

PARKER HANNIFIN CORP

Form 10-K

August 24, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2018

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 No. 1-4982

PARKER-HANNIFIN CORPORATION

(Exact name of registrant as specified in its charter)

Ohio 34-0451060

(State or other jurisdiction of (I.R.S. Employer

Incorporation or Organization) Identification No.)

6035 Parkland Boulevard, Cleveland, Ohio 44124-4141

(Address of Principal Executive Offices) (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	Name of Each Exchange on which Registered
Common Shares, \$.50 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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: Accelerated Filer:

Non-Accelerated Filer: Smaller Reporting Company:

(Do not check if a smaller reporting company)

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Emerging Growth Company

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

The aggregate market value of the outstanding common stock held by non-affiliates of the Registrant as of December 31, 2017: \$26,411,763,329.

The number of Common Shares outstanding on July 31, 2018 was 132,360,024.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Definitive Proxy Statement for the Company's 2018 Annual Meeting of Shareholders to be held on October 24, 2018, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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PARKER-HANNIFIN CORPORATION

FORM 10-K

Fiscal Year Ended June 30, 2018

PART I

ITEM 1. Business. Parker-Hannifin Corporation is a leading worldwide diversified manufacturer of motion and control technologies and systems, providing precision engineered solutions for a wide variety of mobile, industrial and aerospace markets. The Company was incorporated in Ohio in 1938. Its principal executive offices are located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, telephone (216) 896-3000. As used in this Annual Report on Form 10-K, unless the context otherwise requires, the term "Company" refers to Parker-Hannifin Corporation and its subsidiaries and the term "year" and references to specific years refer to the applicable fiscal year.

The Company's investor relations internet website address is www.phstock.com. The Company makes available free of charge on or through its website its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as reasonably practicable after filing or furnishing such material electronically with the Securities and Exchange Commission. The information contained on or accessible through the Company's website is not part of this Annual Report on Form 10-K.

The Board of Directors has adopted a written charter for each of the committees of the Board of Directors. These charters, as well as the Company's Global Code of Business Conduct, Corporate Governance Guidelines and Independence Standards for Directors, are posted and available on the Company's investor relations internet website at www.phstock.com under the Corporate Governance page. Shareholders may request copies of these corporate governance documents, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

The Company's manufacturing, service, sales, distribution and administrative facilities are located in 39 states within the United States and in 49 other countries. The Company's products are sold as original and replacement equipment through sales and distribution centers worldwide. The Company markets its products through direct-sales employees, independent distributors and sales representatives. The Company's products are supplied to approximately 455,000 customers in virtually every significant manufacturing, transportation and processing industry.

The Company has two reporting segments: Diversified Industrial and Aerospace Systems. During 2018, the Company's technologies and systems were used in the products of these two reporting segments. For 2018, the Company's net sales were \$14.3 billion. Diversified Industrial Segment products accounted for 84% and Aerospace Systems Segment products accounted for 16% of those net sales.

Markets

The Company's technologies and systems are used throughout various industries and in various applications. The approximately 455,000 customers who purchase the Company's products are found throughout nearly every significant manufacturing, transportation and processing industry. No single customer accounted for more than 3% of the Company's total net sales for the year ended June 30, 2018.

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Diversified Industrial Segment. Sales of Diversified Industrial Segment products are made to both original equipment manufacturers ("OEMs") and distributors who serve the replacement markets in manufacturing, packaging, processing, transportation, mobile construction, refrigeration and air conditioning, agricultural and military machinery and equipment industries. The major markets for products of the Diversified Industrial Segment are listed below by group:

- | | | |
|-----------------------------|--|---|
| Engineered Materials Group: | <ul style="list-style-type: none"> • Aerospace • Chemical processing • Consumer • Fluid power • General industrial • Information technology • Life sciences | <ul style="list-style-type: none"> • Microelectronics • Military • Oil & gas • Power generation • Renewable energy • Telecommunications • Transportation |
| Filtration Group: | <ul style="list-style-type: none"> • Agriculture • Aerospace & defense • Construction • Food & beverage • Heating, ventilation & air conditioning (HVAC) • Industrial machinery • Life sciences | <ul style="list-style-type: none"> • Marine • Mining • Oil & gas • Power generation • Renewable energy • Transportation • Water purification |
| Fluid Connectors Group: | <ul style="list-style-type: none"> • Aerial lift • Agriculture • Bulk chemical handling • Construction • Food & beverage • Fuel & gas delivery • Industrial machinery | <ul style="list-style-type: none"> • Life sciences • Marine • Mining • Mobile • Oil & gas • Renewable energy • Transportation |

Instrumentation
Group:

- Air conditioning
- Alternative fuels
- Analytical
- Chemical
- Diesel engine
- Food & beverage
- Industrial machinery
- Life sciences
- Microelectronics
- Oil & gas
- Packaging
- Refining
- Refrigeration
- Transportation

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Motion Systems Group:	Mobile:	Industrial:
	• Agriculture	• Distribution
	• Construction	• General machinery
	• Marine	• Machine tool
	• Material handling	• Mining
	• Military	• Oil & gas
	• Transportation	• Power generation
	• Truck & bus	• Semiconductor
	• Turf	

Aerospace Systems Segment. Sales of the Aerospace Systems Segment products are made primarily in the commercial and military aerospace markets to both OEMs and to end users for spares, maintenance, repair and overhaul. The major markets for products of the Aerospace Systems Segment are listed below:

- Aftermarket services
- Commercial transports
- Engines
- General & business aviation
- Helicopters
- Military aircraft
- Missiles
- Power generation
- Regional transports
- Unmanned aerial vehicles

Principal Products and Methods of Distribution

Although the Company offers hundreds of thousands of individual products, no single product contributed more than 1% to the Company's total net sales for the year ended June 30, 2018. Listed below are some of the Company's principal products.

Diversified Industrial Segment. The products produced by the Company's Diversified Industrial Segment consist of a broad range of motion-control and fluid systems and components, which are described below by group:

Engineered Materials Group: static and dynamic sealing devices, including:

- Dynamic seals
- Elastomeric o-rings
- Electro-medical instrument design & assembly
- Electromagnetic interference shielding
- Extruded & precision-cut fabricated elastomeric seals
- High-temperature metal seals
- Homogeneous & inserted elastomeric shapes
- Medical device fabrication & assembly
- Metal & plastic retained composite seals
- Shielded optical windows
- Silicone tubing & extrusions
- Thermal management
- Vibration dampening

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Filtration Group: filters, systems and diagnostics solutions to monitor and remove contaminants from fuel, air, oil, water and other liquids and gases, including:

- Aerospace filters & systems
- Air pollution control & dust collection systems & filters
- Compressed air & gas treatment solutions
- Engine fuel, oil, air & closed crankcase ventilation filtration systems
- Filtration & purification systems
- Fluid condition monitoring systems
- Gas turbine air inlet filters
- Heating, ventilation & air conditioning (HVAC) filters
- Hydraulic & lubrication filters & systems
- Industrial & analytical gas generators
- Instrumentation filters
- Membrane, fiber, & sintered metal filters
- Natural gas filters
- Process liquid, air & gas filters
- Sterile air filters
- Water purification filters & systems

Fluid Connectors Group: connectors which control, transmit and contain fluid, including:

- Check valves
- Diagnostic equipment
- Hose couplings
- Industrial hose
- Low pressure fittings & adapters
- Polytetrafluoroethylene (PTFE) hose & tubing
- Quick couplings
- Rubber & thermoplastic hose
- Tube fittings & adapters
- Tubing & plastic fittings

Instrumentation Group: high quality critical flow components for process instrumentation, healthcare and ultra-high-purity applications and components for use in refrigeration and air conditioning systems and in fluid control applications for processing, fuel dispensing, beverage dispensing and mobile emissions, including:

- Accumulators
- Analytical instruments & sample conditioning systems
- Compressed natural gas dispensers
- Cryogenic valves
- Electronic valves
- Emissions
- Filter driers
- Fluid system & control fittings, meters, valves, regulators, & manifold valves
- Fluoropolymer chemical delivery fittings, valves & pumps
- High pressure fittings, valves, pumps & systems
- High-purity gas delivery fittings, valves & regulators
- Miniature valves & pumps
- Natural gas on-board fuel systems
- Pressure regulating valves
- Refrigeration & air conditioning electronic controls & monitoring
- Solenoid valves

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Motion Systems Group: hydraulic, pneumatic, and electromechanical components and systems for builders and users of mobile and industrial machinery and equipment, including:

- | | |
|--|---|
| <p>Hydraulic Actuation:</p> <ul style="list-style-type: none"> • Cylinders • Rotary actuators • Helical actuators • Accumulators • Electrohydraulic actuators • Coolers <p>Hydraulic Pumps & Motors:</p> <ul style="list-style-type: none"> • Piston pumps & motors • Vane pumps & motors • Gerotor pumps & motors • Power take-off • Fan drives • Electrohydraulic pump • Drive controlled pump • Screw pump • Integrated hydrostatic transmissions <p>Hydraulic & Electro Hydraulic Systems</p> | <p>Hydraulic Valves:</p> <ul style="list-style-type: none"> • Cartridge valves • Industrial valves • Mobile valves <p>Pneumatics:</p> <ul style="list-style-type: none"> • Pneumatic valves • Air preparation (FRL) & dryers • Pneumatic cylinders • Grippers • IO link controllers <p>Electronics:</p> <ul style="list-style-type: none"> • Electric actuators & positioners • Electronic displays & human machine interfaces (HMI) • Controllers & HMI • Sensors • IoT • Electric motors & gearheads • Drives (AC/DC Servo) • Joysticks • Clusters • Software |
|--|---|

Diversified Industrial Segment products include standard products, as well as custom products which are engineered and produced to OEMs’ specifications for application to particular end products. Both standard and custom products are also used in the replacement of original products. Diversified Industrial Segment products are marketed primarily through field sales employees and approximately 16,900 independent distributor locations throughout the world.

Aerospace Systems Segment. The principal products of the Company’s Aerospace Systems Segment are used on commercial and military airframe and engine programs and include:

- | | |
|---|--|
| <ul style="list-style-type: none"> • Control actuation systems & components • Engine systems & components • Fluid conveyance systems & components • Fluid metering, delivery & atomization devices • Fuel systems & components • Fuel tank inerting systems | <ul style="list-style-type: none"> • Hydraulic systems & components • Lubrication components • Pneumatic control components • Power conditioning & management systems • Thermal management • Wheels & brakes |
|---|--|

Aerospace Systems Segment products are marketed by the Company’s regional sales organizations and are sold directly to original equipment manufacturers and end users throughout the world.

Competition

The Company’s business operates in highly competitive markets and industries. The Company offers its products over numerous, varied markets through its divisions operating in 50 countries and consequently has hundreds of competitors when viewed across its various markets and product offerings. The Company’s competitors include U.S. and non-U.S. companies.

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These competitors and the degree of competition vary widely by product lines, end markets, geographic scope and/or geographic locations. Although each of the Company's segments has numerous competitors, given the Company's market and product breadth, no single competitor competes with the Company with respect to all products manufactured and sold by the Company.

In the Diversified Industrial Segment, the Company competes on the basis of product quality and innovation, customer service, manufacturing and distribution capability, and price competitiveness. The Company believes that it is one of the market leaders in most of the major markets for its most significant Diversified Industrial Segment products. The Company has comprehensive motion and control packages for the broadest systems capabilities. While the Company's primary global competitors include Bosch Rexroth AG, Danaher Corporation, Danfoss A/S, Donaldson Company, Inc., Eaton Corporation plc, Emerson Climate Technologies, Inc., Emerson/ASCO, Festo AG & Co., Freudenberg-NOK, Gates Corporation, IMI/Norgren, SMC Corporation, Swagelok Company, and Trelleborg AB, none of these businesses compete with every group in the Company's Diversified Industrial Segment and every product line offered by this segment.

In the Aerospace Systems Segment, the Company has developed alliances with key customers based on the Company's advanced technological and engineering capabilities, superior performance in quality, delivery, and service, and price competitiveness, which has enabled the Company to obtain significant original equipment business on new aircraft programs for its systems and components and to thereby obtain the follow-on repair and replacement business for these programs. Further, the Aerospace Systems Segment is able to utilize low-cost manufacturing techniques and best cost region strategies to achieve a lower cost producer status. Although the Company believes that it is one of the market leaders in most of the major markets for its most significant Aerospace Systems Segment products, the Company's primary global competitors for the most significant Aerospace Systems Segment products include Eaton Corporation plc, Honeywell International, Inc., Moog Inc., Triumph Group, Inc., UTC Aerospace Systems, Woodward, Inc. and Zodiac Aerospace SA.

The Company believes that its platform utilizing nine core technologies, which consist of aerospace, electromechanical, filtration, fluid handling, hydraulics, pneumatics, process control, refrigeration, and sealing and shielding, is a positive factor in its ability to compete effectively with both large and small competitors. For both of its segments, the Company believes that the following factors also contribute to its ability to compete effectively:

- decentralized operating structure that allows each division to focus on its customers and respond quickly at the local level;

- systems solution capabilities that use the Company's core technologies from both of its segments;

- global presence; and

- a strong global distribution network.

Research and Product Development

The Company continually researches the feasibility of new products and services through its development laboratories and testing facilities in many of its worldwide manufacturing locations. Its research and product development staff includes chemists, physicists, and mechanical, chemical and electrical engineers.

Total research and development costs relating to the development of new products and services and the improvement of existing products and services amounted to \$327.9 million in 2018, \$336.7 million in 2017 and \$359.8 million in 2016. These amounts include costs incurred by the Company related to independent research and development initiatives as well as costs incurred in connection with research and development contracts. Costs incurred in connection with research and development contracts and included in the total research and development costs reported above for 2018, 2017 and 2016 were \$40.8 million, \$65.3 million and \$58.0 million, respectively.

Patents, Trademarks, Licenses

The Company owns a number of patents, trademarks and licenses related to its products and has exclusive and non-exclusive rights to use patents and trademarks owned by others. In addition, patent and trademark applications are pending, although there can be no assurance that further patents and trademarks will be issued. The Company is not dependent to any material extent on any single patent, trademark or license or group of patents, trademarks or licenses.

Backlog and Seasonal Nature of Business

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

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