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# *Parker Hannifin Corporation*

Quarterly Earnings Release  
1st Quarter FY 2009

October 16, 2008

# *Forward-Looking Statements*

## ***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. All statements regarding future performance, earnings projections, events or developments are forward-looking statements. It is possible that the future performance and earnings projections of the company and 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, and growth, innovation and global diversification initiatives. A change in economic conditions in individual markets may have a particularly volatile effect on segment results. Among the other factors which may affect future performance are: changes in business relationships with and purchases by or from major customers or suppliers, including delays or cancellations in shipments or significant changes in financial condition; uncertainties surrounding timing, successful completion or integration of acquisitions; threats associated with and efforts to combat terrorism; uncertainties surrounding the ultimate resolution of outstanding litigation; competitive market conditions and resulting effects on sales and pricing; increases in raw material costs that cannot be recovered in product pricing; the company's ability to manage costs related to employee retirement and health care benefits and insurance; and global economic factors, including manufacturing activity, air travel trends, currency exchange rates, difficulties entering new markets and general economic conditions such as inflation, interest rates and credit availability. The company makes these statements as of the date of this disclosure, and undertakes no obligation to update them.

## ***Non-GAAP Financial Measure***

This presentation reconciles sales amounts reported in accordance with U.S. GAAP to sales amounts adjusted to remove the effects of acquisitions made within the prior four quarters as well as the effects of currency exchange rates on sales. The effects of acquisitions and currency exchange rates are removed to allow investors and the company to meaningfully evaluate changes in sales on a comparable basis from period to period.

# *Discussion Agenda*

- CEO 1<sup>st</sup> quarter highlights
- Key performance measures & outlook
- Questions & answers
- CEO Closing comments

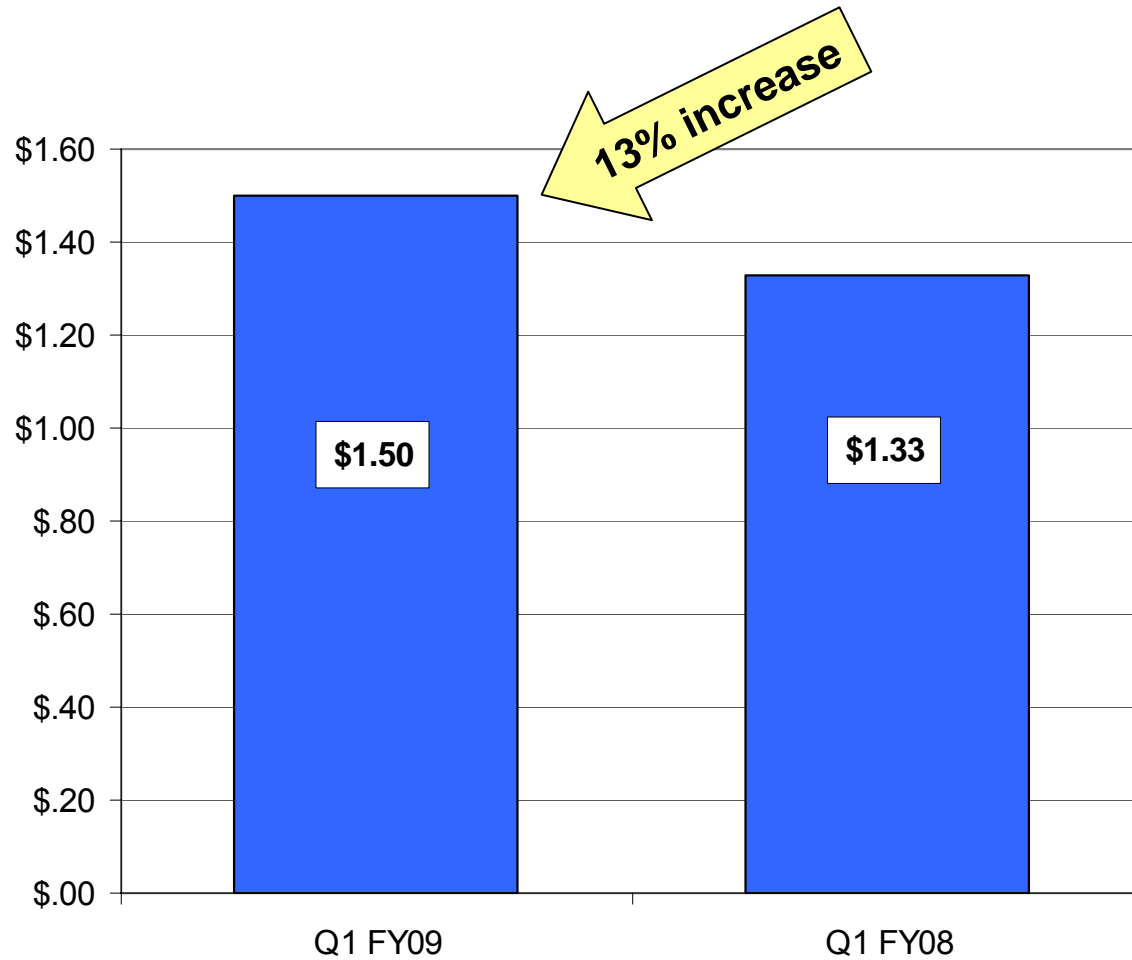
# *First Quarter Highlights*

- ◆ Record Quarterly Sales, Earnings, and Cash Flow
- ◆ Q1 Sales growth of 10% - 4% organic
- ◆ International margins of 16.6%
- ◆ Earnings per diluted share up 13%
- ◆ Share repurchases totaling \$414 million
- ◆ Four acquisitions to date - \$463 million revenues

# *Financial Highlights*

## *Diluted Earnings per Share*

### *1<sup>st</sup> Quarter*



# *Influences on 1<sup>st</sup> Quarter Earnings*

Diluted Earnings per Share increased as a result of:

- ◆ Increased Sales of 10% - 4% organic
- ◆ S,G&A as percent of Sales decrease of 80 bps
- ◆ Fewer shares outstanding

Offset by:

- ◆ Lower Gross Margin – 20 bps
- ◆ Higher Interest expense – 10 bps
- ◆ Higher “Other expense” – 30 bps
- ◆ Higher Tax expense due to increased income and a higher effective tax rate

# *Financial Highlights*

## *Sales – 1<sup>st</sup> Quarter*

Dollars in millions	1st Quarter		
	FY2009	% Change	FY2008
<u>Sales</u>			
As reported	\$3,065	10.0 %	\$2,787
Acquisitions	125	4.6 %	
Currency	51	1.8 %	
Adjusted Sales	\$2,889	3.7 %	

# *Influences on Sales*

- ◆ Continued Industrial end market strength
  - International
  - Distribution
- ◆ Aerospace
- ◆ Acquisitions
- ◆ Emerging markets

# *Segment Reporting*

## *Industrial North America*

Dollars in millions	1st Quarter		
	FY2009	% Change	FY2008
<u>Sales</u>			
As reported	\$ 1,107	10.1 %	\$ 1,006
Acquisitions	76	7.6 %	
Currency	1	0.1 %	
Adjusted Sales	\$ 1,030	2.4 %	
<u>Operating Margin</u>			
As reported	\$ 160		\$ 155
% of Sales	14.5 %		15.4 %

# *Segment Reporting*

## *Industrial International*

Dollars in millions	1st Quarter		
	FY2009	% Change	FY2008
<u>Sales</u>			
As reported	\$ 1,223	11.1 %	\$ 1,101
Acquisitions	36	3.3 %	
Currency	48	4.3 %	
Adjusted Sales	\$ 1,139	3.5 %	
<u>Operating Margin</u>			
As reported	\$ 203		\$ 183
% of Sales	16.6 %		16.7 %

# Segment Reporting

## Aerospace

Dollars in millions

1st Quarter

	1st Quarter		
	FY2009	% Change	FY2008
<u>Sales</u>			
As reported	\$ 478	12.0 %	\$ 427
Acquisitions	13	3.1 %	
Currency	1	0.2 %	
Adjusted Sales	\$ 464	8.7 %	
<u>Operating Margin</u>			
As reported	\$ 68		\$ 57
% of Sales	14.2 %		13.4 %

# Segment Reporting

## Climate & Industrial Controls

Dollars in millions	1st Quarter		
	FY2009	% Change	FY2008
<u>Sales</u>			
As reported	\$ 256	1.1 %	\$ 253
Acquisitions			
Currency	2	0.7 %	
Adjusted Sales	\$ 254	0.4 %	
<u>Operating Margin</u>			
As reported	\$ 15		\$ 16
% of Sales	6.1 %		6.1 %

# *Parker Order Rates*

## Three months ending September

	<u>FY09</u>	<u>FY08</u>
<b>Total Parker</b>	<b>+ 1 %</b>	<b>+ 7 %</b>
<b>Industrial North America</b>	<b>+ 2 %</b>	<b>+ 0 %</b>
<b>Industrial International</b>	<b>- 4 %</b>	<b>+ 19 %</b>
<b>Aerospace</b>	<b>+ 9 %</b>	<b>+ 12 %</b>
<b>Climate &amp; Industrial Controls</b>	<b>+ 5 %</b>	<b>- 13 %</b>

**Excludes Acquisitions & Currency**

**3-month year-over-year comparisons of total dollars, except Aerospace  
Aerospace is calculated using a 12-month moving average**

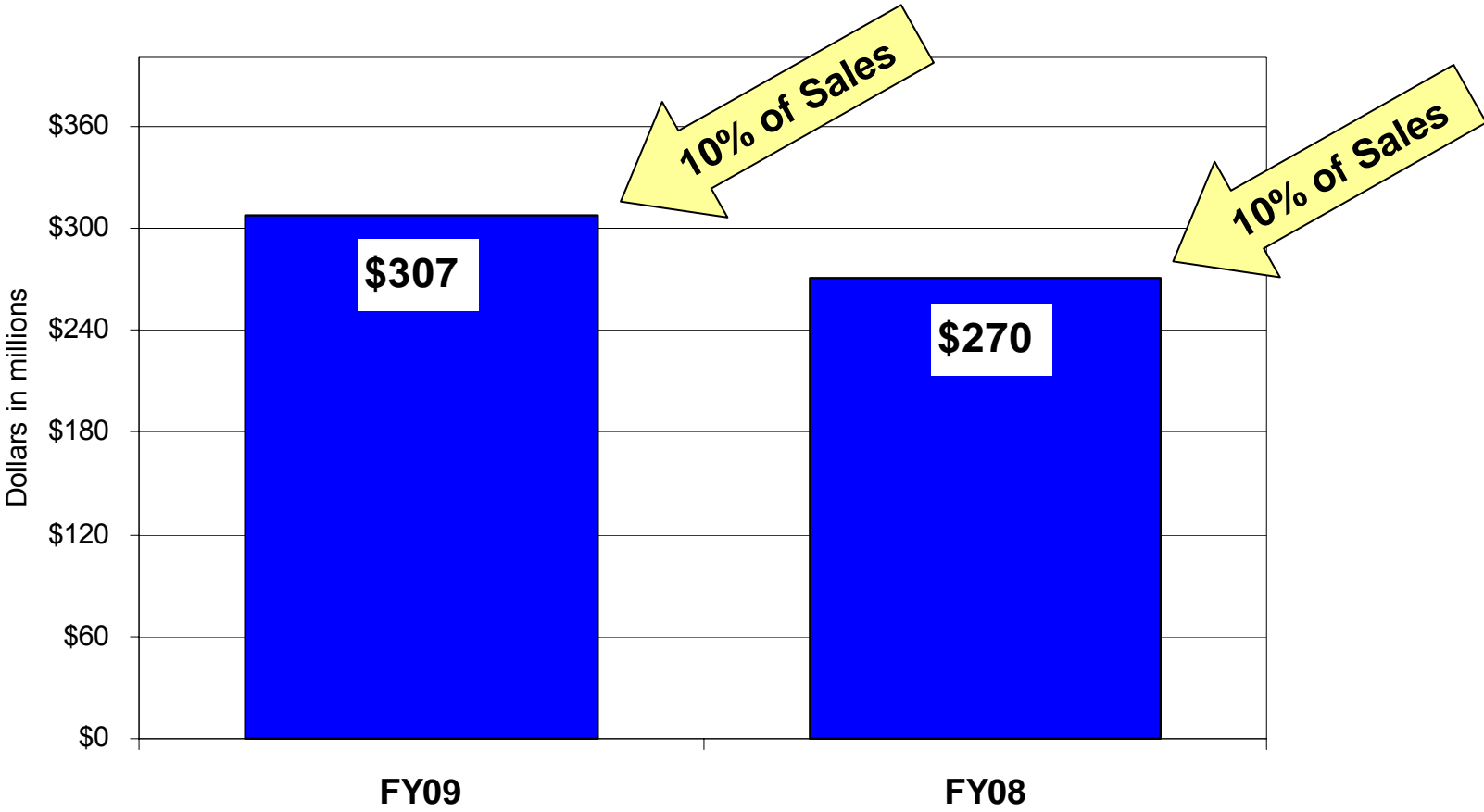
# *Balance Sheet Summary*

- ◆ Cash
  
- ◆ Working capital
  - Inventory
  - Accounts receivable
  - Accounts payable

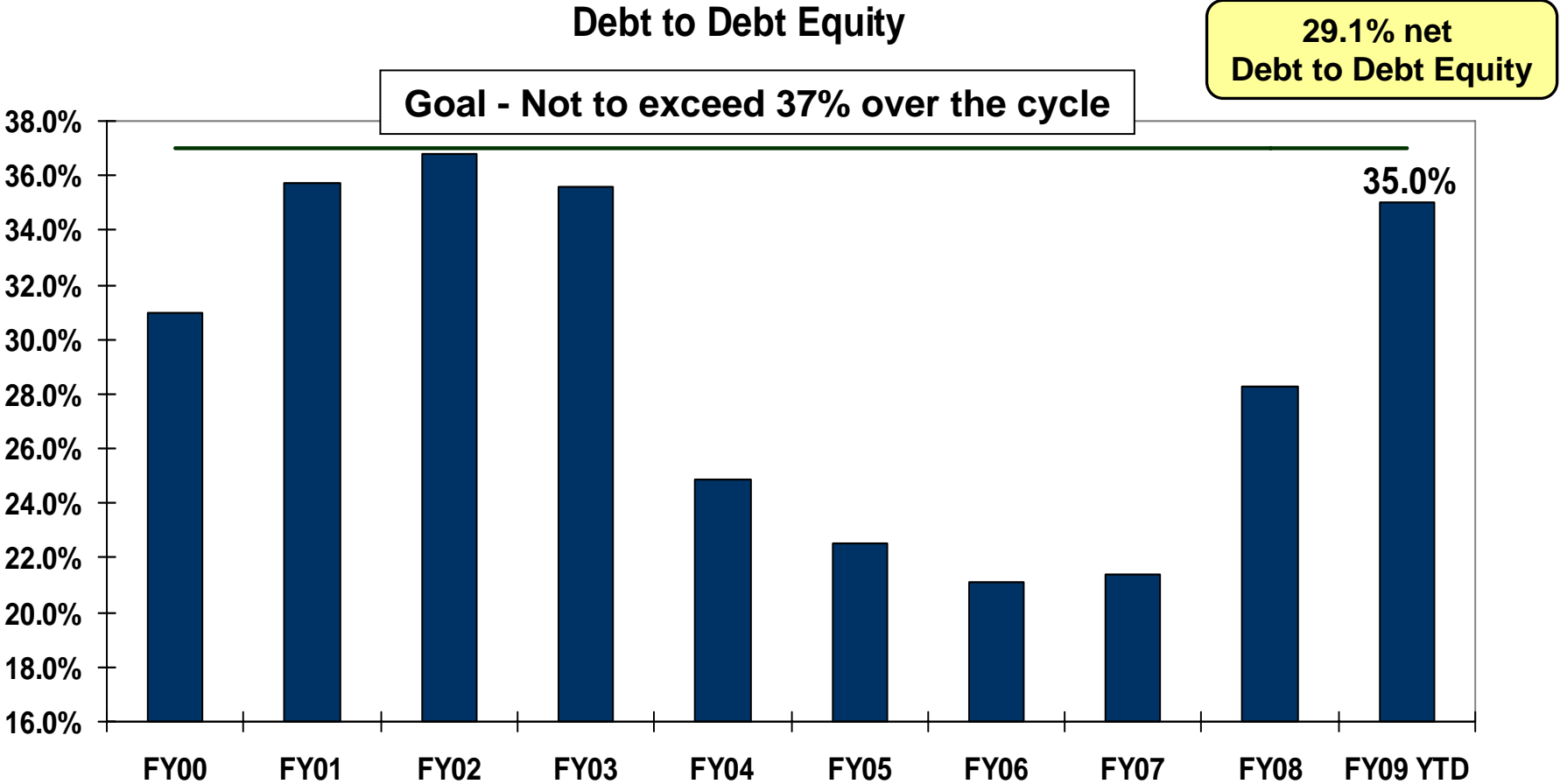
# *Strong Cash Flow*

## *Cash from Operating Activities*

### *1<sup>st</sup> Quarter*



# Financial Leverage



# ***FY 2009 Earnings Outlook Assumptions Segment Sales & Operating Income***

<b>FY 2009 Sales change versus FY 2008</b>	
Industrial North America	<b>2.2 % -- 2.6 %</b>
Industrial International	<b>(.3)% -- .1 %</b>
Aerospace	<b>2.6 % -- 3.0 %</b>
Climate & Industrial Controls	<b>(3.1)% -- (2.7)%</b>

<b>FY 2009 Operating margin percentages</b>	
Industrial North America	<b>13.6 % -- 14.0 %</b>
Industrial International	<b>15.0 % -- 15.4 %</b>
Aerospace	<b>12.8 % -- 13.2 %</b>
Climate & Industrial Controls	<b>4.5 % -- 4.9 %</b>

# ***FY 2009 Earnings Outlook Assumptions below Operating Margin***

- Corporate Admin + 1% to - 5% vs. FY 2008
- Interest Expense + 20% to +12% vs. FY 2008
- Other Expense (Inc.) - 17% to - 27% vs. FY 2008
- Tax Rate 29 %

# *Earnings Outlook – FY09*

	<u>Low</u>	<u>High</u>
<b>Diluted earnings per share</b>	<b>\$ 5.35</b>	<b>\$ 5.75</b>

# *Questions & Answers...*

# *Appendix*

## Income Statement

- 1<sup>st</sup> Quarter

# *Income Statement – 1<sup>st</sup> Quarter*

Dollars in millions

	FY 2009		FY 2008	
		% of Sales		% of Sales
<b>Net Sales</b>	\$ 3,064.7	100.0 %	\$ 2,787.3	100.0 %
Cost of sales	2,337.2	76.3 %	2,122.3	76.1 %
Gross profit	727.5	23.7 %	665.0	23.9 %
S, G & A	332.7	10.9 %	325.0	11.7 %
Interest expense	28.1	.9 %	22.4	.8 %
Other expense (income), net	10.0	.3 %	(.1)	(.0)%
Income before taxes	356.7	11.6 %	317.7	11.4 %
Income taxes	106.5	3.4 %	88.1	3.2 %
<b>Net income</b>	\$ 250.2	8.2 %	\$ 229.6	8.2 %