

# Parker's Acquisition of LORD Corporation to Enhance Engineered Materials Business



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ENGINEERING YOUR SUCCESS.

April 29, 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. Parker cautions readers not to place undue reliance on these statements.

The risks and uncertainties in connection with such forward-looking statements related to the proposed transaction include, but are not limited to, the occurrence of any event, change or other circumstances that could delay the closing of the proposed transaction; the possibility of non-consummation of the proposed transaction and termination of the merger agreement; the failure to satisfy any of the conditions to the proposed transaction set forth in the merger agreement; the possibility that a governmental entity may prohibit the consummation of the proposed transaction or may delay or refuse to grant a necessary regulatory approval in connection with the proposed transaction, or that in order for the parties to obtain any such regulatory approvals, conditions are imposed that adversely affect the anticipated benefits from the proposed transaction or cause the parties to abandon the proposed transaction; adverse effects on Parker’s common stock because of the failure to complete the proposed transaction; Parker’s business experiencing disruptions due to transaction-related uncertainty or other factors making it more difficult to maintain relationships with employees, business partners or governmental entities; the possibility that the expected synergies and value creation from the proposed transaction will not be realized or will not be realized within the expected time period; the parties being unable to successfully implement integration strategies; and significant transaction costs related to the proposed transaction. Readers should consider these forward-looking statements in light of risk factors discussed in Parker’s Annual Report on Form 10-K for the fiscal year ended June 30, 2018 filed on August 24, 2018 and other periodic filings made with the SEC. Parker 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 adjusted net sales, EBITDA and adjusted EBITDA. Adjusted net sales is defined as net sales with those sales attributable to portions of the business which are to be divested removed. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA is defined as EBITDA before business realignment, CLARCOR costs to achieve, net loss on sale and write-down of assets and non-recurring charges. Although adjusted net sales, EBITDA and adjusted EBITDA are not measures of performance calculated in accordance with GAAP, we believe that they are useful to an investor in evaluating the transaction proposed in this presentation. 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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# Agenda

**Transaction Overview**

**Strategic Fit**

**Introduction to **LORD****

**Synergies and Financials**

**Summary and Q&A**

# Transaction Summary

## Transaction Description<sup>1</sup>

- **Acquisition of 100% of LORD Corporation**
  - Leader in materials science and vibration control technologies
  - CY19E Sales: ~\$1.1B; CY19E adjusted EBITDA margin: ~23%
- **Greatly expands Parker's Engineered Materials business**

## Transaction Consideration

- **\$3.675B Cash Purchase Price**
  - 15.1x EV / CY19E adjusted EBITDA
  - 9.9x EV / CY19E adjusted EBITDA (including cost synergies)

## Expected Financial Impact

- **EPS accretive in the first 12 months<sup>2</sup>**
- **EBITDA margin and organic sales growth accretive**
- **High single-digit ROIC in year 5 with continued expansion**
- **Significant cost synergy opportunity of \$125M**
- **Funded with debt**

## Closing

- **Expected within four to six months<sup>3</sup>**

1. CY19 LORD forecast as of 3/31/19, Sales and EBITDA adjusted for portion of business to be divested and non-recurring charges

2. Excludes one-time costs and deal-related amortization

3: Subject to customary closing conditions and required regulatory approvals

# Compelling Strategic & Financial Benefits

**Strategic Portfolio Acquisition - Greatly Expands Engineered Materials Business**

**Complementary Products, Markets & Geographies - Aligned to Key Mega Trends**

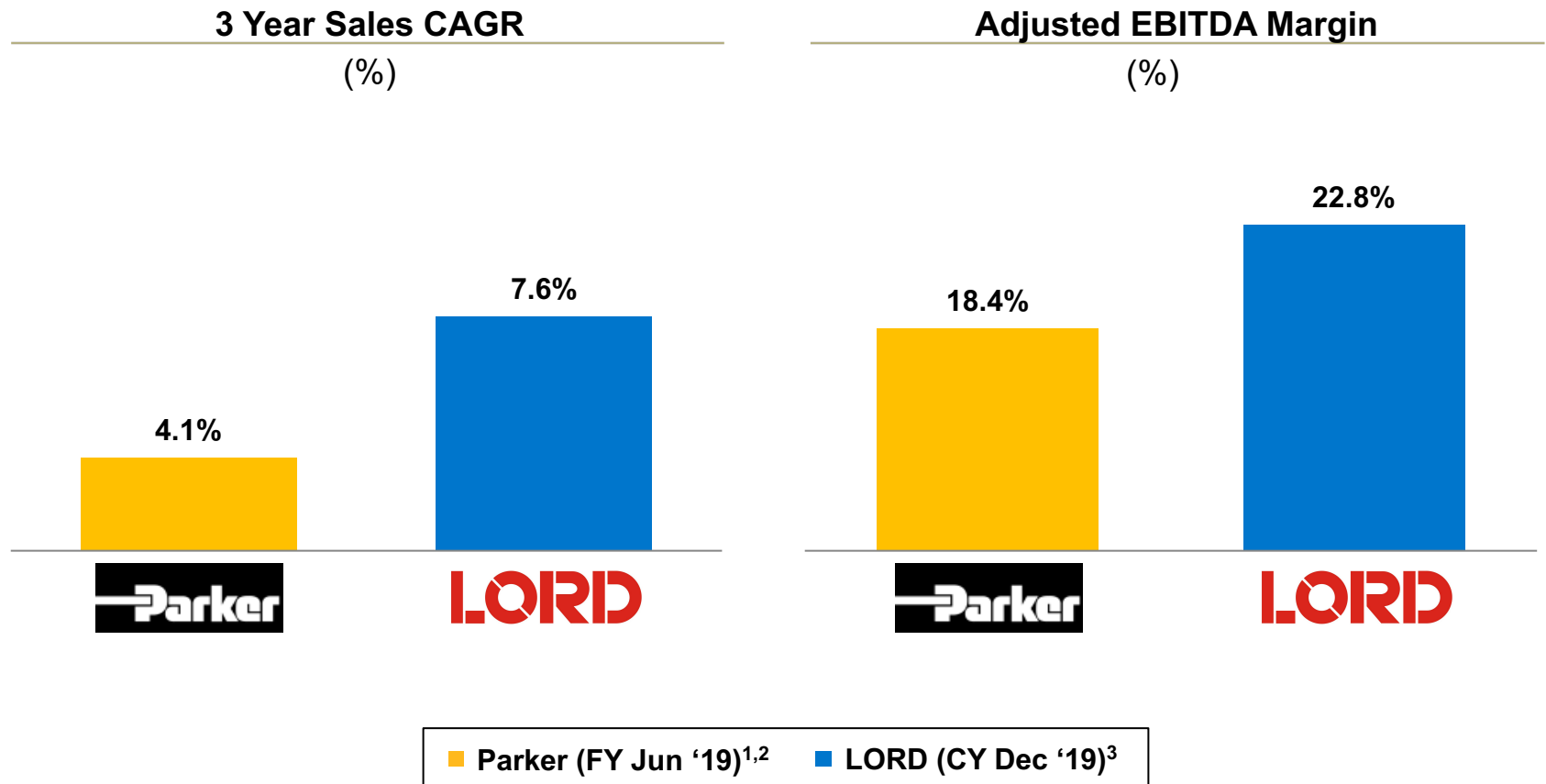
**Culturally Aligned with Rich History of Innovation and Product Reliability**

**Strong Global Brands and Longstanding Blue-Chip Customer Relationships**

**Strengthens Materials Science, Electrification and Aerospace Offerings**

**Expected to be Accretive to Organic Growth, EBITDA Margin, Cash Flow & EPS<sup>1</sup>**

# Sales Growth and Margin Accretive



Note:

1. Parker financials pro forma for prior acquisitions for all years
2. Parker FY19 Sales and adjusted EBITDA as of guidance given 1/31/19 and exclude FY19 business realignment charges, costs to achieve, and net loss on sale and write down of assets
3. CY19 LORD forecast as of 3/31/19



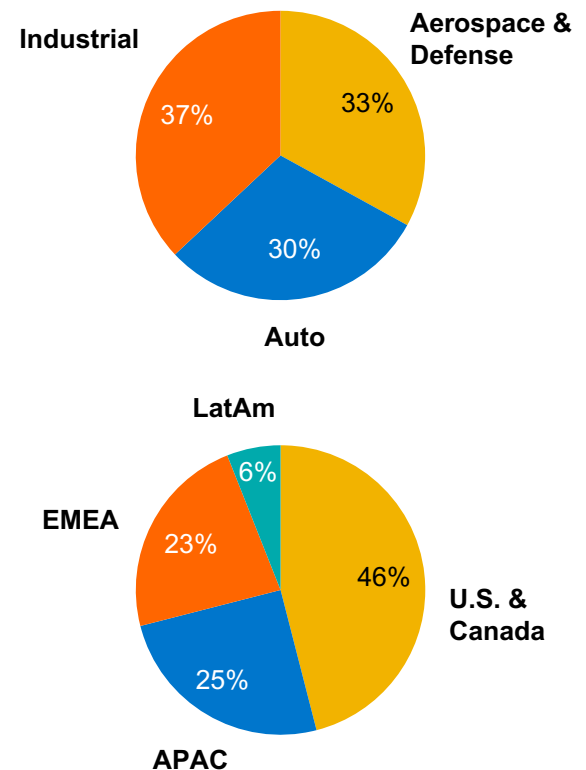
# LORD Corporation Introduction

Leader in Materials Science and Vibration Control Technologies

## Overview

- 95-year heritage and track record of growth and success in innovation
- Mission-critical products, including specialty adhesives and coatings, and vibration control technologies
- Top supplier to key OEMs for decades
- Deep active patent portfolio, plus significant trade secrets and proprietary formulations
- Top industry brands
- Broad customer base ~1,800 across 79 countries

~\$1.1 Billion in Sales<sup>1</sup>



# Similar Values and History

## Top Quartile Focus



- Founded in 1917
- Founder: Arthur L. Parker
- Began in Cleveland, OH
- Spirit of St. Louis Fittings
- Engagement: High Performance Teams
- Strategy: The Win Strategy™



- Founded in 1924
- Founder: Hugh C. Lord
- Began in Erie, PA
- Spirit of St. Louis Vibration Controls
- Engagement: High Performance Teams
- Strategy: LORD Summits





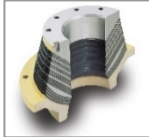


Associated Press Photo





# Proprietary Products for Mission-Critical Applications

Key Technologies	Selected Products/Solution	Differentiators
<b>Rubber-to-Substrate Bonding</b> 	Chemlok® brand On virtually every vehicle in the world	Proprietary adhesives for all rubber bonding applications
<b>Thermal Management</b> 	CoolTherm® brand Leading brand for heat dissipation materials and adhesives	Broad range of chemistries: acrylic, silicone, urethane, epoxy  By 2019, over 1 million EVs will be produced to date using LORD solutions
<b>Structural Adhesives</b> 	Versilok®, Fusor®, Maxlok®, LORD® Trusted by OEMs for assembly/repair	Broad range of chemistries Critical supplier to auto OEMs
<b>Electro-mechanical Systems</b> 	Active vibration control systems Magnetically responsive devices	Patented technology Rotary wing first to market
<b>Passive Vibration Control</b> 	Engine attachment systems High capacity laminate bearings for helicopters Elastomer mounts for vehicles	Expertise in materials, stress measurement, vibration, motion control

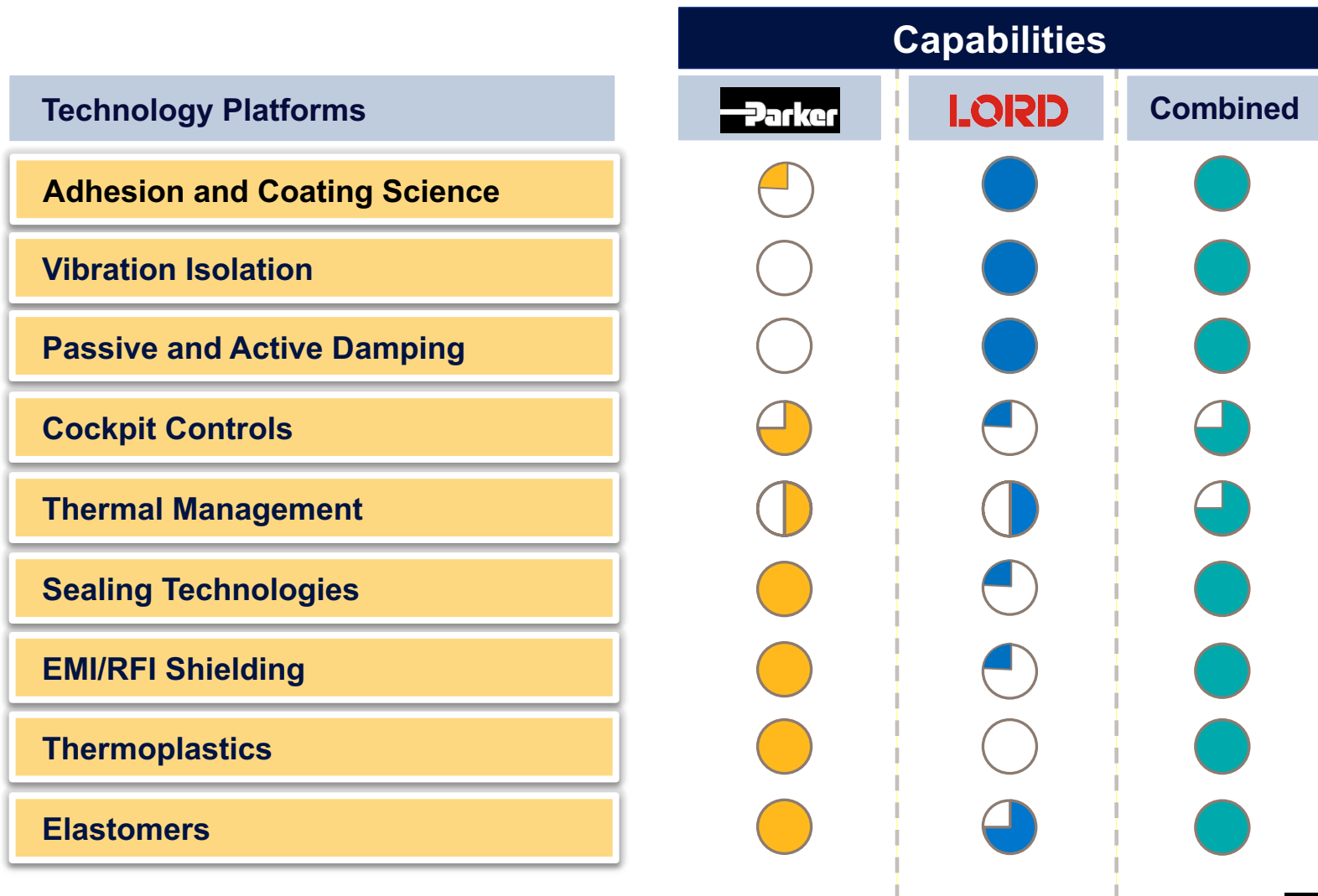
Critical solutions for high cost of failure applications

Low cost to value ratio






















Trusted, safe and reliable

Longstanding customer relationships

# Materials Science Technology Expansion



# Complementary Industries Focus

Industry	Capabilities		
	Parker	LORD	Combined
Automotive (ICE)			
Automotive (HEV/BEV)			
Aerospace & Defense			
Construction & Agriculture			
Energy & Process			
Telecom & Information Technologies			
General Industrial			

**Growth Accelerators:  
Aerospace, Lightweighting & Electrification**

# Leading Rubber to Substrate Applications

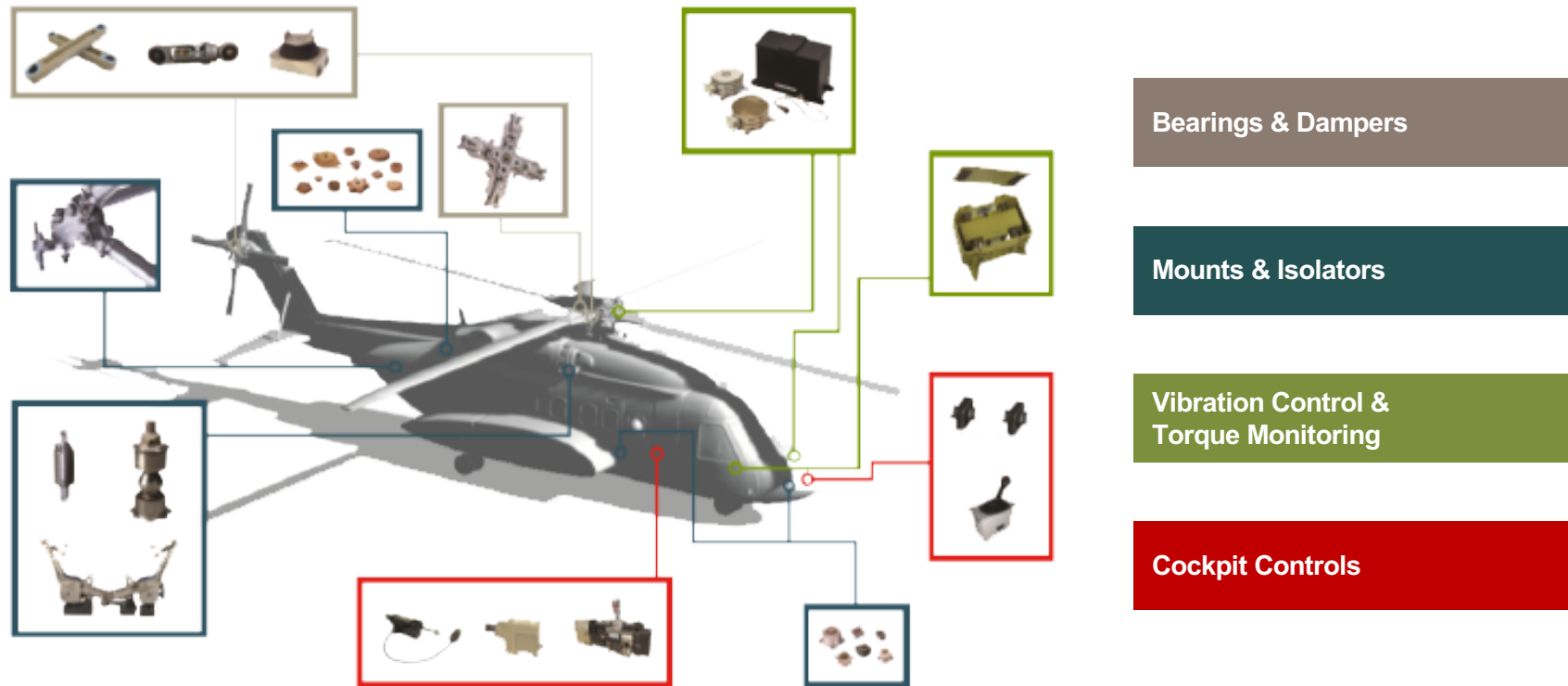
Wide spectrum of adhesives for bonding rubber to various substrates, coatings used to enhance rubber surfaces, and other specialty adhesives

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- Most trusted adhesive in the market
- A solution for every process
- A solution for every elastomer to substrate
- A solution for every environment

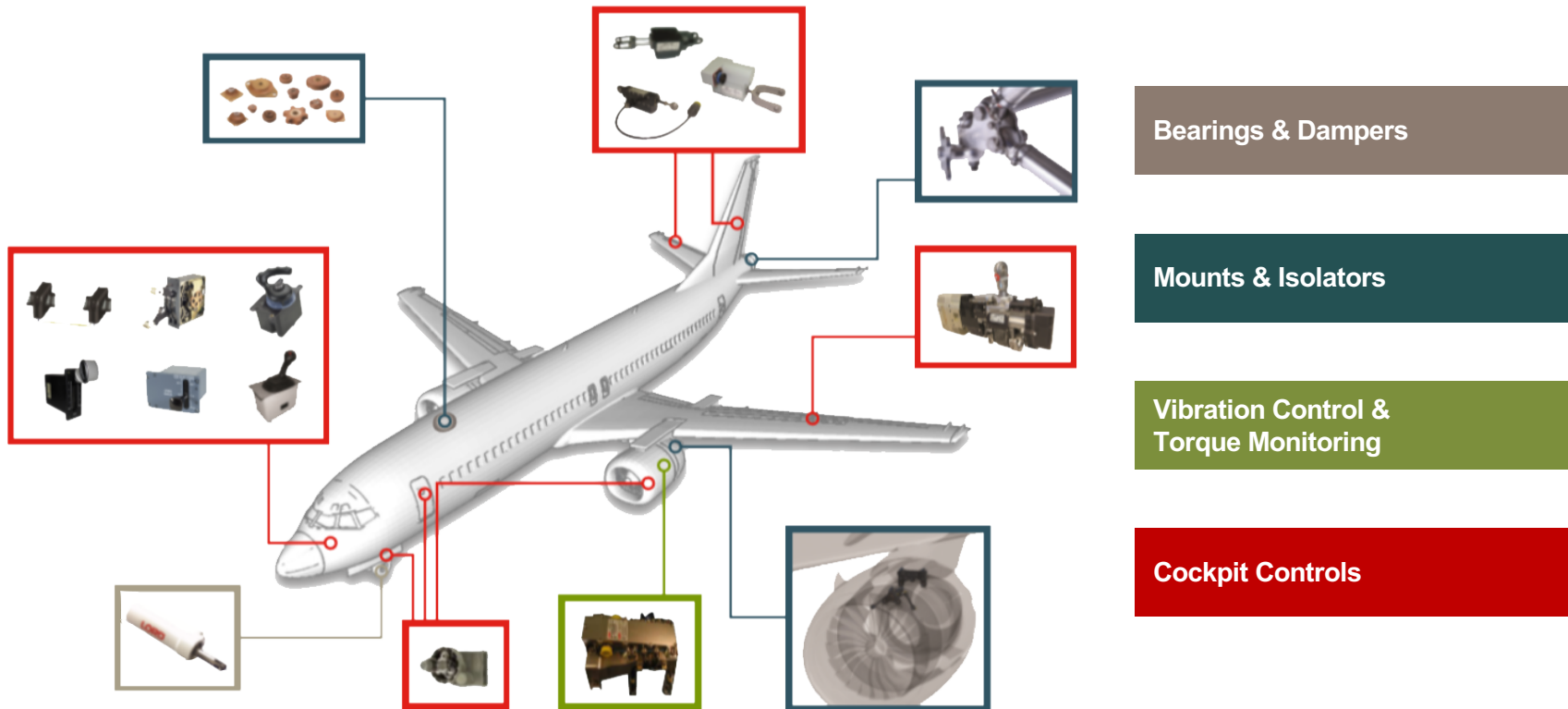
**Chemlok®**  
**Chemosil®**

# Mission-Critical Helicopter Applications



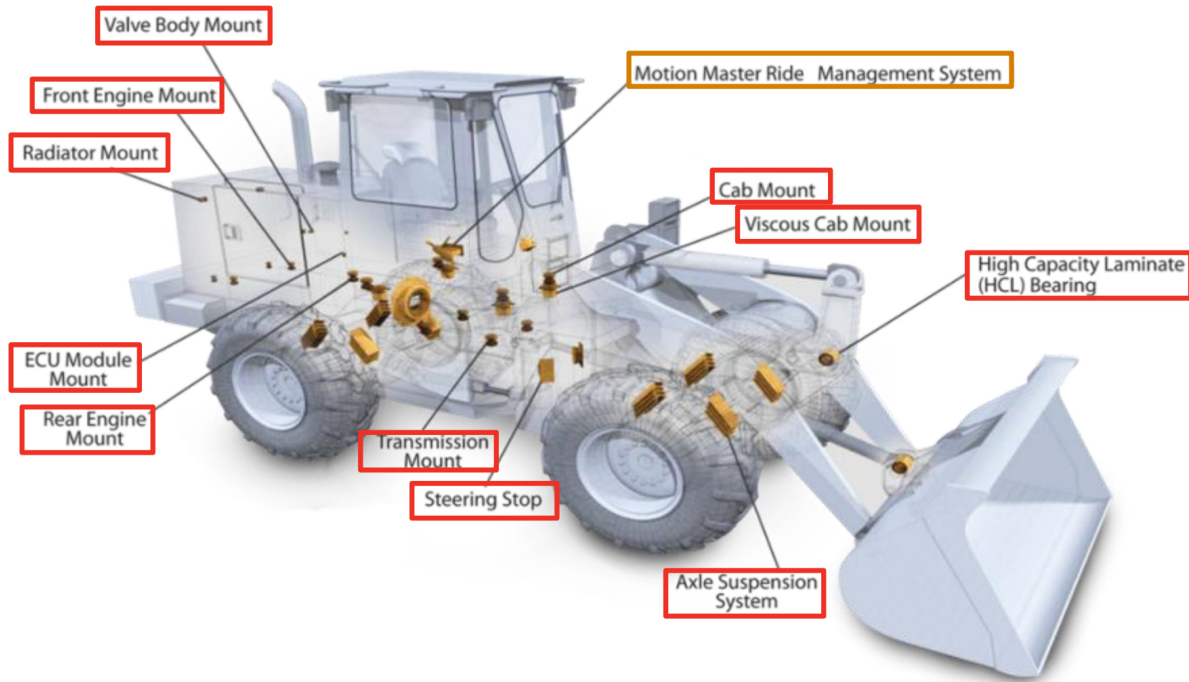
**Recognized Pioneer in Aerospace and Defense**

# Comprehensive Fixed Wing Applications



**Decades-long Reputation for World Class Capability,  
Low Risk and Innovation**

# Off-Highway Vehicle Applications



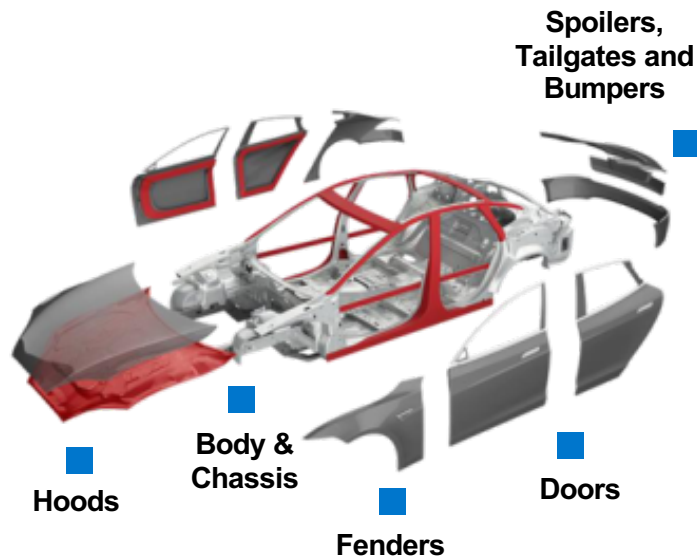
MR Dampers

Elastomer Mounts

**Materials Science and Bonding Expertise**

# Innovative Lightweighting Applications

## Lightweighting Auto Body Assembly



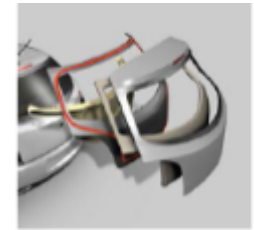
## Industrial Fabrication and Assembly



Truck  
Door Skins



Ceiling Panels



Liftgates



Spoilers



Boat Decks

**A Spectrum of Solutions for Body Assembly,  
Industrial Assembly & Corrosion Protection**

**Versilok®**

**Maxlok™**

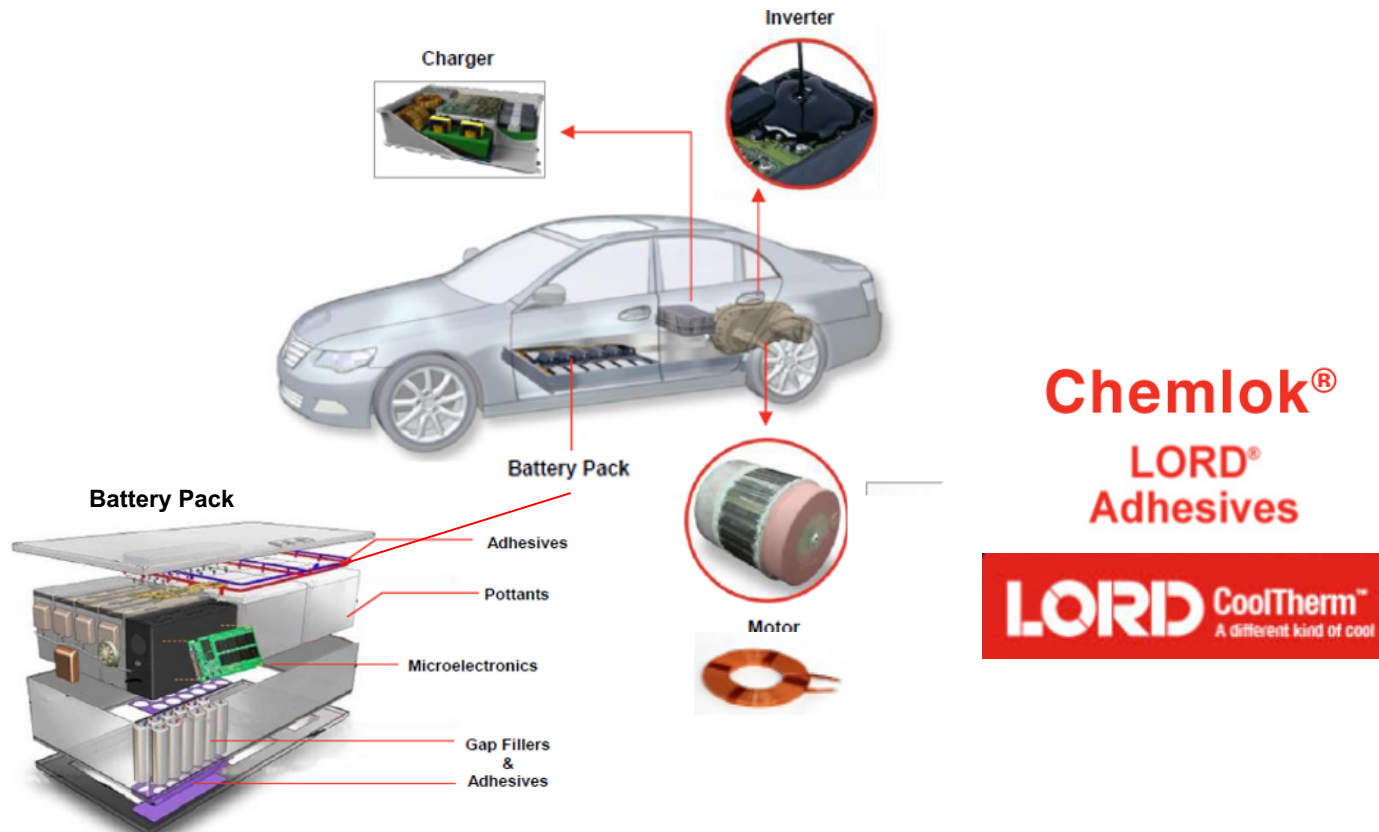
**FUSOR®**

**LORD®  
Adhesives**





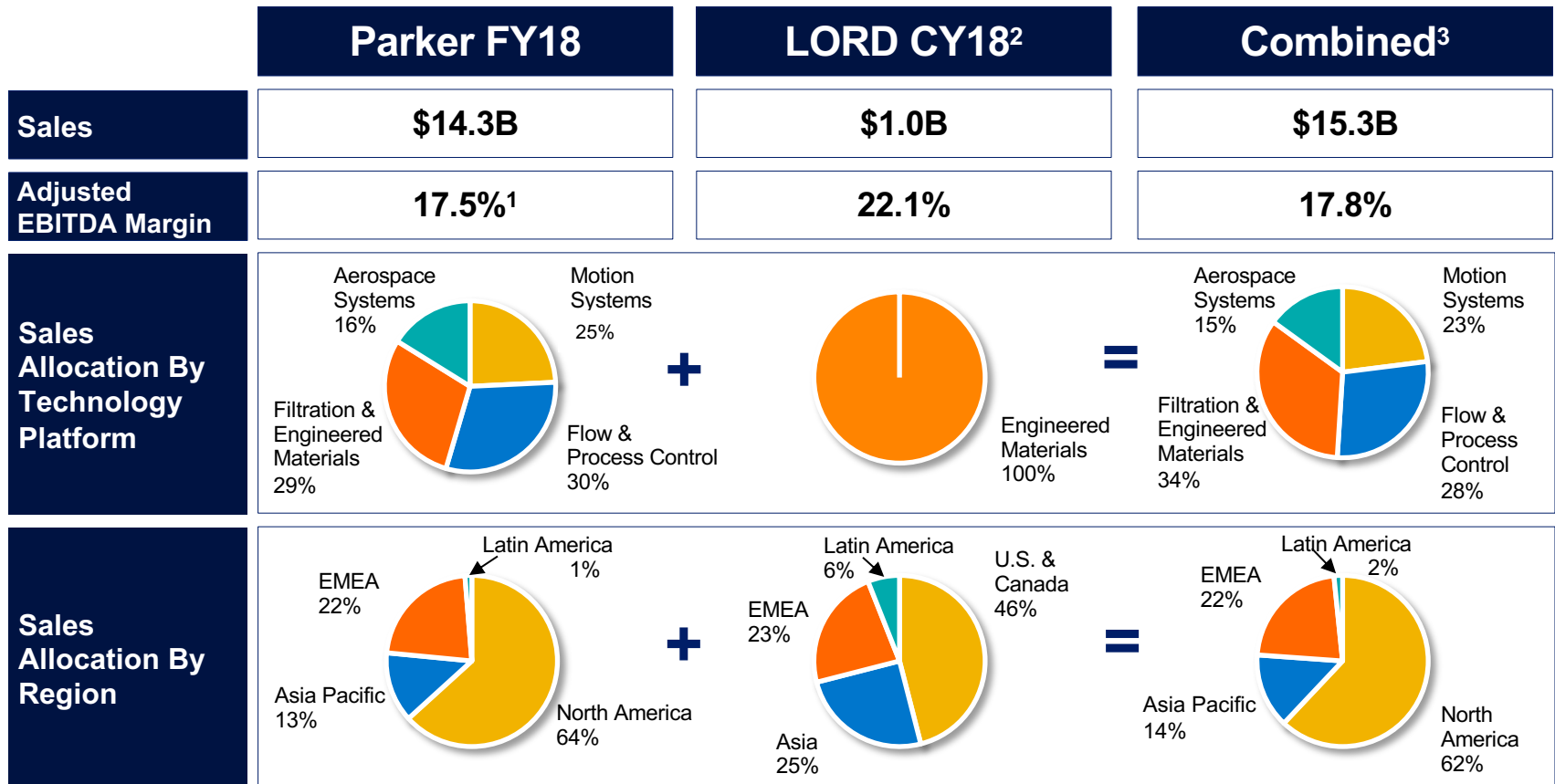
# Advanced Hybrid and Electric Vehicle Applications



Key Solutions Provider for Electrification

# Strengthening Our Portfolio

## Adding a Top Quartile Growth & Margin Business



Source: Company filings and internal financial data

1: Parker FY18 EBITDA adjusted for business realignment, CLARCOR costs to achieve and net loss on sale and write-down of assets

2: LORD sales adjusted for business to be divested and EBITDA adjusted for non-recurring charges

3: Excludes synergies

# Meaningful & Achievable Synergies

	Pre-Tax Run-Rate Synergy Estimate	Anticipated Areas of Synergies
Cost Synergies	<b>\$125M</b> (Run-rate by Fiscal Year 2023)	→ Win Strategy Implementation
		→ Supply Chain
		→ Lean Productivity
		→ SG&A Costs

- 
- Estimated One-time Costs to Achieve ~\$80M

# Great Value for Parker Shareholders

## EPS Accretive

→ EPS expected to be accretive in first 12 months<sup>1</sup>

## Attractive ROIC

→ High single-digit ROIC expected in year 5 with continued expansion

## EBITDA Margin Accretive

- LORD's adjusted EBITDA margin at ~23%<sup>2</sup>
- Combined adjusted EBITDA margin forecasted to improve by more than 300 bps by year 5

## Significant Synergy Opportunity

- Expected pre-tax run-rate cost synergies of \$125M
- Reduced execution risk through Win Strategy implementation

## Top Quartile Performer

- Materials science technology and innovation leader
- Critical solutions for fast growing applications

## Optimal Capital Allocation

- Great capital deployment driving long-term shareholder value
- Retain dividend payout target at avg. of 30-35% of net income over 5 years



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# Appendix

# GAAP to Non-GAAP Reconciliations

## Reconciliation of Net Sales to Adjusted Net Sales and EBITDA to Adjusted EBITDA

(Unaudited) (Dollars in millions)	Fiscal Year Ended June 30, 2018 Parker Hannifin	Fiscal Year Ended December 31, 2018 LORD	Illustrative Combined (1)
<b>Net sales</b>	\$ 14,302	\$ 1,025	\$ 15,327
Portion of business to be divested	-	(16)	(16)
<b>Adjusted net sales</b>	\$ 14,302	\$ 1,009	\$ 15,311
Earnings before income taxes	\$ 1,702	\$ 154	\$ 1,856
Depreciation and amortization	466	36	502
Interest expense (2)	214	10	224
<b>EBITDA</b>	2,382	200	2,582
Business realignment charges	46	-	46
Clarcor costs to achieve	37	-	37
Net loss on sale and write-down of assets	32	-	32
Non-recurring charges (3)	-	23	23
<b>Adjusted EBITDA (without synergies)</b>	\$ 2,497	\$ 223	\$ 2,720
<b>Synergies (4)</b>	-	125	125
<b>Adjusted EBITDA (with synergies)</b>	\$ 2,497	\$ 348	\$ 2,845
Adjusted EBITDA margin (without synergies)	17.5%	22.1%	17.8%

(1) - Parker results for fiscal year ended June 30, 2018. LORD results for calendar year ended December 31, 2018. Combined for illustrative purposes only. Pro forma results in accordance with Article 11 of Regulation S-X would differ.

(2) - LORD results nets \$1 of interest income against interest expense.

(3) - LORD results adjusted for non-recurring charges including divestiture transaction expenses of \$6, business realignment charges of \$5, discretionary bonus costs of \$4 and other costs of \$8.

(4) - Synergies run-rate by Fiscal Year 2023.



# GAAP to Non-GAAP Reconciliations

## Reconciliation of Forecasted Net Sales to Adjusted Net Sales and EBITDA to Adjusted EBITDA

(Unaudited) (Dollars in millions)	Forecasted Fiscal Year Ended June 30, 2019 Parker Hannifin	Forecasted Fiscal Year Ended December 31, 2019 LORD	Illustrative Combined (1)	
<b>Forecasted net sales</b>	\$ 14,414	\$ 1,088	\$	15,502
Portion of business to be divested	-	(18)		(18)
<b>Forecasted adjusted net sales</b>	\$ 14,414	\$ 1,070	\$	15,484
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Forecasted earnings before income taxes	\$ 1,951	\$ 188	\$	2,139
Depreciation and amortization	487	36		523
Interest expense (2)	186	10		196
<b>Forecasted EBITDA</b>	2,624	234		2,858
Business realignment charges	19	-		19
Clarcor costs to achieve	16	-		16
Non-recurring charges	-	10		10
<b>Forecasted adjusted EBITDA (without synergies)</b>	\$ 2,659	\$ 244	\$	2,903
<b>Synergies (3)</b>	-	125		125
<b>Forecasted adjusted EBITDA (with synergies)</b>	\$ 2,659	\$ 369	\$	3,028
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Forecasted EBITDA margin	18.2%	21.5%		18.4%
Forecasted adjusted EBITDA margin (without synergies)	18.4%	22.8%		18.7%

(1) - Parker expected results for fiscal year ended June 30, 2019 as of guidance provided January 31, 2019. LORD expected results for calendar year ended December 31, 2019 as of March 31, 2019. Combined for illustrative purposes only. Pro forma results in accordance with Article 11 of Regulation S-X would differ.

(2) - LORD results nets \$1 of interest income against interest expense.

(3) - Synergies run-rate by Fiscal Year 2023.

