



## **Parker Earns 52 Cents in First Quarter; Recent Events Complicate Full-Year Outlook**

October 16, 2001

CLEVELAND, Oct. 16 /PRNewswire/ -- Parker Hannifin Corporation (NYSE: PH) today reported first-quarter net income for the period ended September 30, 2001 of \$60.6 million, or 52 cents per diluted share, on sales of \$1.48 billion. Net income for the same period last year was \$125 million, or \$1.09 per share, which included a net benefit from non-recurring items of 25 cents. The company's adoption this year of FAS 142, which eliminates goodwill amortization, also affects last year's quarterly comparison by 11 cents per share, making the "apples-to-apples" comparison 52 cents for this quarter, versus 95 cents in fiscal year 2001. Without the contribution of acquisitions and businesses previously held for sale, revenues in the company's base business were down by 11.4 percent, reflecting significantly lower volume, especially in the North American Industrial segment.

(Photo: <http://www.newscom.com/cgi-bin/prnh/19990816/PHLOGO> )

"We've reduced production levels and stepped up consolidation activities, but excess operating capacity continues to weigh on our profitability," said Parker CEO Don Washkewicz. "In the aftermath of September 11th, we want our customers and shareholders to know Parker's fundamentals remain sound. We're getting leaner and strengthening our systems foothold with strategic acquisitions that absolutely are achieving earnings accretion. And the product innovations noted in our latest annual report are being very well received by our customers."

The company's Aerospace segment, which comprises 21 percent of revenues, achieved double-digit increases in sales and operating income in the quarter, as demand held prior to September 11 and the group benefited from previously implemented lean initiatives. The Aerospace operating margin was 18.2 percent for the period.

Against last year's tough comparisons, quarterly sales and operating income in the company's North American and International Industrial businesses were lower. Sales and operating income fell in all of the North American Industrial businesses, most sharply in the company's higher-margin technology markets, including semiconductors and telecommunications. As a result, the return on sales in the North American Industrial segment dropped to 6.2 percent. And, with slowing sales and ongoing realignment in the International Industrial business, that operating margin was 6.7 percent.

In the "Other" segment, which includes Climate & Industrial Controls and the addition of Astron and Wynn Oil since last year, the return on sales was 7.9 percent.

### Outlook

"For our near-term performance, it's difficult to predict what the net effect of the current economic climate and unsettled world events will be, so we are managing very tightly," said Washkewicz. "The commercial aerospace sector is facing severe challenges that will most certainly affect some sixty percent of our Aerospace business. Our industrial side will just as certainly be buoyed by interest-rate relief, although we won't see the effects of that soon enough to change our current-year outlook."

For the next quarter, company officials anticipate continued weakness in industrial and other markets, as well as a precipitous drop in commercial aerospace following the events of September 11th. Based on these conditions, earnings in the second quarter of fiscal year 2002 are expected to be between 30 and 42 cents per share. And, with no immediate evidence of an upturn in sight, earnings for the full year are expected to range from \$2.20 to \$2.50 per share.

In addition to providing earnings estimates, Parker advises shareholders to note order trends, for which the company makes a disclosure several business days after the conclusion of each month. This information is available on the company's investor information web site, at [www.phstock.com](http://www.phstock.com).

With annual sales of \$6 billion, Parker Hannifin is the world's leading diversified manufacturer of motion and control technologies and systems, providing precision-engineered solutions for a wide variety of commercial, mobile, industrial and aerospace markets. The company employs more than 45,000 people in 45 countries around the world. For more information, visit the company's web site at [www.parker.com](http://www.parker.com) , or its investor information site at [www.phstock.com](http://www.phstock.com) .

### 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 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 company's future performance and earnings projections may differ materially from current expectations, depending on economic conditions in industrial and aerospace markets, including any adverse effects related to the events of September 11, 2001, and the company's ability to achieve anticipated benefits associated with realignment and acquisition-integration activities. Among 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; competitive market conditions and resulting effects on sales and pricing; increases in raw-material costs that cannot be recovered in product pricing; threats associated with terrorism; and global economic factors, including currency exchange rates and general economic conditions such as interest rates. In each quarterly earnings report, the company states a range of expected earnings per share for the succeeding quarter and full fiscal year, as estimates of diluted earnings per share before unusual items. The company makes these statements as of the date of this disclosure, and while it undertakes no obligation to update them, reserves the right to update its earnings projections for any reason during the quarter, including the occurrence of material events.

PARKER HANNIFIN CORPORATION - SEPTEMBER 30, 2001  
CONSOLIDATED STATEMENT OF INCOME

	Three Months Ended September 30,	
(Dollars in thousands except per share amounts)	2001	2000
Net sales	\$1,475,867	\$1,485,131
Cost of sales	1,197,625	1,159,029
Gross profit	278,242	326,102
Selling, general and administrative expenses	165,415	162,441
Other income (deductions):		
Interest expense	(20,454)	(21,168)
Interest and other income, net	117	51,377
	(20,337)	30,209
Income before income taxes	92,490	193,870
Income taxes	31,909	68,824
Net income	\$60,581	\$125,046
Earnings per share:		
Basic earnings per share	\$.53	\$1.10
Diluted earnings per share	\$.52	\$1.09
Average shares outstanding during period - Basic	115,166,914	113,929,685
Average shares outstanding during period - Diluted	115,752,698	114,561,981
Cash dividends per common share	\$.18	\$.17

Note: Selling, general and administrative expenses for the three months ended September 30, 2000 includes \$14,709 of goodwill amortization (\$12,641 after tax or \$.11 per share).

PRO FORMA RESULTS EXCLUDING GOODWILL AMORTIZATION

	Three Months Ended September 30,	
(Dollars in thousands except per share amounts)	2001	2000
Reported net income	\$60,581	\$125,046

Add back goodwill amortization		12,641
Adjusted net income	\$60,581	\$137,687

Earnings per share:

Reported basic earnings per share	\$.53	\$1.10
Goodwill amortization		.11
Adjusted basic earnings per share	\$.53	\$1.21
Reported diluted earnings per share	\$.52	\$1.09
Goodwill amortization		.11
Adjusted diluted earnings per share	\$.52	\$1.20

BUSINESS SEGMENT INFORMATION BY INDUSTRY

(Dollars in thousands)	Three Months Ended September 30,	
	2001	2000
Net sales		
Industrial:		
North America	\$650,840	\$770,105
International	296,291	308,084
Aerospace	312,500	270,388
Other	216,236	136,554
Total	\$1,475,867	\$1,485,131
Segment operating income		
Industrial:		
North America	\$40,465	\$106,939
International	19,828	24,264
Aerospace	56,892	44,276
Other	16,992	11,865
Total segment operating income	134,177	187,344
Corporate general and administrative expenses	16,939	17,384
Income from operations before interest expense and other	117,238	169,960
Interest expense	20,454	21,168
Other expense (income)	4,294	(45,078)
Income before income taxes	\$92,490	\$193,870

Note: Income before income taxes for the three months ended September 30, 2000 includes \$14,709 of goodwill amortization (\$6,691 in Industrial North America; \$2,925 in Industrial International; \$1,860 in Aerospace; \$1,088 in Other; and \$2,145 in Other expense (income)).

BUSINESS SEGMENT INFORMATION BY INDUSTRY EXCLUDING GOODWILL AMORTIZATION

(Dollars in thousands)	Three Months Ended September 30,	
	2001	2000
Net sales		
Industrial:		
North America	\$650,840	\$770,105
International	296,291	308,084
Aerospace	312,500	270,388
Other	216,236	136,554
Total	\$1,475,867	\$1,485,131
Segment operating income		

Industrial:		
North America	\$40,465	\$113,630
International	19,828	27,189
Aerospace	56,892	46,136
Other	16,992	12,953
Total segment operating income	134,177	199,908
Corporate general and administrative expenses	16,939	17,384
Income from operations before interest expense and other	117,238	182,524
Interest expense	20,454	21,168
Other expense (income)	4,294	(47,223)
Income before income taxes	\$92,490	\$208,579

Note: Amounts for the three months ended September 30, 2000 eliminates goodwill amortization, reflecting the Company's early adoption of FAS 142. It is intended to assist investors in making year-over-year comparisons with the three months ended September 30, 2001.

#### CONSOLIDATED BALANCE SHEET

(Dollars in thousands)	September 30,	
	2001	2000
Assets		
Current assets:		
Cash and cash equivalents	\$35,384	\$55,190
Restricted investments	86,992	
Accounts receivable, net	920,958	953,904
Inventories	1,047,713	1,027,213
Prepaid expenses	43,580	34,741
Deferred income taxes	109,376	86,754
Assets held for sale		241,667
Total current assets	2,244,003	2,399,469
Plant and equipment, net	1,600,157	1,435,642
Excess cost of investments over net assets acquired	1,083,467	862,892
Other assets	568,348	631,723
Total assets	\$5,495,975	\$5,329,726
Liabilities and shareholders' equity		
Current liabilities:		
Notes payable	\$583,428	\$596,109
Accounts payable	380,009	360,787
Accrued liabilities	452,821	419,789
Accrued domestic and foreign taxes	81,315	109,832
Total current liabilities	1,497,573	1,486,517
Long-term debt	874,228	953,434
Pensions and other postretirement benefits	206,427	303,909
Deferred income taxes	144,243	111,401
Other liabilities	192,866	80,295
Shareholders' equity	2,580,638	2,394,170
Total liabilities and shareholders' equity	\$5,495,975	\$5,329,726

CONSOLIDATED STATEMENT OF CASH FLOWS

Three Months Ended September 30,  
2001 2000

(Dollars in thousands)

Cash flows from operating activities:		
Net income	\$60,581	\$125,046
Depreciation and amortization	61,763	67,432
Net change in receivables, inventories, and trade payables	60,965	(124,443)
Net change in other assets and liabilities	27,300	(12,921)
Other, net	(7,512)	(35,150)
Net cash provided by operating activities	203,097	19,964
Cash flows from investing activities:		
Acquisitions (less cash acquired of \$5,240 in 2000)	(135,545)	(485,923)
Capital expenditures	(48,798)	(66,083)
Other, net	(20,210)	71,958
Net cash used in investing activities	(204,553)	(480,048)
Cash flows from financing activities:		
Net (payments for) proceeds from common share activity	(149)	1,725
Net proceeds from debt	35,843	466,007
Dividends	(20,731)	(19,361)
Net cash provided by financing activities	14,963	448,371
Effect of exchange rate changes on cash	(1,688)	(1,557)
Net increase (decrease) in cash and cash equivalents	11,819	(13,270)
Cash and cash equivalents at beginning of period	23,565	68,460
Cash and cash equivalents at end of period	\$35,384	\$55,190

SOURCE Parker Hannifin Corporation

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