

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2021
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File number 1-4982

PARKER-HANNIFIN CORPORATION

(Exact name of registrant as specified in its charter)

Ohio

(State or other jurisdiction of
Incorporation or Organization)

6035 Parkland Boulevard, Cleveland, Ohio
(Address of Principal Executive Offices)

34-0451060

(I.R.S. Employer
Identification No.)

44124-4141

(Zip Code)

Registrant's telephone number, including area code: (216) 896-3000

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class | Trading Symbol | Name of Each Exchange on which Registered |
|--------------------------------|----------------|---|
| Common Shares, \$.50 par value | PH | New York Stock Exchange |

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit such files). Yes No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act:

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large accelerated filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

If an emerging growth company, indicate by check mark if the Registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

Number of Common Shares outstanding at September 30, 2021: 128,514,953

PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF INCOME
(Dollars in thousands, except per share amounts)
(Unaudited)

| | Three Months Ended | |
|---|--------------------|--------------|
| | September 30, | |
| | 2021 | 2020* |
| Net sales | \$ 3,762,809 | \$ 3,230,540 |
| Cost of sales | 2,713,897 | 2,386,449 |
| Selling, general and administrative expenses | 407,765 | 369,851 |
| Interest expense | 59,350 | 65,958 |
| Other expense (income), net | 10,052 | (4,892) |
| Income before income taxes | 571,745 | 413,174 |
| Income taxes | 120,282 | 93,063 |
| Net income | 451,463 | 320,111 |
| Less: Noncontrolling interest in subsidiaries' earnings | 306 | 308 |
| Net income attributable to common shareholders | \$ 451,157 | \$ 319,803 |
| Earnings per share attributable to common shareholders: | | |
| Basic | \$ 3.50 | \$ 2.48 |
| Diluted | \$ 3.45 | \$ 2.45 |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(Dollars in thousands)
(Unaudited)

| | Three Months Ended September 30, | |
|---|-------------------------------------|------------|
| | 2021 | 2020* |
| Net income | \$ 451,463 | \$ 320,111 |
| Less: Noncontrolling interests in subsidiaries' earnings | 306 | 308 |
| Net income attributable to common shareholders | 451,157 | 319,803 |
| Other comprehensive (loss) income, net of tax | | |
| Foreign currency translation adjustment | (68,324) | 130,682 |
| Retirement benefits plan activity | 29,022 | 40,152 |
| Other comprehensive (loss) income | (39,302) | 170,834 |
| Less: Other comprehensive (loss) income for noncontrolling interests | (539) | 431 |
| Other comprehensive (loss) income attributable to common shareholders | (38,763) | 170,403 |
| Total comprehensive income attributable to common shareholders | \$ 412,394 | \$ 490,206 |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED BALANCE SHEET
(Dollars in thousands)
(Unaudited)

| | September 30, 2021 | June 30, 2021 |
|---|-----------------------|------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 478,582 | \$ 733,117 |
| Marketable securities and other investments | 40,160 | 39,116 |
| Trade accounts receivable, net | 2,109,648 | 2,183,594 |
| Non-trade and notes receivable | 315,571 | 326,315 |
| Inventories | 2,264,725 | 2,090,642 |
| Prepaid expenses and other | 422,588 | 243,966 |
| Total current assets | 5,631,274 | 5,616,750 |
| Property, plant and equipment | 6,019,237 | 6,040,220 |
| Less: Accumulated depreciation | 3,795,703 | 3,773,744 |
| Property, plant and equipment, net | 2,223,534 | 2,266,476 |
| Deferred income taxes | 145,972 | 104,251 |
| Investments and other assets | 800,211 | 774,239 |
| Intangible assets, net | 3,426,540 | 3,519,797 |
| Goodwill | 8,009,340 | 8,059,687 |
| Total assets | \$ 20,236,871 | \$ 20,341,200 |
| LIABILITIES | | |
| Current liabilities: | | |
| Notes payable and long-term debt payable within one year | \$ 302,309 | \$ 2,824 |
| Accounts payable, trade | 1,636,272 | 1,667,878 |
| Accrued payrolls and other compensation | 341,355 | 507,027 |
| Accrued domestic and foreign taxes | 279,173 | 236,384 |
| Other accrued liabilities | 724,134 | 682,390 |
| Total current liabilities | 3,283,243 | 3,096,503 |
| Long-term debt | 6,263,941 | 6,582,053 |
| Pensions and other postretirement benefits | 997,392 | 1,055,638 |
| Deferred income taxes | 568,369 | 553,981 |
| Other liabilities | 618,081 | 639,355 |
| Total liabilities | 11,731,026 | 11,927,530 |
| EQUITY | | |
| Shareholders' equity: | | |
| Serial preferred stock, \$.50 par value; authorized 3,000,000 shares; none issued | — | — |
| Common stock, \$.50 par value; authorized 600,000,000 shares; issued 181,046,128 shares at September 30 and June 30 | 90,523 | 90,523 |
| Additional capital | 358,677 | 329,619 |
| Retained earnings | 15,233,799 | 14,915,497 |
| Accumulated other comprehensive (loss) | (1,605,490) | (1,566,727) |
| Treasury shares, at cost; 52,531,175 shares at September 30 and 51,900,460 shares at June 30 | (5,586,728) | (5,370,605) |
| Total shareholders' equity | 8,490,781 | 8,398,307 |
| Noncontrolling interests | 15,064 | 15,363 |
| Total equity | 8,505,845 | 8,413,670 |
| Total liabilities and equity | \$ 20,236,871 | \$ 20,341,200 |

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
CONSOLIDATED STATEMENT OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

| | Three Months Ended September 30, | |
|---|-------------------------------------|------------|
| | 2021 | 2020* |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Net income | \$ 451,463 | \$ 320,111 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 65,751 | 66,739 |
| Amortization | 79,771 | 81,703 |
| Share incentive plan compensation | 57,666 | 58,461 |
| Deferred income taxes | (40,027) | 11,043 |
| Foreign currency transaction gain | (9,470) | (4,855) |
| Gain on disposal of property, plant and equipment | (30) | (498) |
| Loss (gain) on marketable securities | 804 | (340) |
| Gain on investments | (200) | (970) |
| Other | 42,823 | 5,302 |
| Changes in assets and liabilities, net of effects from acquisitions: | | |
| Accounts receivable, net | 74,070 | 15,532 |
| Inventories | (190,779) | 42,039 |
| Prepaid expenses and other | 37,763 | 53,129 |
| Other assets | (27,553) | (9,693) |
| Accounts payable, trade | (20,365) | 138,900 |
| Accrued payrolls and other compensation | (161,560) | (98,186) |
| Accrued domestic and foreign taxes | 46,592 | (2,209) |
| Other accrued liabilities | 36,288 | 34,457 |
| Pensions and other postretirement benefits | (15,651) | 17,652 |
| Other liabilities | (2,997) | 9,057 |
| Net cash provided by operating activities | 424,359 | 737,374 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (48,203) | (42,117) |
| Proceeds from sale of property, plant and equipment | 7,751 | 6,590 |
| Purchases of marketable securities and other investments | (7,456) | (10,726) |
| Maturities and sales of marketable securities and other investments | 5,312 | 49,107 |
| Other | 649 | 1,054 |
| Net cash (used in) provided by investing activities | (41,947) | 3,908 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Proceeds from exercise of stock options | 1,089 | 989 |
| Payments for common shares | (245,820) | (22,739) |
| (Payments for) proceeds from notes payable, net | (4) | 114,400 |
| Proceeds from long-term borrowings | 1 | — |
| Payments for long-term borrowings | (592) | (671,842) |
| Financing fees paid | (42,703) | — |
| Dividends paid | (132,921) | (113,542) |
| Net cash (used in) financing activities | (420,950) | (692,734) |
| Effect of exchange rate changes on cash | (997) | 8,332 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | (39,535) | 56,880 |
| Cash, cash equivalents and restricted cash at beginning of year | 733,117 | 685,514 |
| Cash, cash equivalents and restricted cash at end of period | \$ 693,582 | \$ 742,394 |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

See accompanying notes to consolidated financial statements.

PARKER-HANNIFIN CORPORATION
BUSINESS SEGMENT INFORMATION
(Dollars in thousands)
(Unaudited)

The Company operates in two reportable business segments: Diversified Industrial and Aerospace Systems. Both segments utilize eight core technologies, including hydraulics, pneumatics, electromechanical, filtration, fluid and gas handling, process control, engineered materials and climate control, to drive superior customer problem solving and value creation.

Diversified Industrial - This segment produces a broad range of motion-control and fluid systems and components used in all kinds of manufacturing, packaging, processing, transportation, mobile construction, refrigeration and air conditioning, agricultural, and military machinery and equipment and has significant international operations. Sales are made directly to major original equipment manufacturers ("OEMs") and through a broad distribution network to smaller OEMs and the aftermarket.

Aerospace Systems - This segment designs and manufactures products and provides aftermarket support for commercial, business jet, military and general aviation aircraft, missile and spacecraft markets. The Aerospace Systems Segment provides a full range of systems and components for hydraulic, pneumatic and fuel applications.

| | Three Months Ended September 30, | |
|--|-------------------------------------|---------------------|
| | 2021 | 2020* |
| Net sales | | |
| Diversified Industrial: | | |
| North America | \$ 1,793,715 | \$ 1,528,111 |
| International | 1,376,436 | 1,129,251 |
| Aerospace Systems | 592,658 | 573,178 |
| Total net sales | <u>\$ 3,762,809</u> | <u>\$ 3,230,540</u> |
| Segment operating income | | |
| Diversified Industrial: | | |
| North America | \$ 333,702 | \$ 268,833 |
| International | 291,176 | 186,901 |
| Aerospace Systems | 118,251 | 86,766 |
| Total segment operating income | 743,129 | 542,500 |
| Corporate general and administrative expenses | 49,072 | 36,735 |
| Income before interest expense and other expense | 694,057 | 505,765 |
| Interest expense | 59,350 | 65,958 |
| Other expense | 62,962 | 26,633 |
| Income before income taxes | <u>\$ 571,745</u> | <u>\$ 413,174</u> |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

PARKER-HANNIFIN CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in thousands, except per share amounts or as otherwise noted)

As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, the terms "Company", "Parker", "we" or "us" refer to Parker-Hannifin Corporation and its subsidiaries.

1. Management representation

In the opinion of the management of the Company, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the Company's financial position as of September 30, 2021, the results of operations for the three months ended September 30, 2021 and 2020 and cash flows for the three months then ended. These financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company's 2021 Annual Report on Form 10-K.

The future impacts of the novel coronavirus ("COVID-19") pandemic and its residual effects, including economic uncertainty and disruption within the global supply chain, labor markets and aerospace industry, on our business remain uncertain. Therefore, accounting estimates and assumptions may change over time in response to the impacts of COVID-19. Interim period results are not necessarily indicative of the results to be expected for the full fiscal year.

Subsequent Events

The Company has evaluated subsequent events that occurred through the date these financial statements were issued. In connection with the proposed acquisition of Meggitt plc ("Meggitt"), the Company entered into deal-contingent forward contracts during October 2021 to mitigate the risk of appreciation in the GBP-denominated purchase price. The deal-contingent forward contracts have an aggregate notional amount of £6,415 million, and settlement is contingent upon closing the proposed acquisition.

During October 2021, we issued \$2,126 million of commercial paper. We used the net proceeds and cash on hand to deposit a total of \$2,272 million into the escrow account designated for the proposed acquisition. As of October 31, 2021, the balance of the escrow account is \$2,487 million. After consideration of the increase in funds designated for the proposed acquisition and the deal-contingent forward contracts, the aggregate principal amount of the bridge credit agreement, dated August 2, 2021 (the "Bridge Credit Agreement") was decreased to £3,200 million.

2. Revenue recognition

Revenue is derived primarily from the sale of products in a variety of mobile, industrial and aerospace markets. A majority of the Company's revenues are recognized at a point in time. However, a portion of the Company's revenues are recognized over time.

Diversified Industrial Segment revenues by technology platform:

| | Three Months Ended | |
|-------------------------------------|---------------------------|--------------|
| | September 30, | |
| | 2021 | 2020 |
| Motion Systems | \$ 828,672 | \$ 657,141 |
| Flow and Process Control | 1,085,423 | 924,125 |
| Filtration and Engineered Materials | 1,256,056 | 1,076,096 |
| Total | \$ 3,170,151 | \$ 2,657,362 |

Aerospace Systems Segment revenues by product platform:

| | Three Months Ended September 30, | |
|--|-------------------------------------|-------------------|
| | 2021 | 2020 |
| Flight Control Actuation | \$ 177,353 | \$ 158,102 |
| Fuel, Inerting and Engine Motion Control | 122,319 | 118,963 |
| Hydraulics | 73,341 | 75,918 |
| Engine Components | 141,608 | 149,037 |
| Airframe and Engine Fluid Conveyance | 54,033 | 47,362 |
| Other | 24,004 | 23,796 |
| Total | \$ 592,658 | \$ 573,178 |

Total Company revenues by geographic region based on the Company's selling operation's location:

| | Three Months Ended September 30, | |
|---------------|-------------------------------------|---------------------|
| | 2021 | 2020 |
| North America | \$ 2,384,974 | \$ 2,096,165 |
| Europe | 761,970 | 615,572 |
| Asia Pacific | 568,134 | 485,148 |
| Latin America | 47,731 | 33,655 |
| Total | \$ 3,762,809 | \$ 3,230,540 |

The majority of revenues from the Aerospace Systems Segment are generated from sales to customers within North America.

Contract balances

Contract assets and contract liabilities are reported on a contract-by-contract basis. Contract assets reflect revenue recognized and performance obligations satisfied in advance of customer billing. Contract liabilities relate to payments received in advance of the satisfaction of performance under the contract. Payments from customers are received based on the terms established in the contract with the customer.

Total contract assets and contract liabilities are as follows:

| | September 30, 2021 | June 30, 2021 |
|--|-----------------------|--------------------|
| Contract assets, current (included within Prepaid expenses and other) | \$ 25,936 | \$ 34,190 |
| Contract assets, noncurrent (included within Investments and other assets) | 2,471 | 1,884 |
| Total contract assets | 28,407 | 36,074 |
| Contract liabilities, current (included within Other accrued liabilities) | (45,439) | (51,211) |
| Contract liabilities, noncurrent (included within Other liabilities) | (2,250) | (3,080) |
| Total contract liabilities | (47,689) | (54,291) |
| Net contract liabilities | \$ (19,282) | \$ (18,217) |

At September 30, 2021, the change in net contract liabilities was primarily due to timing differences between when revenue was recognized and the receipt of advance payments. During the three months ended September 30, 2021, approximately \$21 million of revenue was recognized that was included in the contract liabilities at June 30, 2021.

Remaining performance obligations

Our backlog represents written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release has been agreed to with the customer. We believe our backlog represents our unsatisfied or partially unsatisfied performance obligations. Backlog at September 30, 2021 was \$6,783 million, of which approximately 85 percent is expected to be recognized as revenue within the next 12 months and the balance thereafter.

3. Proposed Acquisition

On August 2, 2021, the Company announced that it reached an agreement on the terms of a recommended cash acquisition of the entire issued and to be issued ordinary share capital of Meggitt for 800 pence per share (the "Acquisition"), which is approximately £6,255 million based on issued share capital at September 30, 2021.

Meggitt is a leader in design, manufacturing and aftermarket support of technologically differentiated systems and equipment in aerospace, defense and selected energy markets with annual sales of approximately \$2.3 billion for the year ended December 31, 2020. We intend to fund the proposed Acquisition with cash and new debt. Refer to Note 13 for further discussion. The proposed Acquisition remains subject to customary closing conditions, including regulatory clearances. Acquisition-related transaction costs totaled \$13 million for the current-year quarter. These costs are included in selling, general and administrative expenses in the Consolidated Statement of Income.

Restricted Cash

At September 30, 2021, the Company held approximately \$215 million of cash in an escrow account that was restricted for payments related to the proposed Acquisition, all of which was recorded within prepaid expenses and other in the Consolidated Balance Sheet.

4. Earnings per share

The following table presents a reconciliation of the numerator and denominator of basic and diluted earnings per share for the three months ended September 30, 2021 and 2020.

| | Three Months Ended September 30, | |
|--|-------------------------------------|-------------|
| | 2021 | 2020* |
| Numerator: | | |
| Net income attributable to common shareholders | \$ 451,157 | \$ 319,803 |
| Denominator: | | |
| Basic - weighted average common shares | 128,726,721 | 128,707,745 |
| Increase in weighted average common shares from dilutive effect of equity-based awards | 2,101,250 | 1,586,478 |
| Diluted - weighted average common shares, assuming exercise of equity-based awards | 130,827,971 | 130,294,223 |
| Basic earnings per share | \$ 3.50 | \$ 2.48 |
| Diluted earnings per share | \$ 3.45 | \$ 2.45 |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

For the three months ended September 30, 2021 and 2020, 165,732 and 530,438 common shares subject to equity-based awards, respectively, were excluded from the computation of diluted earnings per share because the effect of their exercise would be anti-dilutive.

5. Share repurchase program

The Company has a program to repurchase its common shares. On October 22, 2014, the Board of Directors of the Company approved an increase in the overall number of shares authorized for repurchase under the program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million. There is no limitation on the number of shares that can be repurchased in a fiscal year. There is no expiration date for this program. Repurchases may be funded primarily from operating cash flows and commercial paper borrowings and the shares are initially held as treasury shares. During the three months ended September 30, 2021, we repurchased 767,600 shares at an average price, including commissions, of \$300.07 per share.

6. Trade accounts receivable, net

Trade accounts receivable are initially recorded at their net collectible amount and are generally recorded at the time the revenue from the sales transaction is recorded. We evaluate the collectibility of our receivables based on historical experience and current and forecasted economic conditions based on management's judgment. Additionally, receivables are written off to bad debt when management makes a final determination of uncollectibility. Allowance for credit losses was \$12 million at September 30, 2021 and June 30, 2021.

7. Non-trade and notes receivable

The non-trade and notes receivable caption in the Consolidated Balance Sheet is comprised of the following components:

| | September 30, 2021 | June 30, 2021 |
|----------------------------|-----------------------|-------------------|
| Notes receivable | \$ 128,414 | \$ 144,441 |
| Accounts receivable, other | 187,157 | 181,874 |
| Total | <u>\$ 315,571</u> | <u>\$ 326,315</u> |

8. Inventories

The inventories caption in the Consolidated Balance Sheet is comprised of the following components:

| | September 30, 2021 | June 30, 2021 |
|-------------------|-----------------------|---------------------|
| Finished products | \$ 774,749 | \$ 733,744 |
| Work in process | 1,189,194 | 1,089,976 |
| Raw materials | 300,782 | 266,922 |
| Total | <u>\$ 2,264,725</u> | <u>\$ 2,090,642</u> |

9. Business realignment and acquisition integration charges

We incurred business realignment and acquisition integration charges in the first three months of fiscal 2022 and 2021. In both the first three months of fiscal 2022 and 2021, business realignment charges included severance costs related to actions taken under the Company's simplification initiative aimed at reducing organizational and process complexity, as well as plant closures. During fiscal 2021, business realignment charges primarily consisted of actions taken to address the impact of COVID-19 on our business. A majority of the business realignment charges were incurred in North America and Europe. We believe the realignment actions will positively impact future results of operations, but will not have a material effect on liquidity and sources and uses of capital.

Business realignment charges presented in the Business Segment Information are as follows:

| | Three Months Ended September 30, | |
|---|-------------------------------------|-----------|
| | 2021 | 2020 |
| Diversified Industrial | \$ 3,017 | \$ 10,572 |
| Aerospace Systems | (3) | 3,951 |
| Corporate general and administrative expenses | — | 614 |
| Other expense | — | 564 |

Workforce reductions in connection with business realignment charges in the Business Segment Information are as follows:

| | Three Months Ended September 30, | |
|---|-------------------------------------|------|
| | 2021 | 2020 |
| Diversified Industrial | 35 | 384 |
| Aerospace Systems | — | 240 |
| Corporate general and administrative expenses | — | 13 |

The business realignment charges are presented in the Consolidated Statement of Income as follows:

| | Three Months Ended September 30, | |
|--|-------------------------------------|-----------|
| | 2021 | 2020 |
| Cost of sales | \$ 1,001 | \$ 12,150 |
| Selling, general and administrative expenses | 2,013 | 2,987 |
| Other expense (income), net | — | 564 |

During the first three months of fiscal 2022, approximately \$9 million in payments were made relating to business realignment charges. Remaining payments related to business realignment actions of approximately \$9 million, a majority of which are expected to be paid by June 30, 2022, are primarily reflected within the other accrued liabilities caption in the Consolidated Balance Sheet. Additional charges may be recognized in future periods related to the business realignment actions described above, the timing and amount of which are not known at this time.

We also incurred the following acquisition integration charges related to the fiscal 2020 acquisitions of LORD Corporation ("Lord") and Exotic Metals Forming Company ("Exotic"):

| | Three Months Ended September 30, | |
|------------------------|-------------------------------------|----------|
| | 2021 | 2020 |
| Diversified Industrial | \$ 1,202 | \$ 3,615 |
| Aerospace Systems | — | 332 |

In the first three months of fiscal 2022, these charges are evenly split between cost of sales and selling, general and administrative expenses within the Consolidated Statement of Income. In fiscal 2021, these charges were primarily included in selling, general and administrative expenses within the Consolidated Statement of Income.

10. Equity

Changes in equity for the three months ended September 30, 2021 and 2020 are as follows:

| | Common Stock | Additional Capital | Retained Earnings | Accumulated Other Comprehensive (Loss) | Treasury Shares | Noncontrolling Interests | Total Equity |
|-----------------------------------|------------------|-----------------------|----------------------|--|-----------------------|-----------------------------|---------------------|
| Balance at June 30, 2021 | \$ 90,523 | \$ 329,619 | \$ 14,915,497 | \$ (1,566,727) | \$ (5,370,605) | \$ 15,363 | \$ 8,413,670 |
| Net income | | | 451,157 | | | 306 | 451,463 |
| Other comprehensive (loss) | | | | (38,763) | | (539) | (39,302) |
| Dividends paid (\$1.03 per share) | | | (132,855) | | | (66) | (132,921) |
| Stock incentive plan activity | | 29,058 | | | 14,211 | | 43,269 |
| Shares purchased at cost | | | | | (230,334) | | (230,334) |
| Balance at September 30, 2021 | <u>\$ 90,523</u> | <u>\$ 358,677</u> | <u>\$ 15,233,799</u> | <u>\$ (1,605,490)</u> | <u>\$ (5,586,728)</u> | <u>\$ 15,064</u> | <u>\$ 8,505,845</u> |

| | Common Stock | Additional Capital | Retained Earnings* | Accumulated Other Comprehensive (Loss) | Treasury Shares | Noncontrolling Interests | Total Equity* |
|-----------------------------------|------------------|-----------------------|-----------------------|--|-----------------------|-----------------------------|---------------------|
| Balance at June 30, 2020 | \$ 90,523 | \$ 416,585 | \$ 13,643,907 | \$ (2,558,875) | \$ (5,364,916) | \$ 14,546 | \$ 6,241,770 |
| Net income | | | 319,803 | | | 308 | 320,111 |
| Other comprehensive income | | | | 170,403 | | 431 | 170,834 |
| Dividends paid (\$0.88 per share) | | | (113,542) | | | | (113,542) |
| Stock incentive plan activity | | 11,744 | | | 24,967 | | 36,711 |
| Balance at September 30, 2020 | <u>\$ 90,523</u> | <u>\$ 428,329</u> | <u>\$ 13,850,168</u> | <u>\$ (2,388,472)</u> | <u>\$ (5,339,949)</u> | <u>\$ 15,285</u> | <u>\$ 6,655,884</u> |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

Changes in accumulated other comprehensive (loss) in shareholders' equity by component for the three months ended September 30, 2021 and 2020 are as follows:

| | Foreign Currency Translation Adjustment | Retirement Benefit Plans | Total |
|--|--|-----------------------------|-----------------------|
| Balance at June 30, 2021 | \$ (865,865) | \$ (700,862) | \$ (1,566,727) |
| Other comprehensive (loss) before reclassifications | (67,785) | — | (67,785) |
| Amounts reclassified from accumulated other comprehensive (loss) | — | 29,022 | 29,022 |
| Balance at September 30, 2021 | <u>\$ (933,650)</u> | <u>\$ (671,840)</u> | <u>\$ (1,605,490)</u> |

| | Foreign Currency Translation Adjustment | Retirement Benefit Plans | Total |
|--|--|-----------------------------|-----------------------|
| Balance at June 30, 2020 | \$ (1,193,937) | \$ (1,364,938) | \$ (2,558,875) |
| Other comprehensive income before reclassifications | 130,251 | — | 130,251 |
| Amounts reclassified from accumulated other comprehensive (loss) | — | 40,152 | 40,152 |
| Balance at September 30, 2020 | <u>\$ (1,063,686)</u> | <u>\$ (1,324,786)</u> | <u>\$ (2,388,472)</u> |

Significant reclassifications out of accumulated other comprehensive (loss) in shareholders' equity for the three months ended September 30, 2021 and 2020 are as follows:

| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) Three Months Ended September 30, 2021 | Consolidated Statement of Income Classification |
|---|--|--|
| Retirement benefit plans | | |
| Amortization of prior service cost and initial net obligation | \$ (936) | Other expense (income), net |
| Recognized actuarial loss | (37,503) | Other expense (income), net |
| Total before tax | (38,439) | |
| Tax benefit | 9,417 | |
| Net of tax | <u>\$ (29,022)</u> | |

| Details about Accumulated Other Comprehensive (Loss) Components | Income (Expense) Reclassified from Accumulated Other Comprehensive (Loss) Three Months Ended September 30, 2020 | Consolidated Statement of Income Classification |
|---|--|--|
| Retirement benefit plans | | |
| Amortization of prior service cost and initial net obligation | \$ (818) | Other expense (income), net |
| Recognized actuarial loss | (52,265) | Other expense (income), net |
| Total before tax | (53,083) | |
| Tax benefit | 12,931 | |
| Net of tax | <u>\$ (40,152)</u> | |

11. Goodwill and intangible assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2021 are as follows:

| | Diversified Industrial Segment | Aerospace Systems Segment | Total |
|--|--------------------------------|---------------------------|--------------|
| Balance at June 30, 2021 | \$ 7,457,309 | \$ 602,378 | \$ 8,059,687 |
| Foreign currency translation and other | (50,340) | (7) | (50,347) |
| Balance at September 30, 2021 | \$ 7,406,969 | \$ 602,371 | \$ 8,009,340 |

Intangible assets are amortized using the straight-line method over their legal or estimated useful lives. The following summarizes the gross carrying value and accumulated amortization for each major category of intangible assets:

| | September 30, 2021 | | June 30, 2021 | |
|--------------------------|-----------------------|--------------------------|-----------------------|--------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Patents and technology | \$ 997,890 | \$ 227,415 | \$ 999,952 | \$ 216,314 |
| Trademarks | 757,627 | 338,001 | 762,130 | 331,905 |
| Customer lists and other | 3,847,159 | 1,610,720 | 3,869,772 | 1,563,838 |
| Total | \$ 5,602,676 | \$ 2,176,136 | \$ 5,631,854 | \$ 2,112,057 |

Total intangible amortization expense for the three months ended September 30, 2021 and 2020 was \$80 million and \$82 million, respectively. The estimated amortization expense for the five years ending June 30, 2022 through 2026 is \$320 million, \$305 million, \$298 million, \$288 million and \$282 million, respectively.

Intangible assets are evaluated for impairment whenever events or circumstances indicate that the undiscounted net cash flows to be generated by their use over their expected useful lives and eventual disposition may be less than their net carrying value. No material intangible asset impairments occurred during the three months ended September 30, 2021 and 2020.

12. Retirement benefits

Net pension benefit expense recognized included the following components:

| | Three Months Ended September 30, | |
|--|----------------------------------|-----------|
| | 2021 | 2020 |
| Service cost | \$ 20,662 | \$ 22,810 |
| Interest cost | 27,429 | 25,417 |
| Expected return on plan assets | (67,328) | (66,402) |
| Amortization of prior service cost | 934 | 843 |
| Amortization of net actuarial loss | 37,531 | 52,331 |
| Amortization of initial net obligation | 2 | 5 |
| Net pension benefit expense | \$ 19,230 | \$ 35,004 |

During the three months ended September 30, 2021 and 2020, we recognized \$0.3 million and \$0.4 million, respectively, in expense related to other postretirement benefits. Components of retirement benefits expense, other than service cost, are included in other expense (income), net in the Consolidated Statement of Income.

13. Debt

In connection with the proposed Acquisition of Meggitt, the Company entered into a Bridge Credit Agreement on August 2, 2021. Under the Bridge Credit Agreement, the lenders committed to provide senior, unsecured financing in the aggregate principal amount of £6,524 million at August 2, 2021. As permanent financing for the proposed Acquisition is secured, the principal amount of the Bridge Credit Agreement is reduced. At September 30, 2021, the aggregate principal amount was £5,100 million. Any borrowings made under the Bridge Credit Agreement would mature 364 days from the initial funding date. The commitments are intended to be drawn to finance the proposed Acquisition only to the extent that we do not arrange for alternative financing prior to closing. We incurred \$39 million in financing fees related to the Bridge Credit Agreement, all of which was included in Other expense (income), net within the Consolidated Statement of Income.

On August 27, 2021, the Company entered into a credit agreement, which provides for a senior, unsecured delayed-draw term loan facility in an aggregate principal amount of \$2,000 million (the "Term Loan Facility"). The proceeds of the Term Loan Facility, if drawn, will be used solely by the Company to finance a portion of the consideration of its proposed Acquisition and would mature in its entirety three years after the initial draw. Additionally, the provisions of the Term Loan Facility allow for prepayments at the Company's discretion.

During the first three months of fiscal 2022, we amended our existing multi-currency credit agreement, increasing its capacity to \$3,000 million. There were no outstanding commercial paper notes as of September 30, 2021 and June 30, 2021. Based on the Company's rating level at September 30, 2021, the most restrictive financial covenant provides that the ratio of debt to debt-shareholders' equity cannot exceed 0.65 to 1.0. At September 30, 2021, our debt to debt-shareholders' equity ratio was 0.44 to 1.0. We are in compliance, and expect to remain in compliance, with all covenants set forth in the credit agreements and indentures.

14. Income taxes

We file income tax returns in the United States and in various foreign jurisdictions. In the normal course of business, we are subject to examination by taxing authorities throughout the world. We are open to assessment on our U.S. federal income tax returns by the Internal Revenue Service for fiscal years after 2013, and our state and local returns for fiscal years after 2016. We are also open to assessment for significant foreign jurisdictions for fiscal years after 2011. Unrecognized tax benefits reflect the difference between positions taken or expected to be taken on income tax returns and the amounts reflected in the financial statements.

As of September 30, 2021, we had gross unrecognized tax benefits of \$99 million, all of which, if recognized, would impact the effective tax rate. The accrued interest related to the gross unrecognized tax benefits, excluded from the amount above, is \$18 million. It is reasonably possible that within the next 12 months the amount of gross unrecognized tax benefits could be reduced by up to approximately \$40 million as a result of the revaluation of existing uncertain tax positions arising from developments in the examination process or the closure of tax statutes. Any increase in the amount of gross unrecognized tax benefits within the next 12 months is expected to be insignificant.

15. Financial instruments

Our financial instruments consist primarily of cash and cash equivalents, marketable securities and other investments, accounts receivable and long-term investments, as well as obligations under accounts payable, trade, notes payable and long-term debt. Due to their short-term nature, the carrying values for cash and cash equivalents, accounts receivable, accounts payable, trade and notes payable approximate fair value.

Marketable securities and other investments include deposits and equity investments. Deposits are recorded at cost, and equity investments are recorded at fair value. Changes in fair value related to equity investments are recorded in net income. Unrealized gains and losses related to equity investments were not material as of September 30, 2021 and 2020.

The carrying value of long-term debt, which excludes the impact of net unamortized debt issuance costs, and estimated fair value of long-term debt are as follows:

| | September 30, 2021 | June 30, 2021 |
|--|-----------------------|------------------|
| Carrying value of long-term debt | \$ 6,625,692 | \$ 6,646,029 |
| Estimated fair value of long-term debt | 7,406,724 | 7,527,268 |

The fair value of long-term debt is classified within level 2 of the fair value hierarchy.

We utilize derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts, cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges, to manage foreign currency transaction and translation risk. The derivative financial instrument contracts are with major investment grade financial institutions, and we do not anticipate any material non-performance by any of the counterparties. We do not hold or issue derivative financial instruments for trading purposes.

The Company's €700 million aggregate principal amount of Senior Notes due 2025 have been designated as a hedge of the Company's net investment in certain foreign subsidiaries. The translation of the Senior Notes due 2025 into U.S. dollars is recorded in accumulated other comprehensive (loss) and remains there until the underlying net investment is sold or substantially liquidated.

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value.

The location and fair value of derivative financial instruments reported in the Consolidated Balance Sheet are as follows:

| | Balance Sheet Caption | September 30, 2021 | June 30, 2021 |
|-------------------------------|--------------------------------|-----------------------|------------------|
| Net investment hedges | | | |
| Cross-currency swap contracts | Other liabilities | \$ 53,723 | \$ 71,798 |
| Cash flow hedges | | | |
| Forward exchange contracts | Non-trade and notes receivable | 9,463 | 5,376 |
| Forward exchange contracts | Other accrued liabilities | 6,364 | 9,435 |
| Costless collar contracts | Non-trade and notes receivable | 807 | 110 |
| Costless collar contracts | Other accrued liabilities | 3,308 | 901 |

The cross-currency swap, forward exchange, and costless collar contracts are reflected on a gross basis in the Consolidated Balance Sheet. We have not entered into any master netting arrangements.

The cross-currency swap contracts have been designated as hedging instruments. The forward exchange and costless collar contracts have not been designated as hedging instruments and are considered to be economic hedges of forecasted transactions.

Derivatives not designated as hedges are adjusted to fair value by recording gains and losses through the cost of sales caption in the Consolidated Statement of Income.

Derivatives designated as hedges are adjusted to fair value by recording gains and losses through accumulated other comprehensive (loss) on the Consolidated Balance Sheet until the hedged item is recognized in earnings. We assess the effectiveness of the €69 million, €290 million and ¥2,149 million cross-currency swap hedging instruments using the spot method. Under this method, the periodic interest settlements are recognized directly in earnings through interest expense.

Net gains of \$4 million and \$20 million relating to forward exchange contracts were recorded within cost of sales in the Consolidated Statement of Income for the three months ended September 30, 2021 and 2020, respectively. All other gains or losses on derivative financial instruments that were recorded in the Consolidated Statement of Income for the three months ended September 30, 2021 and 2020 were not material.

Gains (losses) on derivative and non-derivative financial instruments that were recorded in accumulated other comprehensive (loss) on the Consolidated Balance Sheet are as follows:

| | Three Months Ended September 30, | |
|-------------------------------|-------------------------------------|-------------|
| | 2021 | 2020 |
| Cross-currency swap contracts | \$ 12,371 | \$ (17,134) |
| Foreign denominated debt | 14,864 | (25,727) |

During the three months ended September 30, 2021 and 2020, the periodic interest settlements related to the cross-currency swaps were not material.

A summary of financial assets and liabilities that were measured at fair value on a recurring basis at September 30, 2021 and June 30, 2021 are as follows:

| | Fair Value at September 30, 2021 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------|----------------------------------|---|---|---|
| Assets: | | | | |
| Equity securities | \$ 19,169 | \$ 19,169 | \$ — | \$ — |
| Derivatives | 10,270 | — | 10,270 | — |
| Liabilities: | | | | |
| Derivatives | 63,395 | — | 63,395 | — |

| | Fair Value at June 30, 2021 | Quoted Prices In Active Markets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---------------------|-----------------------------|---|---|---|
| Assets: | | | | |
| Equity securities | \$ 20,517 | \$ 20,517 | \$ — | \$ — |
| Derivatives | 5,486 | — | 5,486 | — |
| Liabilities: | | | | |
| Derivatives | 82,134 | — | 82,134 | — |

The fair values of the equity securities are determined using the closing market price reported in the active market in which the fund is traded.

Derivatives consist of forward exchange, costless collar and cross-currency swap contracts, the fair values of which are calculated using market observable inputs including both spot and forward prices for the same underlying currencies. The calculation of the fair value of the cross-currency swap contracts also utilizes a present value cash flow model that has been adjusted to reflect the credit risk of either the Company or the counterparty.

The primary investment objective for all investments is the preservation of principal and liquidity while earning income.

There are no other financial assets or financial liabilities that are marked to market on a recurring basis.

PARKER-HANNIFIN CORPORATION
FORM 10-Q
ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS
FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2021
AND COMPARABLE PERIOD ENDED SEPTEMBER 30, 2020

OVERVIEW

The Company is a global leader in motion and control technologies. For more than a century, the Company has engineered the success of its customers in a wide range of diversified industrial and aerospace markets.

By aligning around our purpose, Enabling Engineering Breakthroughs that Lead to a Better Tomorrow, Parker is better positioned for the challenges and opportunities of tomorrow.

The Win Strategy 3.0 is Parker's business system that defines the goals and initiatives that drive growth, transformation and success. It works with our purpose, which is a foundational element of The Win Strategy, to engage team members and create responsible and sustainable growth. Our shared values shape our culture and our interactions with stakeholders and the communities in which we operate and live.

We believe many opportunities for profitable growth are available. The Company intends to focus primarily on business opportunities in the areas of energy, water, food, environment, defense, life sciences, infrastructure and transportation. We believe we can meet our strategic objectives by:

- Serving the customer and continuously enhancing its experience with the Company;
- Successfully executing The Win Strategy initiatives relating to engaged people, premier customer experience, profitable growth and financial performance;
- Maintaining a decentralized division and sales company structure;
- Fostering a safety-first and entrepreneurial culture;
- Engineering innovative systems and products to provide superior customer value through improved service, efficiency and productivity;
- Delivering products, systems and services that have demonstrable savings to customers and are priced by the value they deliver;
- Enabling a sustainable future by providing innovative technology solutions that offer a positive, global environmental impact and operating responsibly by reducing our energy use and emissions;
- Acquiring strategic businesses;
- Organizing around targeted regions, technologies and markets;
- Driving efficiency by implementing lean enterprise principles; and
- Creating a culture of empowerment through our values, inclusion and diversity, accountability and teamwork.

Our order rates provide a near-term perspective of the Company's outlook particularly when viewed in the context of prior and future order rates. The Company publishes its order rates on a quarterly basis. The lead time between the time an order is received and revenue is realized generally ranges from one day to 12 weeks for mobile and industrial orders and from one day to 18 months for aerospace orders.

In March 2020, the World Health Organization declared the outbreak of COVID-19 a pandemic. We continue to prioritize the safety of our team members. To minimize the spread of COVID-19 in our workplaces, we implemented heightened prevention, screening and hygiene protocols.

We are actively monitoring the impact of the COVID-19 pandemic and its residual effects, including economic uncertainty and disruption within the global supply chain, labor markets and aerospace industry, on our business. Despite disruption within the aerospace industry, including ongoing travel restrictions, commercial aerospace demand is beginning to recover. We are managing the challenging supply chain environment through our "local for local" manufacturing strategy, ongoing supplier management process, and broadened supply base. Additionally, we are strategically managing our workforce and discretionary spending. At the same time, we are appropriately addressing the ongoing needs of our business so that we may continue to serve our customers.

Over the long term, the extent to which our business and results of operations will be impacted by the pandemic and its residual effects depends on future developments that remain uncertain. These developments include distribution and continuing effectiveness of vaccines, the severity and spread of COVID-19 and its variants, mitigating actions by government authorities, and the duration of the supply chain and labor market constraints.

The discussion below is structured to separately discuss the Consolidated Statement of Income, Business Segment Information, and Liquidity and Capital Resources. As used in this Quarterly Report on Form 10-Q, unless the context otherwise requires, the terms "Company", "Parker", "we" or "us" refer to Parker-Hannifin Corporation and its subsidiaries.

CONSOLIDATED STATEMENT OF INCOME

| (dollars in millions) | Three Months Ended | |
|---|--------------------|----------|
| | September 30, | |
| | 2021 | 2020* |
| Net sales | \$ 3,763 | \$ 3,231 |
| Gross profit margin | 27.9 % | 26.1 % |
| Selling, general and administrative expenses | \$ 408 | \$ 370 |
| Selling, general and administrative expenses, as a percent of sales | 10.8 % | 11.4 % |
| Interest expense | \$ 59 | \$ 66 |
| Other expense (income), net | \$ 10 | \$ (5) |
| Effective tax rate | 21.0 % | 22.5 % |
| Net income | \$ 451 | \$ 320 |
| Net income, as a percent of sales | 12.0 % | 9.9 % |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

Net sales for the current-year quarter increased when compared to the prior-year quarter primarily due to higher volume in both segments. The effect of currency rate changes increased net sales by approximately \$23 million, of which \$15 million was attributable to the Diversified Industrial International businesses.

Gross profit margin (calculated as net sales minus cost of sales, divided by net sales) increased in the current-year quarter primarily due to higher margins in both the Aerospace Systems and Diversified Industrial Segments. These increases are primarily due to higher sales volume and benefits from continuous improvement initiatives, as well as price increases, partially offset by increased freight, material and labor costs, as well as production inefficiencies related to disruption within the global supply chain and labor markets. Gross profit margin in the current-year and prior-year quarter included net foreign currency transaction gains of \$9 million and \$5 million, respectively.

Cost of sales for the current-year and prior-year quarter also included business realignment and acquisition integration charges of \$2 million and \$12 million, respectively.

Selling, general and administrative expenses ("SG&A") increased during the current-year quarter primarily due to acquisition-related transaction costs of \$13 million and increased discretionary spending. SG&A also included business realignment and acquisition integration charges of \$3 million and \$7 million for the current-year and prior-year quarter, respectively.

Interest expense for the current-year quarter decreased from the prior-year quarter primarily due to lower average debt outstanding.

Other expense (income), net included the following:

| (dollars in millions) | Three Months Ended | |
|---|--------------------|---------------|
| | September 30, | |
| Expense (income) | 2021 | 2020 |
| Income related to equity method investments | \$ (18) | \$ (9) |
| Non-service components of retirement benefit cost | (1) | 13 |
| Interest income | (1) | (2) |
| Acquisition-related financing fees | 39 | — |
| Other items, net | (9) | (7) |
| | <u>\$ 10</u> | <u>\$ (5)</u> |

Acquisition-related financing fees in the current-year quarter relate to the bridge credit agreement (the "Bridge Credit Agreement") fees associated with the proposed acquisition of Meggitt plc ("Meggitt"). Refer to Note 13 of the Consolidated Financial Statements for further discussion of the Bridge Credit Agreement.

Effective tax rate for the current-year quarter was lower than the comparable prior-year period primarily due to an overall increase in discrete tax benefits. The fiscal 2022 effective tax rate is expected to be approximately 23 percent.

BUSINESS SEGMENT INFORMATION

Diversified Industrial Segment

| (dollars in millions) | Three Months Ended | |
|-----------------------|--------------------|----------|
| | September 30, | |
| | 2021 | 2020 |
| Net sales | | |
| North America | \$ 1,794 | \$ 1,528 |
| International | 1,376 | 1,129 |
| Operating income | | |
| North America | 334 | 269 |
| International | \$ 291 | \$ 187 |
| Operating margin | | |
| North America | 18.6 % | 17.6 % |
| International | 21.2 % | 16.6 % |
| Backlog | \$ 3,583 | \$ 2,201 |

The Diversified Industrial Segment operations experienced the following percentage changes in net sales in the current-year period versus the comparable prior-year period:

| | Period Ending September 30, 2021 |
|--|-------------------------------------|
| | Three Months |
| Diversified Industrial North America – as reported | 17.4 % |
| Currency | 0.5 % |
| Diversified Industrial North America – without currency ¹ | 16.9 % |
| Diversified Industrial International – as reported | 21.9 % |
| Currency | 1.4 % |
| Diversified Industrial International – without currency ¹ | 20.5 % |
| Total Diversified Industrial Segment – as reported | 19.3 % |
| Currency | 0.9 % |
| Total Diversified Industrial Segment – without currency ¹ | 18.4 % |

¹This table reconciles the percentage changes in net sales of the Diversified Industrial Segment reported in accordance with accounting principles generally accepted in the United States of America ("GAAP") to percentage changes in net sales adjusted to remove the effects of currency exchange rates (a non-GAAP measure). The effects of currency exchange rates are removed to allow investors and the Company to meaningfully evaluate the percentage changes in net sales on a comparable basis from period to period.

Net Sales

Diversified Industrial North America - Sales increased 17.4 percent during the current-year quarter compared to the same prior-year period. The effect of currency exchange rates increased sales by approximately \$8 million in the current-year quarter. Excluding the effects of currency exchange rates, sales in the Diversified Industrial North American businesses increased 16.9 percent compared to prior-year levels primarily due to higher demand from distributors and end users across most markets, including the construction, heavy-duty truck, farm and agriculture, engines, refrigeration, life sciences and industrial machinery markets, partially offset by lower end-user demand in the oil and gas and cars and light truck markets.

Diversified Industrial International - Sales increased 21.9 percent during the current-year quarter compared to the same prior-year period. The effect of currency exchange rates increased sales by approximately \$15 million in the current-year quarter. Excluding the effects of currency exchange rates, Diversified Industrial International sales for the current-year quarter increased 20.5 percent from prior-year levels. During the current-year quarter, Europe and the Asia Pacific region accounted for approximately 60 percent and 30 percent, respectively, of the increase in sales, while Latin America accounted for the remainder of the change.

Within Europe, sales in the current-year quarter increased primarily due to higher demand from distributors and end users across most markets, including the construction, mining, machine tool, industrial machinery, power generation, material handling, forestry, and cars and light truck markets, partially offset by lower end-user demand in the oil and gas and telecommunications markets.

Within the Asia Pacific region, sales in the current-year quarter increased primarily due to an increase in demand from distributors and end users across most markets, including the semiconductor, construction, industrial machinery, life sciences and refrigeration markets, partially offset by end-user demand in the engines and power generation markets.

Within Latin America, sales in the current-year quarter increased primarily due to higher demand from distributors and end users in various markets, including the farm and agriculture, construction, cars and light truck, and mining markets, partially offset by lower end-user demand in the life sciences market.

Operating Margin

Diversified Industrial Segment operating margin increased in the current-year quarter within both the North American and International businesses primarily due to higher sales volume and benefits from continuous improvement initiatives, as well as price increases. These increases were partially offset by increased operating costs, including higher freight, material, and labor costs, as well as production inefficiencies as result of a challenging supply chain environment and labor market. In addition, operating margin within the International businesses benefited from savings related to prior-year restructuring actions.

Business Realignment

The following business realignment and acquisition integration charges are included in Diversified Industrial North American and Diversified Industrial International operating income:

| (dollars in millions) | Three Months Ended | |
|--------------------------------------|--------------------|------|
| | September 30, | |
| | 2021 | 2020 |
| Diversified Industrial North America | \$ 1 | \$ 4 |
| Diversified Industrial International | 3 | 10 |

In both fiscal 2022 and 2021, business realignment charges included severance costs related to actions taken under the Company's simplification initiative aimed at reducing organizational and process complexity, as well as plant closures. During fiscal 2021, business realignment charges primarily consisted of actions taken to address the impact of COVID-19 on our business. Acquisition integration charges relate to the fiscal 2020 acquisition of LORD Corporation ("Lord"). Business realignment and acquisition integration charges within the Diversified Industrial International businesses were primarily incurred in Europe.

We anticipate that cost savings realized from the workforce reduction measures taken in the first three months of fiscal 2022 will not materially impact operating income in fiscal 2022 or 2023. We expect to continue to take actions necessary to integrate acquisitions and structure appropriately the operations of the Diversified Industrial Segment. We currently anticipate incurring approximately \$37 million of additional business realignment and acquisition integration charges in the remainder of fiscal 2022. However, continually changing business conditions could impact the ultimate costs we incur.

Backlog

Diversified Industrial Segment backlog as of September 30, 2021 increased from the prior-year quarter due to orders exceeding shipments in both the North American and International businesses. Backlog in the North American and International businesses accounted for approximately 60 percent and 40 percent of the change, respectively. Within the International businesses, Europe and the Asia Pacific region accounted for approximately 60 percent and 40 percent of the change, respectively.

As of September 30, 2021, Diversified Industrial Segment backlog increased compared to the June 30, 2021 amount of \$3,239 million due to orders exceeding shipments in both the North American and International businesses. Backlog in the North American and International businesses accounted for approximately 80 percent and 20 percent of the change, respectively. Within the International businesses, the Asia Pacific region and Europe accounted for approximately 60 percent and 30 percent of the increase, respectively.

Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale.

Aerospace Systems Segment

| (dollars in millions) | Three Months Ended | |
|-----------------------|--------------------|----------|
| | September 30, | |
| | 2021 | 2020 |
| Net sales | \$ 593 | \$ 573 |
| Operating income | \$ 118 | \$ 87 |
| Operating margin | 20.0 % | 15.1 % |
| Backlog | \$ 3,200 | \$ 2,863 |

Net Sales

Aerospace Systems Segment sales for the current-year quarter increased compared to the same prior-year period primarily due to higher volume in the commercial original equipment manufacturer ("OEM") and aftermarket businesses. This increase was partially offset by lower military OEM and aftermarket volume.

Operating Margin

Aerospace Systems Segment operating margin increased during the current-year quarter primarily due to higher sales volume, aftermarket profitability, and lower business realignment and engineering development expenses, partially offset by challenges created by the supply chain and labor markets.

Business Realignment

As the commercial aerospace markets are recovering, we do not intend to incur significant additional business realignment and acquisition integration charges in the remainder of fiscal 2022. However, continually changing business conditions could impact the ultimate costs we incur.

Backlog

Aerospace Systems Segment backlog as of September 30, 2021 increased from the prior-year quarter primarily due to orders exceeding shipments in the military and commercial OEM businesses, partially offset by shipments exceeding orders in the military and commercial aftermarket businesses.

As of September 30, 2021, Aerospace Systems Segment backlog decreased compared to the June 30, 2021 amount of \$3,264 million primarily due to shipments exceeding orders in the military and commercial OEM businesses, partially offset by orders exceeding shipments in the commercial aftermarket business. Military aftermarket backlog remained flat when compared to June 30, 2021. Backlog consists of written firm orders from a customer to deliver products and, in the case of blanket purchase orders, only includes the portion of the order for which a schedule or release date has been agreed to with the customer. The dollar value of backlog is equal to the amount that is expected to be billed to the customer and reported as a sale.

Corporate general and administrative expenses

| (dollars in millions) Expense (income) | Three Months Ended September 30, | |
|---|-------------------------------------|-------|
| | 2021 | 2020 |
| Corporate general and administrative expense | \$ 49 | \$ 37 |
| Corporate general and administrative expense, as a percent of sales | 1.3 % | 1.1 % |

Corporate general and administrative expenses increased in the current-year quarter primarily due to an increase in discretionary spending and lower net benefits from the Company's deferred compensation plan and related investments.

Other expense (in the Business Segment Information) included the following:

| (dollars in millions) Expense (income) | Three Months Ended September 30, | |
|---|-------------------------------------|--------------|
| | 2021 | 2020* |
| Foreign currency transaction | \$ (9) | \$ (5) |
| Stock-based compensation | 37 | 37 |
| Pensions | (5) | 4 |
| Acquisition-related expenses | 52 | — |
| Interest income | (1) | (2) |
| Other items, net | (11) | (7) |
| | <u>\$ 63</u> | <u>\$ 27</u> |

*Prior period has been adjusted to reflect the change in inventory accounting method, as described in the Company's fiscal 2021 Annual Report on Form 10-K.

Foreign currency transaction primarily relates to the impact of exchange rates on cash, marketable securities and other investments, forward contracts and intercompany transactions.

Acquisition-related expenses include Bridge Credit Agreement financing fees and transaction costs related to the proposed acquisition of Meggitt. Refer to Notes 3 and 13 to the Consolidated Financial Statements for further discussion of the acquisition-related transaction costs and Bridge Credit Agreement, respectively.

LIQUIDITY AND CAPITAL RESOURCES

We believe that we are great generators and deployers of cash. We assess our liquidity in terms of our ability to generate cash to fund our operations and meet our strategic capital deployment objectives, which include the following:

- Continuing our record annual dividend increases
- Investing in organic growth and productivity
- Strategic acquisitions that strengthen our portfolio
- Offset share dilution through 10b5-1 share repurchase program

Cash Flows

A summary of cash flows follows:

| (dollars in millions) | Three Months Ended September 30, | |
|---|-------------------------------------|--------------|
| | 2021 | 2020 |
| Cash provided by (used in): | | |
| Operating activities | \$ 424 | \$ 737 |
| Investing activities | (42) | 4 |
| Financing activities | (421) | (693) |
| Effect of exchange rates | (1) | 9 |
| Net (decrease) increase in cash, cash equivalents and restricted cash | <u>\$ (40)</u> | <u>\$ 57</u> |

Cash flows from operating activities for the first three months of fiscal 2022 were \$424 million compared to \$737 million for the first three months of fiscal 2021. This decrease of \$313 million was primarily driven by increased working capital requirements of \$362 million, partially offset by an increase in net income of \$131 million in fiscal 2022 compared to the same prior-year period.

- Days sales outstanding relating to trade accounts receivable was 51 days at September 30, 2021, 50 days at June 30, 2021 and 53 days at September 30, 2020.
- Days supply of inventory on hand was 86 days at September 30, 2021, 75 days at June 30, 2021 and 88 days at September 30, 2020.

Cash flows from investing activities for the first three months of fiscal 2022 and 2021 were impacted by the following factors:

- Net purchases of marketable securities of \$2 million in fiscal 2022 compared to net maturities of marketable securities of \$38 million in fiscal 2021.
- Capital expenditures of \$48 million in fiscal 2022 compared to \$42 million in the same prior-year period.

Cash flows from financing activities for the first three months of fiscal 2022 and 2021 were impacted by the following factors:

- Repurchases of 0.8 million common shares for \$230 million during fiscal 2022.
- Term loan repayments of \$672 million in fiscal 2021.

Cash Requirements

We are actively monitoring our liquidity position and remain focused on managing our inventory and other working capital requirements. We are continuing to target two percent of sales for capital expenditures and are prioritizing those related to safety and strategic investments. We believe that cash generated from operations and our commercial paper program will satisfy our operating needs for the foreseeable future.

Dividends

We declared a quarterly dividend of \$1.03 per share on August 12, 2021, which was paid on September 10, 2021. Dividends have been paid for 285 consecutive quarters, including a yearly increase in dividends for the last 65 years. Additionally, we declared a quarterly dividend of \$1.03 on October 27, 2021, payable on December 3, 2021.

Share Repurchases

The Company has a program to repurchase its common shares. On October 22, 2014, the Board of Directors of the Company approved an increase in the overall number of shares authorized to repurchase under the program so that, beginning on such date, the aggregate number of shares authorized for repurchase was 35 million. There is no limitation on the number of shares that can be repurchased in a year. Repurchases may be funded primarily from operating cash flows and commercial paper borrowings and the shares are initially held as treasury shares. Refer to Note 5 to the Consolidated Financial Statements for further discussion of share repurchases.

Liquidity

Cash, comprised of cash and cash equivalents and marketable securities and other investments, includes \$413 million and \$467 million held by the Company's foreign subsidiaries at September 30, 2021 and June 30, 2021, respectively. The Company does not permanently reinvest certain foreign earnings. The distribution of these earnings could result in non-federal U.S. or foreign taxes. All other undistributed foreign earnings remain permanently reinvested.

We are currently authorized to sell up to \$3,000 million of short-term commercial paper notes. There were no outstanding commercial paper notes as of September 30, 2021, and the largest amount of commercial paper notes outstanding during the current-year quarter was \$91 million. During October 2021, we issued \$2,126 million of commercial paper. Refer to the Strategic Acquisitions section below for further discussion.

The Company has a line of credit through a multi-currency revolving credit agreement with a group of banks. During August 2021, we amended the existing credit agreement, increasing its capacity from \$2,500 million to \$3,000 million, by exercising the accordion feature. At September 30, 2021, \$3,000 million was available. Advances from the credit agreement can be used for general corporate purposes, including acquisitions, and for the refinancing of existing indebtedness. The credit agreement supports our commercial paper program, and issuances of commercial paper reduce the amount of credit available under the agreement. The credit agreement expires in September 2024; however, the Company has the right to request a one-year extension of the expiration date on an annual basis, which may result in changes to the current terms and conditions of the credit agreement. The credit agreement requires the payment of an annual facility fee, the amount of which is dependent upon the Company's credit ratings. Although a lowering of the Company's credit ratings would increase the cost of future debt, it would not limit the Company's ability to use the credit agreement, nor would it accelerate the repayment of any outstanding borrowings. Refer to Note 13 to the Consolidated Financial Statements for further discussion.

We primarily utilize unsecured medium-term notes and senior notes to meet our financing needs and we expect to continue to borrow funds at reasonable rates over the long term. Refer to the Cash flows from financing activities section above and Note 13 to the Consolidated Financial Statements for further discussion.

The Company's credit agreements and indentures governing certain debt securities contain various covenants, the violation of which would limit or preclude the use of the credit agreements for future borrowings, or might accelerate the maturity of the related outstanding borrowings covered by the indentures. Based on the Company's rating level at September 30, 2021, the most restrictive financial covenant provides that the ratio of debt to debt-shareholders' equity cannot exceed 0.65 to 1.0. At September 30, 2021, the Company's debt to debt-shareholders' equity ratio was 0.44 to 1.0. We are in compliance and expect to remain in compliance with all covenants set forth in the credit agreement and indentures.

Our goal is to maintain an investment-grade credit profile. The rating agencies periodically update our credit ratings as events occur. At September 30, 2021, the long-term credit ratings assigned to the Company's senior debt securities by the credit rating agencies engaged by the Company were as follows:

| | |
|----------------------------------|------|
| Fitch Ratings | BBB+ |
| Moody's Investors Services, Inc. | Baa1 |
| Standard & Poor's | BBB+ |

Strategic Acquisitions

On August 2, 2021, the Company announced that it reached an agreement on the terms of a recommended cash acquisition of the entire issued and to be issued ordinary share capital of Meggitt for 800 pence per share, or approximately £6,255 million based on issued share capital at September 30, 2021. We intend to fund the proposed acquisition with cash and new debt. The proposed acquisition remains subject to customary closing conditions, including regulatory clearances.

In connection with the proposed acquisition, the Company entered into a Bridge Credit Agreement on August 2, 2021. Under the Bridge Credit Agreement, the lenders committed to provide senior, unsecured financing in the aggregate principal amount of £6,524 million at August 2, 2021. As permanent financing for the proposed acquisition is secured, the principal amount of the Bridge Credit Agreement is reduced. At September 30, 2021, the aggregate principal amount was £5,100 million. Any borrowings made under the Bridge Credit Agreement would mature 364 days from the initial funding date. The commitments are intended to be drawn to finance the proposed acquisition of Meggitt only to the extent that we do not arrange for alternative financing prior to closing.

Additionally, we entered into a senior, unsecured delayed-draw term loan facility in an aggregate principal amount of \$2,000 million (the "Term Loan Facility") on August 27, 2021. The proceeds of the Term Loan Facility, if drawn, will be used solely by the Company to finance a portion of the consideration of its proposed acquisition. Refer to Note 13 of the Consolidated Financial Statements for further discussion of the Bridge Credit Agreement and the Term Loan Facility.

During the first three months of fiscal 2022, we made a deposit of \$215 million into an escrow account designated for the proposed acquisition. This cash is recorded as restricted cash on our Consolidated Balance Sheet within the prepaid expenses and other caption. During October 2021, we issued \$2,126 million of commercial paper. We used these net proceeds and cash on hand to deposit a total of \$2,272 million into the escrow account designated for the proposed acquisition.

In connection with the proposed acquisition of Meggitt, the Company entered into deal-contingent forward contracts during October 2021 to mitigate the risk of appreciation in the GBP-denominated purchase price. The deal-contingent forward contracts have an aggregate notional amount of £6,415 million, and settlement is contingent upon closing the proposed acquisition.

After consideration of the increase in funds designated for the proposed acquisition and the deal-contingent forward contracts, the aggregate principal amount of the Bridge Credit Agreement was decreased to £3,200 million in October 2021.

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. Often but not always, 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. Neither the Company nor any of its respective associates or directors, officers or advisers, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. The Company 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 past performance or 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 and Exotic and the proposed acquisition of Meggitt; and our ability to effectively manage expanded operations from the acquisitions of Lord and Exotic and the proposed acquisition of Meggitt;
- 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;
- legal and regulatory developments and changes;
- additional liabilities relating to changes in tax rates or exposure to additional income tax liabilities;
- ability to enter into, own, renew, protect and maintain intellectual property and know-how;
- leverage and future debt service obligations;
- potential impairment of goodwill;
- compliance costs associated with environmental laws and regulations;
- potential supply chain and labor disruptions, including as a result of labor shortages;
- uncertainties surrounding the ultimate resolution of outstanding legal proceedings, including the outcome of any appeals;
- global competitive market conditions, including U.S. trade policies and resulting effects on sales and pricing;
- 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, credit availability and changes in consumer habits and preferences;
- local and global political and economic conditions;
- inability to obtain, or meet conditions imposed for, required governmental and regulatory approvals;
- government actions and natural phenomena such as floods, earthquakes, hurricanes and pandemics;

- increased cybersecurity threats and sophisticated computer crime; and
- success of business and operating initiatives.

The Company makes these statements as of the date of the filing of its Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, and undertakes no obligation to update them unless otherwise required by law.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company manages foreign currency transaction and translation risk by utilizing derivative and non-derivative financial instruments, including forward exchange contracts, costless collar contracts, cross-currency swap contracts and certain foreign denominated debt designated as net investment hedges. The derivative financial instrument contracts are with major investment grade financial institutions and we do not anticipate any material non-performance by any of the counterparties. We do not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognized on the Consolidated Balance Sheet as either assets or liabilities and are measured at fair value. Further information on the fair value of these contracts is provided in Note 15 to the Consolidated Financial Statements. Derivatives that are not designated as hedges are adjusted to fair value by recording gains and losses through the Consolidated Statement of Income. Derivatives that are designated as hedges are adjusted to fair value by recording gains and losses through accumulated other comprehensive income (loss) in the Consolidated Balance Sheet until the hedged item is recognized in earnings. For cross-currency swaps measured using the spot method, the periodic interest settlements are recognized directly in earnings through interest expense. The translation of the foreign denominated debt that has been designated as a net investment hedge is recorded in accumulated other comprehensive income (loss) and remains there until the underlying net investment is sold or substantially liquidated.

The Company's debt portfolio contains variable rate debt, inherently exposing the Company to interest rate risk. Our objective is to maintain a 60/40 mix between fixed rate and variable rate debt thereby limiting our exposure to changes in near-term interest rates.

As discussed elsewhere in this report, the future impacts of the COVID-19 pandemic and its residual effects, including economic uncertainty and disruption within the global supply chain, labor markets and aerospace industry, on our business remain uncertain. As we cannot anticipate the ultimate duration or scope of the COVID-19 pandemic, the ultimate financial impact to our results cannot be reasonably estimated, but could be material.

ITEM 4. CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's principal executive officer and principal financial officer, of the effectiveness of the Company's disclosure controls and procedures as of September 30, 2021. Based on this evaluation, the Company's principal executive officer and principal financial officer concluded that, as of September 30, 2021, the Company's disclosure controls and procedures were effective.

There were no changes in the Company's internal controls over financial reporting during the quarter ended September 30, 2021 that materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. In response to the COVID-19 pandemic, many of our team members have been working remotely. While there were no material changes in our internal control over financial reporting during the quarter ended September 30, 2021, we are continually monitoring and assessing the changing business environment resulting from COVID-19 on our internal controls to minimize the impact on their design and operating effectiveness.

PARKER-HANNIFIN CORPORATION

PART II - OTHER INFORMATION

ITEM 1. Legal Proceedings.

From time to time we are involved in matters that involve governmental authorities as a party under federal, state and local laws that have been enacted or adopted regulating the discharge of materials into the environment or primarily for the purpose of protecting the environment. We will report such matters that exceed, or that we reasonably believe may exceed, \$1.0 million or more in monetary sanctions.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds.

- (a) *Unregistered Sales of Equity Securities.* Not applicable.
 (b) *Use of Proceeds.* Not applicable.
 (c) *Issuer Purchases of Equity Securities.*

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid Per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | (d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|--|---|--|--|---|
| July 1, 2021 through July 31, 2021 | 53,900 | \$ 305.58 | 53,900 | 9,643,080 |
| August 1, 2021 through August 31, 2021 | 656,800 | \$ 300.49 | 656,800 | 8,986,280 |
| September 1, 2021 through September 30, 2021 | 56,900 | \$ 289.74 | 56,900 | 8,929,380 |
| Total: | <u>767,600</u> | | <u>767,600</u> | |

- (1) On October 22, 2014, the Company publicly announced that the Board of Directors increased the overall maximum number of shares authorized for repurchase under the Company's share repurchase program, first announced on August 16, 1990, so that, beginning on October 22, 2014, the maximum aggregate number of shares authorized for repurchase was 35 million shares. There is no limitation on the amount of shares that can be repurchased in a fiscal year. There is no expiration date for this program.

ITEM 6. Exhibits.

The following documents are furnished as exhibits and are numbered pursuant to Item 601 of Regulation S-K:

| Exhibit No. | Description of Exhibit |
|--------------------|--|
| 10(a) | Parker-Hannifin Corporation 2022 Performance Bonus Plan, effective as of July 1, 2021. * |
| 10(b) | Term Loan Agreement, dated August 27, 2021, by and among Parker-Hannifin Corporation, Key Bank National Association, as administrative agent, and the lenders party thereto, incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed with the SEC on August 27, 2021 (Commission File No. 1-4982). |
| 10(c) | Cooperation Agreement, by and between Parker-Hannifin Corporation and Meggitt plc, dated August 2, 2021, incorporated by reference to Exhibit 10.1 to Registrant's Report on Form 8-K filed with the SEC on August 3, 2021 (Commission File No. 1-4982). |
| 10(d) | Bridge Credit Agreement, by and between Parker-Hannifin Corporation, Citibank, N.A., as administrative agent, and certain financial institution parties thereto, dated August 2, 2021, incorporated by reference to Exhibit 10.2 to Registrant's Report on Form 8-K filed with the SEC on August 3, 2021 (Commission File No. 1-4982). |
| 31(a) | Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Certification of the Principal Executive Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002. Act of 2002. * |
| 31(b) | Certification of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002. of the Principal Financial Officer Pursuant to 17 CFR 240.13a-14(a), as Adopted Pursuant to §302 of the Sarbanes-Oxley Act of 2002. * |
| 32 | Certification Pursuant Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. 18 U.S.C. Section 1350, as Adopted Pursuant to §906 of the Sarbanes-Oxley Act of 2002. * |
| 101.INS | Inline XBRL Instance Document.* |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document.* |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document.* |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document. * |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document.* |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document.* |
| 104 | Cover page Interactive Data File (formatted as Inline XBRL with applicable taxonomy extension information contained in Exhibits 101). |

* Submitted electronically herewith.

Attached as Exhibit 101 to this report are the following formatted in Inline XBRL (Extensible Business Reporting Language): (i) Consolidated Statement of Income for the three months ended September 30, 2021 and 2020, (ii) Consolidated Statement of Comprehensive Income for the three months ended September 30, 2021 and 2020, (iii) Consolidated Balance Sheet at September 30, 2021 and June 30, 2021, (iv) Consolidated Statement of Cash Flows for the three months ended September 30, 2021 and 2020, and (v) Notes to Consolidated Financial Statements for the three months ended September 30, 2021.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PARKER-HANNIFIN CORPORATION
(Registrant)

/s/ Todd M. Leombruno

Todd M. Leombruno
Executive Vice President and Chief Financial Officer

Date: November 5, 2021

PARKER-HANNIFIN CORPORATION
2022 PERFORMANCE BONUS PLAN

Purpose. The purpose of this 2022 Performance Bonus Plan (the "Plan") is to attract and retain key executives for Parker-Hannifin Corporation, an Ohio corporation (the "Corporation"), and its Subsidiaries and to provide such persons with incentives for superior performance.

Definitions. The following capitalized words as used in this Plan shall have the following meanings:

"**Board**" means the Board of Directors of the Corporation.

"**Code**" means the Internal Revenue Code of 1986, as amended from time to time.

"**Committee**" means the Human Resources and Compensation Committee of the Board or any other committee appointed by the Board to administer the Plan; provided, however, that in any event the Committee shall be comprised of not less than two directors of the Corporation, each of whom shall qualify as an "outside director."

"**Common Shares**" means the Corporation's common shares of the par value of \$.50 per share.

"**Eligible Executive**" means the Corporation's Chief Executive Officer and any other executive officer or other employee of the Corporation designated by the Committee.

"**Incentive Bonus**" shall mean, for each Eligible Executive, an award opportunity determined by the Committee pursuant to Section 5 below, which may be a Short-Term Incentive Bonus or a Long-Term Incentive Bonus.

"**Long-Term Incentive Bonus**" shall mean, for each Eligible Executive, an Incentive Bonus designated as such by the Committee determined with respect to a Performance Period (or a combination of a Performance Period and an additional required period of service) longer than one year.

"**Management Objectives**" means the achievement of a short-term or long-term performance objective or objectives established pursuant to this Plan for Eligible Executives. Management Objectives may be described in terms of Corporation-wide objectives or objectives that are related to the performance of the individual Eligible Executive or of the Subsidiary, division, department or function within the Corporation or Subsidiary in which the Eligible Executive is employed. The Management Objectives shall be limited to specified levels of, growth in, or relative peer company performance in one or more of the following:

- (i) earnings per share;
- (ii) return on invested capital;
- (iii) return on total capital;

- (iv) return on total assets;
- (v) return on net assets;
- (vi) return on equity;
- (vii) total shareholder return;
- (viii) revenue;
- (ix) cash flow, free cash flow or free cash flow margin;
- (x) net income;
- (xi) operating profit;
- (xii) pre-tax income;
- (xiii) earnings before interest, taxes, depreciation and/or amortization costs;
- (xiv) productivity;
- (xv) customer satisfaction;
- (xvi) employee satisfaction;
- (xvii) economic value added; and
- (xviii) stock price.

"Performance Period" means a period of time established by the Committee, in its sole discretion, within which the Management Objectives relating to an Incentive Bonus are to be achieved. The Committee may establish different Performance Periods for different Eligible Executives, and the Committee may establish concurrent or overlapping Performance Periods.

"Regulations" mean the Treasury Regulations promulgated under the Code, as amended from time to time.

"Short-Term Incentive Bonus" means, for each Eligible Executive, an Incentive Bonus designated as such by the Committee and determined with respect to a Performance Period (or a combination of a Performance Period and an additional required period of service) of one year or less.

"Subsidiary" means a corporation, partnership, joint venture, unincorporated association or other entity in which the Corporation has a direct or indirect ownership or other equity interest.

Administration of the Plan. The Plan shall be administered by the Committee, which shall have full power and authority to construe, interpret and administer the Plan and to adopt regulations for the administration of the Plan. The Committee shall have the exclusive right to establish Management Objectives and the amount of any Incentive Bonus payable to each Eligible Executive upon the achievement of the specified Management Objectives.

Eligibility. Eligibility under this Plan is limited to Eligible Executives designated by the Committee in its sole and absolute discretion.

Awards.

Not later than the earlier of (i) the 90th day of each Performance Period, or (ii) the expiration of 25% of the Performance Period, the Committee shall establish the Management Objective or Management Objectives for each Incentive Bonus granted to an Eligible Executive for such Performance Period and the amount of the Incentive Bonus payable (or formula for determining such amount) upon full achievement of the specified Management Objectives. With respect to any Performance Period, the Committee may grant to any Eligible Executive more than one Short-Term Incentive Bonus, and more than one Long-Term Incentive Bonus, as applicable. The Committee may further specify in respect of the specified Management Objectives for an Incentive Bonus a minimum acceptable level of achievement below which no Incentive Bonus payment will be made and shall set forth a formula for determining the amount of any payment to be made if performance is at or above the minimum acceptable level but falls short of full achievement of the specified Management Objectives. The Management Objectives established by the Committee for an Incentive Bonus shall have any reasonable definitions that the Committee may specify within the period specified in this Section 5(a), which may include or

exclude any items specified by the Committee, including but not limited to any or all of the following items: discontinued operations, extraordinary, unusual, non-recurring or special items, effects of accounting changes, effects of currency or interest rate fluctuations, effects of financing activities (e.g., effect on earnings per share of issuing convertible debt securities), changes in tax rates, expenses for restructuring or productivity initiatives, litigation losses, non-operating items, effects of acquisitions or divestitures and changes of law or regulation affecting the Corporation's business.

The Committee retains the discretion to reduce (but not to increase) the amount of any Incentive Bonus that would be otherwise payable to an Eligible Executive (including a reduction in such amount to zero).

Notwithstanding any other provision of the Plan to the contrary, in no event shall (i) the aggregate amount of the Short-Term Incentive Bonuses paid to the Chief Executive Officer under the Plan for a Performance Period exceed either \$4 million or 300% of base salary; (ii) the aggregate amount of the Short-Term Incentive Bonuses paid to an Eligible Executive (other than the Chief Executive Officer) under the Plan for a Performance Period exceed either \$2 million or 200% of base salary; (iii) the aggregate amount of the Long-Term Incentive Bonuses paid to the Chief Executive Officer under the Plan for a Performance Period exceed \$8.5 million in cash or 200,000 Common Shares; or (iv) the aggregate amount of the Long-Term Incentive Bonuses paid to an Eligible Executive (other than the Chief Executive Officer) under the Plan for a Performance Period exceed \$3.5 million in cash or 100,000 Common Shares. The limit on the

number of Common Shares that may be paid to an Eligible Executive as Long-Term Incentive Bonuses and the kind of shares covered thereby shall be adjusted by the Committee as it may deem equitable to reflect any (a) stock dividend, stock split, combination of Common Shares, recapitalization or other change in the capital structure of the Corporation, or (b) merger, consolidation, spin-off, split-off, spin-out, split-up, reorganization, partial or complete liquidation or other distribution of assets, issuance of rights or warrants to purchase securities, or (c) other corporate transaction or event having an effect similar to any of the foregoing.

Committee Certification. As soon as reasonably practicable after the end of each Performance Period, the Committee shall determine whether each Management Objective has been achieved and the amount of any Incentive Bonus to be paid to each Eligible Executive for such Performance Period and shall certify such determinations in writing.

Payment of Incentive Bonuses. Subject to a valid election made by an Eligible Executive with respect to the deferral of all or a portion of his or her Incentive Bonus, Incentive Bonuses payable in cash shall be paid within 30 days after written certification pursuant to Section 6, but in no event later than two and a half months from the end of the Corporation's last fiscal year to which the award relates. Short-Term Incentive Bonuses shall be paid in cash. Long-Term Incentive Bonuses may, at the discretion of the Committee, be paid in cash and/or Common Shares (or any

award based on or denominated in Common Shares) issued pursuant to the Corporation's equity compensation plans in existence at the time of grant. Incentive Bonuses paid in cash may be deferred under the Corporation's Executive Deferral Plan, subject to the terms and conditions of such plan. An election to defer payment of all or any part of an Incentive Bonus under the Plan shall be made in accordance with such rules as may be established by the

Committee in order to comply with Section 409A of the Code and such other requirements as the Committee shall deem applicable to the deferral.

No Right to Incentive Bonus or Continued Employment. Neither the establishment of the Plan, the provision for or payment of any amounts hereunder nor any action of the Corporation, the Board or the Committee with respect to the Plan shall be held or construed to confer upon any person (a) any legal right to receive, or any interest in, an Incentive Bonus or any other benefit under the Plan or (b) any legal right to continue to serve as an officer or employee of the Corporation or any Subsidiary of the Corporation.

Amendment and Termination. The Committee may amend the Plan from time to time, provided that any such amendment is subject to approval by the shareholders of the Corporation to the extent required by law or rule and provided further that any such amendment shall not, after the end of the 90-day (or shorter) period described in Section 5(a) of the Plan, cause the amount payable under an Incentive Bonus to be increased as compared to the amount that would have been paid in accordance with the terms established within such period. The Committee may also terminate the Plan at any time.

Claw-back Policy. Each Incentive Bonus granted pursuant to this Plan shall be subject to the terms and conditions of the Corporation's Claw-back Policy, including retroactive application, if required by relevant law, regulation or exchange listing requirement, as the same may be amended from time to time, as a result of which an Eligible Executive may be required to repay or forfeit an Incentive Bonus granted pursuant to this Plan.

Effective Date. This Plan is effective for the Performance Period commencing with the Corporation's 2022 fiscal year.

CERTIFICATIONS

I, Thomas L. Williams, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 5, 2021

/s/ Thomas L. Williams
Thomas L. Williams
Chief Executive Officer

CERTIFICATIONS

I, Todd M. Leombruno, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Parker-Hannifin Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;
4. The Registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and
5. The Registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's board of directors (or persons performing the equivalent functions):
 - a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Date: November 5, 2021

/s/ Todd M. Leombruno

Todd M. Leombruno

Executive Vice President and Chief Financial Officer

Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
§ 906 of the Sarbanes-Oxley Act of 2002

Pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, in connection with the filing of the Quarterly Report on Form 10-Q of Parker-Hannifin Corporation (the "Company") for the quarterly period ended September 30, 2021, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), each of the undersigned officers of the Company certifies, that, to such officer's knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

Dated: November 5, 2021

/s/ Thomas L. Williams

Name: Thomas L. Williams

Title: Chief Executive Officer

/s/ Todd M. Leombruno

Name: Todd M. Leombruno

Title: Executive Vice President and Chief Financial Officer