

Parker Hannifin Corporation

2QF24: Strong execution, margin drives EPS revisions

Reiterate Rating: BUY | PO: 600.00 USD | Price: 500.18 USD

Another strong quarter of performance

PH had a strong quarter, coming in well above the Street on margin upside. Organic growth of +2.9% came in above our +2.6% estimate, largely on Aerospace. North American industrial missed our estimates and fell (1.5)% y/y. We are raising our adj. EPS estimates by ~5% to reflect the strong quarter and raised guidance. Our meetings with mgmt have indicated that Aerospace/Meggitt and strong margin performance in Industrial are able to provide cushion in the face of slowing demand. While industrial trends are bottoming, we are still waiting for destocking to end. PH's outlook highlights uncertainty about the timing. Our proprietary survey indicates some slowdown in January after acceleration into calendar year end. Nevertheless, we expect acceleration of demand into CY2H24. We remain constructive on EPS upside through margin expansion in core and from Meggitt synergies. Reiterate Buy. We raise our PO from \$525 to \$600 (20% upside potential) to reflect further re-rating as the company proves its consistent delivery of beat-and-raise.

Raising our FY24E adj. EPS to \$24.50, 13% y/y

We raise our FY24E adjusted EPS to \$24.50 (vs. \$23.39 prior). Our model assumes +1.4% organic growth and 130bps y/y of margin expansion. The company raised its cumulative synergy target for Meggitt to \$200mn (~\$125mn in 2024 vs. \$75mn prior). Aero margin strength has been driven by Meggitt, volumes, efficiency, and spares mix.

Positive earnings revisions but more room for re-rating

PH shares were up 8% (vs. S&P +1%). We estimate this is ~4% pricing in positive revisions and ~4% re-rating. On our 2025E EV/EBITDA estimate, the stock still trades at 13.5x versus ITW/AME at 19x and 18x. We see further re-rating upside as the company continues to beat and raise.

Geographic review: raising International guide

Organic growth came in flat in the International segment, which was better than forecast. LatAm led the way with +9.2% y/y growth (+8% last quarter). European growth was positive at +0.7% (expectations had been for 1%). APAC improved from last quarter to down 2.5% (vs. down 8% last quarter). Notably, China was up low single digits given last year had COVID shutdowns. PH raised its expectations from (3)% to (2)% for International, reflecting resilience in Parker's international filtration business & timing.

Estimates (Jun) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	18.72	21.55	24.50	25.96	27.92
GAAP EPS	10.09	16.04	20.61	21.90	24.01
EPS Change (YoY)	24.5%	15.1%	13.7%	6.0%	7.6%
Consensus EPS (Bloomberg)			23.50	25.55	27.67
DPS	4.42	5.62	6.12	6.58	7.07
Valuation (Jun)					
P/E	26.7x	23.2x	20.4x	19.3x	17.9x
GAAP P/E	49.6x	31.2x	24.3x	22.8x	20.8x
Dividend Yield	0.9%	1.1%	1.2%	1.3%	1.4%
EV / EBITDA*	26.0x	17.6x	15.9x	15.2x	14.5x
Free Cash Flow Yield*	3.3%	3.9%	4.5%	5.0%	5.3%

* For full definitions of *IQmethod*SM measures, see page 9.

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Timestamp: 02 February 2024 05:00AM EST

02 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	525.00	600.00
2024E Rev (m)	20,117.8	19,837.4
2025E Rev (m)	21,022.1	20,709.5
2026E Rev (m)	22,028.0	21,704.7
2024E EPS	23.39	24.50
2025E EPS	25.63	25.96
2026E EPS	28.16	27.92
2024E DPS	6.04	6.12

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Stock Data

Price	500.18 USD
Price Objective	600.00 USD
Date Established	2-Feb-2024
Investment Opinion	B-1-7
52-Week Range	300.86 USD - 500.66 USD
Mkt Val (mn) / Shares Out (mn)	66,179 USD / 132.3
Free Float	99.5%
Average Daily Value (mn)	288.75 USD
BofA Ticker / Exchange	PH / NYS
Bloomberg / Reuters	PH US / PH.N
ROE (2024E)	28.1%
Net Dbt to Eqty (Jun-2023A)	116.8%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Parker Hannifin Corporation

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	11.3%	13.5%	13.6%	14.1%	14.5%
Return on Equity	28.3%	29.1%	28.1%	25.1%	23.2%
Operating Margin	17.5%	21.9%	23.2%	23.5%	23.9%
Free Cash Flow	2,212	2,599	3,009	3,321	3,509

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.0x	1.1x	1.1x	1.1x	1.1x
Asset Replacement Ratio	0.4x	0.5x	0.4x	0.5x	0.5x
Tax Rate	20.7%	22.6%	22.5%	23.3%	24.0%
Net Debt-to-Equity Ratio	123.2%	116.8%	79.0%	50.1%	27.6%
Interest Cover	10.9x	7.4x	9.0x	11.3x	14.6x

Income Statement Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	15,862	19,065	19,837	20,709	21,705
% Change	10.6%	20.2%	4.1%	4.4%	4.8%
Gross Profit	4,493	6,568	7,153	7,573	8,052
% Change	14.3%	46.2%	8.9%	5.9%	6.3%
EBITDA	3,030	4,486	4,962	5,180	5,452
% Change	-0.8%	48.1%	10.6%	4.4%	5.2%
Net Interest & Other Income	(158)	(306)	(291)	(253)	(215)
Net Income (Adjusted)	2,441	2,798	3,196	3,400	3,670
% Change	24.1%	14.6%	14.2%	6.4%	7.9%

Free Cash Flow Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,316	2,083	2,688	2,868	3,156
Depreciation & Amortization	572	818	947	880	813
Change in Working Capital	743	304	(366)	(163)	(181)
Deferred Taxation Charge	137	143	148	153	158
Other Adjustments, Net	(326)	(369)	(9)	1	1
Capital Expenditure	(230)	(381)	(400)	(417)	(437)
Free Cash Flow	2,212	2,599	3,009	3,321	3,509
% Change	-6.5%	17.5%	15.8%	10.4%	5.7%
Share / Issue Repurchase	(457)	(294)	48	33	36
Cost of Dividends Paid	(570)	(704)	(798)	(862)	(929)
Change in Debt	5,001	40	(1,644)	(1,611)	(1,699)

Balance Sheet Data (Jun)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	564	484	1,098	1,979	2,897
Trade Receivables	2,885	3,136	2,937	3,123	3,333
Other Current Assets	8,598	3,214	3,372	3,409	3,456
Property, Plant & Equipment	2,123	2,865	2,897	2,997	3,167
Other Non-Current Assets	11,775	20,265	19,694	19,121	18,567
Total Assets	25,944	29,964	29,998	30,630	31,420
Short-Term Debt	1,724	3,763	894	447	224
Other Current Liabilities	4,135	3,972	3,818	3,892	3,980
Long-Term Debt	9,756	8,796	10,021	8,857	7,382
Other Non-Current Liabilities	1,469	3,095	2,840	2,817	2,795
Total Liabilities	17,084	19,626	17,573	16,013	14,381
Total Equity	8,860	10,338	12,425	14,617	17,039
Total Equity & Liabilities	25,944	29,964	29,998	30,630	31,420

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Industrials/Multi-Industry

Company Description

Parker Hannifin is an industrial supplier of hydraulics, motion and fluid control systems and components to diversified end markets. It operates under three segments: Industrial - North America, Industrial - International, and Aerospace.

Investment Rationale

We rate PH Buy. Over the past several decades, PH has materially improved its returns and reduced cyclicality through operational excellence and strategic M&A. Parker offers growth and returns similar to best in class peers, but trades at a material discount. Within the portfolio, Meggitt/Aerospace offer margin of safety for the company in an uncertain macro environment. We are also incrementally less bearish on industrial destocking given lead times remain elevated.

Stock Data

Average Daily Volume 577,301

Quarterly Earnings Estimates

	2023	2024
Q1	4.74A	5.96A
Q2	4.76A	6.15A
Q3	5.93A	6.18E
Q4	6.08A	6.21E

BofA forecast and estimate changes

Raise our FY24E adj. EPS to the high end of guide

We raise our FY24E adj. EPS to \$24.50 (versus \$23.39 prior), the high end of guide. Our model assumes 1.4% organic growth y/y, 110bp of margin expansion in Industrial NA, 50bp margin expansion in Industrial International, and 260bp margin expansion in Aerospace.

Exhibit 1: How our estimates have changed

We forecast adj. EPS of \$24.50, at the high end of the range

	BofA FY24E			BofA FY25E		
	New	Old	Change	New	Old	Change
Revenue	\$19,837mn	\$20,118mn	-1.4%	\$20,709mn	\$21,022mn	-1.5%
EBITA	\$4,827mn	\$4,738mn	1.9%	\$5,115mn	\$5,062mn	1.0%
Adj. EPS	\$24.50	\$23.39	4.8%	\$25.96	\$25.63	1.3%

Source: BofA Global Research estimates, company files

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FY24 core growth forecast

Industrial North American orders declined (4)% y/y, in line with (4)% y/y in 3Q. Given four consecutive quarters of y/y order declines, it is reasonable to us that the company would highlight negative growth in 2H.

We forecast (1.5)% organic growth in Industrial North America, (2.0)% growth in Industrial International, and (12)% organic growth in Aerospace.

Exhibit 2: FY24 organic growth guidance versus BofA estimates

We forecast organic revenue growth of +1.4% y/y in FY24

Organic growth guidance	FY24 outlook			BofA FY24E	
	As of 4QF23	As of 1QF24	As of 2QF24	Old	New
Industrial NA	-1%	0.5%	~(1)%	1.6%	-1.5%
Industrial International	~(2.5)%	-3%	~(2)%	-2.1%	-2.0%
Aerospace	-8%	10%	~12%	10.8%	12.0%
Total	-1.5%	1.5%	1.5%	2.6%	1.4%
M&A				2.5%	2.5%
FX				0.0%	0.3%
Total PH	3-6%	2.5-5.5%	3-5%	5.1%	4.1%
Operating margin guidance	As of 4QF23	As of 1QF24	As of 2QF24	Old	New
Industrial NA	23.0-23.4%	23.1-23.5%	23.8%-24.2%	22.8%	24.0%
Industrial International	22.8-23.2%	22.9-23.3%	23.2%-23.6%	22.8%	23.4%
Aerospace	23.2-23.6%	24.4-24.8%	25.7%-26.1%	22.5%	25.9%
Total	23.0-23.4%	23.4-23.8%	24.1%-24.5%	23.6%	24.3%

Source: BofA Global Research estimates, company filings

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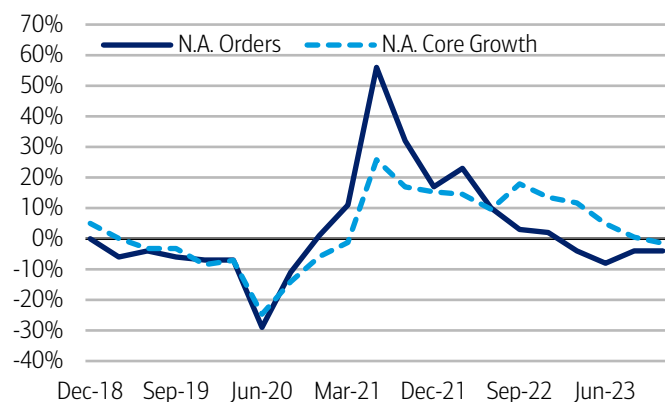
Orders continue to decline y/y, incrementally below expectations

Parker reported (4)% y/y declines in North American industrial in FQ2. Into the quarter, our indicators had suggested orders down (2)-(3)% y/y. Investors have closely watched Industrial North America order rates. While industrial demand has clearly slowed, we think investors looked through mild y/y declines given the strong execution and positive earnings revisions.

Historically, as a shorter-cycle business, Parker revenue and orders moved in a tight band (e.g. short lead times). Given increasing diversification, y/y revenue declines have lagged y/y order declines. Orders have been declining y/y for four quarters. We model negative revenue growth in both North America and International continuing from 2Q to 3Q/4Q. Historically, negative order cycles average ~5 quarters.

Exhibit 3: North American Industrial orders, Dec 2018- Dec 2023

North American orders were (4)% this quarter, same as last quarter

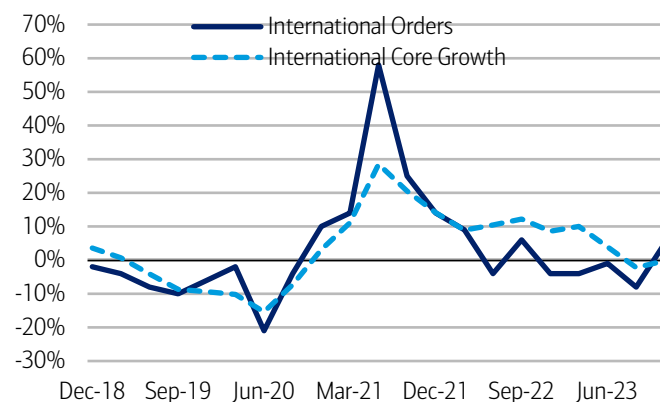


Source: BofA Global Research, company files

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Exhibit 4: International Industrial orders, Dec 2018- Dec 2023

International industrial orders came in at (5)%, better than (8)% last quarter



Source: BofA Global Research, company files

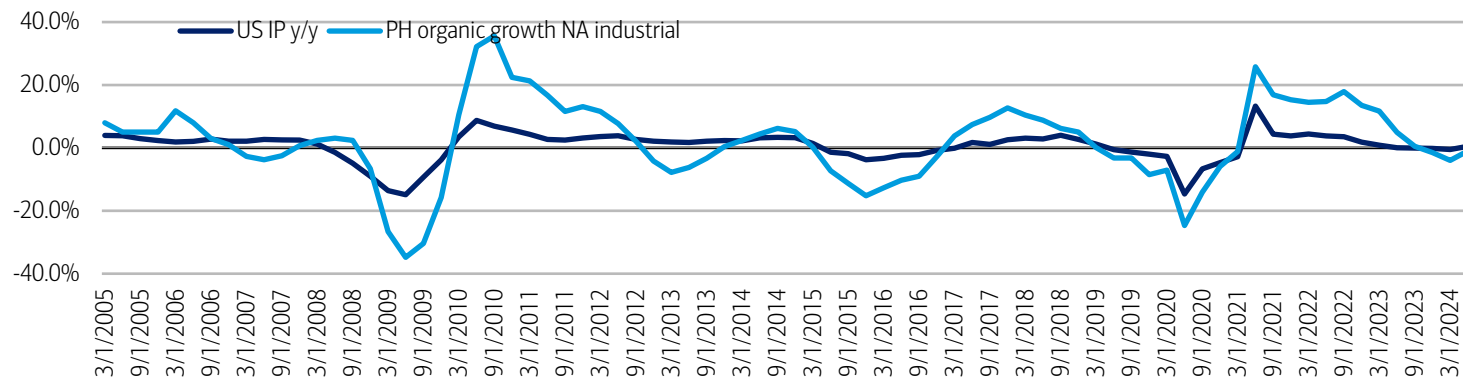
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Bottoming demand consistent with IP

The BofA US Economics team forecasts US IP to grow at (0.3)% y/y in 2024 and +0.8% y/y in 2025. This follows lackluster (0.2)% growth in 2023. Over the cycle, PH outperforms IP by ~2%. Parker has materially diversified its earnings profile through M&A and organic investments. The result is a far less cyclical company over time.

Exhibit 5: US Industrial Production y/y vs. PH organic growth, NA industrial

BofA US Economics forecasts (0.3)% y/y in 2024 and +0.8% y/y in 2025



Source: BofA Global Research, company files

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Aerospace outlook versus peers

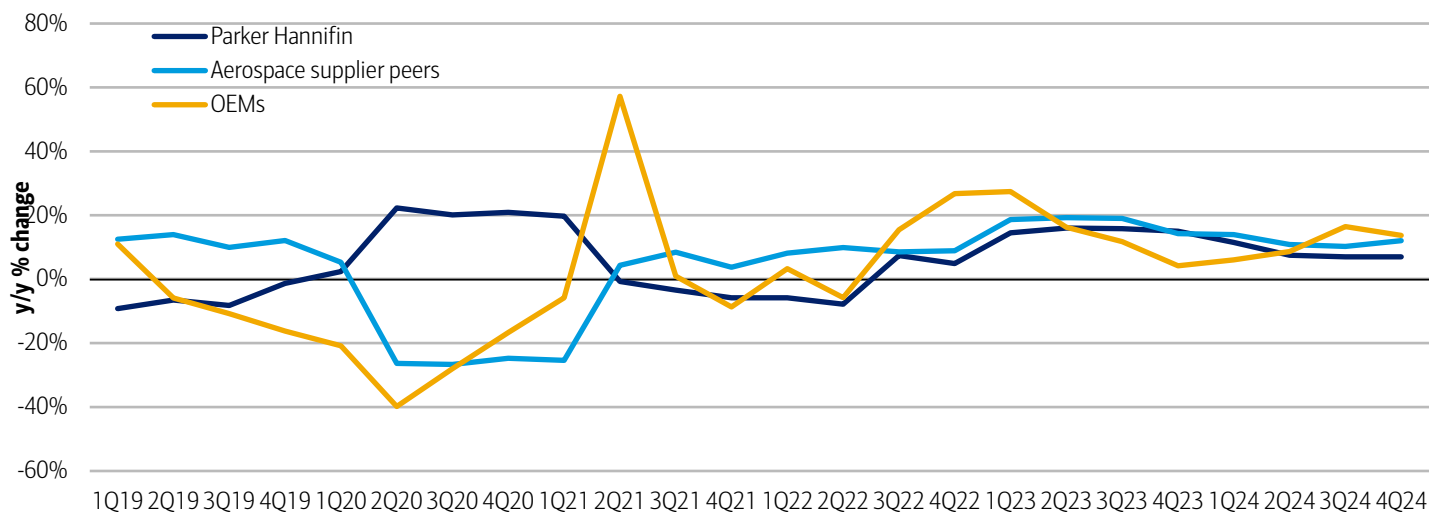
The Meggitt acquisition materially increases the size of PH's Aerospace segment. Including Aerospace exposure through its LORD acquisition, we estimate that PH portfolio is ~30% aerospace. We note that this is the first quarter where Meggitt is fully consolidated in Parker's results from a year ago (e.g. all organic).

Parker raised its Aerospace outlook from ~10% organic to ~12% organic for FY24. This is consistent with the strength highlighted by other Aerospace supplier peers. Continued flight hour recovery and OE production supports a medium-term high single digit CAGR for the supplier base.

Parker delivered +15% organic growth this quarter. This compares to the peer average of 14%. Our forecasts incorporate slight underperformance versus peers in CYQ1-Q4, reflective of historical trends.

Exhibit 6: PH Quarterly aerospace organic growth vs. Aerospace supplier peers vs. OEMs

Parker historically has slightly undergrown its Aerospace Supplier peers



Source: BofA Global Research estimates, company filings. Note: Aerospace supplier peers: ETN, GE, HON, Moog, Safran, and Transdigm; OEMs: Boeing and Airbus

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Meggitt continues to run ahead of expectations

This earnings period, Parker raised its cumulative Meggitt synergies forecast for 2024 to \$200mn from \$150mn. The company delivered \$75mn of synergies in 2023. The incremental ~\$125mn in synergies reflects pull-forward of synergies. The long-term \$300mn target remains the same.

Exhibit 7: Meggitt synergies, prior vs. current

We raise both our underlying forecast for Aero incrementals and the synergies embedded

	FY24 estimates	
	Prior	Current
Meggitt Synergies	\$75	\$125
Aerospace Segment Income	\$1,264	\$1,356
Aerospace incrementals	27.8%	38.9%
Aerospace Segment Income ex-synergies	\$1,189	\$1,231
Aerospace incrementals ex-synergies	19.3%	24.5%

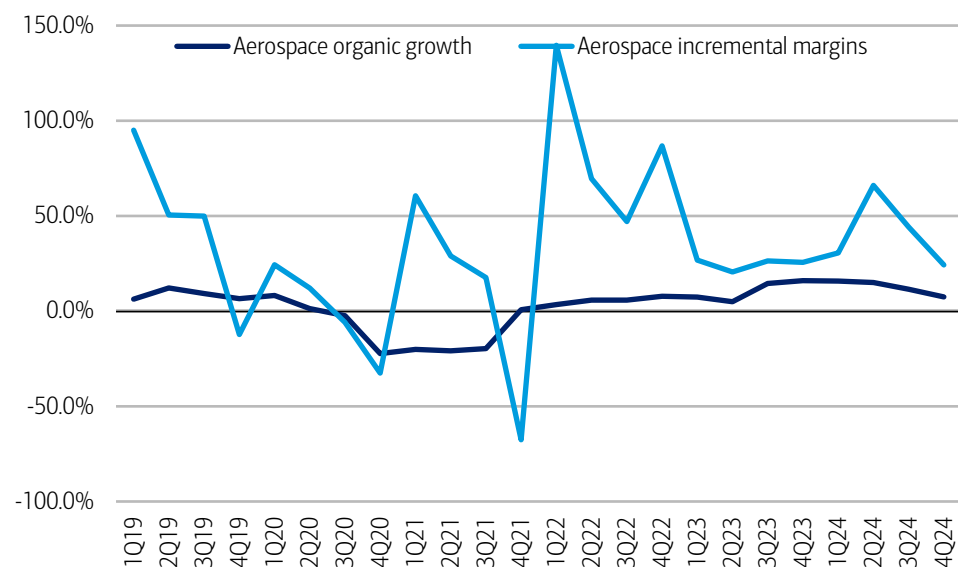
Source: BofA Global Research estimates

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Our model now embeds an incremental \$50mn of synergies. Our underlying margin estimate is stronger, based on the performance we have seen year-to-date. We forecast a stepdown in margins in 2H in Aerospace given one-time mix benefits in 1H24 (e.g. more spares) and certain one-time items in 1Q. From 2Q22-2Q24, Parker has delivered an average of 44% incrementals.

Exhibit 8: Aerospace organic growth vs. incremental margins

Consistent delivery on incrementals



Source: BofA Global Research, company files

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With the help of Meggitt and underlying strong incrementals, we expect the company to continue delivering strong margin expansion as the aero cycle remains strong.

Valuation

We base our \$600 price objective on a 16x EV/EBITDA multiple applied to our CY25 estimate. We are raising our target multiple from 14x to 16x to reflect consistent execution, above-peer EBITDA margins and room for further expansion. Our 16x target multiple is in line with the 16x multi-industrial peer average on 2024E and 16x Aerospace Suppliers peer average on 2024E. Our in-line valuation (rather than premium) reflects reasonable expectations about where Parker's stock can re-rate in the next twelve months.

Exhibit 9: PH comparable valuation analysis

PH continues to trade at a discount to peers on 2025E EV/EBITDA

		Stock Price	P/E		EV/EBITDA		EBITDA margin		EPS Growth	
Company	Ticker	2/1/2024	2024E	2025E	2024E	2025E	2024E	2025E	2024E	2025E
<u>Multi-Industrial Companies</u>										
Ametek	AME	\$165.87	24.3 x	22.4 x	18.0 x	17.1 x	30.4%	30.7%	7.7%	8.5%
Dover	DOV	\$156.55	17.2 x	15.6 x	13.5 x	12.5 x	21.8%	22.5%	3.2%	10.6%
Eaton	ETN	\$264.57	26.6 x	25.0 x	20.7 x	19.4 x	22.4%	22.5%	10.3%	6.4%
Honeywell	HON	\$197.31	19.5 x	17.6 x	13.5 x	12.6 x	26.7%	27.1%	9.9%	11.2%
Illinois Tool Works	ITW	\$255.55	25.9 x	23.8 x	18.9 x	17.8 x	27.4%	28.0%	1.4%	8.6%
Flowserve	FLS	\$40.73	16.9 x	14.2 x	10.9 x	9.5 x	12.6%	13.5%	20.5%	18.7%
Rockwell	ROK	\$263.01	<u>19.2 x</u>	<u>17.5 x</u>	<u>16.0 x</u>	<u>14.7 x</u>	<u>21.7%</u>	<u>22.4%</u>	<u>10.2%</u>	<u>9.5%</u>
AVERAGE			21.4 x	19.5 x	15.9 x	14.8 x	23.3%	23.8%	9.0%	10.5%
<u>Aerospace Suppliers</u>										
Albany International	AIN	\$90.11	22.5 x	20.0 x	11.3 x	10.5 x	23.1%	23.4%	14.3%	12.5%
Hexcel	HXL	\$67.48	28.7 x	23.3 x	15.5 x	13.5 x	20.6%	21.5%	27.0%	23.4%
Heico	HEI	\$183.50	NM	43.1 x	25.1 x	22.4 x	25.5%	26.4%	18.6%	19.7%
Raytheon	RTX	\$92.17	<u>17.1 x</u>	<u>15.0 x</u>	<u>13.1 x</u>	<u>11.9 x</u>	<u>15.4%</u>	<u>15.6%</u>	<u>7.1%</u>	<u>13.9%</u>
AVERAGE			18.6 x	19.2 x	16.2 x	14.6 x	22.1%	22.5%	7.7%	12.8%
Parker Hannifin	PH	\$500.18	21.9 x	19.9 x	14.8 x	13.6 x	25.0%	25.1%	10.0%	6.7%
Parker Hannifin at PO	PH	\$600.00	26.2 x	23.8 x	17.4 x	16.1 x	25.0%	25.1%	10.0%	6.7%

Source: Bloomberg, company reports, BofA Global Research estimates

Note: estimates calendarized for December 31st year end

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Price objective basis & risk

Parker Hannifin Corporation (PH)

We base our \$600 price objective on a 16x EV/EBITDA multiple applied to our CY25E estimate. Our 16x target multiple is in line with the 16x multi-industrial peer average on 2024E and 16x Aerospace Suppliers peer average on 2024E. Parker has historically traded at a discount, but we believe it should start to close the gap with high quality peers AME and ITW.

Downside risks are: 1) industrial short-cycle destocking worse than expected, 2) Meggitt integration, and 3) the ability to offset material inflation through pricing. Upside risks are: 1) Aerospace recovery has more upside given more exposure from Meggitt, and 2) Multiple expansion as the company closes the performance gap.

Analyst Certification

I, Andrew Obin, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Multi-Industrials/Engineering and Construction Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	APi Group	APG	APG US	Andrew Obin
	AspenTech	AZPN	AZPN US	Andrew Obin
	Atmus Filtration	ATMU	ATMU US	Andrew Obin
	Dover Corp	DOV	DOV US	Andrew Obin
	Eaton Corp PLC	ETN	ETN US	Andrew Obin
	Emerson Electric Co	EMR	EMR US	Andrew Obin
	Flowserve	FLS	FLS US	Andrew Obin
	General Electric Company	GE	GE US	Andrew Obin
	Honeywell International Inc.	HON	HON US	Andrew Obin
	ITT Inc.	ITT	ITT US	Andrew Obin
	Montrose Environmental Group, Inc.	MEG	MEG US	Andrew Obin
	Parker Hannifin Corporation	PH	PH US	Andrew Obin
	PTC Inc.	PTC	PTC US	Andrew Obin
	Rush	RUSHA	RUSHA US	Andrew Obin
	Vertiv	VRT	VRT US	Andrew Obin
	Vontier	VNT	VNT US	Andrew Obin
NEUTRAL				
	3M Company	MMM	MMM US	Andrew Obin
	AMETEK Inc	AME	AME US	Andrew Obin
	Fortive Corporation	FTV	FTV US	Andrew Obin
	Johnson Controls International PLC	JCI	JCI US	Andrew Obin
	Pentair plc	PNR	PNR US	Andrew Obin
	Rockwell	ROK	ROK US	Andrew Obin
	Trane Technologies PLC	TT	TT US	Andrew Obin
UNDERPERFORM				
	Allegion	ALLE	ALLE US	Andrew Obin
	Carrier Global Corp.	CARR	CARR US	Andrew Obin
	Core & Main	CNM	CNM US	Andrew Obin
	Illinois Tool Works	ITW	ITW US	Andrew Obin
	John Bean Technologies	JBT	JBT US	Andrew Obin
	Keysight	KEYS	KEYS US	David Ridley-Lane, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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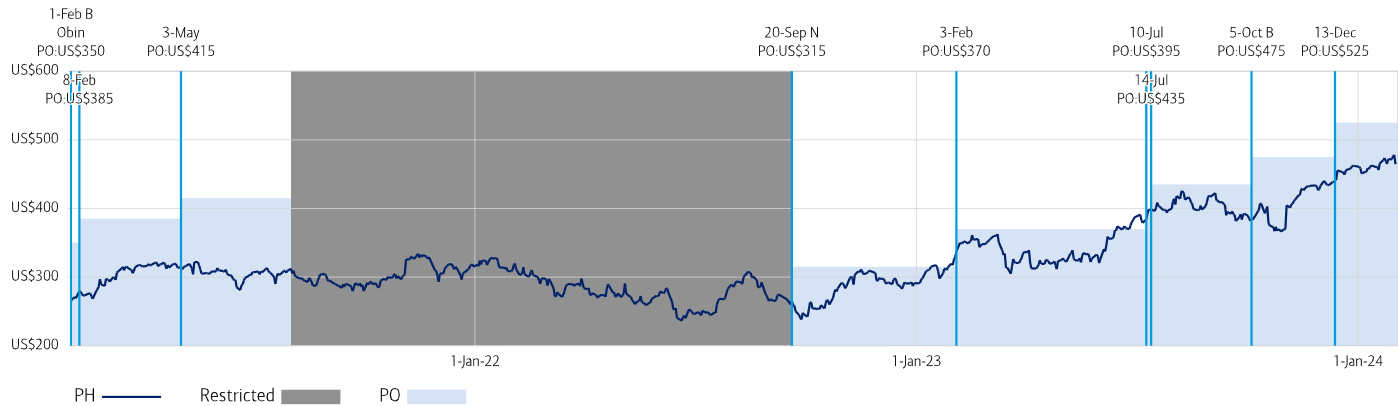
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Parker Hannifin (PH) Price Chart



PH ——— Restricted ——— PO ———
 B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Industrials/Multi-Industry Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	45	50.56%	Buy	25	55.56%
Hold	26	29.21%	Hold	13	50.00%
Sell	18	20.22%	Sell	7	38.89%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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