

Parker Hannifin Corporation

Fiscal 2021 Third Quarter Earnings Presentation



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ENGINEERING YOUR SUCCESS.

April 29, 2021

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,” “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: the impact of the global outbreak of COVID-19 and governmental and other actions taken in response; 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 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. 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 for Parker, including organic sales for Parker and by segment, adjusted earnings per share, adjusted operating margin for Parker and by segment, EBITDA, adjusted EBITDA, EBITDA margin, and free cash flow. EBITDA is defined as earnings before interest, taxes, depreciation and amortization. For Parker, adjusted EBITDA is defined as EBITDA before business realignment, Integration costs to achieve, and acquisition related expenses. Free cash flow is defined as cash flow from operations less capital expenditures. Although organic sales, adjusted earnings per share, adjusted operating margin for Parker and by segment, EBITDA, adjusted EBITDA, EBITDA margin and free cash flow 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 period 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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Outstanding Performance in FY21 Q3

- Top quartile safety performance; 33% reduction in recordable incidents
- Sales growth of 1.2% YoY; Organic decline of (1.0%) YoY
- Five all-time quarterly records:
 - Net Income, EPS, Segment Margins for Parker, Industrial North America and International
- EBITDA margin was 21.6% as reported or 21.8% adjusted¹, +250 bps vs. prior
- Q3 YTD Cash flow from operations a record at \$1.9B or 18.1% of sales

<u>Parker</u>	<u>FY21 Q3</u>	<u>FY20 Q3</u>	<u>Change</u>
Segment Operating Margin, As Reported	19.0%	15.8%	
Segment Operating Margin, Adjusted ¹	21.4%	19.0%	+240 bps

Parker's Transformation

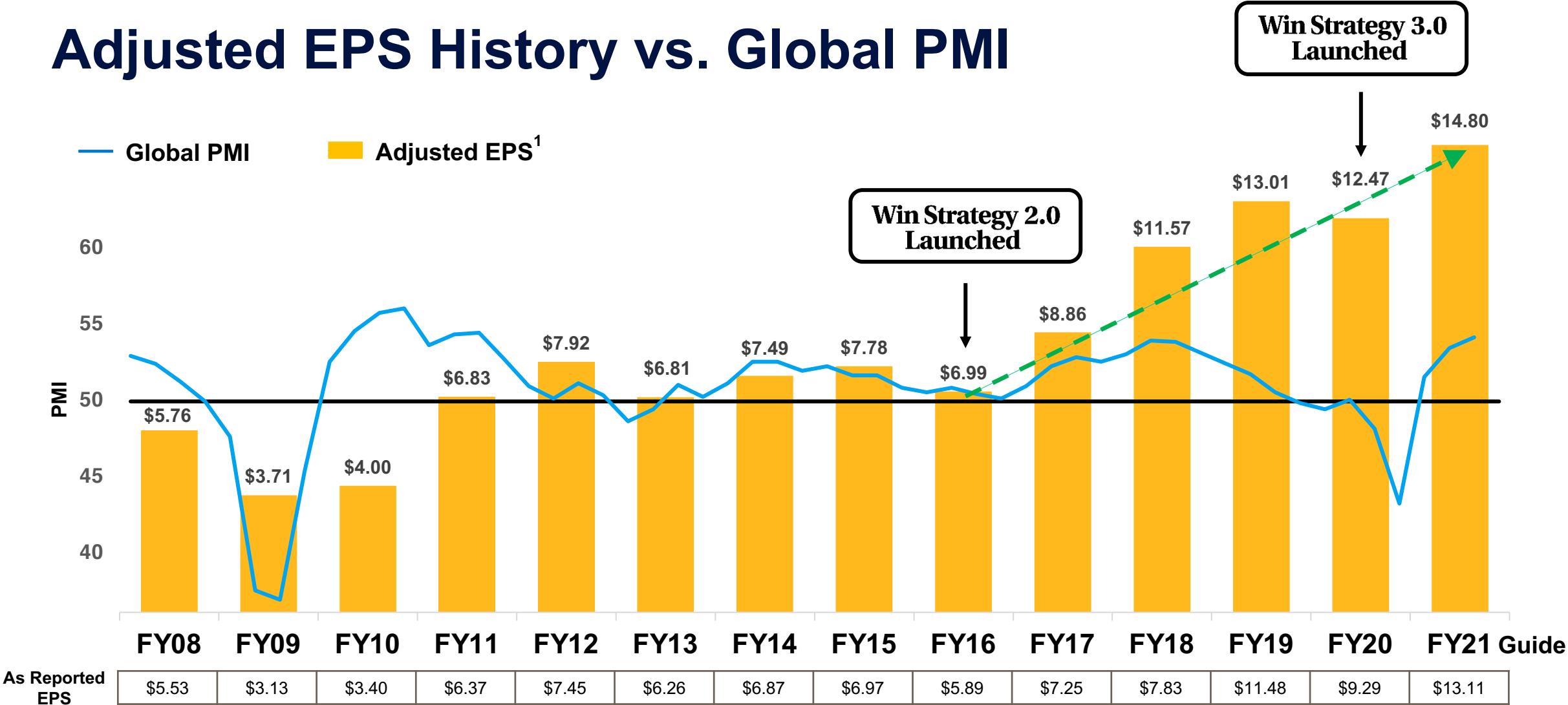
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Adjusted EPS History vs. Global PMI



Our People, Portfolio & Performance Transform EPS Growth



Convergence of Positive Inflection Points

The Win Strategy™ 3.0

Macro Environment

- Industrial momentum
- Aerospace recovery
- Vaccine progress
- Climate investment

Performance

- Top quartile
- Growth strategies
- Margin expansion
- Cash flow generation

Portfolio

- CLARCOR, LORD & Exotic acquisitions
- Future capital deployment

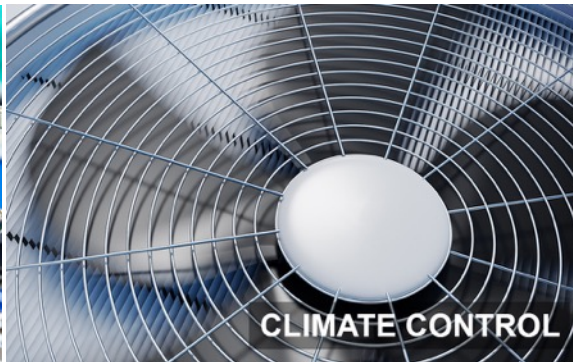
Technology

- Interconnected Technologies
- Positioned well for clean technology

Strategically Positioned for a Brighter Future



Unmatched Breadth of Core Technologies



Interconnected Technologies Creates Competitive Advantages

What is Parker's purpose?



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

Electric Vehicle Technology

Applications

- Battery Pack & Housing
- Motor & Gear Box
- Charger & Inverter
- Infotainment & Driver Assistance
- Power Electronics
- Lightweight Assembly

Parker Technologies

Safety

- Flame-resistant coatings
- High temperature materials
- Environmental & hermetic sealing

Weight Savings

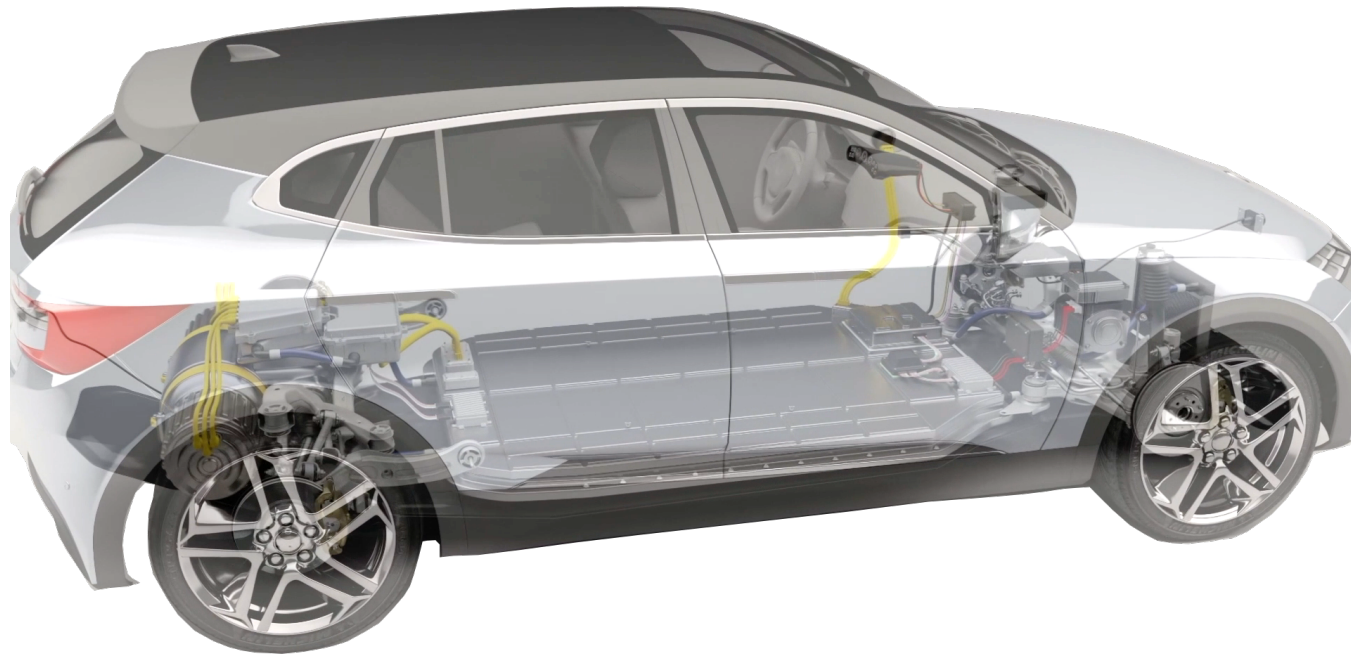
- Structural adhesives
- Engineered plastics

Thermal Management

- Thermal gels & interface materials
- Environmental & hermetic sealing

Critical Protection

- Electromagnetic shielding
- Sealing
- Vibration dampening
- Electrically conductive or isolating materials



Enabling a More Sustainable Future

Summary of Fiscal 2021 3rd Quarter Results

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Financial Summary

FY21 Q3 vs. FY20 Q3

\$ Millions, except per share amounts

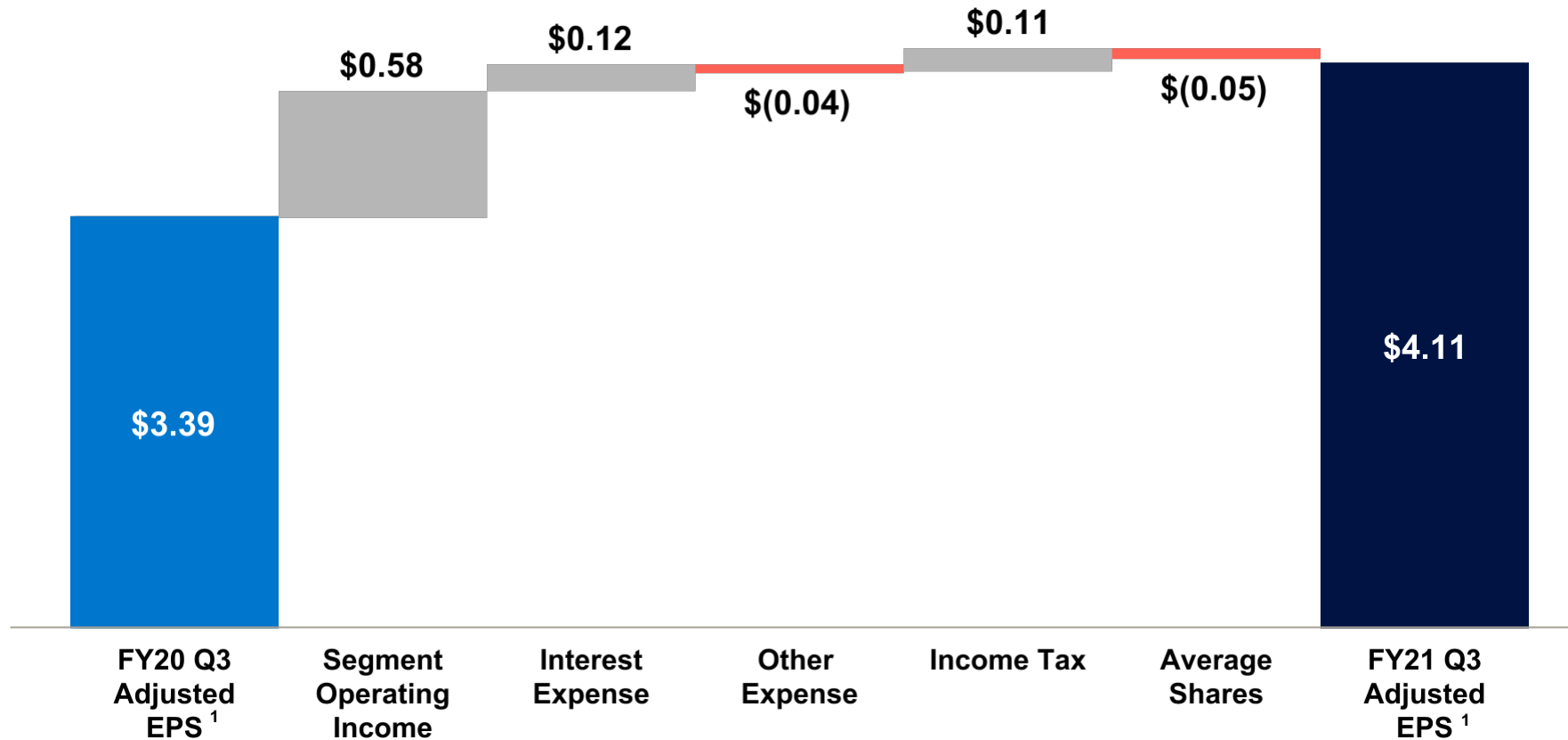
	Q3 FY21 As Reported	Q3 FY21 Adjusted ¹	Q3 FY20 Adjusted ¹	YoY Change Adjusted
Sales	\$3,746	\$3,746	\$3,702	+1.2%
Segment Operating Margin	19.0%	21.4%	19.0%	+240 bps
EBITDA	21.6%	21.8%	19.3%	+250 bps
Net Income	\$472	\$540	\$441	+22%
EPS	\$3.59	\$4.11	\$3.39	+21%

1. Sales figures As Reported. Adjusted numbers include certain non-GAAP financial measures. See Appendix for additional details and reconciliations.
Note: FY20 Q3 As Reported: Segment Operating Margin of 15.8%, EBITDA Margin of 18.2%, Net Income of \$367M, EPS of \$2.83.



Adjusted Earnings per Share Bridge

FY20 Q3 to FY21 Q3



1. FY20 Q3 As Reported EPS of \$2.83. FY21 Q3 As Reported EPS of \$3.59. Adjusted numbers include certain non-GAAP financial measures. See Appendix for additional details and reconciliations.

Savings from Cost Out Actions

- Year-to-date and forecasted cost savings remain on track

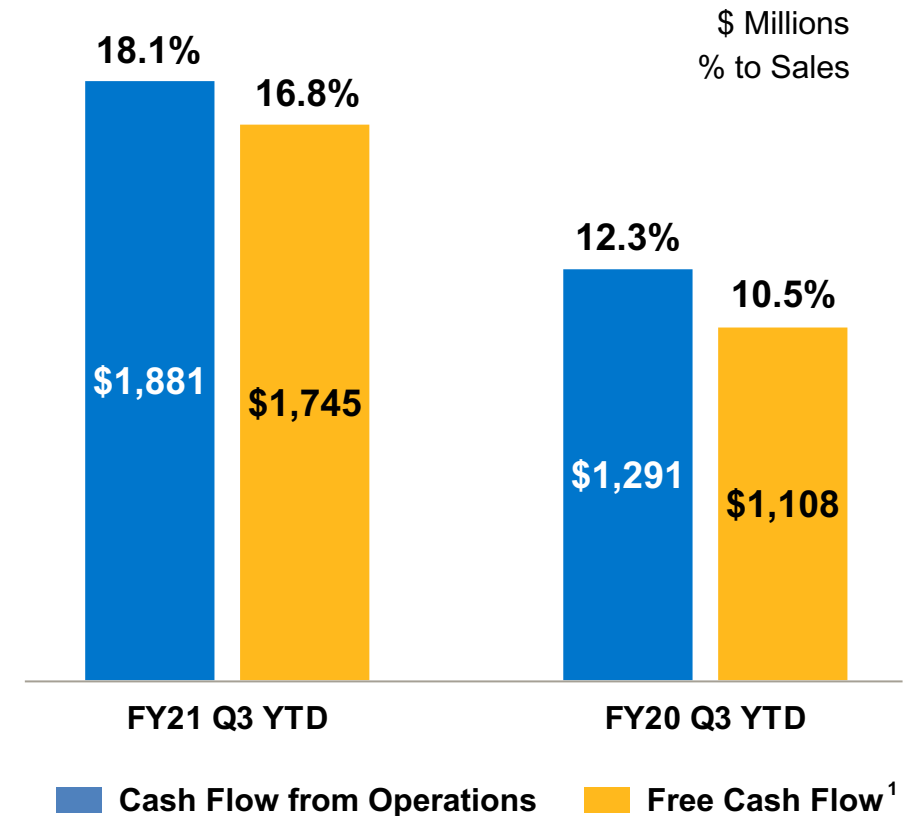
<u>Savings</u>	<u>FY21 Q3 YTD</u>	<u>FY21 Forecast</u>	<u>FY21 YoY Incremental</u>
Discretionary Actions	~\$215	~\$225	~\$ 50
Permanent Actions	~\$190	~\$250	~\$210
Total	~\$405M	~\$475M*	~\$260M*

FY21 Q3 Segment Performance

	Sales As Reported \$ Organic % ¹	Segment Operating Margin As Reported	Segment Operating Margin Adjusted ¹	Order Rates ²	Commentary
Diversified North America	\$1,758M (1.2)% Organic	19.1%	21.9% +190 bps YoY	+11%	<ul style="list-style-type: none"> Higher margins YoY despite lower volume Disciplined cost management
Diversified International	\$1,389M +11.1% Organic	19.8%	21.6% +400 bps YoY	+14%	<ul style="list-style-type: none"> Double-digit organic growth Significant margin expansion
Aerospace Systems	\$599M (19.7)% Organic	17.1%	19.4% +30 bps YoY	(19%)	<ul style="list-style-type: none"> Organization right-sized to demand Military sales strength
Parker	\$3,746M (1.0)% Organic	19.0%	21.4% +240 bps YoY	+6%	<ul style="list-style-type: none"> The Win Strategy™ Record segment margins Total orders turned positive

FY21 Q3 YTD Cash Flow

- Cash Flow from Operations of 18.1%
- Free Cash Flow of 16.8%
- Free Cash Flow Conversion of 141%



Strong Capital Deployment

- Paid down \$426 million of debt during FY21 Q3
 - ~\$3.2 billion debt reduction in last 17 months
 - Gross debt to EBITDA of 2.4x; Net debt to EBITDA of 2.2x
- Quarterly dividend increase of 15 cents or 17%
 - 65 consecutive fiscal years of increasing dividends paid
- Reinstated 10b5-1 program, repurchased \$50M in FY21 Q3

Great Generators and Deployers of Cash



FY21 Guidance Increased

EPS Midpoint: \$13.11 As Reported, \$14.80 Adjusted

Sales Growth vs. Prior Year	
Diversified Industrial North America	3.5% - 4.5%
Diversified Industrial International	14.5% - 15.5%
Aerospace Systems	(13.5)% - (12.5)%
Parker	4% - 5%

Segment Operating Margins	As Reported	Adjusted ¹
Diversified Industrial North America	18.4% - 18.6%	21.5% - 21.7%
Diversified Industrial International	18.4% - 18.6%	20.7% - 20.9%
Aerospace Systems	16.4% - 16.6%	18.8% - 19.0%
Parker	17.5% - 18.0%	20.7% - 20.9%

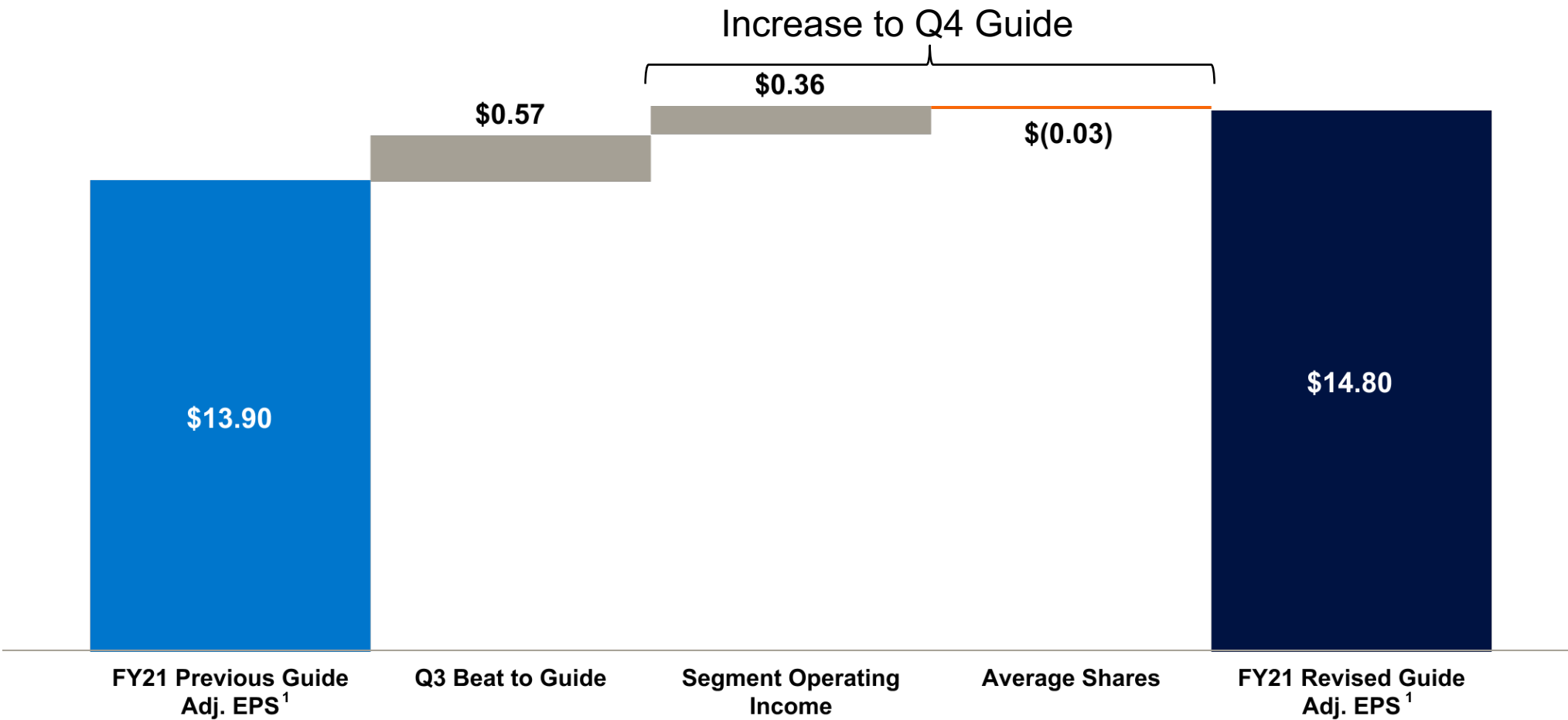
Earnings Per Share	As Reported	Adjusted ^{1,2}
Range	\$12.96 - \$13.26	\$14.65 - \$14.95

Additional Items	As Reported	Adjusted ²
Corporate G&A, Interest and Other	\$381M	\$479M
Full Year Reported Tax Rate	~22.5%	
Diluted Shares Outstanding	131.1M	

Detail of Pre-Tax Adjustments to:	1: Segment Margins	2: Below Segment
Acquired Intangible Asset Amortization	\$324M*	—
Business Realignment Charges	\$47M	\$3M
Integration Costs to Achieve	\$13M	—
Gain on Land Sale	—	(\$101M)

FY21 Guidance Bridge

Reconciliation of Q3 Beat and Guidance Increase



Key Messages

- Highly engaged global team
- Record performance in difficult times
- Convergence of positive inflection points
- Great Generators and Deployers of Cash

The Win Strategy 3.0 & Purpose Statement Accelerate Performance



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Appendix

- Reconciliation of Organic Growth
- Adjusted Amounts Reconciliation
- Reconciliation of EPS
- Reconciliation of Total Segment Operating Margin to Adjusted Total Segment Operating Margin
- Reconciliation of EBITDA to Adjusted EBITDA
- Reconciliation of Free Cash Flow Conversion
- Supplemental Sales Information – Global Technology Platforms
- Reconciliation of Forecasted EPS

Reconciliation of Organic Growth

(Dollars in thousands)
(Unaudited)

	Quarter-to-Date			
	As Reported March 31, 2021	Currency	Organic March 31, 2021	As Reported March 30, 2020
Net Sales				
Diversified Industrial:				
North America	\$ 1,758,383	\$ (3,836)	\$ 1,754,547	\$ 1,775,578
International	1,388,999	(76,044)	1,312,955	1,182,273
Total Diversified Industrial	3,147,382	(79,880)	3,067,502	2,957,851
Aerospace Systems	598,944	(1,415)	597,529	744,581
Total Parker Hannifin	<u>\$ 3,746,326</u>	<u>\$ (81,295)</u>	<u>\$ 3,665,031</u>	<u>\$ 3,702,432</u>
	As Reported	Currency	Organic	
Diversified Industrial:				
North America	(1.0)%	0.2 %	(1.2)%	
International	17.5 %	6.4 %	11.1 %	
Total Diversified Industrial	6.4 %	2.7 %	3.7 %	
Aerospace Systems	(19.6)%	0.1 %	(19.7)%	
Total Parker Hannifin	1.2 %	2.2 %	(1.0)%	

Adjusted Amounts Reconciliation Consolidated Statement of Income

(Dollars in thousands, except per share data)

(Unaudited)

	Quarter-to-Date FY 2021							
	As Reported March 31, 2021	% of Sales	Acquired Intangible Asset Amortization	Business Realignment Charges	Lord Costs to Achieve	Exotic Costs to Achieve	Adjusted March 31, 2021	% of Sales
Net Sales	\$ 3,746,326	100.0 %	\$ —	\$ —	\$ —	\$ —	\$ 3,746,326	100.0 %
Cost of Sales	2,714,773	72.5 %	—	3,056	425	—	2,711,292	72.4 %
Selling, general, and admin. expenses	386,831	10.3 %	81,253	2,545	2,206	24	300,803	8.0 %
Interest expense	60,830	1.6 %	—	—	—	—	60,830	1.6 %
Other (income), net	(13,460)	(0.4)%	—	1	—	—	(13,461)	(0.4)%
Income before income taxes	597,352	15.9 %	(81,253)	(5,602)	(2,631)	(24)	686,862	18.3 %
Income taxes	125,619	3.4 %	18,851	1,300	610	6	146,386	3.9 %
Net Income	471,733	12.6 %	(62,402)	(4,302)	(2,021)	(18)	540,476	14.4 %
Less: Noncontrollable interests	86	0.0 %	—	—	—	—	86	0.0 %
Net Income - common shareholders	\$ 471,647	12.6 %	\$ (62,402)	\$ (4,302)	\$ (2,021)	\$ (18)	\$ 540,390	14.4 %
Diluted earnings per share	\$ 3.59		\$ (0.47)	\$ (0.03)	\$ (0.02)	\$ —	\$ 4.11	

	Quarter-to-Date FY 2020									
	As Reported March 30, 2020	% of Sales	Acquired Intangible Asset Amortization	Business Realignment Charges	Lord Costs to Achieve	Exotic Costs to Achieve	Acquisition Related Expenses	Favorable Tax Settlement	Adjusted March 30, 2020	% of Sales
Net sales	\$ 3,702,432	100.0 %	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,702,432	100.0 %
Cost of sales	2,766,693	74.7 %	-	10,201	399	-	18,060	-	2,738,033	74.0 %
Selling, general and admin. expenses	413,460	11.2 %	80,506	3,203	7,965	486	105	-	321,195	8.7 %
Interest expense	80,765	2.2 %	-	-	-	-	-	-	80,765	2.2 %
Other (income) expense, net	(12,643)	(0.3)%	-	50	-	-	-	-	(12,693)	(0.3)%
Income before income taxes	454,157	12.3 %	(80,506)	(13,454)	(8,364)	(486)	(18,165)	-	575,132	15.5 %
Income taxes	86,788	2.3 %	19,160	3,202	1,991	116	4,323	18,724	134,304	3.6 %
Net income	367,369	9.9 %	(61,346)	(10,252)	(6,373)	(370)	(13,842)	18,724	440,828	11.9 %
Less: Noncontrolling interests	116	0.0 %	-	-	-	-	-	-	116	0.0 %
Net income - common shareholders	\$ 367,253	9.9 %	\$ (61,346)	\$ (10,252)	\$ (6,373)	\$ (370)	\$ (13,842)	\$ 18,724	\$ 440,712	11.9 %
Diluted earnings per share	\$ 2.83		\$ (0.47)	\$ (0.08)	\$ (0.05)	\$ -	\$ (0.10)	\$ 0.14	\$ 3.39	

Adjusted Amounts Reconciliation

Business Segment Information

(Dollars in thousands)

(Unaudited)

Quarter-to-Date FY 2021								
	As Reported March 31, 2021	% of Sales	Acquired Intangible Asset Amortization	Business Realignment Charges	Lord Costs to Achieve	Exotic Costs to Achieve	Adjusted March 31, 2021	% of Sales ²
Diversified Industrial								
North America ¹	\$ 336,589	19.1 %	\$ 47,574	\$ (68)	\$ 1,751	\$ —	\$ 385,846	21.9 %
International ¹	274,427	19.8 %	20,909	4,207	880	—	300,423	21.6 %
Aerospace Systems ¹	102,303	17.1 %	12,770	1,306	—	24	116,403	19.4 %
Total segment operating income	713,319	19.0 %	(81,253)	(5,445)	(2,631)	(24)	802,672	21.4 %
Corporate administration	48,089	1.3 %	—	156	—	—	47,933	1.3 %
Income before interest and other	665,230	17.8 %	(81,253)	(5,601)	(2,631)	(24)	754,739	20.1 %
Interest expense	60,830	1.6 %	—	—	—	—	60,830	1.6 %
Other (income) expense	7,048	0.2 %	—	1	—	—	7,047	0.2 %
Income before income taxes	\$ 597,352	15.9 %	\$ (81,253)	\$ (5,602)	\$ (2,631)	\$ (24)	\$ 686,862	18.3 %

¹Segment operating income as a percent of sales is calculated on as reported segment sales.

²Adjusted amounts as a percent of sales are calculated on as reported segment sales.

Reconciliation of Earnings per Diluted Share to Adjusted Earnings per Diluted Share

(Unaudited) (Amounts in dollars)	Three Months Ended March 31,	
	2021	2020
Earnings per diluted share	\$ 3.59	\$ 2.83
Adjustments:		
Acquired intangible asset amortization expense	0.62	0.62
Business realignment charges	0.04	0.10
Lord costs to achieve	0.02	0.06
Acquisition-related expenses	—	0.14
Tax effect of adjustments ¹	(0.16)	(0.22)
Favorable tax settlement	—	(0.14)
Adjusted earnings per diluted share	\$ 4.11	\$ 3.39

¹This line item reflects the aggregate tax effect of all non-tax adjustments reflected in the preceding line items of the table. We estimate the tax effect of each adjustment item by applying our overall effective tax rate for continuing operations to the pre-tax amount, unless the nature of the item and/or the tax jurisdiction in which the item has been recorded requires application of a specific tax rate or tax treatment, in which case the tax effect of such item is estimated by applying such specific tax rate or tax treatment.

Reconciliation of Earnings per Diluted Share to Adjusted Earnings per Diluted Share

(Unaudited)

(Amounts in Dollars)

	12 Months ended 6/30/08	12 Months ended 6/30/09	12 Months ended 6/30/10	12 Months ended 6/30/11	12 Months ended 6/30/12	12 Months ended 6/30/13	12 Months ended 6/30/14	12 Months ended 6/30/15	12 Months ended 6/30/16	12 Months ended 6/30/17	12 Months ended 6/30/18	12 Months ended 6/30/19	12 Months ended 6/30/20
Earnings per diluted share	\$ 5.53	\$ 3.13	\$ 3.40	\$ 6.37	\$ 7.45	\$ 6.26	\$ 6.87	\$ 6.97	\$ 5.89	\$ 7.25	\$ 7.83	\$ 11.48	\$ 9.29
Adjustments:													
Acquired intangible asset amortization expense	0.35	0.61	0.67	0.65	0.66	0.78	0.77	0.73	0.74	1.02	1.59	1.51	2.19
Business realignment charges	0.03	0.32	0.30	0.10	0.09	0.09	0.69	0.39	0.80	0.42	0.34	0.12	0.59
Acquisition-related expenses & Costs to achieve										0.76	0.27	0.23	1.62
(Gain)/ loss on sale and writedown of assets or land							1.25				0.24		
Gain on deconsolidation of subsidiary							(2.72)						
Tax effect of adjustments ¹	(0.15)	(0.35)	(0.37)	(0.29)	(0.28)	(0.32)	0.63	(0.31)	(0.44)	(0.59)	(0.42)	(0.44)	(1.03)
Favorable tax settlement													(0.19)
Tax expense related to U.S. Tax Reform											1.72	0.11	
Adjusted earnings per diluted share	\$ 5.76	\$ 3.71	\$ 4.00	\$ 6.83	\$ 7.92	\$ 6.81	\$ 7.49	\$ 7.78	\$ 6.99	\$ 8.86	\$ 11.57	\$ 13.01	\$ 12.47

¹This line item reflects the aggregate tax effect of all non-tax adjustments reflected in the preceding line items of the table. We estimate the tax effect of each adjustment item by applying our overall effective tax rate for continuing operations to the pre-tax amount, unless the nature of the item and/or the tax jurisdiction in which the item has been recorded requires application of a specific tax rate or tax treatment, in which case the tax effect of such item is estimated by applying such specific tax rate or tax treatment.

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

(Unaudited)	Three Months Ended		Three Months Ended	
(Dollars in thousands)	March 31, 2021		March 31, 2020	
	Operating income	Operating margin	Operating income	Operating margin
Total segment operating income	\$ 713,319	19.0 %	\$ 584,022	15.8 %
Adjustments:				
Acquired intangible asset amortization expense	81,253		80,506	
Business realignment charges	5,445		13,333	
Lord costs to achieve	2,631		8,364	
Exotic costs to achieve	24		486	
Acquisition-related expenses	—		18,060	
Adjusted total segment operating income	\$ 802,672	21.4 %	\$ 704,771	19.0 %

Reconciliation of EBITDA to Adjusted EBITDA

(Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollars in thousands)	2021	2020	2021	2020
Net sales	\$ 3,746,326	\$ 3,702,432	\$ 10,388,771	\$ 10,534,917
Net income	\$ 471,733	\$ 367,369	\$ 1,240,947	\$ 911,008
Income taxes	125,619	86,788	348,212	231,051
Depreciation and amortization	150,548	137,649	448,808	390,949
Interest expense	60,830	80,765	189,778	233,612
EBITDA	808,730	672,571	2,227,745	1,766,620
Adjustments:				
Business realignment charges	5,602	13,454	40,070	28,013
Lord costs to achieve	2,631	8,364	9,495	18,503
Exotic costs to achieve	24	486	699	1,570
Acquisition-related expenses	—	18,165	—	184,081
Gain on sale of land	—	—	(100,893)	—
Adjusted EBITDA	\$ 816,987	\$ 713,040	\$ 2,177,116	\$ 1,998,787
EBITDA margin	21.6 %	18.2 %	21.4 %	16.8 %
Adjusted EBITDA margin	21.8 %	19.3 %	21.0 %	19.0 %

Reconciliation of Free Cash Flow Conversion

(Unaudited)		
(Dollars in thousands)		
Net income	Nine Months Ended March 31, 2021 <hr/> \$ 1,240,947	Nine Months Ended March 31, 2020 <hr/> \$ 911,008
Cash flow from operations	\$ 1,881,405	\$ 1,290,859
Capital Expenditures	(136,064)	(182,502)
Free cash flow	<hr/> \$ 1,745,341	<hr/> \$ 1,108,357
Free cash flow conversion (free cash flow / net income)	141 %	122 %

Supplemental Sales Information

Global Technology Platforms

(Unaudited)	Three Months Ended March 31,		Nine Months Ended March 31,	
(Dollars in thousands)	2021	2020	2021	2020
Net sales				
Diversified Industrial:				
Motion Systems	\$ 820,514	\$ 778,840	\$ 2,197,971	\$ 2,297,961
Flow and Process Control	1,081,570	1,015,430	2,955,643	2,969,033
Filtration and Engineered Materials	1,245,298	1,163,581	3,477,632	3,157,248
Aerospace Systems	598,944	744,581	1,757,525	2,110,675
Total	\$ 3,746,326	\$ 3,702,432	\$ 10,388,771	\$ 10,534,917

Reconciliation of EPS

Fiscal Year 2021 Guidance

(Unaudited)

(Amounts in dollars)

	<u>Fiscal Year 2021</u>
Forecasted earnings per diluted share	\$12.96 to \$13.26
Adjustments:	
Business realignment charges	0.38
Costs to achieve	0.10
Acquisition-related intangible asset amortization expense	2.47
Gain on sale of land	(0.77)
Tax effect of adjustments ¹	<u>(0.49)</u>
Adjusted forecasted earnings per diluted share	<u>\$14.65 to \$14.95</u>

¹This line item reflects the aggregate tax effect of all non-tax adjustments reflected in the preceding line items of the table. We estimate the tax effect of each adjustment item by applying our overall effective tax rate for continuing operations to the pre-tax amount, unless the nature of the item and/or the tax jurisdiction in which the item has been recorded requires application of a specific tax rate or tax treatment, in which case the tax effect of such item is estimated by applying such specific tax rate or tax treatment.