

# Parker Hannifin Corporation

**2<sup>nd</sup> Quarter Fiscal Year 2020**  
**Earnings Release**



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**ENGINEERING YOUR SUCCESS.**

**January 30, 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. 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 cash flow from operating activities, 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 cash flow from operating activities, 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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# Agenda

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- **CEO Comments and Highlights of Quarter Results**

- **Results & Outlook**

- **Questions & Answers**

# Highlights

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## Strategic Highlights

- Margin and cash flow at all-time high relative to previous downturns
- Q2 FY20 adjusted operating margin w/o acquisitions at 16.1% versus 13.5% in Q2 FY16 (last recession)
- Cash flow from operations Q2 YTD record
- Driven by Win Strategy and stronger portfolio through acquisitions

## Summary of fiscal 2020 second quarter

- Safety: 25% reduction in recordable incidents
- Organic sales softness offset by acquisition revenue
- Adjusted EBITDA margin 18.5%
- Record first half cash flow from operations, free cash flow margin >10%, free cash flow conversion 130%

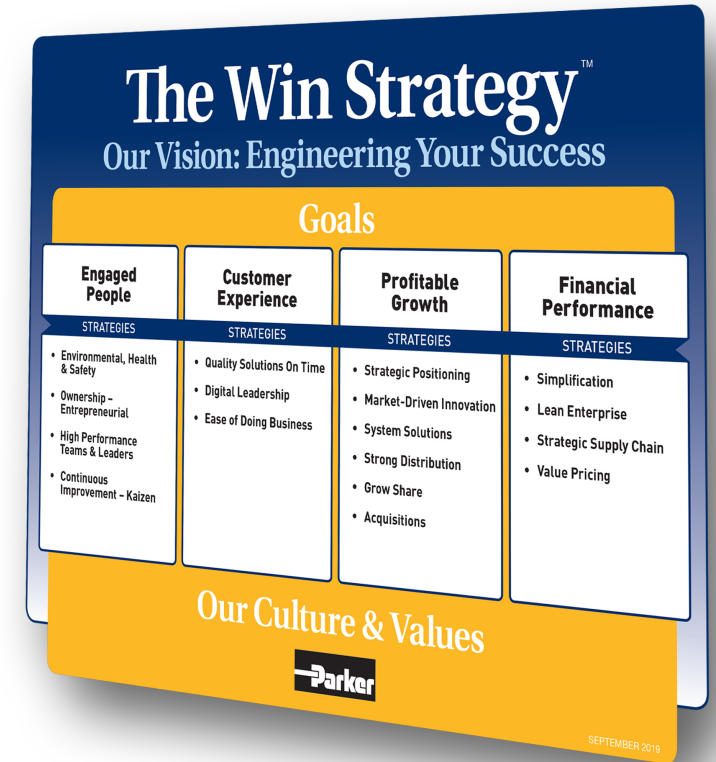
## Outlook

- Well positioned for growth with excellent margins and cash flow as economic conditions improve
- Confidence from: Win Strategy™ 3.0, transformative acquisitions, Purpose Statement



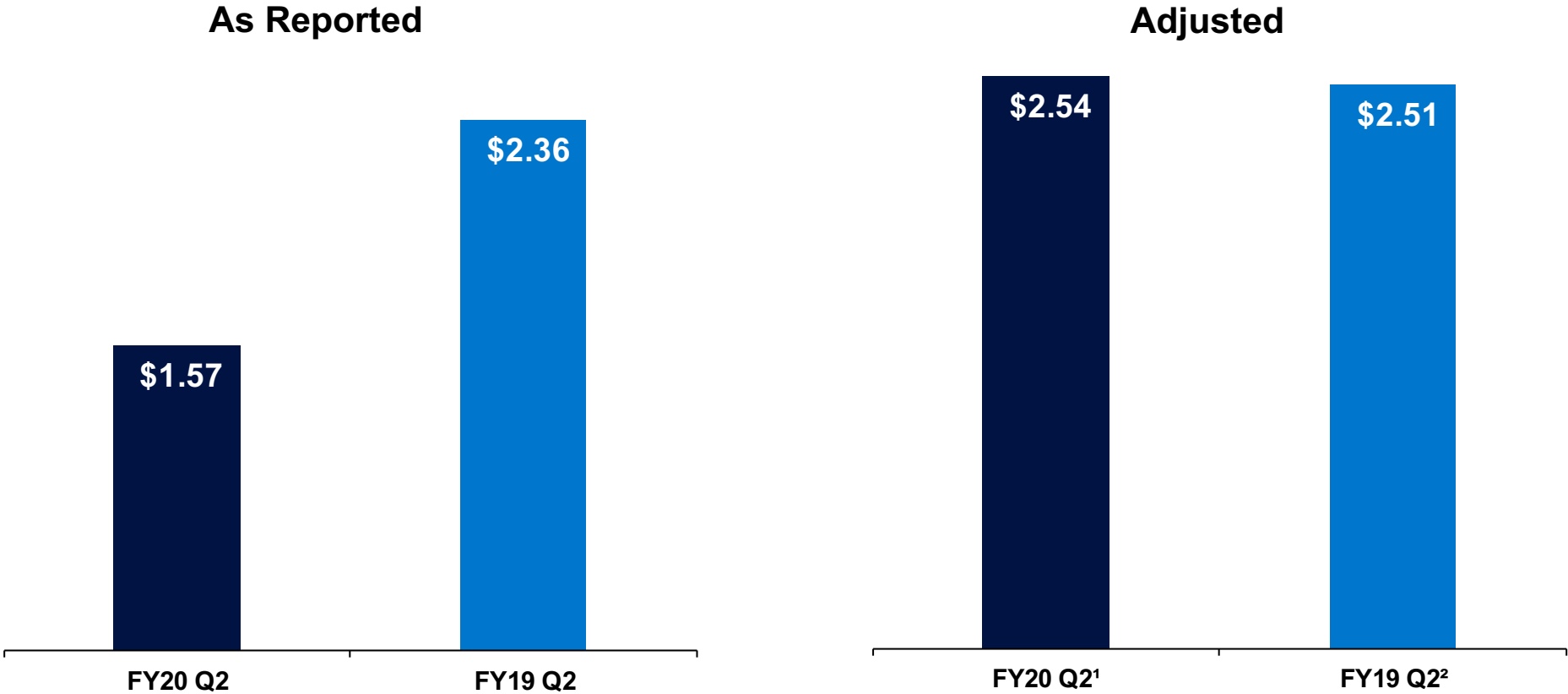
# Parker's Competitive Differentiators

- 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



# Diluted Earnings per Share

## 2<sup>nd</sup> Quarter FY2020 vs. FY2019

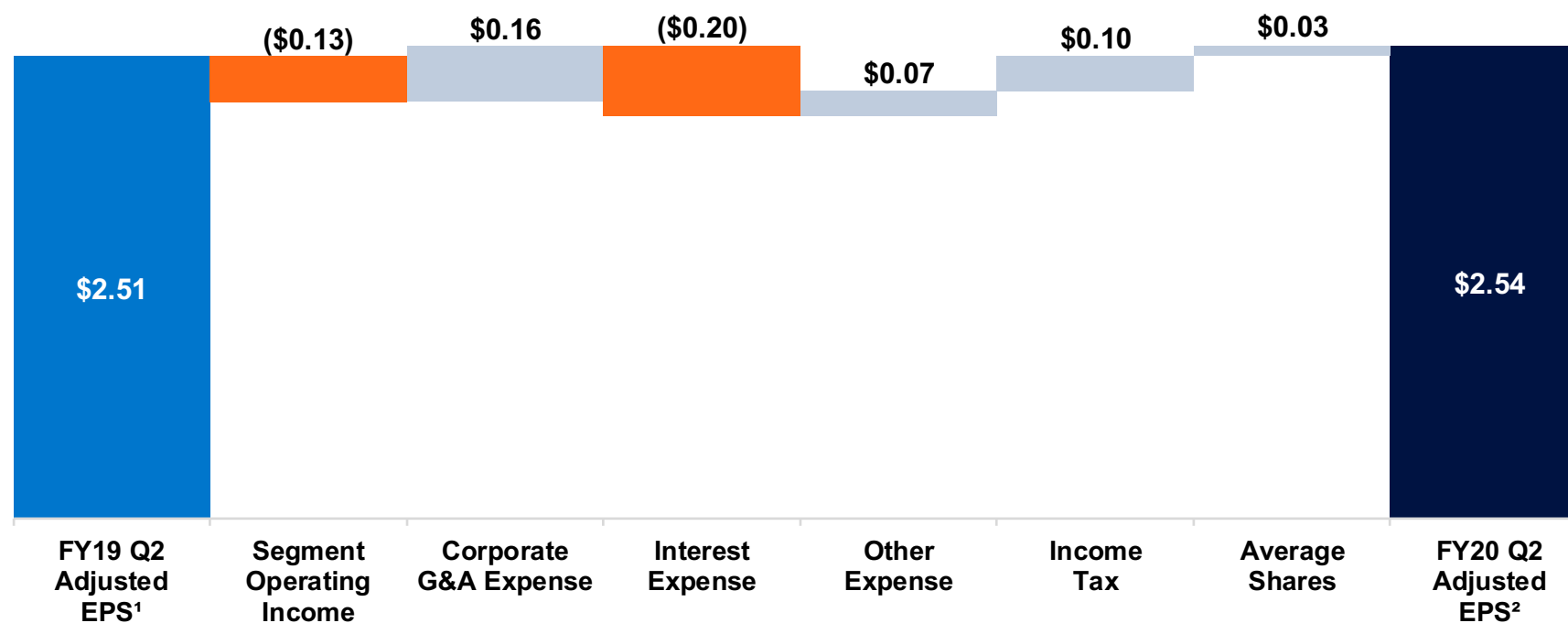


1 Adjusted for Business Realignment Charges, LORD and Exotic Costs to Achieve, Acquisition Related Expenses and the tax effect of such adjustments  
2 Adjusted for Business Realignment Charges, CLARCOR Costs to Achieve, the tax effect of such adjustments, and tax expense related to U.S. Tax Reform



# Influences on Adjusted Earnings per Share

## 2<sup>nd</sup> Quarter FY2020 vs. FY2019



1 Adjusted for Business Realignment Charges, CLARCOR Costs to Achieve, and the tax effect of such adjustments, tax expense related to U.S. Tax Reform

2 Adjusted for Business Realignment Charges, LORD and Exotic Costs to Achieve, Acquisition Related Expenses, and the tax effect of such adjustments



# Sales & Segment Operating Margin

## Total Parker

\$ in millions	2nd Quarter			
	FY2020	% Change	FY2019	
Sales				
As Reported	\$ 3,498	0.7 %	\$ 3,472	
Acquisitions <sup>1</sup>	286	8.2 %		
Currency	(15)	(0.4)%		
Organic Sales	\$ 3,227	(7.1)%		
	FY2020	% of Sales	FY2019	% of Sales
Segment Operating Margin				
As Reported	\$ 486	13.9 %	\$ 568	16.4 %
Business Realignment	10		3	
Integration Costs to Achieve <sup>2</sup>	7		5	
Acquisition Related Expenses <sup>3</sup>	49		-	
Adjusted	\$ 552	15.8 %	\$ 576	16.6 %

1: Acquisitions reflect Exotic (closed 9/16/19) and LORD (closed 10/29/19)

2: Integration Costs to Achieve for LORD and Exotic (FY20), CLARCOR (FY19)

3: Acquisition Related Expenses for Exotic and LORD (FY20).





# FY2020 Q2 Acquisitions Impact on Segment Margins

As Reported	FY19 Q2	FY20 Q2		
\$M	Total Parker	Total Parker	LORD + Exotic	Legacy Parker
Sales	\$3,472	\$3,498	\$286	\$3,212
Operating Income	\$568	\$486	(\$20)	\$506
Operating Margin	16.4%	13.9%	(7.0%)	15.8%

Adjusted*	FY19 Q2	FY20 Q2		
\$M	Total Parker	Total Parker	LORD + Exotic	Legacy Parker
Sales	\$3,472	\$3,498	\$286	\$3,212
Operating Income	\$576	\$552	\$36	\$516
Operating Margin	16.6%	15.8%	12.6%	16.1%

# Sales & Segment Operating Margin

## Diversified Industrial North America

\$ in millions	2nd Quarter			
	FY2020	% Change	FY2019	
Sales				
As Reported	\$ 1,616	(1.0)%	\$ 1,632	
Acquisitions <sup>1</sup>	119	7.3 %		
Currency	4	0.2 %		
Organic Sales	\$ 1,493	(8.5)%		
	FY2020	% of Sales	FY2019	% of Sales
Segment Operating Margin				
As Reported	\$ 211	13.1 %	\$ 258	15.8 %
Business Realignment	3		1	
Integration Costs to Achieve <sup>2</sup>	5		3	
Acquisition Related Expenses <sup>3</sup>	29		-	
Adjusted	\$ 248	15.4 %	\$ 262	16.0 %

1: Acquisitions reflect LORD (closed 10/29/19)

2: Integration Costs to Achieve for LORD (FY20), CLARCOR (FY19)

3: Acquisition Related Expenses for LORD (FY20).



# Sales & Segment Operating Margin

## Diversified Industrial International

\$ in millions	2nd Quarter			
	FY2020	% Change	FY2019	
Sales				
As Reported	\$ 1,147	(6.3)%	\$ 1,224	
Acquisitions <sup>1</sup>	56	4.5 %		
Currency	(18)	(1.4)%		
Organic Sales	\$ 1,109	(9.4)%		
	FY2020	% of Sales	FY2019	% of Sales
Segment Operating Margin				
As Reported	\$ 154	13.4 %	\$ 189	15.5 %
Business Realignment	7		2	
Integration Costs to Achieve <sup>2</sup>	2		2	
Acquisition Related Expenses <sup>3</sup>	5		-	
Adjusted	\$ 168	14.6 %	\$ 193	15.7 %

1: Acquisitions reflect LORD (closed 10/29/19)

2: Integration Costs to Achieve for LORD (FY20), CLARCOR (FY19)

3: Acquisition Related Expenses for LORD (FY20).



# Sales & Segment Operating Margin

## Aerospace Systems

\$ in millions	2nd Quarter			
	FY2020	% Change	FY2019	
Sales				
As Reported	\$ 735	19.3 %	\$ 616	
Acquisitions <sup>1</sup>	111	18.0 %		
Currency	(0)	0.0 %		
Organic Sales	\$ 624	1.3 %		
	FY2020	% of Sales	FY2019	% of Sales
Segment Operating Margin				
As Reported	\$ 121	16.5 %	\$ 121	19.7 %
Business Realignment	0		-	
Integration Costs to Achieve <sup>2</sup>	1		-	
Acquisition Related Expenses <sup>3</sup>	14		-	
Adjusted	\$ 136	18.5 %	\$ 121	19.7 %

1: Acquisitions reflect Exotic (closed 9/16/19) and LORD (closed 10/29/19)

2: Integration Costs to Achieve for Exotic (FY20)

3: Acquisition Related Expenses for Exotic and LORD (FY20).

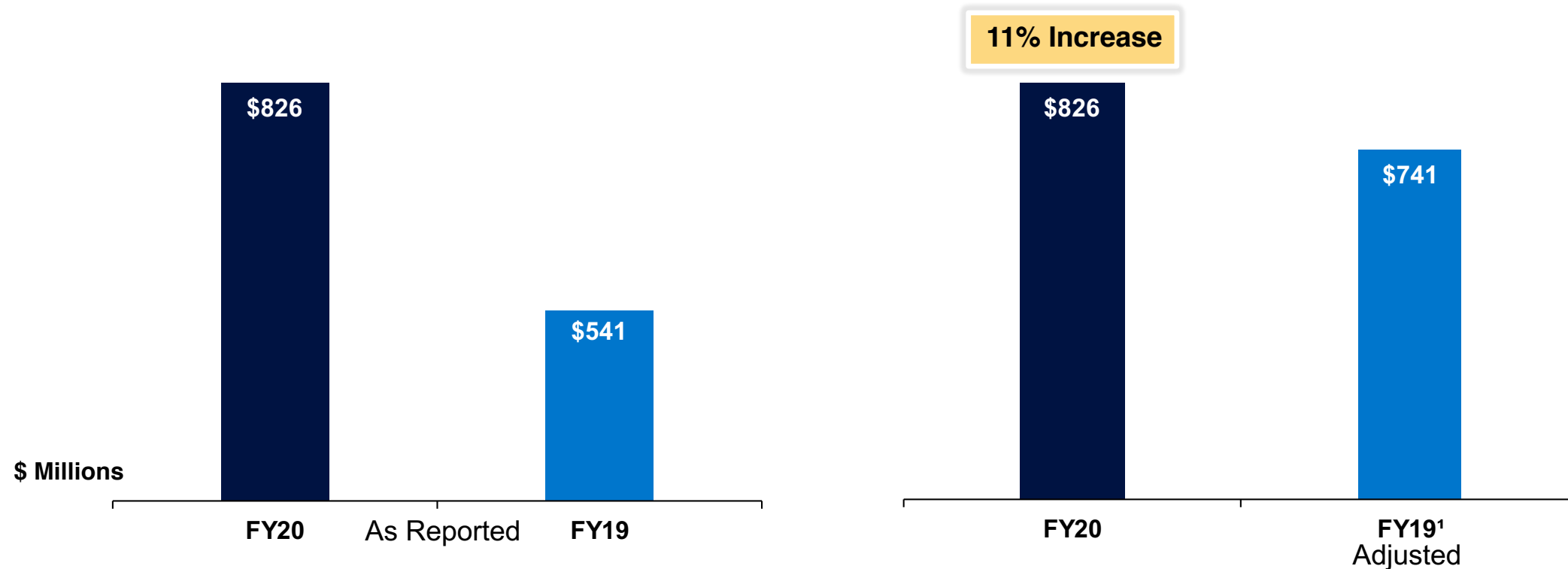


# Cash Flow from Operating Activities

YTD FY2020 vs. FY2019

18

Consecutive  
years with 10%+  
CFOA margins<sup>1</sup>



As Reported Cash Flow From Operating Activities  
Discretionary Pension Plan Contribution  
Adjusted Cash Flow From Operating Activities

YTD			
FY 2020	% of Sales	FY 2019	% of Sales
\$ 826	12.1%	\$ 541	7.8%
-		200	
\$ 826	12.1%	\$ 741	10.7%

1: Adjusted for Discretionary Pension Plan Contributions



# Order Rates

	<u>Dec 2019</u>	<u>Sep 2019</u>	<u>Dec 2018</u>	<u>Sep 2018</u>
<b>Total Parker</b>	<b>(3)%</b>	<b>(2)%</b>	<b>1 %</b>	<b>5 %</b>
Diversified Industrial North America	(7)%	(6)%	0 %	8 %
Diversified Industrial International	(6)%	(10)%	(2)%	3 %
Aerospace Systems	12 %	22 %	10 %	3 %

**Excludes Acquisitions, Divestitures & Currency**  
**3-month year-over-year comparisons of total dollars, except Aerospace Systems**  
**Aerospace Systems is calculated using a 12-month rolling average**

# FY2020 Guidance Including Acquisitions

EPS Midpoint: \$9.08 As Reported, \$10.55 Adjusted

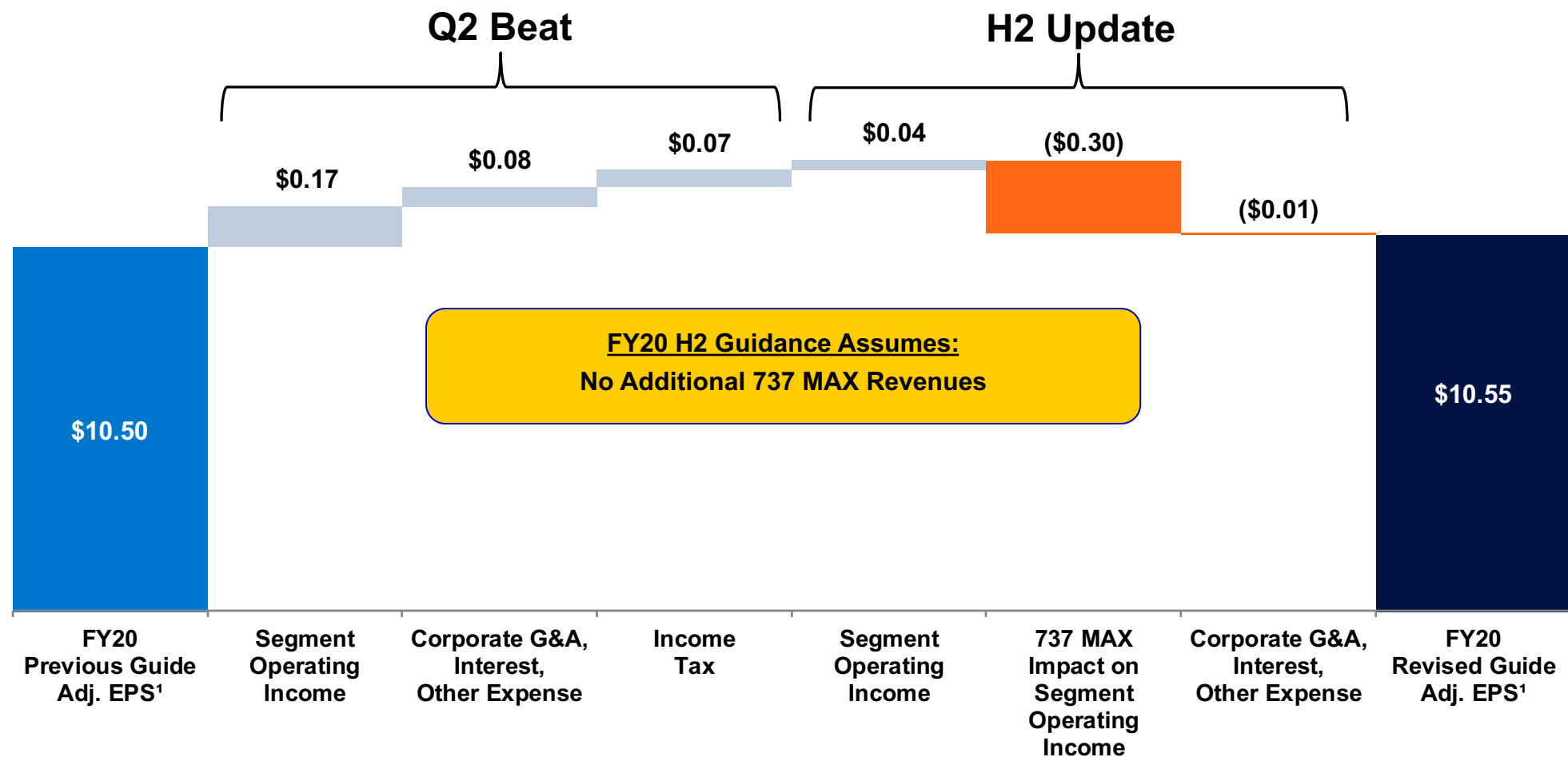
Sales Growth vs. Prior Year		
Diversified Industrial North America		(1.1)% - 1.5%
Diversified Industrial International		(8.8)% - (6.2)%
Aerospace Systems		13.3% - 15.9%
<b>Total Parker</b>		<b>(1.2)% - 1.3%</b>
Segment Operating Margins		
	As Reported	Adjusted <sup>1</sup>
Diversified Industrial North America	15.1% - 15.4%	16.2% - 16.6%
Diversified Industrial International	13.4% - 13.8%	14.1% - 14.5%
Aerospace Systems	17.8% - 18.2%	18.5% - 18.9%
<b>Total Parker</b>	<b>15.1% - 15.5%</b>	<b>16.0% - 16.4%</b>
Below the Line Items		
	As Reported	Adjusted <sup>1</sup>
Corporate General & Administrative Expense, Interest and Other	\$ 664 M	\$ 548 M
Tax Rate		As Reported
Full Year		22.5%
Shares		
Diluted Shares Outstanding		130.4 M
Earnings Per Share		
	As Reported	Adjusted <sup>1</sup>
Range	\$8.78 - \$9.38	\$10.25 - \$10.85

1: Expected FY20 Adjusted Segment Operating Margins exclude Business Realignment Charges of \$40M, Costs to Achieve of \$27M, and one-time Acquisition Related Inventory Step-up Expense of \$69M. Additionally, expected FY20 Adjusted Earnings Per Share also exclude one-time Acquisition Related Transaction Costs of \$116M.



# FY2020 Guidance

## Reconciliation of Q2 Beat and Updated Guidance





# Impact of Acquisitions

As Reported	FY19	FY20		
\$M	Total Parker	Total Parker	LORD + Exotic	Legacy Parker
Sales	\$14,320	\$14,324	\$993	\$13,331
Operating Income	\$2,431	\$2,187	\$13	\$2,174
Operating Margin	17.0%	15.3%	1.3%	16.3%
EBITDA Margin	17.9%	16.8%	3.9%	17.8%
Adjusted*	FY19	FY20		
\$M	Total Parker	Total Parker	LORD + Exotic	Legacy Parker
Sales	\$14,320	\$14,324	\$993	\$13,331
Operating Income	\$2,460	\$2,321	\$104	\$2,217
Operating Margin	17.2%	16.2%	10.5%	16.6%
EBITDA Margin	18.2%	18.6%	24.8%	18.1%

\*Adjusted for Business Realignment Charges, Integration Costs to Achieve, and Acquisition Related Expenses

Note: Segment Operating Income includes FY20 Amortization expense estimated at \$37M for Exotic and \$64M for LORD. LORD Sales split approximately 62% Diversified Industrial North America, 34% Diversified Industrial International, and 4% Aerospace Systems. Exotic Sales 100% in Aerospace Systems

# Key Messages

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- Excellent cash flow from operations
- Raising the floor on operating margins
- Parker's transformation continues
- Well on our way to top quartile performance
- Confidence in reaching our FY23 5-year targets

**Thanks again to our Global Team Members**



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# Appendix

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

# Consolidated Statement of Income

(Unaudited)

(Dollars in thousands, except per share amounts)

## Net sales

Cost of sales

Selling, general and administrative expenses

Interest expense

Other (income), net

Income before income taxes

Income taxes

Net income

Less: Noncontrolling interests

**Net income attributable to common shareholders**

## Earnings per share attributable to common shareholders:

Basic earnings per share

Diluted earnings per share

Average shares outstanding during period - Basic

Average shares outstanding during period - Diluted

## CASH DIVIDENDS PER COMMON SHARE

(Unaudited)

(Amounts in dollars)

**Cash dividends per common share**

Three Months Ended December 31,

	2019	2018
<b>\$</b>	<b>3,497,974</b>	<b>\$ 3,472,045</b>
	<b>2,682,765</b>	2,602,339
	<b>491,121</b>	397,259
	<b>82,891</b>	47,518
	<b>(13,549)</b>	(6,225)
	<b>254,746</b>	431,154
	<b>50,148</b>	119,241
	<b>204,598</b>	311,913
	<b>124</b>	176
<b>\$</b>	<b>204,474</b>	<b>\$ 311,737</b>

<b>\$</b>	<b>1.59</b>	<b>\$ 2.39</b>
<b>\$</b>	<b>1.57</b>	<b>\$ 2.36</b>

**128,396,933** 130,361,273

**130,495,381** 132,311,210

Three Months Ended December 31,

	2019	2018
<b>\$</b>	<b>0.88</b>	<b>\$ 0.76</b>

# Adjusted Amounts Reconciliation Consolidated Statement of Income

(Dollars in thousands, except per share data)  
(Unaudited)

	Quarter-to-Date FY 2020							
	As Reported December 31, 2019	% of Sales	Business Realignment Charges	Lord Costs to Achieve	Exotic Costs to Achieve	Acquisition Related Expenses	Adjusted December 31, 2019	% of Sales
<b>Net sales</b>	\$ 3,497,974	100.0 %	\$ -	\$ -	\$ -	\$ -	\$ 3,497,974	100.0 %
Cost of sales	2,682,765	76.7 %	7,679	793	-	48,725	2,625,568	75.1 %
Selling, general and admin. expenses	491,121	14.0 %	2,157	5,932	489	99,742	382,801	10.9 %
Interest expense	82,891	2.4 %	-	-	-	-	82,891	2.4 %
Other (income) expense, net	(13,549)	(0.4)%	-	-	-	-	(13,549)	(0.4)%
Income before income taxes	254,746	7.3 %	(9,836)	(6,725)	(489)	(148,467)	420,263	12.0 %
Income taxes	50,148	1.4 %	2,282	1,560	113	34,445	88,548	2.5 %
Net income	204,598	5.8 %	(7,554)	(5,165)	(376)	(114,022)	331,715	9.5 %
Less: Noncontrolling interests	124	0.0 %	-	-	-	-	124	0.0 %
<b>Net income - common shareholders</b>	<b>\$ 204,474</b>	<b>5.8 %</b>	<b>\$ (7,554)</b>	<b>\$ (5,165)</b>	<b>\$ (376)</b>	<b>\$ (114,022)</b>	<b>\$ 331,591</b>	<b>9.5 %</b>
<b>Diluted earnings per share</b>	<b>\$ 1.57</b>		<b>\$ (0.06)</b>	<b>\$ (0.04)</b>	<b>\$ -</b>	<b>\$ (0.87)</b>	<b>\$ 2.54</b>	

# Adjusted Amounts Reconciliation

## Business Segment Information

(Dollars in thousands)  
(Unaudited)

	Quarter-to-Date FY 2020							
	As Reported December 31, 2019	% of Sales	Business Realignment Charges	Lord Costs to Achieve	Exotic Costs to Achieve	Acquisition Related Expenses	Adjusted December 31, 2019	% of Sales <sup>2</sup>
Diversified Industrial:								
North America <sup>1</sup>	\$ 211,339	13.1%	\$ 3,285	\$ 4,685	\$ -	\$ 29,126	\$ 248,435	15.4%
International <sup>1</sup>	153,816	13.4%	6,382	2,040	-	5,375	167,613	14.6%
Aerospace Systems <sup>1</sup>	121,039	16.5%	52	-	489	14,224	135,804	18.5%
Total segment operating income	486,194	13.9%	(9,719)	(6,725)	(489)	(48,725)	551,852	15.8%
Corporate administration	35,660	1.0%	117	-	-	-	35,543	1.0%
Income before interest and other	450,534	12.9%	(9,836)	(6,725)	(489)	(48,725)	516,309	14.8%
Interest expense	82,891	2.4%	-	-	-	-	82,891	2.4%
Other (income) expense	112,897	3.2%	-	-	-	99,742	13,155	0.4%
Income before income taxes	\$ 254,746	7.3%	\$ (9,836)	\$ (6,725)	\$ (489)	\$ (148,467)	\$ 420,263	12.0%

<sup>1</sup>Segment operating income as a percent of sales is calculated on segment sales.

<sup>2</sup>Adjusted amounts as a percent of sales are calculated on as reported sales.

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

(Unaudited)	Three Months Ended December 31,			
(Amounts in dollars)	<b>2019</b>		2018	
<b>Earnings per diluted share</b>	<b>\$</b>	<b>1.57</b>	<b>\$</b>	2.36
Adjustments:				
Business realignment charges		<b>0.08</b>		0.02
Clarcor costs to achieve		-		0.04
Lord costs to achieve		<b>0.05</b>		-
Acquisition-related expenses		<b>1.14</b>		-
Tax effect of adjustments <sup>1</sup>		<b>(0.30)</b>		(0.02)
Tax expense related to U.S. Tax Reform		-		0.11
<b>Adjusted earnings per diluted share</b>	<b>\$</b>	<b>2.54</b>	<b>\$</b>	<b>2.51</b>

<sup>1</sup>This 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.



# Business Segment Information

(Unaudited)

(Dollars in thousands)

## Net sales

Diversified Industrial:

North America

International

Aerospace Systems

## Total net sales

## Segment operating income

Diversified Industrial:

North America

International

Aerospace Systems

## Total segment operating income

Corporate general and administrative expenses

Income before interest expense and other expense

Interest expense

Other expense

## Income before income taxes

Three Months Ended December 31,

2019

2018

	<u>2019</u>	<u>2018</u>
\$	1,615,852	\$ 1,632,059
	1,147,084	1,223,679
	735,038	616,307
\$	<u>3,497,974</u>	<u>\$ 3,472,045</u>
\$	211,339	\$ 257,774
	153,816	189,085
	121,039	121,463
	486,194	568,322
	35,660	63,890
	450,534	504,432
	82,891	47,518
	112,897	25,760
\$	<u>254,746</u>	<u>\$ 431,154</u>

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

(Unaudited)

(Dollars in thousands)

## Total segment operating income

Adjustments:

Business realignment charges

Clarcor costs to achieve

Lord costs to achieve

Exotic costs to achieve

Acquisition-related expenses

## Adjusted total segment operating income

Three Months Ended December 31, 2019			Three Months Ended December 31, 2018		
Operating income	Operating margin		Operating income	Operating margin	
\$ 486,194	13.9 %		\$ 568,322	16.4 %	
9,719			2,515		
-			4,867		
6,725			-		
489			-		
48,725			-		
\$ 551,852	15.8 %		\$ 575,704	16.6 %	

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

(Unaudited) (Dollars in millions)	Three Months Ended December 31, 2019 Total Parker		Three Months Ended December 31, 2019 LORD & Exotic		Three Months Ended December 31, 2019 Legacy Parker	
	Operating income	Operating margin	Operating income	Operating margin	Operating income	Operating margin
<b>Total segment operating income</b>	\$ 486	13.9 %	\$ (20)	(7.0)%	\$ 506	15.8 %
Adjustments:						
Business realignment charges	10		-		10	
Costs to achieve	7		7		-	
One-time acquisition expenses	49		49		-	
<b>Adjusted total segment operating income</b>	<b>\$ 552</b>	<b>15.8 %</b>	<b>\$ 36</b>	<b>12.6 %</b>	<b>\$ 516</b>	<b>16.1 %</b>

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

(Unaudited)  
(Dollars in thousands)

	Three Months Ended	
	December 31, 2015	
	Operating income	Operating margin
<b>Total segment operating income</b>	\$ 330,712	12.2 %
Adjustments:		
Business realignment charges	34,800	
<b>Adjusted total segment operating income</b>	<u>\$ 365,512</u>	<u>13.5 %</u>

# Reconciliation of EBITDA to Adjusted EBITDA

(Unaudited) (Dollars in thousands)	Three Months Ended December 31,	
	2019	2018
<b>Net sales</b>	\$ 3,497,974	\$ 3,472,045
Net income	\$ 204,598	\$ 311,913
Income taxes	50,148	119,241
Depreciation and amortization	144,229	110,052
Interest expense	82,891	47,518
<b>EBITDA</b>	<b>481,866</b>	<b>588,724</b>
Adjustments:		
Business realignment charges	9,836	2,515
Clarcor costs to achieve	-	5,087
Lord costs to achieve	6,725	-
Exotic costs to achieve	489	-
Acquisition-related expenses	148,467	-
<b>Adjusted EBITDA</b>	<b>\$ 647,383</b>	<b>\$ 596,326</b>
<b>EBITDA margin</b>	<b>13.8 %</b>	<b>17.0 %</b>
<b>Adjusted EBITDA margin</b>	<b>18.5 %</b>	<b>17.2 %</b>

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

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

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended June 30, 2019	
	Operating income	Operating margin
<b>Total segment operating income</b>	\$ 2,431,233	17.0 %
Adjustments:		
Business realignment charges	15,503	
Clarcor costs to achieve	12,327	
LORD acquisition and integration costs	912	
<b>Adjusted total segment operating income</b>	<u>\$ 2,459,975</u>	<u>17.2 %</u>

## RECONCILIATION OF EBITDA TO ADJUSTED EBITDA

(Unaudited)

(Dollars in thousands)

	Twelve Months Ended June 30, 2019
<b>Net sales</b>	\$ 14,320,324
Net income	1,512,931
Income taxes	420,494
Depreciation and amortization	436,189
Interest expense	<u>190,138</u>
<b>EBITDA</b>	<u>2,559,752</u>
Adjustments:	
Business realignment charges	15,677
Clarcor costs to achieve	12,458
Lord acquisition and integration costs	<u>17,146</u>
<b>Adjusted EBITDA</b>	<u>\$ 2,605,033</u>
<b>EBITDA margin</b>	17.9 %
<b>Adjusted EBITDA margin</b>	18.2 %

# Reconciliation of Forecasted FY2020 Total Segment Operating Margin to Adjusted Total Segment Operating Margin and EBITDA to Adjusted EBITDA

## RECONCILIATION OF FORECASTED FISCAL 2020 TOTAL SEGMENT OPERATING MARGIN TO FORECASTED FISCAL 2020 ADJUSTED TOTAL SEGMENT OPERATING MARGIN

(Unaudited)

(Dollars in millions)

	Total Parker		LORD & Exotic		Legacy Parker	
	Operating income	Operating margin	Operating income	Operating margin	Operating income	Operating margin
<b>Total segment operating income</b>	\$ 2,187	15.3 %	\$ 13	1.3 %	\$ 2,174	16.3 %
Adjustments:						
Business realignment charges	40				40	
Costs to achieve	27		23		3	
One-time acquisition expenses	69		69		-	
<b>Adjusted total segment operating income</b>	<u>\$ 2,321</u>	<u>16.2 %</u>	<u>\$ 104</u>	<u>10.5 %</u>	<u>\$ 2,217</u>	<u>16.6 %</u>

## RECONCILIATION OF FORECASTED FISCAL 2020 EBITDA TO FORECASTED FISCAL 2020 ADJUSTED EBITDA

(Unaudited)

(Dollars in millions)

	Total Parker	LORD & Exotic	Legacy Parker
<b>Net sales</b>	\$ 14,324	\$ 993	\$ 13,331
Net income	1,185	(169)	1,354
Income taxes	339	(51)	390
Depreciation and amortization	564	142	427
Interest expense	319	117	202
<b>EBITDA</b>	<u>2,407</u>	<u>39</u>	<u>2,373</u>
Adjustments:			
Business realignment charges	40	-	40
Costs to achieve	27	23	3
One-time acquisition expenses	185	185	-
<b>Adjusted EBITDA</b>	<u>\$ 2,658</u>	<u>\$ 247</u>	<u>\$ 2,416</u>
<b>EBITDA margin</b>	16.8 %	3.9 %	17.8 %
<b>Adjusted EBITDA margin</b>	18.6 %	24.8 %	18.1 %

# Consolidated Balance Sheet

(Unaudited)  
(Dollars in thousands)

## Assets

### **Current assets:**

	December 31, 2019	June 30, 2019	December 31, 2018
Cash and cash equivalents	\$ 948,355	\$ 3,219,767	\$ 1,047,385
Marketable securities and other investments	145,120	150,931	30,956
Trade accounts receivable, net	1,973,187	2,131,054	1,938,709
Non-trade and notes receivable	319,126	310,708	324,254
Inventories	2,014,260	1,678,132	1,804,564
Prepaid expenses and other	261,103	182,494	188,868
<b>Total current assets</b>	<b>5,661,151</b>	<b>7,673,086</b>	<b>5,334,736</b>
Plant and equipment, net	2,335,940	1,768,287	1,793,805
Deferred income taxes	114,032	150,462	98,779
Goodwill	7,955,170	5,453,805	5,462,555
Intangible assets, net	4,036,108	1,783,277	1,883,825
Investments and other assets	941,588	747,773	733,987
<b>Total assets</b>	<b>\$ 21,043,989</b>	<b>\$ 17,576,690</b>	<b>\$ 15,307,687</b>

## Liabilities and equity

### **Current liabilities:**

Notes payable and long-term debt payable within one year	\$ 1,604,318	\$ 587,014	\$ 1,144,347
Accounts payable, trade	1,311,733	1,413,155	1,307,178
Accrued payrolls and other compensation	372,549	426,285	319,787
Accrued domestic and foreign taxes	165,265	167,312	182,617
Other accrued liabilities	637,257	558,007	555,005
<b>Total current liabilities</b>	<b>4,091,122</b>	<b>3,151,773</b>	<b>3,508,934</b>
Long-term debt	8,141,220	6,520,831	4,303,331
Pensions and other postretirement benefits	1,366,814	1,304,379	937,938
Deferred income taxes	569,582	193,066	286,622
Other liabilities	532,750	438,489	449,696
Shareholders' equity	6,330,175	5,961,969	5,815,209
Noncontrolling interests	12,326	6,183	5,957
<b>Total liabilities and equity</b>	<b>\$ 21,043,989</b>	<b>\$ 17,576,690</b>	<b>\$ 15,307,687</b>





# Consolidated Statement of Cash Flows

(Unaudited)

(Dollars in thousands)

Six Months Ended December 31,

	2019	2018
<b>Cash flows from operating activities:</b>		
Net income	\$ 543,639	\$ 687,812
Depreciation and amortization	253,300	222,543
Stock incentive plan compensation	73,069	64,615
Loss on sale of businesses	-	623
(Gain) loss on plant and equipment and intangible assets	(4,478)	3,428
(Gain) loss on marketable securities	(1,969)	5,701
Gain on investments	(1,849)	(3,213)
Net change in receivables, inventories and trade payables	227,247	(110,709)
Net change in other assets and liabilities	(278,168)	(379,687)
Other, net	15,177	49,927
<b>Net cash provided by operating activities</b>	<b>825,968</b>	<b>541,040</b>
<b>Cash flows from investing activities:</b>		
Acquisitions (net of cash of \$82,192 in 2019 and \$690 in 2018)	(5,075,605)	(2,042)
Capital expenditures	(118,593)	(94,426)
Proceeds from sale of plant and equipment	20,993	34,121
Proceeds from sale of businesses	-	19,540
Purchases of marketable securities and other investments	(190,129)	(2,845)
Maturities and sales of marketable securities and other investments	198,872	14,432
Other	9,374	(90)
<b>Net cash used in investing activities</b>	<b>(5,155,088)</b>	<b>(31,310)</b>
<b>Cash flows from financing activities:</b>		
Net payments for common stock activity	(134,892)	(565,335)
Net proceeds from debt	2,416,222	505,811
Dividends paid	(227,025)	(200,459)
<b>Net cash provided by (used in) financing activities</b>	<b>2,054,305</b>	<b>(259,983)</b>
Effect of exchange rate changes on cash	3,403	(24,499)
Net (decrease) increase in cash and cash equivalents	(2,271,412)	225,248
Cash and cash equivalents at beginning of period	3,219,767	822,137
<b>Cash and cash equivalents at end of period</b>	<b>\$ 948,355</b>	<b>\$ 1,047,385</b>

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

(Unaudited)

(Dollars in thousands)

**As reported cash flow from operations**

Discretionary pension contribution

**Adjusted cash flow from operations**

Six Months Ended			Six Months Ended		
December 31, 2019		Percent of sales	December 31, 2018		Percent of sales
\$	825,968	12.1 %	\$	541,040	7.8 %
	-			200,000	
\$	825,968	12.1 %	\$	741,040	10.7 %

# Reconciliation of Free Cash Flow Conversion

(Unaudited)	
(Dollars in thousands)	
<b>Net income</b>	<b>Six Months Ended December 31, 2019</b>
	<b>\$ 543,639</b>
Cash flow from operations	\$ 825,968
Capital Expenditures	(118,593)
<b>Free cash flow</b>	<b>\$ 707,375</b>
<b>Free cash flow conversion (free cash flow / net income)</b>	<b>130 %</b>

# Reconciliation of EPS

## Fiscal Year 2020 Guidance

(Unaudited)

(Amounts in dollars)

**Forecasted earnings per diluted share**

**Fiscal Year 2020**

**\$8.78 - \$9.38**

Adjustments:

Business realignment charges

**0.30**

Costs to achieve

**0.20**

One-time acquisition expenses

**1.43**

Tax effect of adjustments<sup>1</sup>

**(0.46)**

**Adjusted forecasted earnings per diluted share**

**\$10.25 - \$10.85**

<sup>1</sup>This 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.

# Supplemental Sales Information

## Global Technology Platforms

(Unaudited) (Dollars in thousands)	Three Months Ended December 31,	
	2019	2018
<b>Net sales</b>		
Diversified Industrial:		
Motion Systems	\$ 752,306	\$ 856,357
Flow and Process Control	942,249	1,015,200
Filtration and Engineered Material	1,068,381	984,181
Aerospace Systems	735,038	616,307
<b>Total</b>	<b>\$ 3,497,974</b>	<b>\$ 3,472,045</b>