

January 31, 2019



Parker Reports Fiscal 2019 Second Quarter Results

- Sales increased 3% to second quarter record \$3.47 billion; organic sales increased 6%
- As reported EPS were \$2.36, or \$2.51 adjusted
- Total segment operating margins were a second quarter record at 16.4%
- Adjusted total segment operating margins were 16.6%, a 170 bps year-over-year improvement
- EBITDA margins were 17.0%, or 17.2% adjusted
- Company increases fiscal 2019 full year EPS guidance

CLEVELAND, Jan. 31, 2019 (GLOBE NEWSWIRE) -- Parker Hannifin Corporation (NYSE: PH), the global leader in motion and control technologies, today reported results for the fiscal 2019 second quarter ended December 31, 2018. Fiscal 2019 second quarter sales increased 3% to \$3.47 billion compared with \$3.37 billion in the prior year quarter. Net income was \$311.7 million compared with \$56.2 million in the fiscal 2018 second quarter. Fiscal 2019 second quarter earnings per share were a second quarter record at \$2.36, compared with \$0.41 in the prior year quarter. Adjusted earnings per share were \$2.51, compared with adjusted earnings per share of \$2.15 in the prior year quarter. Fiscal 2019 second quarter earnings included an \$0.11 per share adjustment to income tax expense related to U.S. Tax Reform. Cash flow from operations for the first half of fiscal 2019 was \$541.0 million or 7.8% of sales, compared with \$456.8 million or 6.8% of sales in the prior year period. Excluding a discretionary pension contribution in fiscal 2019, cash flow from operations for the first half of fiscal 2019 was 10.7% of sales. A reconciliation of non-GAAP measures is included in the financial tables of this press release.

“This was a strong quarter as The Win Strategy™ drove organic sales growth of 6% and second quarter records for sales, total segment operating margins, net income, and EPS,” said Chairman and Chief Executive Officer, Tom Williams. “Our teams exceeded expectations, achieving 16.4% total segment operating margins and increased operating cash flow as compared to the prior year period. During the quarter, we deployed capital to repurchase \$500 million worth of Parker shares. We remain on track to deliver record earnings in fiscal year 2019.”

Second Quarter Fiscal 2019 Segment Results

Diversified Industrial Segment: North American second quarter sales increased 4% to \$1.6 billion and operating income increased 14% to \$257.8 million, compared with \$225.8 million in the same period a year ago. International second quarter sales decreased 3% to \$1.2 billion and operating income increased 15% to \$189.1 million, compared with \$164.8 million in the same period a year ago.

Aerospace Systems Segment: Second quarter sales increased 12% to \$616.3 million,

compared with \$549.7 million in the prior year period and operating income increased 39% to \$121.5 million, compared with \$87.1 million in the same period a year ago.

Parker reported the following orders for the quarter ending December 31, 2018, compared with the same quarter a year ago:

- Orders increased 1% for total Parker
- Orders were flat in the Diversified Industrial North America businesses
- Orders decreased 2% in the Diversified Industrial International businesses
- Orders increased 10% in the Aerospace Systems Segment on a rolling 12-month average basis

Outlook

For the fiscal year ending June 30, 2019, the company has increased guidance for earnings from continuing operations to the range of \$11.04 to \$11.54 per share, or \$11.35 to \$11.85 per share on an adjusted basis. Fiscal year 2019 guidance is adjusted on a pre-tax basis for expected business realignment expenses of approximately \$19 million and CLARCOR costs to achieve of approximately \$16 million and an income tax expense adjustment of \$14 million related to U.S. Tax Reform. Guidance assumes organic sales growth in the range of 2.0% to 4.0%.

Williams added, "Our Win Strategy execution positions us to deliver strong profitability and record earnings in fiscal 2019, despite signs of moderating end market demand and the impact of a stronger U.S. dollar. Completing a record year in fiscal 2019, and ongoing initiatives guided by the Win Strategy, solidifies our confidence in achieving our fiscal 2023 five-year performance goals."

NOTICE OF CONFERENCE CALL: Parker Hannifin's conference call and slide presentation to discuss its fiscal 2019 second quarter results are available to all interested parties via live webcast today at 11:00 a.m. ET, on the company's investor information web site at www.phstock.com. To access the call, click on the "Live Webcast" link. From this link, users also may complete a pre-call system test. A replay of the webcast will be accessible on Parker's investor relations website, www.phstock.com, approximately one hour after the completion of the call, and will remain available for one year. To register for e-mail notification of future events and information available from Parker please visit www.phstock.com.

Parker Hannifin is a Fortune 250 global leader in motion and control technologies. For more than 100 years the company has engineered the success of its customers in a wide range of diversified industrial and aerospace markets. Parker has increased its annual dividend per share paid to shareholders for 62 consecutive fiscal years, among the top five longest-running dividend-increase records in the S&P 500 index. Learn more at www.parker.com or @parkerhannifin.

Note on Orders

Orders provide near-term perspective on the company's outlook, particularly when viewed in the context of prior and future quarterly order rates. However, orders are not in themselves an indication of future performance. All comparisons are at constant currency exchange rates, with the prior year restated to the current-year rates. All exclude acquisitions until they can be reflected in both the numerator and denominator. Aerospace comparisons are rolling

12-month average computations. The total Parker orders number is derived from a weighted average of the year-over-year quarterly % change in orders for Diversified Industrial North America and Diversified Industrial International, and the year-over-year 12-month rolling average of orders for the Aerospace Systems Segment.

Note on Net Income

Net Income referenced in this press release is equal to net income attributable to common shareholders.

Note on Non-GAAP Numbers

This press release contains references to (a) earnings per 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, (b) segment operating margins without the effect of business realignment charges and CLARCOR costs to achieve; (c) the effect of business realignment charges, CLARCOR costs to achieve and U.S. Tax Reform income tax expense adjustment on forecasted earnings from continuing operations per share; (d) and cash flows from operations without the effect of discretionary pension contributions. The effects of business realignment charges, CLARCOR costs to achieve, gain (loss) on sales and writedown of asset, net, U.S. Tax Reform one-time impact, net and discretionary pension contributions are removed to allow investors and the company to meaningfully evaluate changes in earnings per share, segment operating margins and cash flows from operations on a comparable basis from period to period. This press release 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 the prior period.

Forward-Looking Statements

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 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.

Contact:

Media –

Aidan Gormley, Director, Global Communications and Branding

216/896-3258

aidan.gormley@parker.com

Financial Analysts –

Robin J. Davenport, Vice President, Corporate Finance

216/896-2265

rjdavenport@parker.com

PARKER HANNIFIN CORPORATION - DECEMBER 31, 2018

CONSOLIDATED STATEMENT OF INCOME

(Unaudited) Three Months Ended December 31, Six Months Ended December 31,
(Dollars in
thousands,
except per
share
amounts)

| | 2018 | 2017 | 2018 | 2017 |
|------------------|---------------------|---------------------|---------------------|---------------------|
| Net sales | \$ 3,472,045 | \$ 3,370,673 | \$ 6,951,339 | \$ 6,735,324 |
| Cost of sales | 2,602,339 | 2,564,449 | 5,197,162 | 5,087,743 |

| | | | | |
|---|-------------------|------------------|-------------------|-------------------|
| Selling, general and administrative expenses | 397,259 | 408,338 | 791,581 | 805,322 |
| Interest expense | 47,518 | 53,133 | 91,857 | 106,688 |
| Other (income) expense, net | (6,225) | (15,468) | (20,138) | 1,048 |
| Income before income taxes | 431,154 | 360,221 | 890,877 | 734,523 |
| Income taxes | 119,241 | 303,899 | 203,065 | 392,666 |
| Net income | 311,913 | 56,322 | 687,812 | 341,857 |
| Less: Noncontrolling interests | 176 | 163 | 364 | 301 |
| Net income attributable to common shareholders | \$ 311,737 | \$ 56,159 | \$ 687,448 | \$ 341,556 |

**Earnings per
share
attributable
to common
shareholders:**

| | | | | |
|----------------------------------|----------------|----------------|----------------|----------------|
| Basic earnings per share | \$ 2.39 | \$ 0.42 | \$ 5.23 | \$ 2.57 |
| Diluted earnings per share | \$ 2.36 | \$ 0.41 | \$ 5.15 | \$ 2.51 |

| | | | | |
|--|--------------------|-------------|--------------------|-------------|
| Average shares outstanding during period - Basic | 130,361,273 | 133,112,568 | 131,361,463 | 133,144,766 |
| Average shares outstanding during period - Diluted | 132,311,210 | 136,194,919 | 133,449,673 | 135,874,530 |

**CASH
DIVIDENDS
PER
COMMON
SHARE**

| (Unaudited) (Amounts in dollars) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|---------------------------------|---------|-------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Cash dividends per common share | \$ 0.76 | \$ 0.66 | \$ 1.52 | \$ 1.32 |

RECONCILIATION OF EARNINGS PER DILUTED SHARE TO ADJUSTED EARNINGS PER DILUTED SHARE

| (Unaudited) (Amounts in dollars) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|---------------------------------|---------|-------------------------------|---------|
| | 2018 | 2017 | 2018 | 2017 |
| Earnings per diluted share | \$ 2.36 | \$ 0.41 | \$ 5.15 | \$ 2.51 |
| Adjustments: | | | | |
| Business realignment charges | 0.01 | 0.07 | 0.02 | 0.12 |
| Clarcor costs to achieve | 0.03 | 0.07 | 0.07 | 0.10 |
| (Gain) loss on sale and writedown of assets, net | - | (0.05) | - | 0.02 |
| U.S. Tax Reform one-time impact, net | 0.11 | 1.65 | 0.11 | 1.65 |
| Adjusted earnings per diluted share | \$ 2.51 | \$ 2.15 | \$ 5.35 | \$ 4.40 |

RECONCILIATION OF EBITDA TO ADJUSTED EBITDA

| (Unaudited) (Dollars in thousands) | Three Months Ended December 31, | | Six Months Ended December 31, | |
|--|---------------------------------|--------------|-------------------------------|--------------|
| | 2018 | 2017 | 2018 | 2017 |
| Net sales | \$ 3,472,045 | \$ 3,370,673 | \$ 6,951,339 | \$ 6,735,324 |
| Earnings before income taxes | \$ 431,154 | \$ 360,221 | \$ 890,877 | \$ 734,523 |
| Depreciation and amortization | 110,052 | 118,109 | 222,543 | 234,216 |

| | | | | |
|--|-------------------|-------------------|---------------------|---------------------|
| Interest expense | 47,518 | 53,133 | 91,857 | 106,688 |
| EBITDA | 588,724 | 531,463 | 1,205,277 | 1,075,427 |
| Adjustments: | | | | |
| Business realignment charges | 2,515 | 13,428 | 4,918 | 21,654 |
| Clarcor costs to achieve | 5,087 | 11,948 | 11,297 | 17,748 |
| (Gain) loss on sale and writedown of assets, net | - | (8,453) | - | 5,324 |
| Adjusted EBITDA | \$ 596,326 | \$ 548,386 | \$ 1,221,492 | \$ 1,120,153 |
| EBITDA margin | 17.0 % | 15.8 % | 17.3 % | 16.0 % |
| Adjusted EBITDA margin | 17.2 % | 16.3 % | 17.6 % | 16.6 % |

BUSINESS SEGMENT INFORMATION

(Unaudited) Three Months Ended December 31, Six Months Ended December 31,
(Dollars in thousands)

| | 2018 | 2017 | 2018 | 2017 |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|
| Net sales | | | | |
| Diversified Industrial: | | | | |
| North America | \$ 1,632,059 | \$ 1,565,416 | \$ 3,313,103 | \$ 3,160,107 |
| International | 1,223,679 | 1,255,569 | 2,457,445 | 2,494,343 |
| Aerospace Systems | 616,307 | 549,688 | 1,180,791 | 1,080,874 |
| Total | \$ 3,472,045 | \$ 3,370,673 | \$ 6,951,339 | \$ 6,735,324 |
| Segment operating income | | | | |
| Diversified Industrial: | | | | |
| North America | \$ 257,774 | \$ 225,807 | \$ 532,885 | \$ 481,834 |
| International | 189,085 | 164,806 | 395,179 | 356,597 |
| Aerospace Systems | 121,463 | 87,148 | 231,318 | 164,582 |
| Total segment operating income | 568,322 | 477,761 | 1,159,382 | 1,003,013 |

| | | | | |
|---|-------------------|-------------------|-------------------|-------------------|
| Corporate general and administrative expenses | 63,890 | 46,942 | 114,215 | 88,292 |
| Income before interest and other expense | 504,432 | 430,819 | 1,045,167 | 914,721 |
| Interest expense | 47,518 | 53,133 | 91,857 | 106,688 |
| Other expense | 25,760 | 17,465 | 62,433 | 73,510 |
| Income before income taxes | \$ 431,154 | \$ 360,221 | \$ 890,877 | \$ 734,523 |

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

| | | | | |
|--|---------------------------|-------------------------|---------------------------|-------------------------|
| (Unaudited) (Dollars in thousands) | Three Months Ended | | Three Months Ended | |
| | December 31, 2018 | | December 31, 2017 | |
| | Operating income | Operating margin | Operating income | Operating margin |
| Total segment operating income | \$ 568,322 | 16.4 % | \$ 477,761 | 14.2 % |
| Adjustments: | | | | |
| Business realignment charges | 2,515 | | 13,428 | |
| Clarcor costs to achieve | 4,867 | | 11,948 | |
| Adjusted total segment operating income | \$ 575,704 | 16.6 % | \$ 503,137 | 14.9 % |
| | Six Months Ended | | Six Months Ended | |
| | December 31, 2018 | | December 31, 2017 | |
| | Operating income | Operating margin | Operating income | Operating margin |

| | | | | | | |
|--|----|------------------|---------------|----|-----------|--------|
| Total segment operating income | \$ | 1,159,382 | 16.7 % | \$ | 1,003,013 | 14.9 % |
| Adjustments: | | | | | | |
| Business realignment charges | | 4,918 | | | 21,654 | |
| Clarcor costs to achieve | | 11,022 | | | 17,748 | |
| Adjusted total segment operating income | \$ | 1,175,322 | 16.9 % | \$ | 1,042,415 | 15.5 % |

CONSOLIDATED BALANCE SHEET

| | | | |
|---|---------------------|------------|--------------|
| (Unaudited) | December 31, | June 30, | December 31, |
| (Dollars in thousands) | 2018 | 2018 | 2017 |
| Assets | | | |
| Current assets: | | | |
| Cash and cash equivalents | \$ 1,047,385 | \$ 822,137 | \$ 1,024,770 |
| Marketable securities and other investments | 30,956 | 32,995 | 107,976 |
| Trade accounts receivable, net | 1,938,709 | 2,145,517 | 1,857,282 |
| Non-trade and notes receivable | 324,254 | 328,399 | 313,221 |
| Inventories | 1,804,564 | 1,621,304 | 1,780,262 |
| Prepaid expenses and other | 188,868 | 134,886 | 202,848 |
| Total current assets | 5,334,736 | 5,085,238 | 5,286,359 |
| Plant and equipment, net | 1,793,805 | 1,856,237 | 1,937,074 |
| Deferred income taxes | 98,779 | 57,623 | 36,668 |
| Goodwill | 5,462,555 | 5,504,420 | 5,698,707 |

| | | | |
|------------------------|----------------------|----------------------|----------------------|
| Intangible assets, net | 1,883,825 | 2,015,520 | 2,174,104 |
| Other assets | 733,987 | 801,049 | 832,269 |
| Total assets | \$ 15,307,687 | \$ 15,320,087 | \$ 15,965,181 |

Liabilities and equity

Current liabilities:

| | | | |
|------------------------------------|--------------|------------|--------------|
| Notes payable | \$ 1,144,347 | \$ 638,466 | \$ 1,248,212 |
| Accounts payable | 1,307,178 | 1,430,306 | 1,229,336 |
| Accrued liabilities | 874,792 | 929,833 | 896,750 |
| Accrued domestic and foreign taxes | 182,617 | 198,878 | 163,405 |

| | | | |
|----------------------------------|------------------|------------------|------------------|
| Total current liabilities | 3,508,934 | 3,197,483 | 3,537,703 |
|----------------------------------|------------------|------------------|------------------|

| | | | |
|----------------|-----------|-----------|-----------|
| Long-term debt | 4,303,331 | 4,318,559 | 4,798,371 |
|----------------|-----------|-----------|-----------|

| | | | |
|--|---------|-----------|-----------|
| Pensions and other postretirement benefits | 937,938 | 1,177,605 | 1,363,466 |
|--|---------|-----------|-----------|

| | | | |
|-----------------------|---------|---------|---------|
| Deferred income taxes | 286,622 | 234,858 | 137,196 |
|-----------------------|---------|---------|---------|

| | | | |
|-------------------|---------|---------|---------|
| Other liabilities | 449,696 | 526,089 | 609,235 |
|-------------------|---------|---------|---------|

| | | | |
|----------------------|-----------|-----------|-----------|
| Shareholders' equity | 5,815,209 | 5,859,866 | 5,513,401 |
|----------------------|-----------|-----------|-----------|

| | | | |
|--------------------------|-------|-------|-------|
| Noncontrolling interests | 5,957 | 5,627 | 5,809 |
|--------------------------|-------|-------|-------|

| | | | |
|-------------------------------------|----------------------|----------------------|----------------------|
| Total liabilities and equity | \$ 15,307,687 | \$ 15,320,087 | \$ 15,965,181 |
|-------------------------------------|----------------------|----------------------|----------------------|

CONSOLIDATED STATEMENT OF CASH FLOWS

| | | |
|------------------------|-------------------------------|------|
| (Unaudited) | Six Months Ended December 31, | |
| (Dollars in thousands) | 2018 | 2017 |

Cash flows from operating activities:

| | | |
|------------|------------|------------|
| Net income | \$ 687,812 | \$ 341,857 |
|------------|------------|------------|

| | | |
|--|-------------------|------------|
| Depreciation and amortization | 222,543 | 234,216 |
| Stock incentive plan compensation | 64,615 | 64,267 |
| Loss on sale of businesses | 623 | - |
| Loss (gain) on plant and equipment and intangible assets | 3,428 | (26,529) |
| Loss (gain) on sale of marketable securities | 5,701 | (1) |
| (Gain) loss on investments | (3,213) | 33,759 |
| Net change in receivables, inventories, and trade payables | (110,709) | (249,615) |
| Net change in other assets and liabilities | (379,687) | 120,301 |
| Other, net | 49,927 | (61,481) |
| Net cash provided by operating activities | 541,040 | 456,774 |
| Cash flows from investing activities: | | |
| Acquisitions (net of cash of \$690 in 2018) | (2,042) | - |
| Capital expenditures | (94,426) | (144,781) |
| Proceeds from sale of plant and equipment | 34,121 | 59,848 |
| Proceeds from sale of businesses | 19,540 | - |

| | | |
|---|---------------------|---------------------|
| Purchases of marketable securities and other investments | (2,845) | (78,309) |
| Maturities and sales of marketable securities and other investments | 14,432 | 12,710 |
| Other | (90) | 8,706 |
| Net cash (used in) investing activities | (31,310) | (141,826) |
| Cash flows from financing activities: | | |
| Net payments for common stock activity | (565,335) | (134,360) |
| Net proceeds from debt | 505,811 | 127,723 |
| Dividends | (200,459) | (176,187) |
| Net cash (used in) financing activities | (259,983) | (182,824) |
| Effect of exchange rate changes on cash | (24,499) | 7,760 |
| Net increase in cash and cash equivalents | 225,248 | 139,884 |
| Cash and cash equivalents at beginning of period | 822,137 | 884,886 |
| Cash and cash equivalents at end of period | \$ 1,047,385 | \$ 1,024,770 |

RECONCILIATION OF CASH FLOW FROM OPERATIONS TO ADJUSTED CASH FLOW FROM OPERATIONS

(Unaudited)

(Dollars in thousands)

| | Six Months Ended December 31, 2018 | Percent of sales | Six Months Ended December 31, 2017 | Percent of sales |
|--|---|-----------------------------|---|-------------------------|
| As reported cash flow from operations | \$ 541,040 | 7.8 % | \$ 456,774 | 6.8 % |
| Discretionary pension contribution | 200,000 | | - | |
| Adjusted cash flow from operations | \$ 741,040 | 10.7 % | \$ 456,774 | 6.8 % |

RECONCILIATION OF FORECASTED EARNINGS PER DILUTED SHARE TO ADJUSTED FORECASTED EARNINGS PER DILUTED SHARE

(Unaudited)

(Amounts in dollars)

| | Fiscal Year 2019 |
|--|-----------------------------|
| Forecasted earnings per diluted share | \$11.04 - \$11.54 |
| Adjustments: | |
| Business realignment charges | 0.11 |
| Clarcor costs to achieve U.S. Tax Reform income tax expense adjustment | 0.09 |
| | 0.11 |
| Adjusted forecasted earnings per diluted share | \$11.35 - \$11.85 |



Source: Parker-Hannifin Corporation