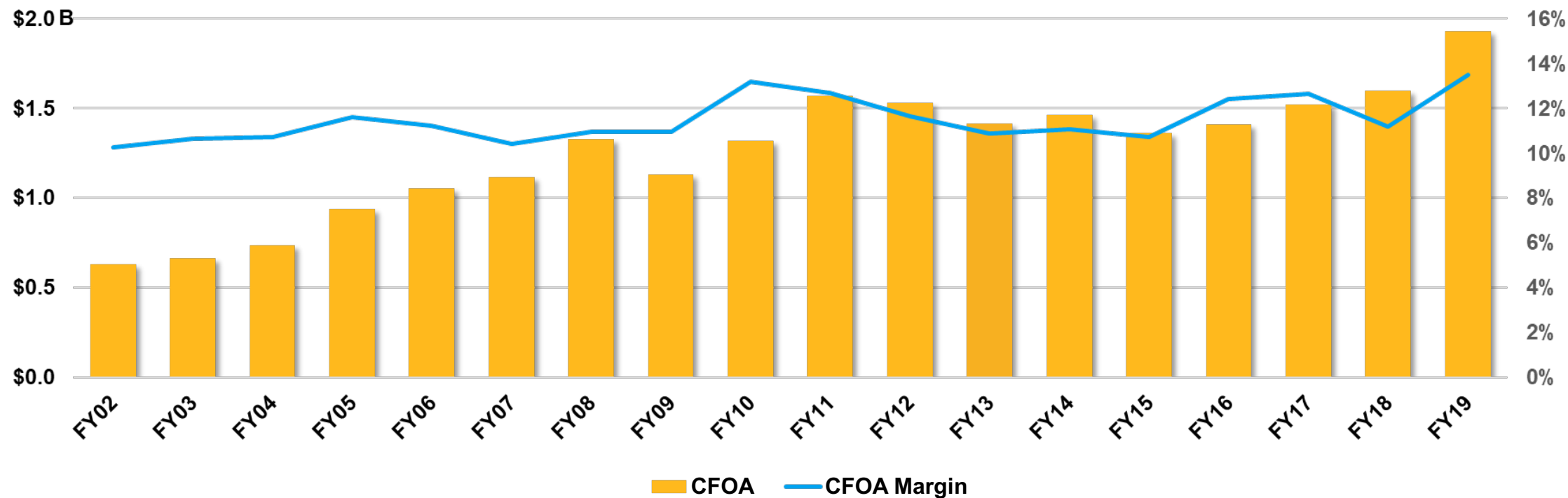


# Financial Performance

**18** Consecutive years with 10%+ CFOA margins\*

**\$1.9B** FY19 CFOA

**18** Consecutive years with 100%+ FCF conversion

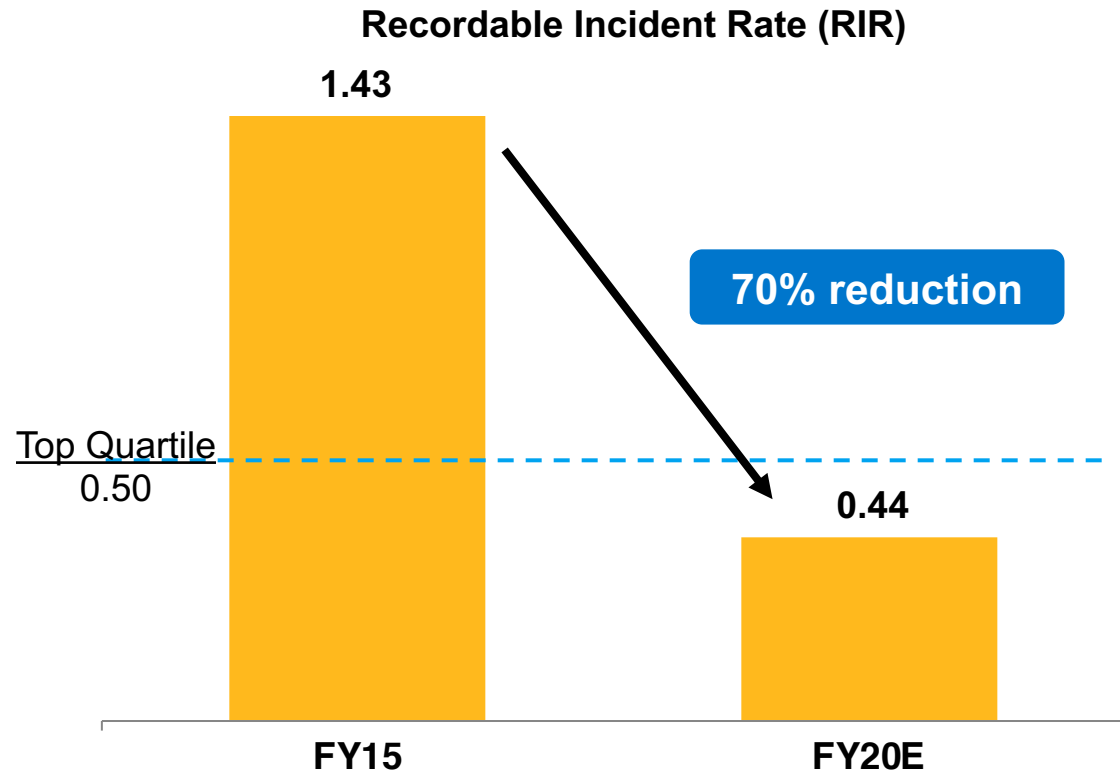


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\*Cash Flow Provided by Operating Activities adjusted for discretionary pension contributions;  
Free Cash Flow = Cash Provided by Operating Activities - Capital Expenditures + Discretionary Pension Contribution



# Safety



## Focus areas:

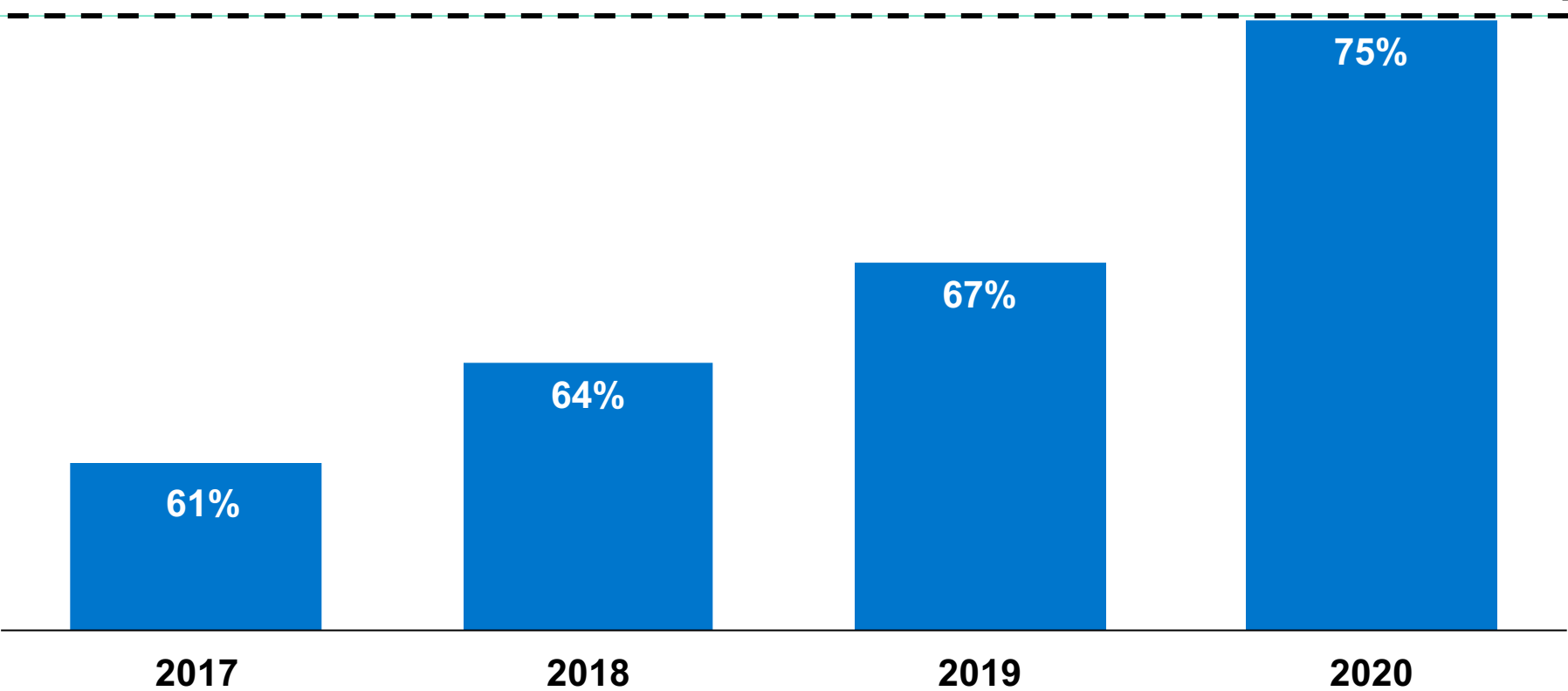
- Training
- Machine guarding
- Energy control
- Ergonomics
- Non-routine work

**High Performance Teams driving ownership and improvement**

# Engagement Trend

% Engagement – Team Member Survey Results

Top Quartile



Highly engaged team members driving our performance

# Sustainability Summary



## Initiative

- Safety incidents
- Greenhouse gas reduction
- Water usage & conservation
- Waste recycling
- Parker Foundation initiatives

## Result

- Top Quartile\* Recordable Incident Rate
- Top Quartile\* Carbon Disclosure Ranking
- Top Quartile\* Carbon Disclosure Water Score
- 85% of waste recycled
- \$20M donated over last three years

**Robust ESG process in place**

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\* Top Quartile for our Proxy Peer Group



# M&A Last Three Years...

CLARCOR

LORID

 EXOTIC METALS  
FORMING COMPANY LLC

- \$3 billion in acquired sales<sup>1</sup>
- More resilient
- Accretive to growth & margins

# Strategy Summary

## Why We Win



## Where We Are Going

- The Win Strategy™
- Decentralized business model
- Technology breadth & interconnectivity
- Engineered products with IP
- Long product life cycles
- Global distribution
- Low capital investment needs
- Great generators and deployers of cash over the cycle

- The Win Strategy™ 3.0
- Purpose Statement
- Strategies to grow organically and expand margins



**Positioned for top quartile performance**

# The Win Strategy™ 3.0





# The Win Strategy™

## Our Vision: Engineering Your Success

### Goals

#### Engaged People

##### STRATEGIES

- Environmental, Health & Safety
- Ownership – Entrepreneurial
- High Performance Teams & Leaders
- Continuous Improvement – Kaizen

#### Customer Experience

##### STRATEGIES

- Quality Solutions On Time
- Digital Leadership
- Ease of Doing Business

#### Profitable Growth

##### STRATEGIES

- Strategic Positioning
- Market-Driven Innovation
- System Solutions
- Strong Distribution
- Grow Share
- Acquisitions

#### Financial Performance

##### STRATEGIES

- Simplification
- Lean Enterprise
- Strategic Supply Chain
- Value Pricing

### Our Culture & Values



# #1 Motion & Control Company

## Goals

Engaged People	Customer Experience	Profitable Growth	Financial Performance
MEASURES	MEASURES	MEASURES	MEASURES
<ul style="list-style-type: none"><li>• Zero Safety Incidents</li><li>• Speed &amp; Agility</li><li>• 80%+ in High Performance Teams</li><li>• Inclusive Environment</li><li>• Engagement &gt; 75%</li></ul>	<ul style="list-style-type: none"><li>• Composite Likelihood to Recommend</li><li>• Customer Dashboards</li><li>• Zero Defects</li><li>• 98%+ On-Time Delivery</li><li>• Best-in-Class Lead Times</li></ul>	<ul style="list-style-type: none"><li>• Organic Growth 150 bps &gt; Market</li><li>• 20%+ Market Share</li><li>• #1, #2 Position Each Business</li><li>• Grow Global Distribution &amp; Services</li></ul> <p>50% DIST  50% OEM</p> <ul style="list-style-type: none"><li>• Increasing New Product Vitality &amp; Gross Margins</li></ul>	<ul style="list-style-type: none"><li>• Top Quartile Performance</li><li>• Year-over-Year Growth in:<ul style="list-style-type: none"><li>• DNE</li><li>• EBIT</li><li>• EPS</li><li>• Cash Flow</li></ul></li><li>• 19% Operating Income</li><li>• 30% MROS</li><li>• 21.4% RONA</li><li>• 17% ROIC</li><li>• &gt;100% FCF Conversion</li></ul>

Enabling Engineering Breakthroughs  
that Lead to a Better Tomorrow

# The Win Strategy™

## Our Vision: Engineering Your Success

### Goals

#### Engaged People

##### STRATEGIES

- Environmental, Health & Safety
- **Ownership** – Entrepreneurial
- High Performance Teams & Leaders
- **Continuous Improvement** – Kaizen

#### Customer Experience

##### STRATEGIES

- Quality Solutions On Time
- **Digital Leadership**
- Ease of Doing Business

#### Profitable Growth

##### STRATEGIES

- **Strategic Positioning**
- Market-Driven Innovation
- System Solutions
- Strong Distribution
- Grow Share
- **Acquisitions**

#### Financial Performance

##### STRATEGIES

- **Simplification**
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### Our Culture & Values



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Our Vision: Engineering Your Success

## Engaged People

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Quality Solutions On Time  
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### Profitable Growth

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### Financial Performance

#### STRATEGIES

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## Our Culture & Values



# The Win Strategy™

## Our Vision: Engineering Your Success



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Our Culture & Values



# #1 Motion & Control Company

## Goals

### Engaged People

#### MEASURES

- Zero **Safety Incidents**
- **Speed & Agility**
- 80%+ in High Performance Teams
- Inclusive Environment
- Engagement > **75%**


### Customer Experience

#### MEASURES

- **Composite Likelihood to Recommend**
- Customer Dashboards
- **Zero Defects**
- 98%+ On-Time Delivery
- Best-in-Class Lead Times

### Profitable Growth

#### MEASURES

- Organic Growth 150 bps > Market
  - 20%+ Market Share
  - #1, #2 Position Each **Business**
  - Grow **Global** Distribution & Services
- 50% DIST  50% OEM
- Increasing New Product **Vitality & Gross Margins**

### Financial Performance

#### MEASURES

- Top Quartile **Performance**
- Year-over-Year Growth in:
  - DNE
  - EBIT
  - EPS
  - Cash Flow
- **19%** Operating Income
- **30% MROS**
- 21.4% RONA
- 17% ROIC
- >100% **FCF Conversion**

**Enabling Engineering Breakthroughs  
that Lead to a Better Tomorrow**



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## Financial Performance


### MEASURES

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- % Operating Income
- % MROS
- .4% RONA
- % ROIC
- 100% FCF Conversion

Enabling Engineers to Lead to a Better Tomorrow

# #1 Motion & Control Company

## Goals

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Enabling Engineering Breakthroughs  
that Lead to a Better Tomorrow

# Leading with Purpose





What  
distinguishes  
a good  
company  
from a great  
one?



***Strategies are time-bound and target specific results.  
Your purpose, in contrast, is what makes you durably  
relevant to the world.***

*- Harvard Business Review, 2017*

# The Value of Purpose



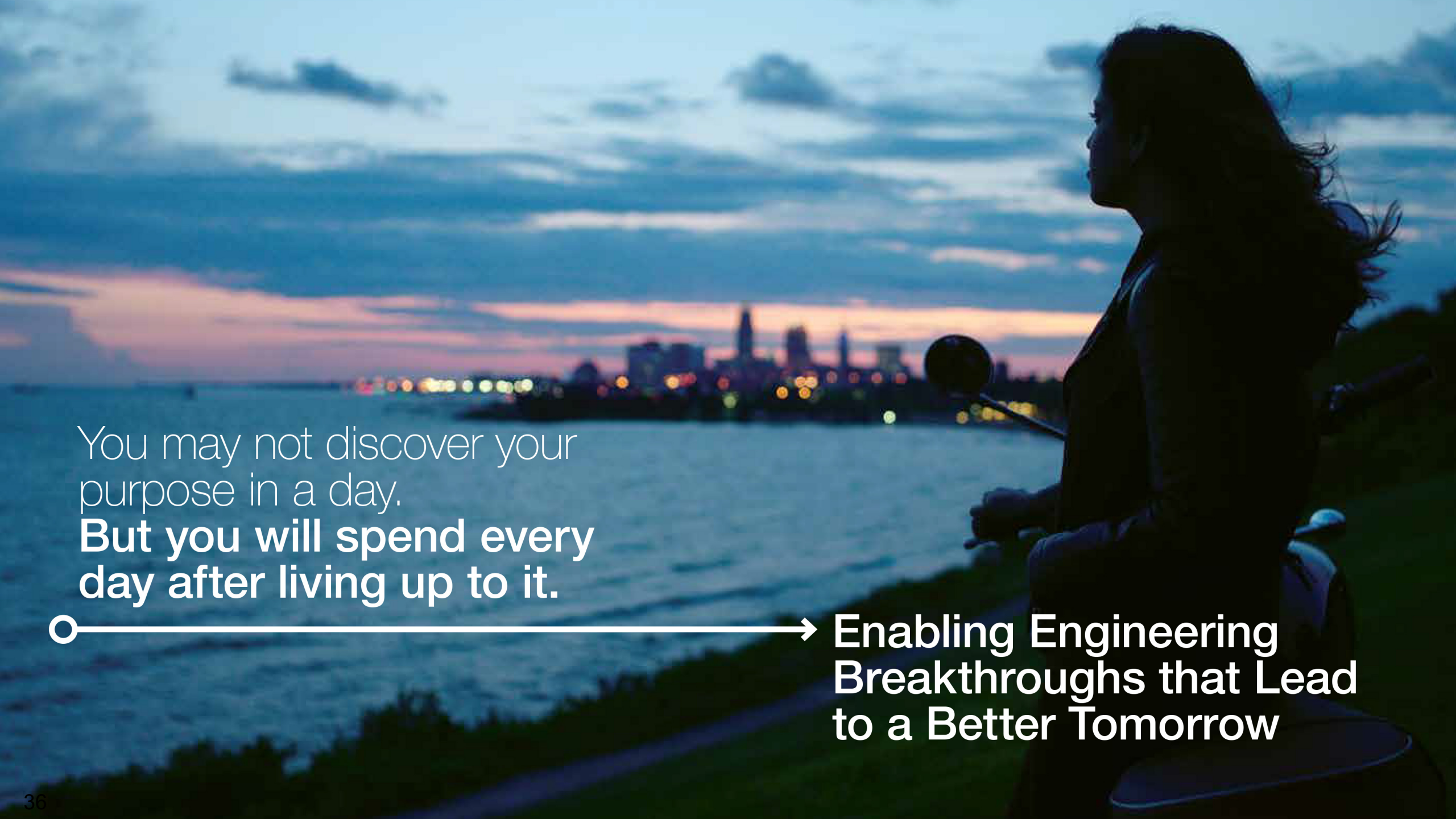
***81% of millennials say a successful business needs to have a genuine purpose.***

*- Redefining the C-Suite: Business the Millennial Way, American Express*



What is Parker's purpose?

Enabling  
Engineering  
Breakthroughs  
that Lead to  
a Better  
Tomorrow

A woman is silhouetted against a twilight sky, sitting on a motorcycle and looking out over a body of water towards a city skyline. The city lights are visible in the distance, and the sky is a mix of blue and orange hues. The woman's hair is blowing in the wind.

You may not discover your purpose in a day.  
**But you will spend every day after living up to it.**



**Enabling Engineering Breakthroughs that Lead to a Better Tomorrow**

# Enabling Engineering Breakthroughs that Lead to a Better Tomorrow

To see this and other videos and read more about  
Parker's Purpose please visit:  
[parker.com/purpose](https://parker.com/purpose)


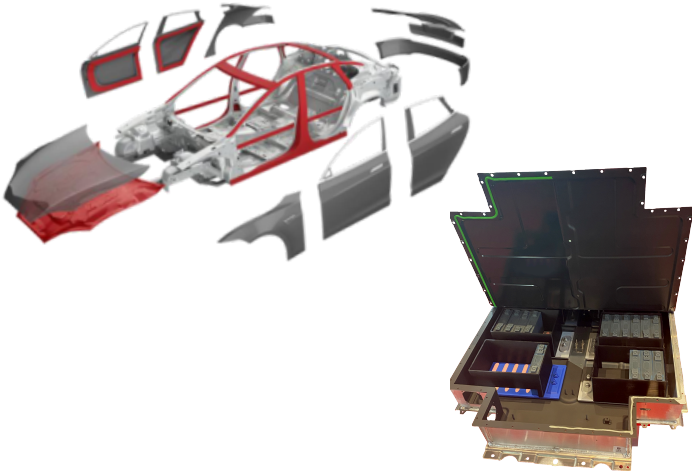



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# Bringing our Purpose to Life

## Structural adhesives

### Enabling Engineering Breakthroughs that Lead to a Better Tomorrow

Enabling Technology	Engineering Breakthrough	A Better Tomorrow
 <p>Adhesive technology</p>	 <p>Enables lightweighting &amp; electrification</p>	 <p>Fuel efficiency &amp; lower emissions</p>





# Bringing our Purpose to Life

## Enabling Engineering Breakthroughs that Lead to a Better Tomorrow

### Enabling Technology



Threaded connection  
(60 seconds)



Quick connection solution  
(2 seconds)

### Engineering Breakthrough



Quick coupling solutions designed for  
performance under pressure

### A Better Tomorrow



Firefighter safety and more time  
to rescue survivors

# **Strategies to Grow Organically & Expand Margins**



# Strategies to Grow Organically & Expand Margins

## Portfolio

Acquire companies with higher growth trajectory and resiliency:

- CLARCOR
- LORD
- Exotic

## Performance

- The Win Strategy™ 3.0
- Simplification - Simple by Design
- Innovation - Winovation 2.0
- Annual Cash Incentive Program (ACIP)
- Expand and grow distribution
- Kaizen, HPT and Lean

**Requires both portfolio and performance actions**

# Simplification



- **Organization structure**
- **Operational complexity 80/20**
- **Simple by Design**

**Enables speed & growth at reduced costs**



# Simple by Design

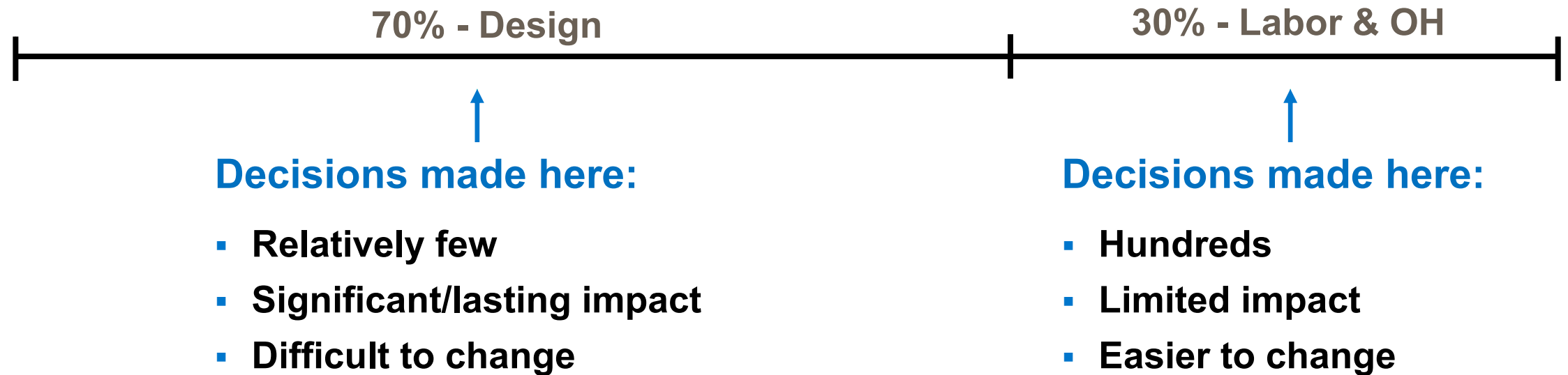


**The road to complexity is paved  
with good intentions...**



# Simple by Design

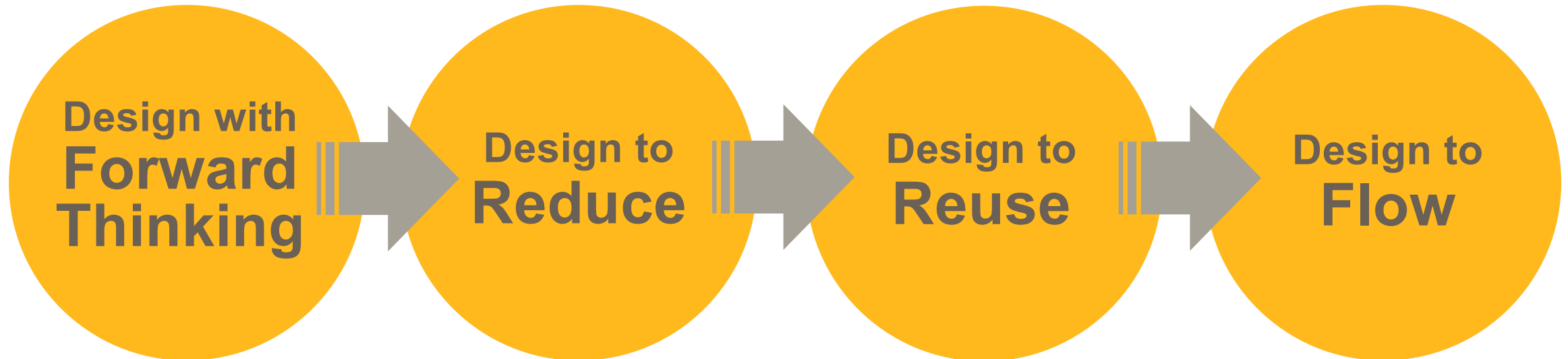
## Product Cost & Complexity Continuum



**Enables speed, margin expansion and growth**

# Simple by Design

Guiding principles & tools



**Made possible by big data and artificial intelligence (AI)**

# Simple by Design

Process changes



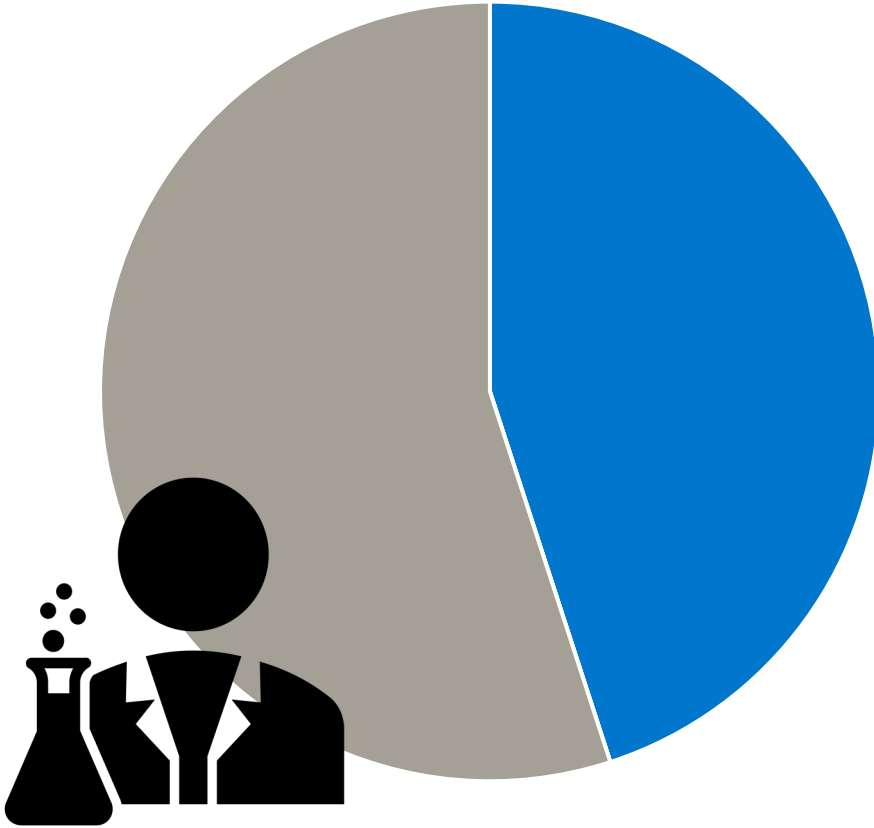
(CAL) = Complexity Assessment Level

Complexity scoring integrated into every stage-gate

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# Access to Data



**45% of a typical design engineer's time is spent looking for information**

# Game Changer

Artificial intelligence software



**The ability to search large databases in a relevant format:**

- **Part geometry**
- **% similar**
- **Materials used**
- **Manufacturing methods**

# Product Example – High Pressure Coupler

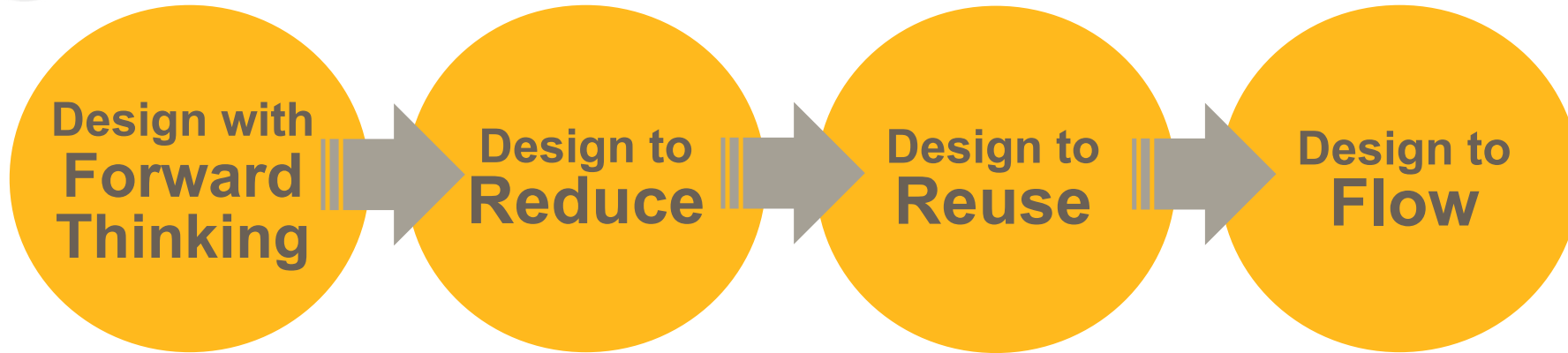
Simple by Design



Existing  
FET Series



The “New”  
59 Series



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# The Result...

Simple



Existing  
FET Series



The "New"  
59 Series



- The New 59 Series was redesigned, requalified and launched
- 123 parts were eliminated - **Reduce**
- 100% function achieved, 90% components shared - **Reuse**
- No additional capital equipment – **Reuse**

Cost  Inventory  Delivery 

# Resulting in...



- **Higher value – “must have products”**
- **Improved margin**
- **Improved customer experience**
- **Sustainable advantage**
- **Speed**

# Innovation Strategy



# Innovation Strategy



- **Simplify for focus**
- **Simple by Design**
- **Winovation 2.0**
- **Parker Technology Centers**

**Product Vitality Index metric launched**

# Time for an Upgrade

## Winovation 2.0




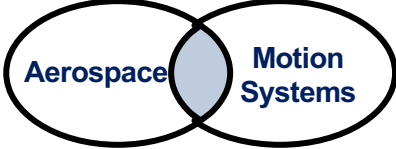

### Issues

- Inside-out vs. outside-in
- Weak customer engagement

### Actions

- Launched **New Product Blueprinting**
- Training complete
- Integrated into Winovation 2.0

# Parker Technology Centers

- Advanced Process Development – IoT, Additive & Robotics
- Filtration Technology Center –  + CLARCOR
- Motion Technology Center – 
- Advanced Materials Center:  
Engineered Materials & Fluid Connectors -  + **LORD**

Small, focused & accountable...Complements our division engineering

# **Annual Cash Incentive Plan Changes**



# Current Annual Incentive Plan

RONA



- **30+ years in existence**
- **Serving Parker well since inception**
- **High rate of global participation**
- **Firmly rooted within Parker**



# Summary of Review

## RONA Challenges



- Behaves like a long-term plan
- Limited elasticity
- Growth multiplier generated modest impact

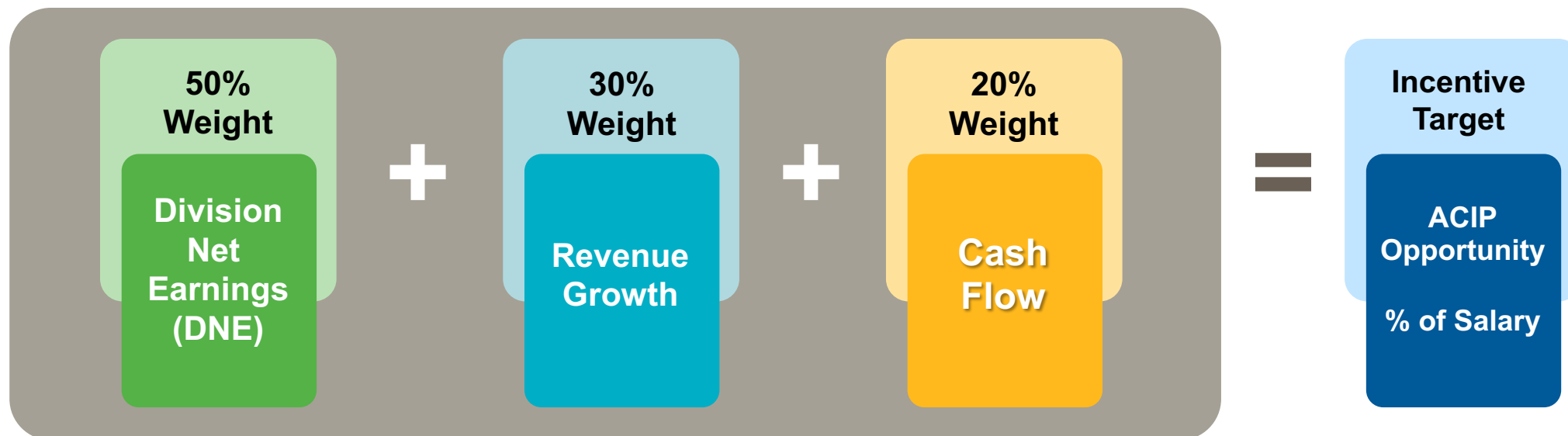
**Requires New Annual Incentive Design**

# New Plan Design Principles



- **Better linkage to annual performance**
- **Aligned to TSR drivers**
- **Simple, easy to communicate**
- **Influences growth mindset**

# Annual Cash Incentive Program



- Aligned with key drivers of total shareholder return
- More elastic and tied to annual performance

**Stronger annual incentive...**  
**Multi-year implementation**

# Distribution Growth



# Profitable Growth

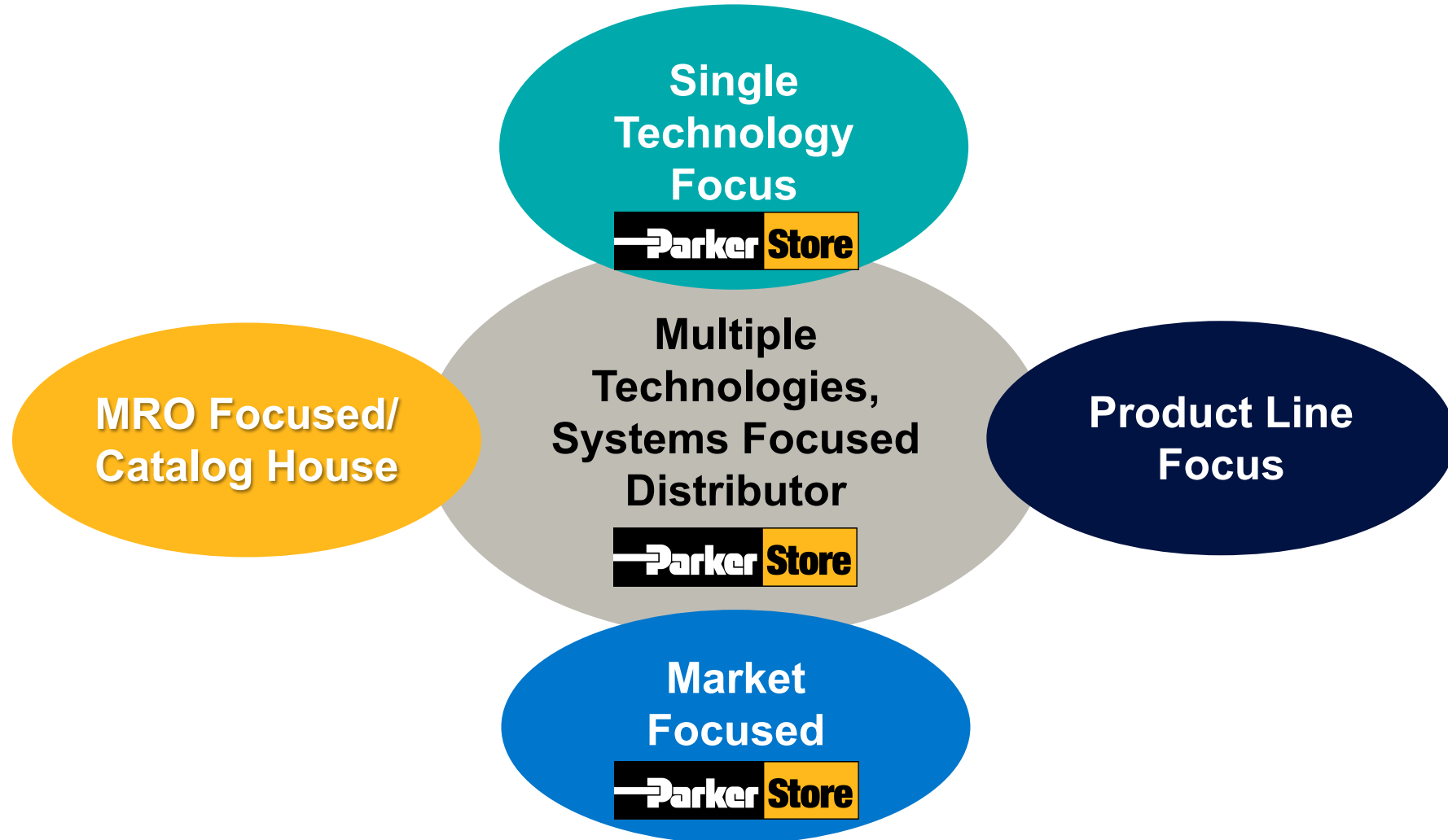
## Key initiatives

- Strategic Positioning
- Market-Driven Innovation
- System Solutions
- Strong Distribution
- Grow Share
- Acquisitions

**Keys to growing faster than the market**

# Distribution Strategy

Multiple channels based on needs



# Global Distribution Network



# Distribution Success Factors



## Focus and alignment

- Dedicated sales force
- Channel management integrity
- Broad technology portfolio
- Executive engagement
- Distribution mind share



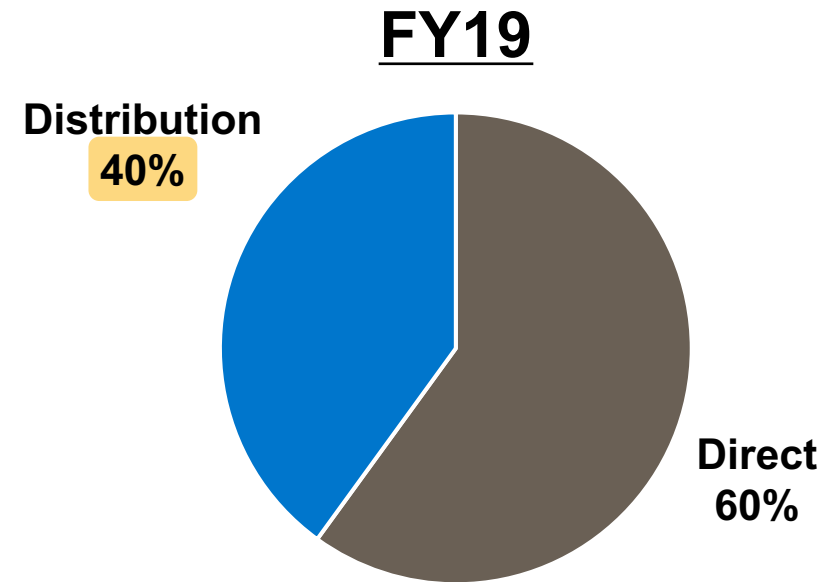
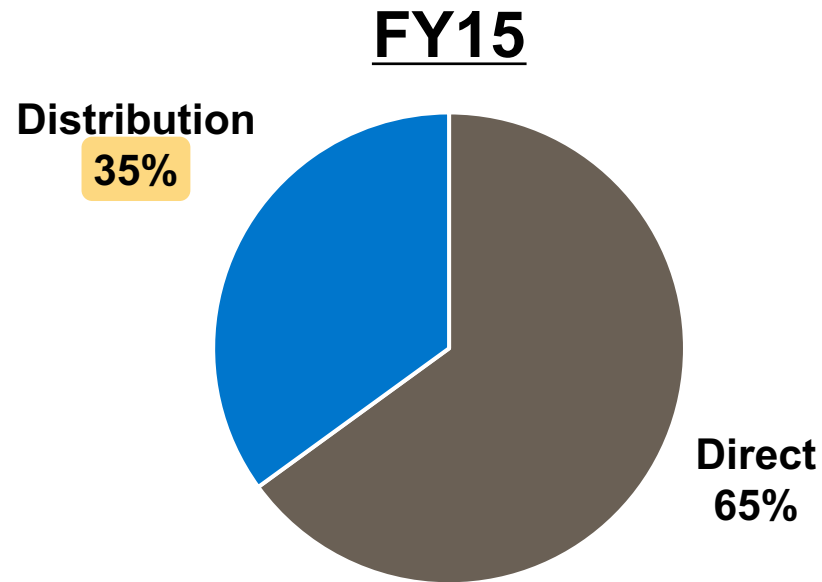


# Distribution Growth History

- Channel is decades in the making
- Most valuable off-balance sheet asset
- Growing global distribution and services
- North America channel consolidation

**Focus on expanding international distribution and digital leadership**

# Expanding International Distribution



- Added dedicated global and regional leadership
- 480 new distributors ... 165 former Parker team members

**Shifted mix by > 100 bps per year**

# Expanding International Distribution

- Continue dedicated global and regional leadership
- Expand capabilities of existing channel
- Continue to expand in developing markets
- Support Parker team members

**Continue to increase mix by > 100 bps per year**

# Digital Leadership



## Content syndication

- Enabling consistent high-quality content
- Driving demand through lead generation

## MyParker.com

- Personalized one-stop shop
- Consistent experience

**Enhanced experience for customers and distributors**

# Strategies Going Forward



- Focus on international distribution
- Extend digital leadership through distribution
- Encourage Parker team member participation
- Take advantage of NA channel consolidation

**Supporting continued margin expansion**

# A Culture of Continuous Improvement



*CHANGE*

*IDEAL STATE*

# Win Strategy Alignment

- Parker Lean System
- HPT Culture
- Kaizen
- Engaged People
- Financial Performance



**Congruent with Parker culture and values**

# A Culture of Continuous Improvement



**Parker Lean System (PLS)**

**+**

**High Performance Teams**

**+**

**Culture of Kaizen**



- **Ownership**
- **Speed**
- **Productivity**
- **Customer experience**

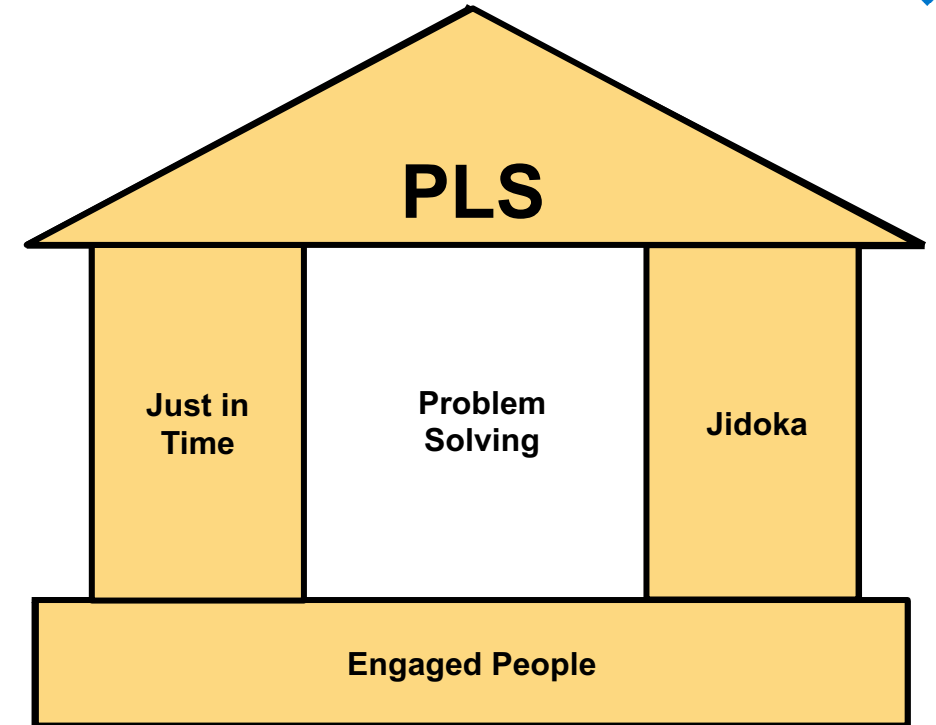
**Sustainable financial performance**



# Parker Lean System (PLS)

Established in 2001

- Comprehensive tool set
- Robust systems approach
- Manufacturing and non-manufacturing
- Understanding throughout Parker

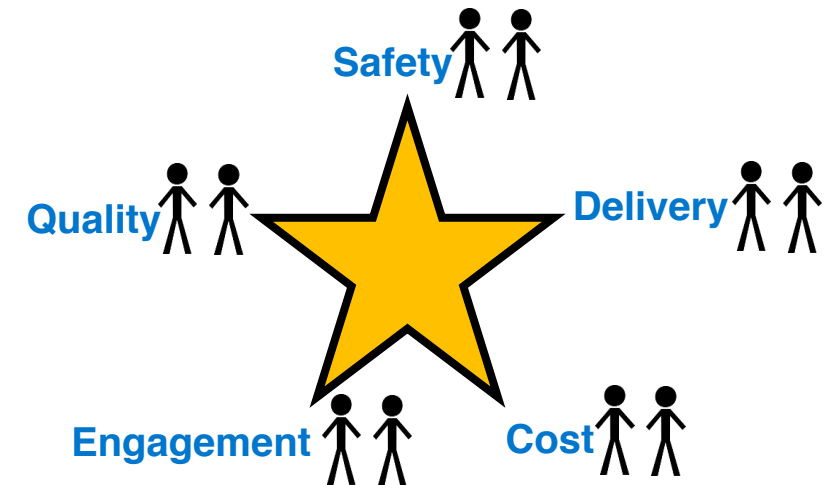


**Build from a strong PLS foundation**

# High Performance Teams

Drive continuous improvement

- Team members think and act like owners
- Organized into natural work teams and star point teams
- Empowered
- Responsible & accountable
- Assisted by engaged leaders



**Creating a high performance culture**

# Kaizen

“A way of life”

- Kaizen = Action
- Operator is the focus
- Speed of execution
- Step change mentality
- Team approach
- Better customer experience



**317 Kaizen weeks, 8,000 participants in CY2019**

# Financial Performance

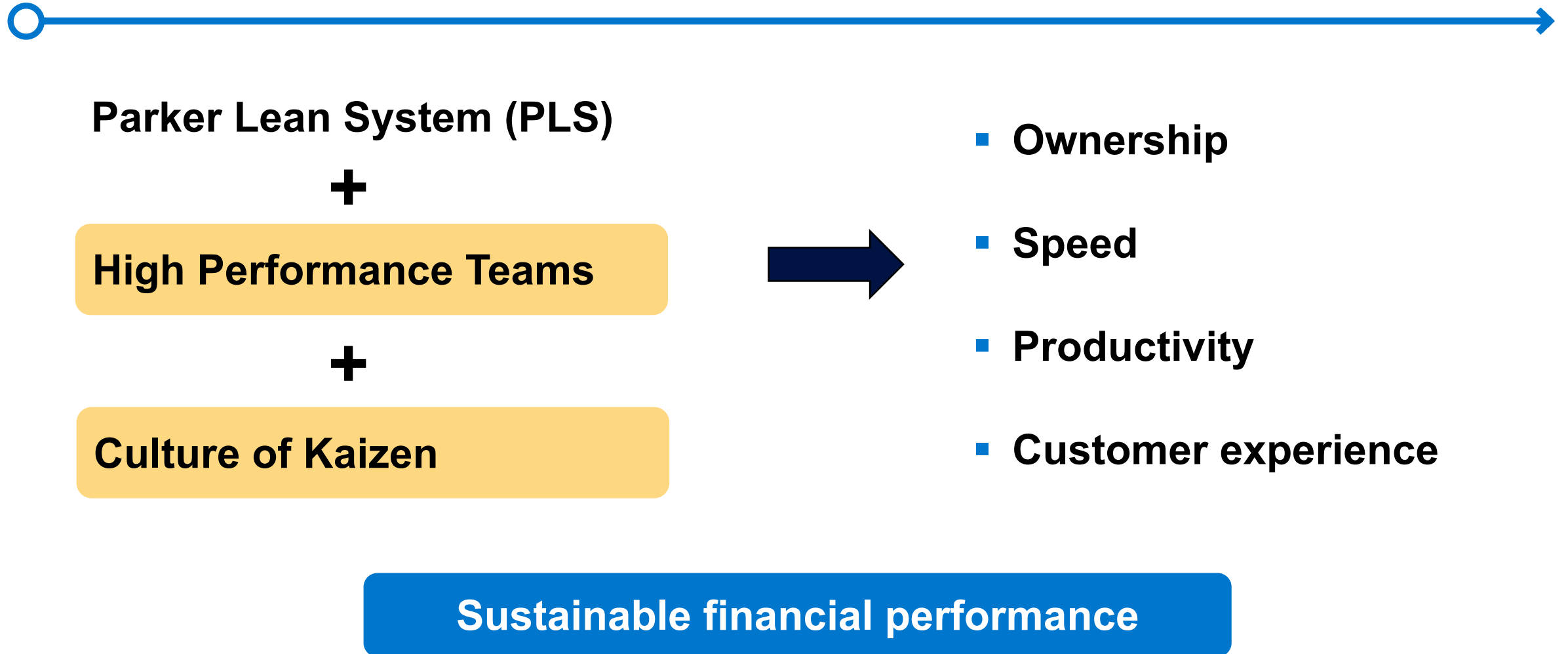
Parker Lean System, Kaizen & High Performance Teams Impact

- Top quartile safety performance
- Quickly integrate acquisitions
- Strong decremental margin performance
- Improved operating margin performance



**A strong culture of continuous improvement**

# A Culture of Continuous Improvement

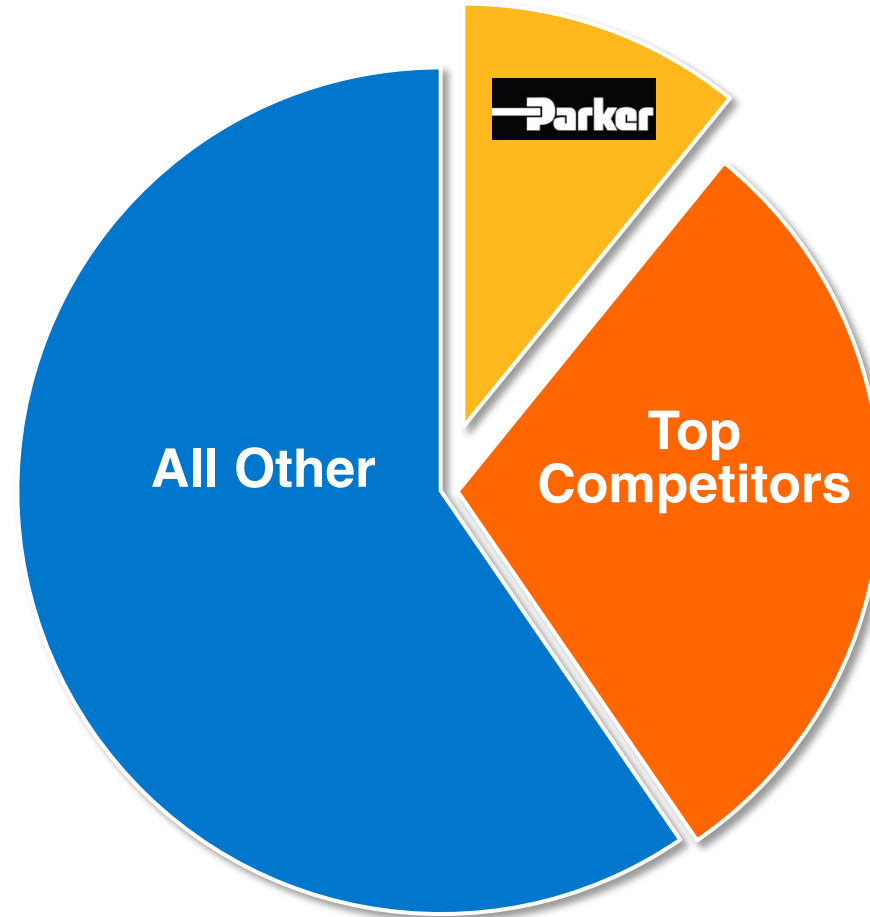


# **Portfolio & Capital Deployment Strategy**



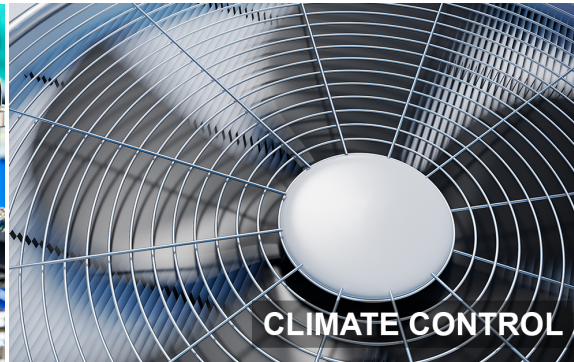
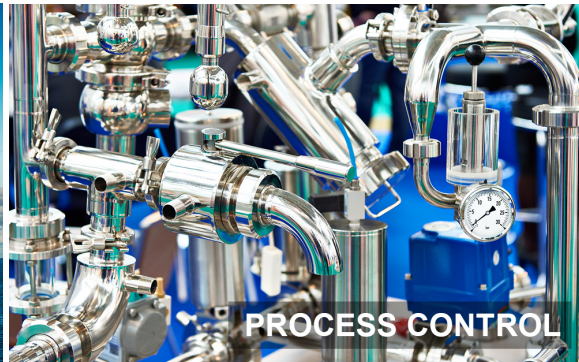
# #1 Position in Motion & Control Industry

Significant opportunities for growth in a >\$130 billion global market





# Unmatched Breadth of Technologies



Leading with  
Purpose

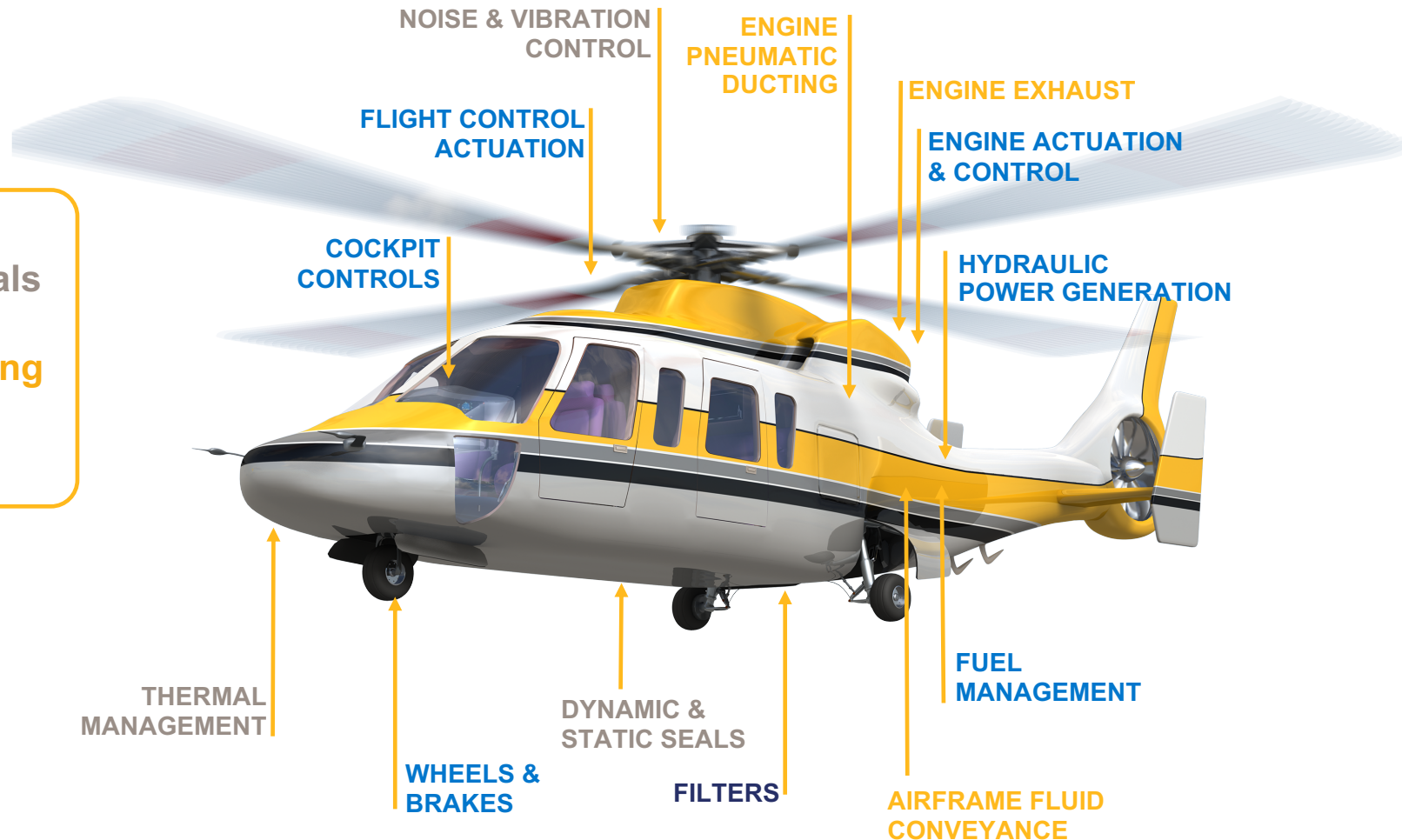




# Interconnected Parker Technologies

Integrated systems and components across the platform

Electromechanical  
Engineered Materials  
Filtration  
Fluid & Gas Handling  
Hydraulics  
Pneumatics



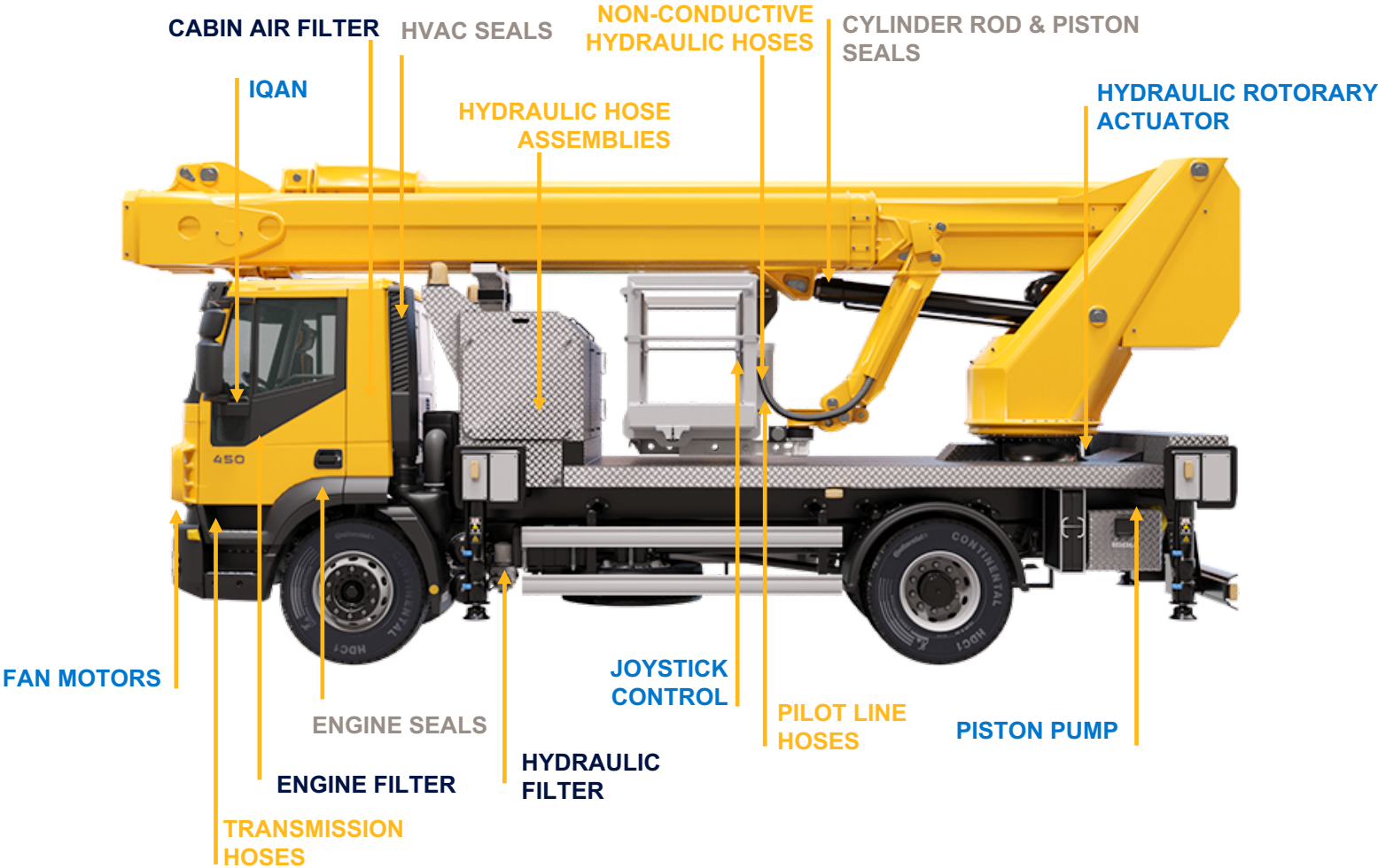
Leading with  
Purpose



# Interconnected Parker Technologies

Utility lift vehicle


Electromechanical  
Engineered Materials  
Filtration  
Fluid & Gas Handling  
Hydraulics  
Pneumatics



Leading with Purpose



# Capital Deployment Strategy

- 
- 1 Dividends – Payout 30-35% Net Income, maintain track record
  - 2 Fund organic growth and productivity
  - 3 Offset equity plan share dilution through 10b5-1
  - 4 Pay down debt
  - 5 Acquisitions & discretionary share repurchase once Debt/EBITDA ~2.0x leverage

# Acquisition Strategy



**Continue as consolidator of  
choice in Motion & Control**

**Focus on Aerospace, Engineered Materials,  
Filtration and Instrumentation**

**Targeted investments in  
key electrification technologies  
and natural adjacencies**

# Progress Toward Targets



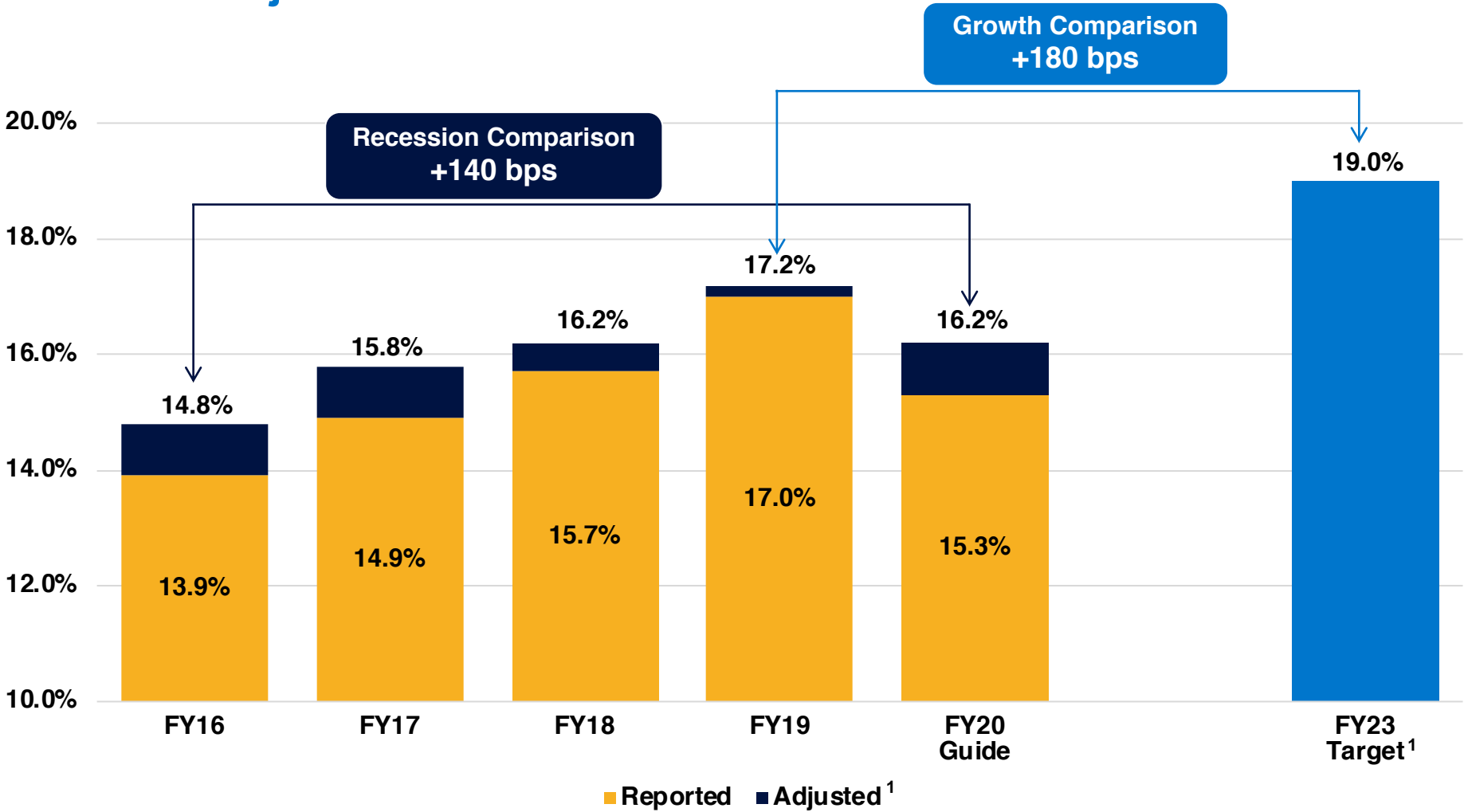
# FY23 Corporate Targets

## FY23 Target Metrics

<b>Growth</b>	➔	<b>150 bps &gt; GIPI</b>
<b>Seg Op Margin</b>	➔	<b>19%</b>
<b>EBITDA Margin</b>	➔	<b>20%</b>
<b>FCF Conversion</b>	➔	<b>&gt; 100%</b>
<b>EPS CAGR</b>	➔	<b>10%+</b>

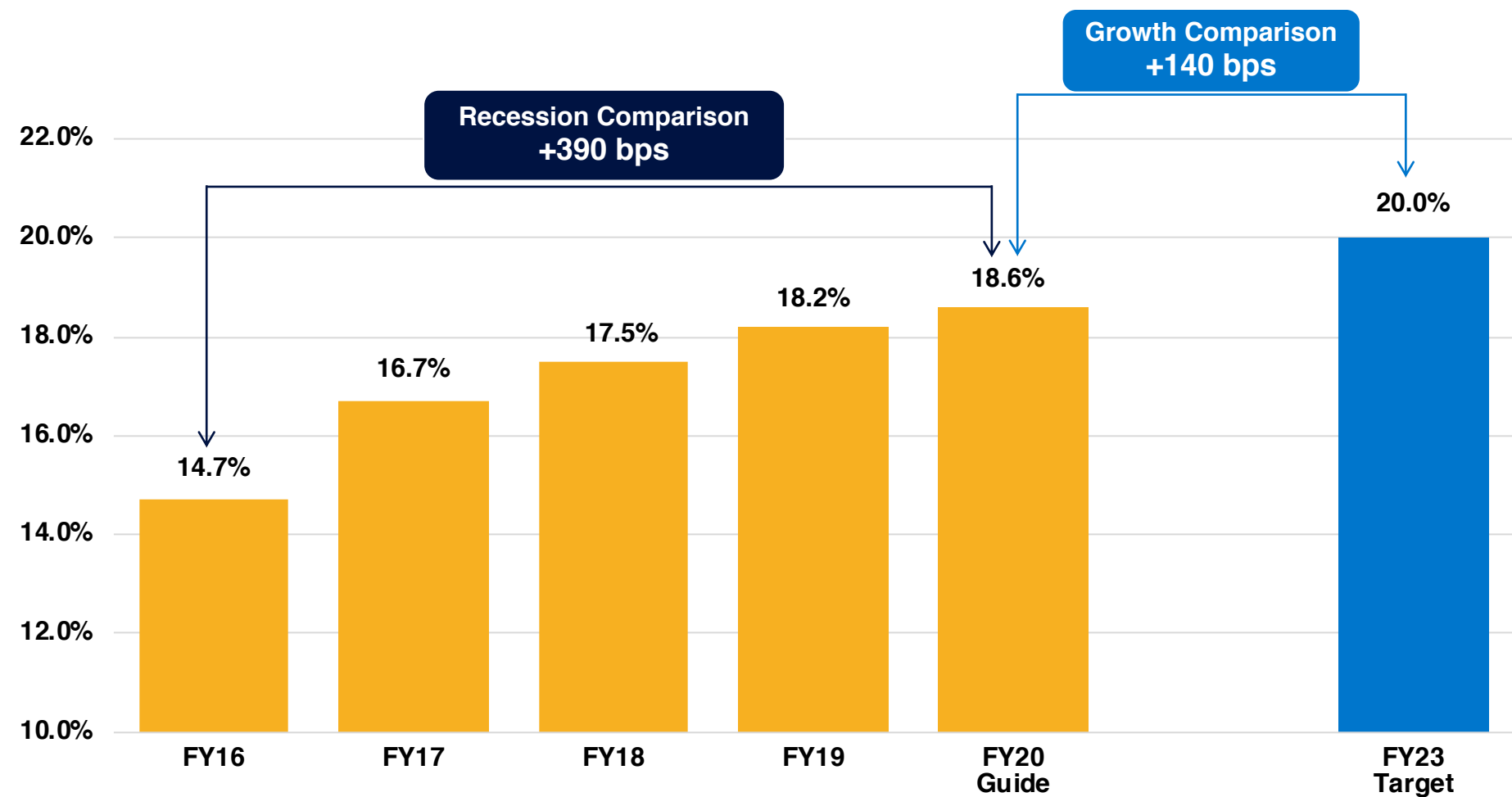
# Segment Operating Margin Growth

As Reported and Adjusted



1) Adjusted numbers include certain non-GAAP financial measures. See Appendix for additional details and reconciliations.

# Adjusted EBITDA Margin Growth

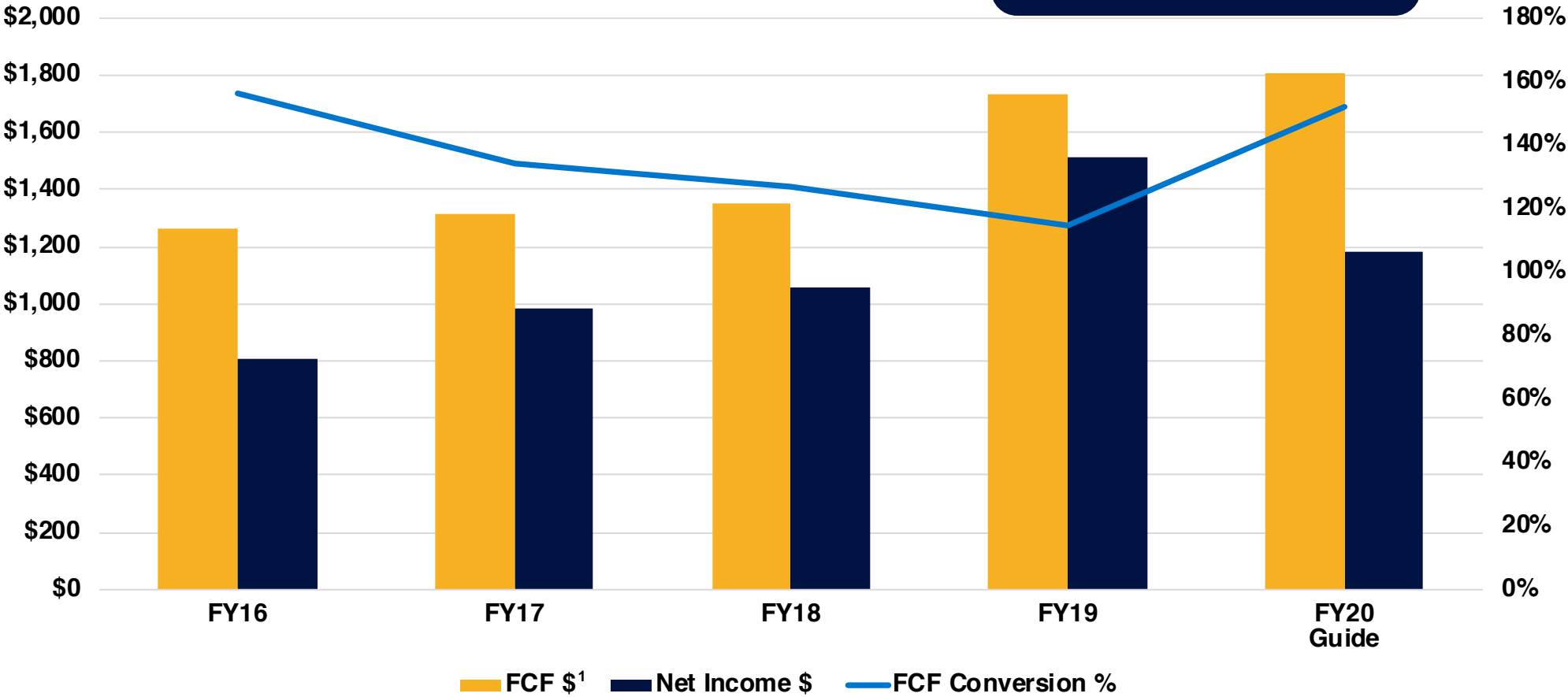




# Driving Free Cash Flow

Free Cash Flow / Net Income

>18 consecutive years  
with 100%+  
FCF conversion



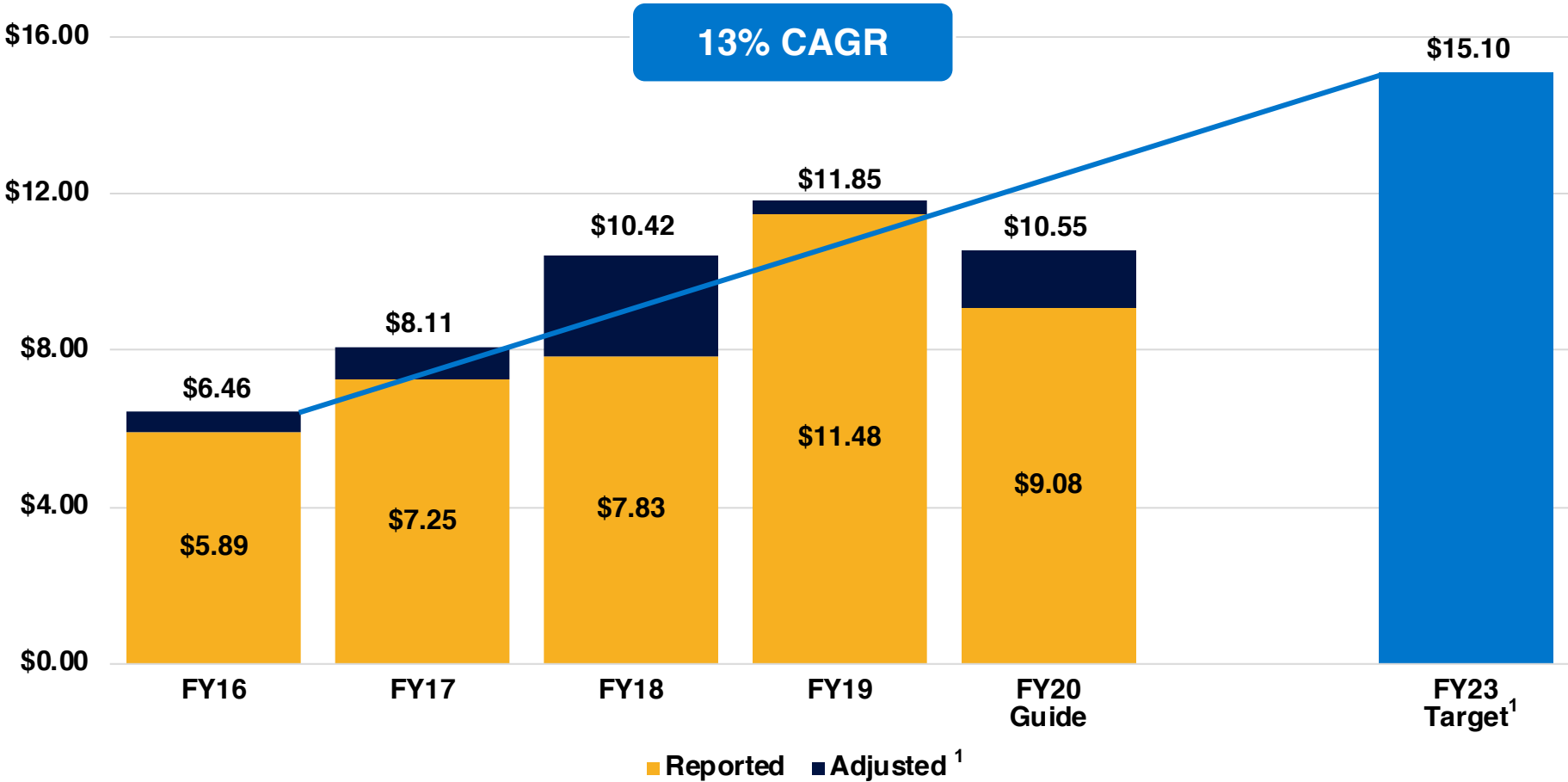
Leading with  
Purpose



1) Free Cash Flow = Cash Provided by Operating Activities - Capital Expenditures + Discretionary Pension Contribution

# EPS Growth

As Reported and Adjusted



Leading with Purpose

1) Adjusted numbers include certain non-GAAP financial measures. See Appendix for additional details and reconciliations.



**Great Generators of Cash**  
**Great Deployers of Cash**



# Capital Deployment

Fiscal Years 2019 – 2023E

Cash flow from operations

Approx.  
**\$11.1**  
Billion

+

Debt funding

**\$5.4**  
Billion

=

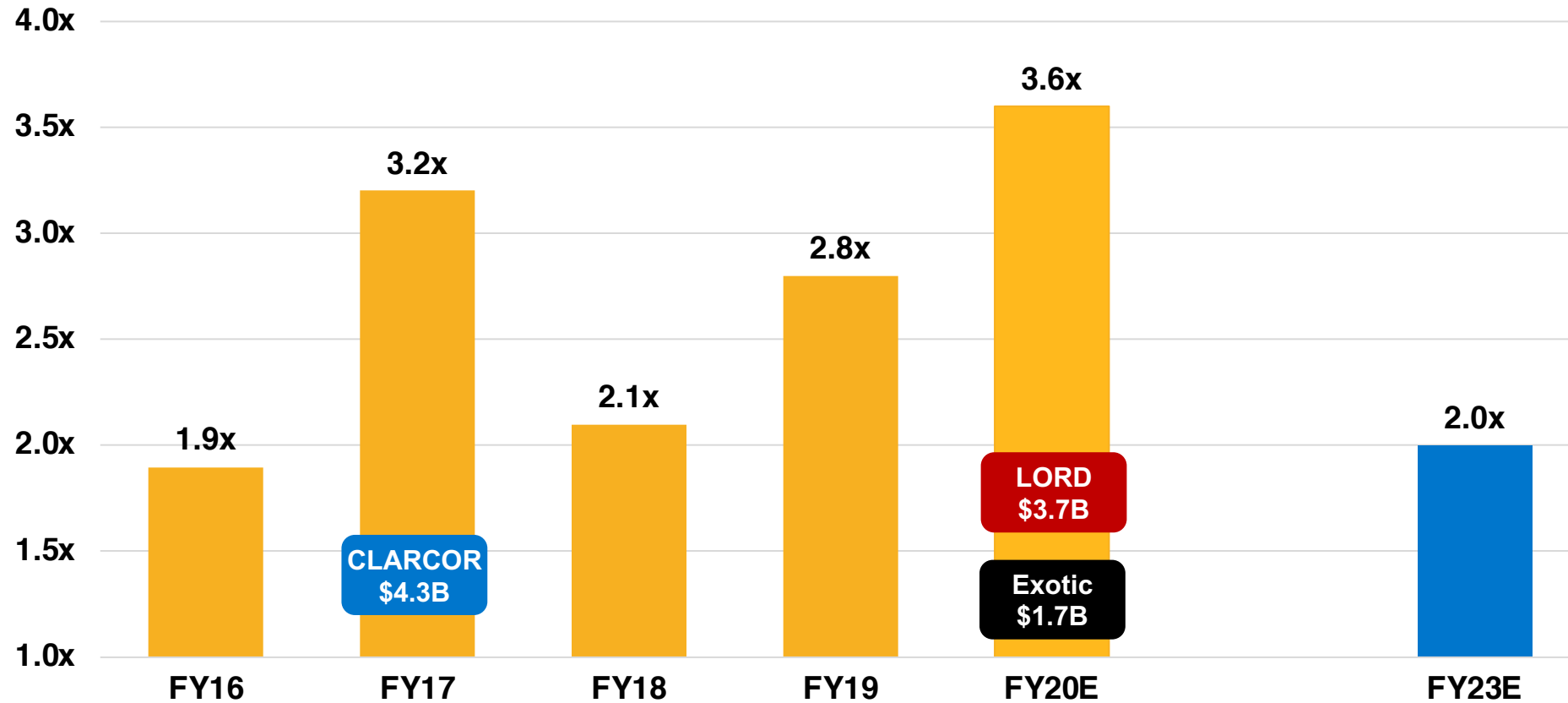
**\$16.5 Billion**

Deployment

- **\$2.5B – Dividends**
- **\$1.5B – Capital expenditures**
- **\$3.9B – Debt reduction**
- **\$1.0B – 10b5-1 Share repurchases**
- **\$5.4B – LORD & Exotic acquisitions**
- **\$2.2B – Strategic M&A and discretionary share repurchases**

# Efficient Deleveraging Strategy

Gross Debt to EBITDA: Fiscal Years 2016 – 2023E



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Strategic Utilization of the Balance Sheet



# Progress on Strategic Acquisitions



CLARCOR

- Achieved targeted debt reduction in 18 months
- By end of FY20:
  - Cost synergies: \$160M
  - Revenue synergies: \$100M



LORID

- Integration ahead of schedule
- High-margin, resilient business
- By end of FY23:
  - Expected cost synergies: \$125M



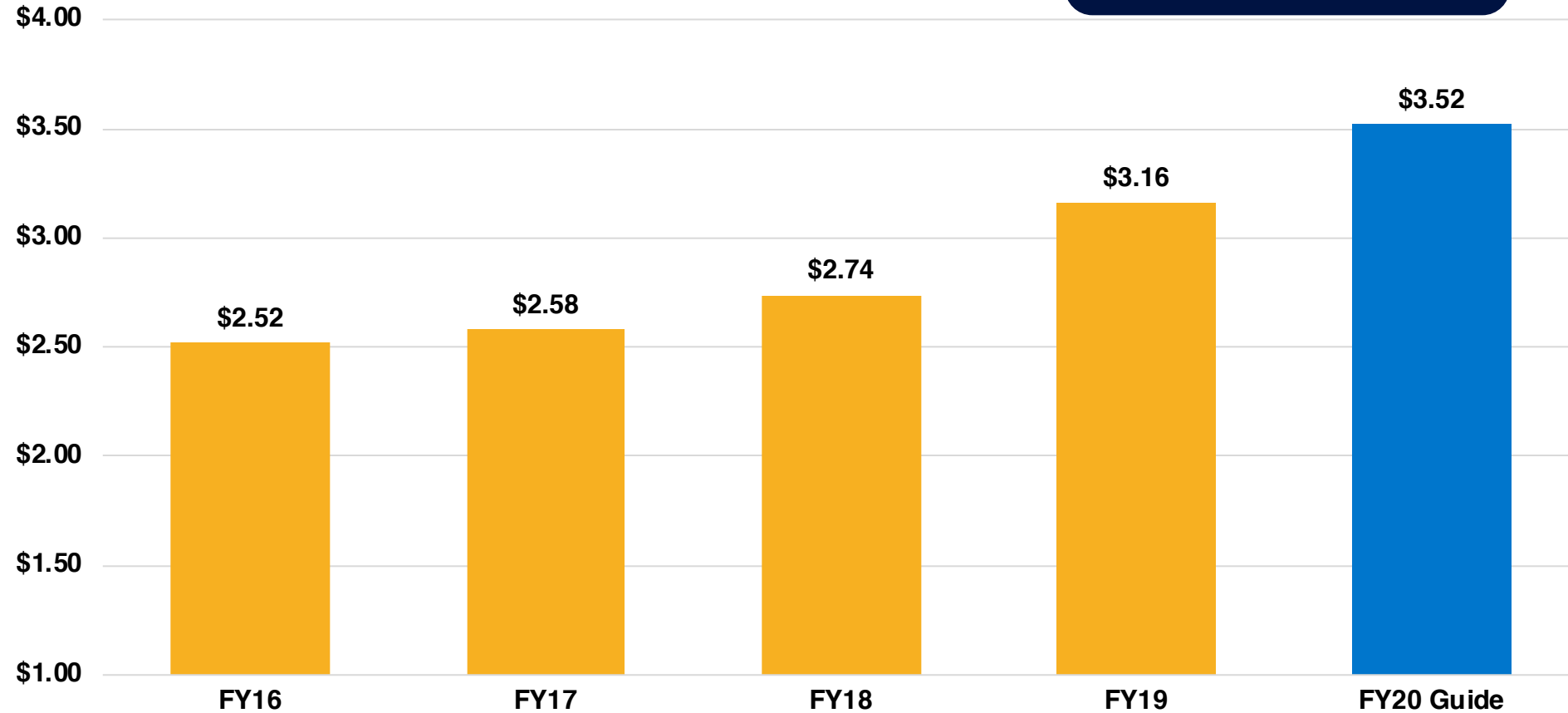
EXOTIC METALS  
FORMING COMPANY LLC

- Integration on track
- Long-cycle, high margin business
- By end of FY23:
  - Expected cost synergies: \$13M

# Dividend History

64 Fiscal Years of consecutive increases

Target Payout Ratio  
5-Year Average  
30% - 35%



Current 5-Year Average = 35%

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# **Planned Improvement to Earnings Disclosures**





# Improved Earnings Disclosures

## Segment Operating Earnings and Earnings per Share



**Effective Fiscal Year 2021, Parker will include acquisition-related intangible asset amortization expense in disclosed adjustments**

### Rationale:

- Improved representation of core operating earnings
- Amortization expense has become much more material as a result of recent acquisitions
- Better aligns disclosures with acquisitive peer companies' reporting methodologies

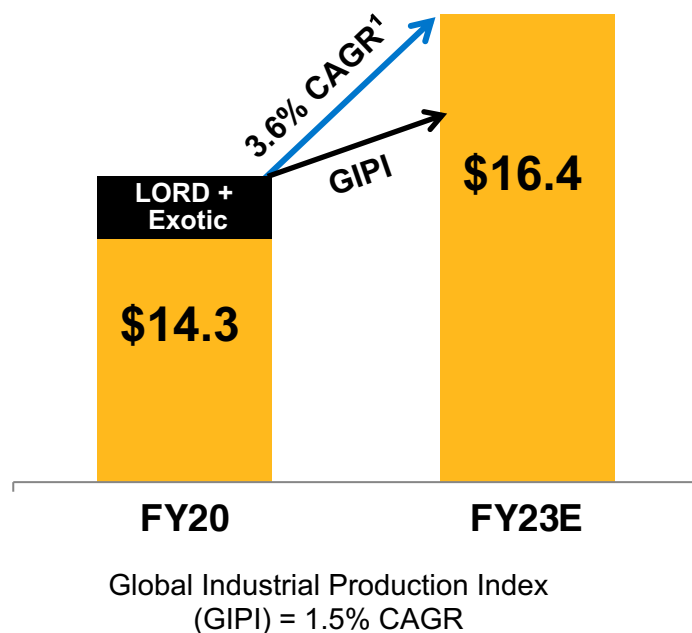
# Updated Target Metrics



# Revised Target Metrics by FY23

## Revenue Growth

210 bps > Industrial Production



## Target Metrics

	Original FY23	Updated FY23 <sup>2</sup>
Revenue Growth	150 bps > GIPI	150 bps > GIPI
As Reported Seg Op Margin	19%	
Adjusted Seg Op Margin		21%
As Reported EBITDA	20%	
Adjusted EBITDA		21%
Free Cash Flow	\$2.2B	\$2.3B
As Reported EPS	\$15.50	
Adjusted EPS		\$16.90

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<sup>1</sup> FY20E Revenues for LORD and Exotic Metals have been calendarized for CAGR calculation.

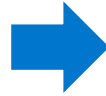
<sup>2</sup> Updated FY23 Adjusted Segment Operating Margins, Adjusted EBITDA, and Adjusted EPS exclude Acquisition-Related Intangible Amortization Expense and Business Realignment Charges.



# FY23 Corporate Targets

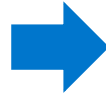
## Updated FY23 Target Metrics

**Growth**



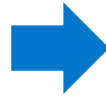
**150 bps > GIPI**

**Adj. Seg Op Margin**



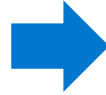
**21%**

**Adj. EBITDA Margin**



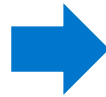
**21%**

**FCF Conversion**



**> 100%**

**Adj. EPS CAGR**



**10%+**

# Key Takeaways



- **Margin transformation continues**
- **Strong cash flows support deleveraging capability**
- **Improved Earnings disclosures to commence FY21**
- **On track to achieve updated FY23 targets**

# Closing Comments



# Key Messages

- **The Win Strategy™ 2.0 drove substantial performance improvements**
- **Strategic portfolio transformation – CLARCOR, LORD & Exotic**
- **Strength & interconnectivity of Parker's portfolio**
- **Improving financial performance over the cycle**
- **The Win Strategy™ 3.0 & Purpose Statement will accelerate performance**

**Confident in achieving updated FY23 Targets**

***“It is the Parker Culture & Values, more than any Strategy or Measure, that will determine our Success in the Future”***

*Tom Williams  
Annual Report 2015*



# Thank You

**PH**  

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**LISTED**  

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**NYSE**



# Purpose in Action

To see this and other videos and read more about  
Parker's Purpose please visit:  
[parker.com/purpose](https://parker.com/purpose)



ENGINEERING YOUR SUCCESS.

# Q&A

**Tom Williams**  
Chairman & CEO

**Lee Banks**  
President & COO

**Cathy Suever**  
EVP Finance & Admin. & CFO



ENGINEERING YOUR SUCCESS.

# Thank You

**PH**  

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# Appendix

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

(Unaudited)

(Dollars in millions)

	12 Months ended 6/30/02	12 Months ended 6/30/09	12 Months ended 6/30/13	12 Months ended 6/30/16	12 Months ended 6/30/17	12 Months ended 6/30/18	12 Months ended 6/30/19	Guide: 12 Months ended 6/30/20
<b>Net Sales</b>	\$ 6,149	\$ 10,309	\$ 13,016	\$ 11,361	\$ 12,029	\$ 14,302	\$ 14,320	\$ 14,324
<b>Total segment operating income</b>	\$ 446	\$ 1,004	\$ 1,791	\$ 1,576	\$ 1,790	\$ 2,239	\$ 2,431	\$ 2,188
Adjustments:								
Voluntary retirement expense								
Business realignment charges	37	45	12	107	56	46	16	40
Acquisition-related expenses & Costs to Achieve					58	37	13	94
<b>Adjusted total segment operating income*</b>	\$ 483	\$ 1,049	\$ 1,804	\$ 1,682	\$ 1,904	\$ 2,322	\$ 2,460	\$ 2,321
<b>Total segment operating margin</b>	7.3%	9.7%	13.8%	13.9%	14.9%	15.7%	17.0%	15.3%
<b>Adjusted total segment operating margin</b>	7.9%	10.2%	13.9%	14.8%	15.8%	16.2%	17.2%	16.2%

\*Totals may not foot due to rounding

# Reconciliation of EBITDA margin to Adjusted EBITDA margin

(Unaudited)

(Dollars in millions)

	12 Months ended 6/30/16	12 Months ended 6/30/17	12 Months ended 6/30/18	12 Months ended 6/30/19	Guide: 12 Months ended 6/30/20
<b>Net sales</b>	<b>11,361</b>	<b>12,029</b>	<b>14,302</b>	<b>14,320</b>	<b>14,324</b>
Net income	807	984	1,061	1,513	1,185
Income taxes	308	345	641	420	339
Depreciation and Amortization	307	355	466	436	564
Interest Expense	137	162	214	190	319
<b>EBITDA*</b>	<b>\$ 1,558</b>	<b>\$ 1,846</b>	<b>\$ 2,382</b>	<b>\$ 2,560</b>	<b>\$ 2,407</b>
Adjustments:					
Voluntary retirement expense	12				
Business realignment charges	97	56	46	16	40
Acquisition-related expenses & Costs to Achieve		103	37	30	212
(Gain) / Loss on Sale and Writedown of Assets			32		
<b>Adjusted EBITDA*</b>	<b>\$ 1,667</b>	<b>\$ 2,006</b>	<b>\$ 2,497</b>	<b>\$ 2,605</b>	<b>\$ 2,658</b>
<b>EBITDA margin</b>	<b>13.7%</b>	<b>15.3%</b>	<b>16.7%</b>	<b>17.9%</b>	<b>16.8%</b>
<b>Adjusted EBITDA margin</b>	<b>14.7%</b>	<b>16.7%</b>	<b>17.5%</b>	<b>18.2%</b>	<b>18.6%</b>

\*Totals may not foot due to rounding

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

## Cash Provided by Operating Activities Reconciliation to GAAP (\$MM) YTD

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Cash Provided by Operating Activities - As Reported	631	558	662	854	951	957	1,317	1,129	1,219	1,167	1,530	1,191	1,388	1,363	1,211	1,302	1,597	1,730
Discretionary Pension Contribution	-	106	75	83	101	161	12	-	100	400	-	226	75	-	200	220	-	200
Cash Provided by Operating Activities - Adjusted	631	663	737	936	1,051	1,118	1,329	1,129	1,319	1,567	1,530	1,417	1,463	1,363	1,411	1,522	1,597	1,930

## Free Cash Flow Reconciliation to GAAP (\$MM) YTD

	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Cash Provided by Operating Activities - As Reported	631	558	662	854	951	957	1,317	1,129	1,219	1,167	1,530	1,191	1,388	1,363	1,211	1,302	1,597	1,730
Capital Expenditures	207	156	138	155	198	238	280	271	129	207	219	266	216	216	149	204	248	195
Free Cash Flow	424	401	524	699	753	719	1,036	858	1,090	960	1,312	925	1,172	1,148	1,061	1,099	1,349	1,535
Discretionary Pension Contribution	-	106	75	83	101	161	12	-	100	400	-	226	75	-	200	220	-	200
Free Cash Flow - Adjusted for Discretionary Pension	424	507	599	782	853	880	1,049	858	1,190	1,360	1,312	1,151	1,247	1,148	1,261	1,319	1,349	1,735



# Reconciliation of EPS to Adjusted EPS

(Unaudited)

(Amounts in Dollars)

	12 Months ended 6/30/16	12 Months ended 6/30/17	12 Months ended 6/30/18	12 Months ended 6/30/19	Guide: 12 Months ended 6/30/20	Guide: 3 Months ended 3/31/20
<b>Earnings per diluted share</b>	<b>\$ 5.89</b>	<b>\$ 7.25</b>	<b>\$ 7.83</b>	<b>\$ 11.48</b>	<b>\$ 9.08</b>	<b>\$ 2.10</b>
Adjustments:						
Business realignment charges	0.80	0.42	0.34	0.12	0.30	0.14
Acquisition-related expenses & Costs to Achieve		0.76	0.27	0.23	1.63	0.20
(Gain) / Loss on Sale and Writedown of Assets			0.24			
Tax effect of adjustments	(0.23)	(0.32)	0.02	(0.09)	(0.46)	(0.08)
U.S. Tax Reform one-time impact, net			1.72	0.11		
<b>Adjusted earnings per diluted share</b>	<b>\$ 6.46</b>	<b>\$ 8.11</b>	<b>\$ 10.42</b>	<b>\$ 11.85</b>	<b>\$ 10.55</b>	<b>\$ 2.36</b>

# Thomas Williams

## Chairman & Chief Executive Officer



**Thomas Williams** is Chairman & Chief Executive Officer of Parker Hannifin Corporation in Cleveland, Ohio.

Previous to his most recent position, he was Executive Vice President and Operating Officer with responsibility for Parker's Aerospace, Engineered Materials, Filtration, Instrumentation and Asia Pacific groups, along with the Strategic Pricing department.

Mr. Williams has demonstrated successful leadership in two of Parker's operating groups, as Vice President of Operations for the Hydraulics Group and then President of the Instrumentation Group. Mr. Williams joined Parker in 2003. Prior to that, he held a number of key management positions at General Electric.

He is an emeritus member of the Board of Directors for the Make-a-Wish Foundation, a non-profit organization making wishes come true for terminally ill children and a member of the Board of Directors for Goodyear Tire & Rubber Company. He is also a member of the Business Council, comprised of leading global CEO's, which provides a forum for continual learning and networking.

Mr. Williams earned a Mechanical Engineering degree from Bucknell University and his MBA from Xavier University.

# Lee C. Banks

## President & Chief Operating Officer



**Lee Banks** is President and Chief Operating Officer of Parker Hannifin Corporation in Cleveland, Ohio, a position he has held since 2015.

Mr. Banks joined Parker in 1991 and held increasingly responsible positions within sales and operations management, including several division general manager positions. He served as President of Parker's Hydraulics and Instrumentation Groups, and was Vice President of Operations for the Climate and Industrial Controls Group.

Prior to his current position, Mr. Banks was an Operating Officer of the company with leadership responsibility for the Filtration, Engineered Materials, Instrumentation, Climate and Industrial Controls, Hydraulics, Fluid Connectors and Automation product groups and the Europe, Middle East and Africa, and Latin America regional groups.

Mr. Banks serves on the Board of Directors of Nordson Corporation, a leader in precision dispensing equipment for industrial coatings. He earned a Bachelor of Arts degree in Economics from DePauw University and a Master of Business Administration from The Keller Graduate School of Management in Chicago.

# Catherine A. Suever

## Executive Vice President – Finance & Administration and Chief Financial Officer



**Catherine Suever** is Executive Vice President Finance & Administration and Chief Financial Officer of Parker Hannifin Corporation in Cleveland, Ohio, a position she has held since 2017.

Ms. Suever joined Parker in 1987 in External Reporting. She moved into operations as Division Controller of the Gas Turbine Fuel Systems Division, then was promoted to Business Unit Manager. In 2006, Ms. Suever was promoted to the corporate role of Director, Finance and Investor Relations Support, followed by a promotion to Assistant Treasurer in 2007. She assumed the role of Vice President and Controller of the Climate & Industrial Controls Group in 2008,

Prior to her current position, Ms. Suever was Vice President, Corporate Controller and Chief Accounting Officer and was elected as an Officer in 2010.

Ms. Suever serves on the Board of Directors of Hexcel Corporation, a global leader in advanced composites technology, and is on the Board of Trustees for the National Multiple Sclerosis Society Ohio Buckeye Chapter. She is also a member of the CFO Council of the Manufacturers Alliance for Productivity & Innovation (MAPI), the American Institute of Certified Public Accountants (AICPA), and Financial Executives International (FEI). Ms. Suever is a Certified Public Accountant. She earned a Bachelor of Science degree in Accounting from the University of Dayton.

# Parker's Investor Relations Team



**Robin Davenport**  
Vice President Corporate Finance  
[rjdavenport@parker.com](mailto:rjdavenport@parker.com)  
216 896 2265



**Jeff Miller**  
Director – Investor Relations  
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