

# Bank of America Merrill Lynch Global Industrials Conference 2019

London, UK



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March 20, 2019

# 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. 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.

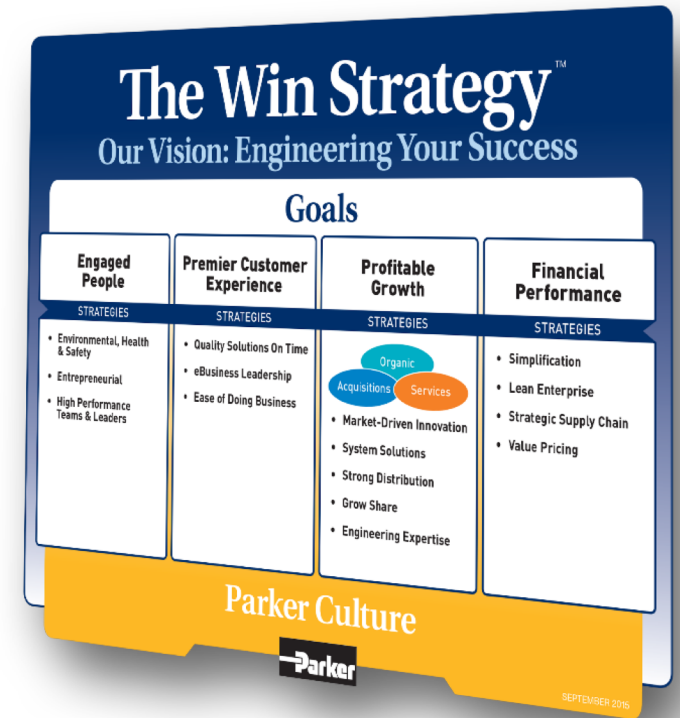
Additionally, the actual impact of the U.S. Tax Cuts and Jobs Act on future performance and earnings projections may change based on subsequent judicial or regulatory interpretations of the Act that impact the company's tax calculations. A change in the economic conditions in individual markets may have a particularly volatile effect on segment performance. Among other factors which may affect future performance of the company 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; 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. 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 divestitures 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, CLARCOR Cost to Achieve, (d) 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, gain (loss) on sale and writedown of assets, net and U.S. Tax Reform one-time impact, net. 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 gain (loss) on sale and writedown of assets, net. 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 divestitures, currency exchange rates, discretionary pension plan contributions, business realignment charges, CLARCOR costs to achieve, gain (loss) on sale and writedown of assets, net and U.S. Tax Reform one-time impact, net 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, Income Tax 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 tax expense related to U.S. Tax Reform. Please visit [www.PHstock.com](http://www.PHstock.com) for more information

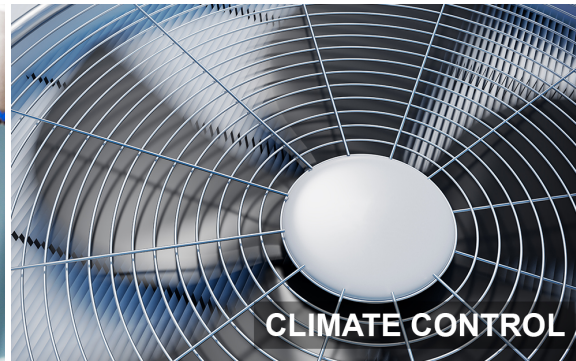
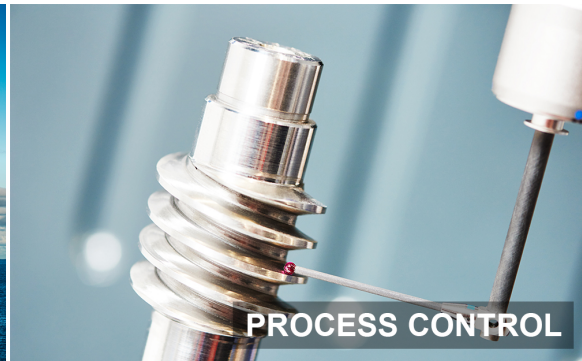
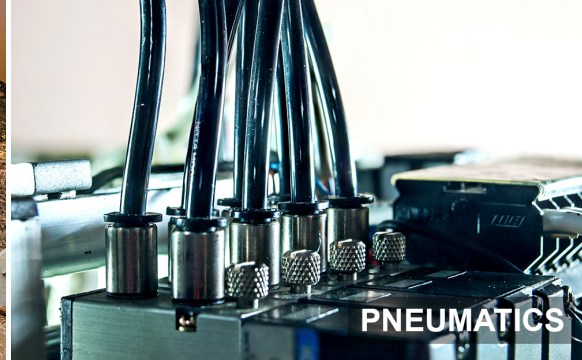


# Parker's Competitive Differentiators

- The Win Strategy™
- Decentralized business model
- Technology breadth & interconnectivity
- Engineered products with intellectual property
- Long product life cycles
- Global Distribution, Service & Support
- Low capital investment requirements
- Great generators and deployers of cash over the cycle



# Unmatched Breadth of Technologies



# OUR STRATEGY

The Win Strategy™ drives operational excellence and positions Parker to deliver top quartile performance and long-term shareholder value.



# Profitable Growth

## Key Initiatives

- Distribution Growth
- Share Gain – Key Accounts
- Systems Engineering
- Digital Leadership
- Market Driven Innovation

**Enhanced by improved growth incentive plan**

# Financial Performance

## Key Initiatives

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

**The “Big 4” Financial Initiatives**

# Simplification Initiative

## Key Focus Areas

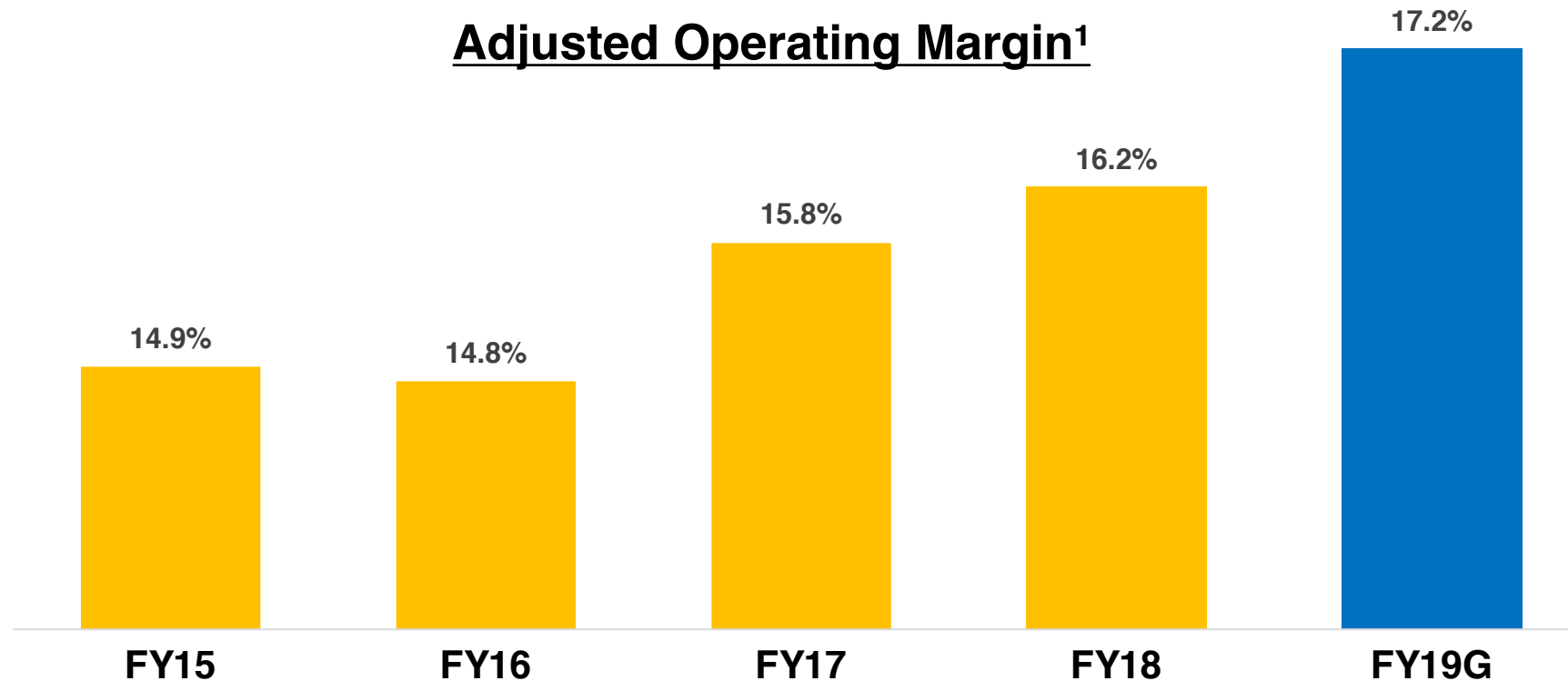
- Revenue profile complexity
- Optimize organization & processes
- Division Consolidations
- Reduce bureaucracy

**Enables speed & growth at reduced costs**

# Financial Performance

## Expanding Profitability

### Adjusted Operating Margin<sup>1</sup>



Note 1:

FY19 Excludes Expected Business Realignment Charges and Expected Clarcor Costs to Achieve

FY18 Excludes Business Realignment Charges and Clarcor Costs to Achieve

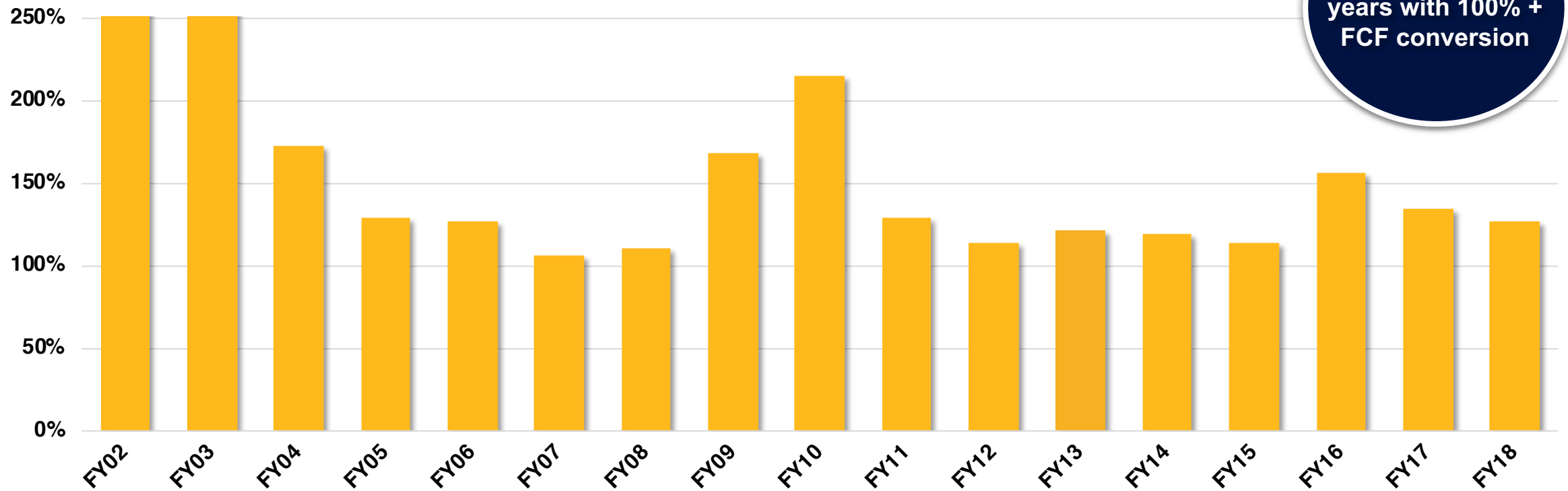
FY17 Excludes Business Realignment Charges and Clarcor Acquisition Expenses

FY16 Excludes Business Realignment Charges

FY15 Excludes Business Realignment Charges and Voluntary Retirement Expense

# Driving Free Cash Flow

## Free Cash Flow / Net Income



\* Free Cash Flow = Cash Provided by Operating Activities - Capital Expenditures + Discretionary Pension Contribution

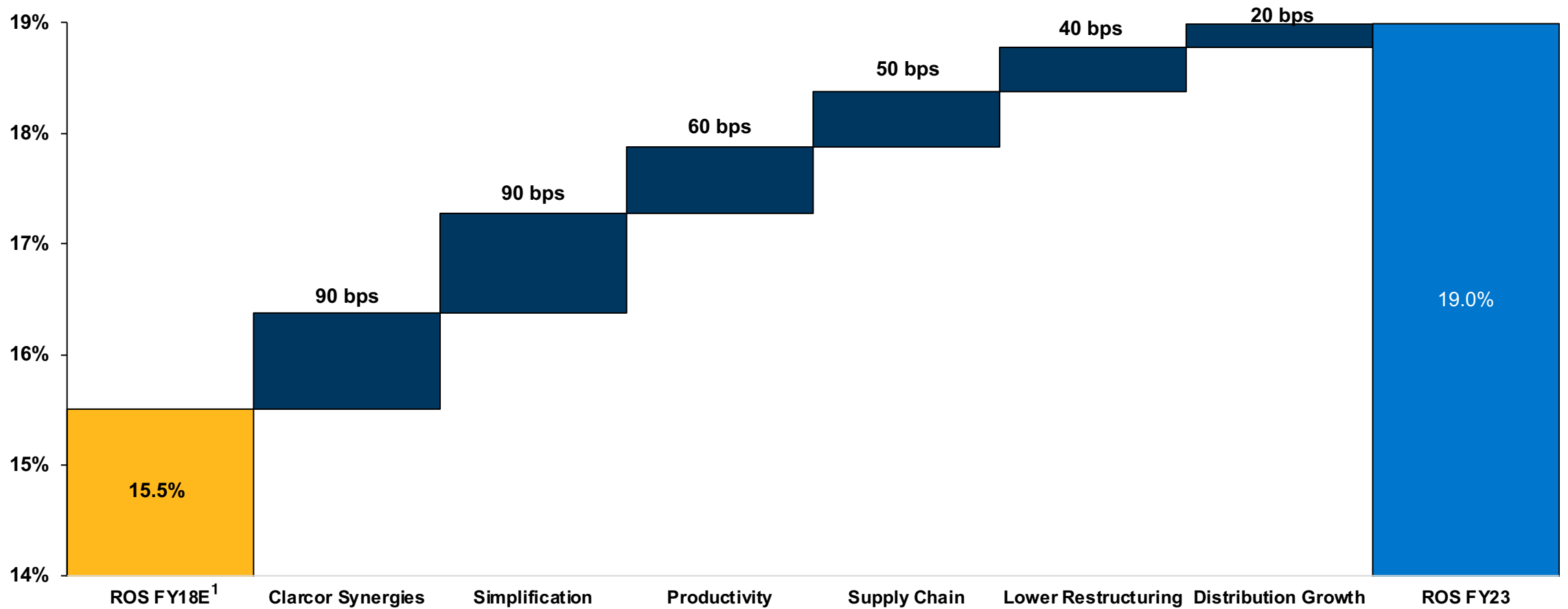


# 5-Year Corporate Targets

## FY23 Targets

|                |               |
|----------------|---------------|
| Growth         | 150 bps > GIP |
| Segment OM%    | 19%           |
| EBITDA Margin  | 20%           |
| FCF Conversion | >100%         |
| EPS CAGR       | 10%+          |

# Operating Margin Drivers to 19% in FY23



As Reported



# Capital Allocation Priorities

- Dividends
- Capex for Organic Growth and Productivity
- Strategic Acquisitions
- Share Repurchase - 10b5-1 and Discretionary

**Optimize Long Term Value Creation**

# Key Messages

- Record-setting performance in FY'18 and 1<sup>st</sup> half FY'19
- Parker's Competitive Differentiators
- CLARCOR synergies remain on track
- FY'23 5-year targets - Performance bars raised
- Capital allocation – Great generator and deployer of cash
- New Win Strategy is working...plenty of runway



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# Appendix

- Reconciliation of Segment Operating Margin
- Reconciliation of Cash Flow from Operations and Free Cash Flow Conversion

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

## RECONCILIATION OF TOTAL SEGMENT OPERATING MARGIN TO ADJUSTED TOTAL SEGMENT OPERATING MARGIN

(Unaudited)

(Dollars in thousands)

|                                                | FY15                |                  | FY16                |                  | FY17                |                  | FY18                |                  |
|------------------------------------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|---------------------|------------------|
|                                                | Operating income    | Operating margin | Operating income    | Operating margin | Operating income    | Operating margin | Operating income    | Operating margin |
| <b>Total segment operating income</b>          | <b>\$ 1,838,432</b> | <b>14.5%</b>     | <b>\$ 1,575,655</b> | <b>13.9%</b>     | <b>\$ 1,790,255</b> | <b>14.9%</b>     | <b>\$ 2,239,179</b> | <b>15.7%</b>     |
| Adjustments:                                   |                     |                  |                     |                  |                     |                  |                     |                  |
| Voluntary retirement expense                   | 18,057              |                  |                     |                  |                     |                  |                     |                  |
| Business realignment charges                   | 31,849              |                  | 106,642             |                  | 55,613              |                  | 46,319              |                  |
| Clarcor acquisition expense                    |                     |                  |                     |                  | 58,408              |                  |                     |                  |
| Clarcor costs to achieve                       |                     |                  |                     |                  |                     |                  | 36,676              |                  |
| <b>Adjusted total segment operating income</b> | <b>\$ 1,888,338</b> | <b>14.9%</b>     | <b>\$ 1,682,297</b> | <b>14.8%</b>     | <b>\$ 1,904,276</b> | <b>15.8%</b>     | <b>\$ 2,322,174</b> | <b>16.2%</b>     |

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

## 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 Q1 | FY19 Q2 |
|-----------------------------------------------------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|
| 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 | 1,600 | 159     | 541     |
| Discretionary Pension Contribution                  | -    | 106  | 75   | 83   | 101   | 161   | 12    | -     | 100   | 400   | -     | 226   | 75    | -     | 200   | 220   | -     | 200     | 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 | 1,600 | 359     | 741     |

## 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 Q1 | FY19 Q2 |
|-----------------------------------------------------|------|------|------|------|------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|---------|---------|
| 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 | 1,600 | 159     | 541     |
| Capital Expenditures                                | 207  | 156  | 138  | 155  | 198  | 238  | 280   | 271   | 129   | 207   | 219   | 266   | 216   | 216   | 149   | 204   | 248   | 42      | 94      |
| 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 | 1,353 | 117     | 447     |
| Discretionary Pension Contribution                  | -    | 106  | 75   | 83   | 101  | 161  | 12    | -     | 100   | 400   | -     | 226   | 75    | -     | 200   | 220   | -     | 200     | 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 | 1,353 | 317     | 647     |