

PARKER HANNIFIN CORP
Form PRE 14A
August 24, 2018
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

(Amendment No. __)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

PARKER-HANNIFIN CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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In accordance with Rule 14a-6(d) under Regulation 14A of the Securities Exchange Act of 1934, please be advised that Parker-Hannifin Corporation intends to release definitive copies of its Proxy Statement to Security Holders on or about September 24, 2018.

PRELIMINARY COPY

PARKER-HANNIFIN CORPORATION

6035 Parkland Boulevard Cleveland, Ohio 44124-4141

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

OCTOBER 24, 2018

TO OUR SHAREHOLDERS:

You are cordially invited to attend the Annual Meeting of Shareholders of Parker-Hannifin Corporation. The meeting will be held at our headquarters located at 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, on Wednesday, October 24, 2018, at 9:00 a.m., Eastern Daylight Time, for the following purposes:

1. To elect Lee C. Banks, Robert G. Bohn, Linda S. Harty, Kevin A. Lobo, Candy M. Obourn, Joseph Scaminace, Åke Svensson, James R. Verrier, James L. Wainscott and Thomas L. Williams as Directors for a term expiring at the Annual Meeting of Shareholders in 2019;
2. To ratify the appointment of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2019;
3. To approve, on a non-binding, advisory basis, the compensation of our Named Executive Officers;
4. To approve an amendment to our Code of Regulations to permit proxy access;
5. To approve an amendment to our Code of Regulations to allow the Board to amend our Code of Regulations to the extent permitted by Ohio law; and
6. To transact such other business as may properly come before the meeting.

Shareholders of record at the close of business on August 31, 2018, are entitled to vote at the meeting. Your vote is important, so if you do not expect to attend the meeting, or if you do plan to attend but wish to vote by proxy, please mark, date, sign and return the enclosed proxy card promptly in the envelope provided or vote electronically via the internet or by telephone in accordance with the instructions on the enclosed proxy card. Please refer to the section **How to Attend the Annual Meeting of Shareholders** and to the back page of this Proxy Statement for directions to attend the Annual Meeting.

Thank you for your support of Parker-Hannifin Corporation.

By Order of the Board of Directors
Joseph R. Leonti
Secretary

September [], 2018

***Important Notice Regarding the Availability of Proxy Materials for
the Annual Meeting of Shareholders to be held on October 24, 2018.***

This Proxy Statement, along with our Annual Report on Form 10-K for the fiscal year ended June 30, 2018, is available free of charge on our investor relations website (www.phstock.com).

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PRELIMINARY COPY

PARKER-HANNIFIN CORPORATION

6035 Parkland Boulevard Cleveland, Ohio 44124-4141

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation by our Board of Directors of proxies to be voted at the Annual Meeting of Shareholders scheduled to be held on October 24, 2018, and at all adjournments thereof. Only shareholders of record at the close of business on August 31, 2018, will be entitled to vote at the meeting. On August 31, 2018, [] common shares were outstanding and entitled to vote at the meeting. Each share is entitled to one vote. This Proxy Statement and the form of proxy are being mailed to shareholders on or about September [], 2018.

GOVERNANCE DOCUMENTS

Our Global Code of Business Conduct, our Corporate Governance Guidelines, and our Independence Standards for Directors are posted and available on the Corporate Governance page of our investor relations website at www.phstock.com. Shareholders may request copies of these 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 information contained on or accessible through our website is not a part of this Proxy Statement.

PROXY STATEMENT SUMMARY

This summary highlights information relating to items to be voted on at this Annual Meeting of Shareholders and compensation and corporate governance matters. Additional details are found in the discussions contained in this Proxy Statement.

General Information for 2018 Annual Meeting of Shareholders

Time and Date	October 24, 2018 at 9:00 A.M. EDT
Place	Parker-Hannifin Corporation 6035 Parkland Boulevard Cleveland, Ohio 44124-4141
Record Date	August 31, 2018

Voting Matters and Recommendations

<i>Voting Matter</i>	<i>Board Recommendations</i>
Election of Directors	FOR ALL NOMINEES
Ratification of Deloitte & Touche LLP as Independent Auditor	FOR
Advisory Vote to Approve Executive Compensation	FOR
Amendment to Our Code of Regulations to Permit Proxy Access	FOR
Amendment to Our Code of Regulations to Allow the Board to Amend Our Code of Regulations to the Extent Permitted by Ohio Law	FOR

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We are pleased to provide the following key governance and compensation highlights for fiscal year 2018. We believe that these measures will better position us to continue to drive profitable growth and financial performance and otherwise compete and win as a leading worldwide diversified manufacturer of motion and control technologies and systems, utilizing key insights drawn from engagement with our shareholders and the results of our shareholders votes.

Our Board of Directors is committed to sound corporate governance, promoting the long-term interests of our shareholders and holding itself and management accountable for performance. The following table summarizes some of the key elements of our corporate governance framework.

Governance Highlights	
Annual election of <u>all</u> Directors	Separate Chairman of the Board and Independent Lead Director roles
Published Corporate Governance Guidelines	Published Global Code of Business Conduct applicable to our Board of Directors
Majority voting and resignation policy for uncontested Director elections	Board Committees are 100% comprised of independent Directors
Our Board of Directors includes two women	
Average age of our Director nominees is 61	Independent Directors meet regularly and frequently (at least four times per year) without management present
Director retirement is after reaching age 72	Robust stock ownership guidelines for Directors and executive officers
Each Committee of our Board of Directors has a published charter that is reviewed and discussed at least annually	All Directors and executive officers have met stock ownership guidelines
No shareholders rights plan	Annual Board and Committee evaluations
Each of our Director nominees attended 100% of the Board of Director meetings and 100% of his or her applicable Committee meetings during fiscal year 2018	Annual reviews of our Chief Executive Officer by all independent Directors
None of our Director nominees are overboarded of our Director nominees do not sit on any other public company board of directors, four of our Director nominees sit on just one other public company board of directors and two of our Director nominees sit on two other public company boards of directors	four 70% of our Director nominees have a tenure of under 10 years. Director tenure of this year's Director nominees:
	0-5 years: 40%
	6-9 years: 30%
	³ 10 years: 30%
Our Viewpoint on Social Responsibility is published annually, addressing our commitment to, and actions and oversight around, sustainability; governance, ethics and compliance; our people; the planet; and product stewardship.	

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The table below highlights key aspects of our executive compensation program for fiscal year 2018. The table is not a substitute for, nor does it reflect, all of the information provided in our Compensation Discussion and Analysis and in the Compensation Tables presented later in this Proxy Statement.

Compensation Highlights	
Annual advisory vote on executive compensation with consistent high degree of approval	Anti-hedging and anti-pledging policy for Directors and executive officers
Claw-back policy to recover or withhold incentive-based compensation paid to executive officers	Executive compensation program with pay-for-performance structure aligned with The Win Strategy™
Chief Executive Officer's target compensation package is a mix of 10% fixed and 90% at risk	One-year minimum vesting requirement for restricted stock awards, restricted stock unit awards, unrestricted stock awards, grants of stock options, and stock appreciation rights, under our 2016 Omnibus Stock Incentive Plan
Average target compensation mix for Named Executive Officers other than our Chief Executive Officer is a mix of 21% fixed and 79% at risk	

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ITEM 1 ELECTION OF DIRECTORS

Shareholder approval is sought to elect Lee C. Banks, Robert G. Bohn, Linda S. Harty, Kevin A. Lobo, Candy M. Obourn, Joseph Scaminace, Åke Svensson, James R. Verrier, James L. Wainscott and Thomas L. Williams for a term that will expire at the Annual Meeting of Shareholders in 2019. Each candidate for Director is elected only if the votes for the candidate exceed the votes against the candidate. Abstentions and broker non-votes shall not be counted as votes for or against a candidate. If the number of candidates exceeds the number of Directors to be elected, then in that election the candidates receiving the greatest number of votes shall be elected.

Our Board of Directors has concluded that the nominees presented in this Item 1 Election of Directors collectively represent a highly-qualified and diverse group of individuals who will effectively serve the long-term interests of our business, our employees and our shareholders. Our Board of Directors believes that each nominee should serve on our Board of Directors for the coming year based on his or her record of effective past service on our Board of Directors and the specific experiences, qualifications, attributes and skills described in his or her biographical information presented in this Item 1 Election of Directors section.

Should any nominee become unable to accept nomination or election, the proxies will be voted for the election of another person as our Board of Directors may recommend. However, our Board of Directors has no reason to believe that this circumstance will occur.

NOMINEES FOR ELECTION AS DIRECTORS FOR TERMS EXPIRING IN 2019

LEE C. BANKS

Director since 2015

Age: 55

Committees: None

Mr. Banks has been our President and Chief Operating Officer since February 2015. He was our Executive Vice President from August 2008 to February 2015 and our Operating Officer from November 2006 to February 2015. Mr. Banks is also a Director of Nordson Corporation.

Our Board of Directors believes that Mr. Banks will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as President and Chief Operating Officer and Executive Vice President and Operating Officer and in various operational leadership positions during his over 25-year career with us;

intimate, working knowledge of our day-to-day business, plans, strategies and initiatives;

present service on another public company board;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors, our business, our employees and our shareholders, and a high level of integrity, honesty, judgment and professionalism.

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ROBERT G. BOHN

Director since 2010

Age: 65

Committees: Audit Committee

Human Resources and Compensation Committee

Now retired, Mr. Bohn was Chairman of the Board of Oshkosh Corporation (specialty vehicles and vehicle bodies manufacturing) from January 2000 to February 2011. Mr. Bohn is also a Director of Carlisle Companies, Inc. and The Manitowoc Company, Inc.

Our Board of Directors believes that Mr. Bohn will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Chairman of the Board of Oshkosh Corporation, a successful global industrial company of significant size;

past and present service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

Director since 2007

LINDA S. HARTY

Age: 58

Committees: Audit Committee (Chair)

Now retired, Ms. Harty was Treasurer of Medtronic plc (medical technology) from February 2010 to April 2017. Ms. Harty is also a Director of Wabtec Corporation and Lead Director of Syneos Health, Inc. (formerly INC Research Holdings, Inc.).

Our Board of Directors believes that Ms. Harty will effectively serve our Board of Directors, our business, our employees and our shareholders based on her significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service in senior finance and accounting leadership positions at Medtronic plc and other successful global companies of significant size;

present service on other public company boards;

qualification as an audit committee financial expert as defined in the federal securities laws;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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KEVIN A. LOBO

Age: 53

Director since 2013

Committees: Audit Committee

Mr. Lobo has been Chairman of the Board of Stryker Corporation (medical technology) since July 2014 and has been Chief Executive Officer, President and a Director since October 2012.

Our Board of Directors believes that Mr. Lobo will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service in senior leadership positions at Stryker Corporation and other successful global companies of significant size;

present service on another public company board;

qualification as an audit committee financial expert as defined in the federal securities laws;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

CANDY M. OBOURN

Age: 68

Director since 2002

Committees: Human Resources and Compensation Committee (Chair)

Corporate Governance and Nominating Committee

Ms. Obourn has been Chairman of Isoflux Incorporated (coating technologies) since April 2012.

Our Board of Directors believes that Ms. Obourn will effectively serve our Board of Directors, our business, our employees and our shareholders based on her significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

service as Chief Executive Officer and President of a coating technologies company, Chief Executive Officer and President of a health care products company and in senior leadership positions at other global companies of significant size;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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JOSEPH SCAMINACE

Age: 65

Director since 2004

Committees: Corporate Governance and Nominating Committee

Human Resources and Compensation Committee

Mr. Scaminace was a Director and Chief Executive Officer of OM Group, Inc. (metal-based specialty chemicals) from June 2005 to October 2015 and Chairman of the Board of OM Group from August 2005 to October 2015. Mr. Scaminace is also a Director of Cintas Corporation and The Cleveland Clinic Foundation.

Our Board of Directors believes that Mr. Scaminace will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Chairman of the Board of OM Group, Inc., and prior leadership positions at other global industrial companies of significant size;

past and present service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

ÅKE SVENSSON

Director since 2010

Age: 66

Committees: Audit Committee

Mr. Svensson has been Chairman of the Association of Swedish Engineering Industries, and Board Member of the Confederation of Swedish Enterprise since May 2018. He was previously Chairman of Swedavia AB (transport infrastructure) from April 2016 to May 2018, and Director General of Swedish Engineering Industries from September 2010 to August 2016. Mr. Svensson serves on the Board of Business Sweden (export support organization), and was formerly a Director of Saab AB.

Our Board of Directors believes that Mr. Svensson will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and President of Saab AB, a successful European aerospace, defense and security company of significant size;

extensive knowledge of European aerospace, defense and security businesses and related issues and trends;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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JAMES R. VERRIER

Director since 2016

Age: 55

Committees: Audit Committee

Human Resources and Compensation Committee

Mr. Verrier has served as a Board Advisor to Borg Warner, Inc. (powertrain solutions) since August 1, 2018. He was previously Chief Executive Officer and Director of BorgWarner, Inc. from January 2013 until July 31, 2018, and President of BorgWarner from March 2012 until July 31, 2018.

Our Board of Directors believes that Mr. Verrier will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

service as Director, Chief Executive Officer and President of BorgWarner, Inc., a successful global automotive industry components and parts supplier of significant size, and a public company;

prior service on another public company board;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

JAMES L. WAINSCOTT

Director since 2009

Age: 61

Committees: Corporate Governance and Nominating Committee

(Chair and Lead Director)

Human Resources and Compensation Committee

Now retired, Mr. Wainscott was Chairman of the Board of AK Steel Holding Corporation (steel producer) from January 2006 to May 2016; and President, Chief Executive Officer and a Director of AK Steel Holding from October 2003 to January 2016.

Our Board of Directors believes that Mr. Wainscott will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as President, Chief Executive Officer and Chairman of the Board of AK Steel Holding Corporation, a successful global industrial company of significant size;

prior service on other public company boards;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors;

proven ability to effectively serve as our Lead Director and to otherwise work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors and integrity, honesty, judgment and professionalism.

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THOMAS L. WILLIAMS

Age: 59

Director since 2015

Committees: None

Mr. Williams has been our Chairman of the Board since January 2016; and our Chief Executive Officer since February 2015. He was our Executive Vice President from August 2008 to February 2015 and our Operating Officer from November 2006 to February 2015. Mr. Williams is also a Director of Chart Industries, Inc.

Our Board of Directors believes that Mr. Williams will effectively serve our Board of Directors, our business, our employees and our shareholders based on his significant and diverse experiences, skills, qualifications and viewpoints from, among other things:

extensive service as Chief Executive Officer and Executive Vice President and Operating Officer and in various operational leadership positions during his 14-year career with us;

intimate, working knowledge of our day-to-day business, plans, strategies and initiatives;

present service on another public company board;

proven ability to work efficiently and effectively with our other Directors to oversee and address issues and risks facing our business; and

high level of commitment to our Board of Directors, our business, our employees and our shareholders, and a high level of integrity, honesty, judgment and professionalism.

ANNUAL ELECTIONS; MAJORITY VOTING; NO CUMULATIVE VOTING.

Our Code of Regulations provides for the annual election of our entire Board of Directors. Accordingly, each Director elected at this Annual Meeting of Shareholders will hold office until the next Annual Meeting of Shareholders and until his or her successor is elected.

Our Articles of Incorporation provide for a majority voting standard in the annual election of our Directors. Accordingly, at each Annual Meeting of Shareholders, each candidate for Director is elected only if the votes for the candidate exceed the votes against the candidate, unless the number of candidates exceeds the number of Directors to be elected. Shareholders are not able to cumulate votes in the election of Directors. Abstentions and broker non-votes shall not be counted as votes for or against a candidate. If the number of candidates exceeds the number of Directors to be elected, then in that election the candidates receiving the greatest number of votes shall be elected.

NEW ELECTIONS AND RETIREMENTS.

None in fiscal year 2018.

RECOMMENDATION REGARDING PROPOSAL 1:

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR

EACH OF THE NOMINEES TO THE BOARD OF DIRECTORS.

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CORPORATE GOVERNANCE

BOARD OF DIRECTORS

MEETINGS AND ATTENDANCE; EXECUTIVE SESSIONS.

During fiscal year 2018, there were seven meetings of our Board of Directors. Each Director attended at least 75% of the meetings held by our Board of Directors and the Committees of our Board of Directors on which he or she served.

We hold a regularly scheduled meeting of our Board of Directors in conjunction with our Annual Meeting of Shareholders. Directors are expected to attend the Annual Meeting of Shareholders absent an appropriate reason. All of the members of our Board of Directors at the time of our 2017 Annual Meeting of Shareholders attended that meeting.

In accordance with the listing standards of the New York Stock Exchange, our non-management Directors are scheduled to meet regularly in executive sessions without management and, if required, our independent Directors will meet at least once annually. Additional meetings of our non-management Directors may be scheduled from time to time when our non-management Directors determine that such meetings are desirable. Our non-management Directors met four times during fiscal year 2018.

NUMBER; CURRENT TERM; RELATIONSHIPS.

Our Board of Directors presently consists of 13 members. The current term of each member of our Board of Directors expires at our 2018 Annual Meeting of Shareholders. Assuming the election of all of the Director nominees, we expect our Board of Directors to consist of 10 members after the 2018 Annual Meeting of Shareholders. None of our Directors are related to each other and no arrangements or understandings exist pursuant to which any Director was selected as a Director or Director nominee.

DIRECTOR INDEPENDENCE.

Our Corporate Governance Guidelines require at least a majority of our Directors to be independent as defined in the listing standards established by the New York Stock Exchange. Our Board of Directors has also adopted standards for director independence, which are set forth in our Independence Standards for Directors.

We strongly favor a governance structure that includes an independent Board of Directors. Of the 13 current members of our Board of Directors, 11 are independent based on our Board of Directors' consideration of the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. In addition, in fiscal year 2018, each of the Audit Committee, the Corporate Governance and Nominating Committee, the Finance Committee and the Human Resources and Compensation Committee of our Board of Directors was composed entirely of independent directors. As a result, our independent Directors directly oversee critical matters such as our executive compensation program for executive officers, our corporate governance guidelines, policies and practices, our corporate finance strategies and initiatives, the integrity of our financial statements and our internal controls over financial reporting.

Our Board of Directors has affirmatively determined that the following 11 individuals who currently serve as Directors are independent: Robert G. Bohn, Linda S. Harty, Robert J. Kohlhepp, Kevin A. Lobo, Klaus-Peter Müller, Candy M. Obourn, Joseph Scaminace, Wolfgang R. Schmitt, Åke Svensson, James R. Verrier and James L. Wainscott.

Among other things, our Board of Directors does not consider a Director to be independent unless it affirmatively determines that the Director has no material relationship with us either directly or as a partner, shareholder or officer of an organization that has a relationship with us. Our Board of Directors annually reviews and determines which of its members are independent based on the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. During the course of such review, our Board of Directors broadly considers all facts and circumstances which it deems relevant, including any

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commercial, industrial, banking, consulting, legal, accounting, charitable and familial relationships between us and any of our Directors. In fiscal year 2018, after considering the facts and circumstances applicable to each Director, our Board of Directors determined that the following relationships required further analysis to confirm that the following Directors were independent:

1. Each of Ms. Harty and Messrs. Lobo and Verrier served as an employee, officer and/or director of a company that has an existing customer or supplier relationship with us. Our Board of Directors further analyzed these relationships and found that none of these Directors receive any direct or indirect personal benefits as a result of these relationships, and that the amounts paid to or by us under such relationships fell significantly below the thresholds for independence provided in the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. Based on such further analyses, our Board of Directors affirmatively concluded that each of these Directors is independent.
2. Mr. Müller served as Chairman of the Supervisory Board of Commerzbank AG, with which we have a commercial banking relationship. Our Board of Directors further analyzed this relationship and found that Mr. Müller does not receive any direct or indirect personal benefits as a result of such relationship, and that the amount of our indebtedness to Commerzbank AG is insignificant when compared to the purchase and sale thresholds for independence provided in the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors. We also do not have an exclusive banking relationship with Commerzbank AG in Germany or elsewhere. Based on such further analysis, our Board of Directors affirmatively concluded that Mr. Müller is independent.

CURRENT LEADERSHIP STRUCTURE.

Our Board of Directors currently employs a dual leadership structure. We have a Lead Director who is also the Chair of the Corporate Governance and Nominating Committee, and a Chairman of the Board, who is our Chief Executive Officer. Our Lead Director is elected solely by the independent members of our Board of Directors and holds a position separate and independent from our Chairman of the Board. Our Corporate Governance Guidelines provide that the Chair of the Corporate Governance and Nominating Committee is elected every five years.

The specific authorities, duties and responsibilities of our Lead Director are described in our Corporate Governance Guidelines. Among other things, our Lead Director presides over and supervises the conduct of all meetings of our independent Directors, calls meetings of our non-management, independent Directors, and prepares and approves all agendas and schedules for meetings of our Board of Directors.

Our Board of Directors believes that having a Lead Director who is elected by our independent Directors ensures that our Board of Directors will at all times have an independent Director in a leadership position. At the same time, our Board of Directors believes that it is important to maintain flexibility in its leadership structure to allow for a member of management to serve in a leadership position alongside the Lead Director if our Board of Directors determines that such a leadership structure best meets the then current needs of our Board of Directors, our business, our employees and our shareholders.

Our Board of Directors has determined that this leadership structure is currently more efficient and effective than a structure which employs a single, independent Chairman of the Board. Our Board of Directors views this structure as one that ensures both independence in leadership and a balance of knowledge, power and authority. For example, our leadership structure employs both a Chairman of the Board who possesses an intimate, working knowledge of our

day-to-day business, plans, strategies and initiatives, and a Lead Director who has a strong working relationship with our non-management, independent Directors. These two individuals combine and utilize their unique knowledge and perspectives to ensure that management and our independent Directors work together as effectively as possible. Among other things, our Chairman of the Board ensures that our Board of Directors addresses strategic issues that management considers critical, while our Lead Director ensures that our Board of Directors addresses strategic issues that our independent Directors consider critical.

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Our Board of Directors recognizes, however, that no single leadership model may always be appropriate. Accordingly, our Board of Directors regularly reviews its leadership structure to ensure that it continues to represent the most efficient and effective structure for our Board of Directors, our business, our employees and our shareholders.

SELECTION AND NOMINATION OF DIRECTORS.

The Corporate Governance and Nominating Committee of our Board of Directors is responsible for identifying, evaluating and recommending potential Director candidates. The Corporate Governance and Nominating Committee utilizes a variety of methods for identifying and evaluating candidates. The Corporate Governance and Nominating Committee regularly reviews whether the size of our Board of Directors is appropriate and whether any vacancies on our Board of Directors are expected due to retirements or otherwise. In the event that any vacancies are anticipated or otherwise arise, the Corporate Governance and Nominating Committee will consider various potential candidates.

In evaluating proposed Director nominees, the Corporate Governance and Nominating Committee considers a variety of factors such as those described below under the caption *Director Qualifications; Board Diversity*. The Corporate Governance and Nominating Committee considers the entirety of each proposed candidate's credentials and all available information that may be relevant to the candidate's nomination. Following such consideration, the Corporate Governance and Nominating Committee may seek additional information regarding, and may request interviews with, any candidate it wishes to further pursue. Based upon all information reviewed and interviews conducted, the Corporate Governance and Nominating Committee collectively determines whether to recommend the candidate to our entire Board of Directors.

During fiscal year 2018, the Corporate Governance and Nominating Committee retained a third-party search firm to assist in identifying, evaluating and recommending potential Director candidates. Candidates may also be recommended by other third-party search firms and current members of our Board of Directors. In addition, the Corporate Governance and Nominating Committee will give appropriate consideration to qualified persons recommended by shareholders for nomination as Directors, provided that such recommendations comply with the procedures set forth under the caption *Shareholder Recommendations for Director Nominees* on page 81 of this Proxy Statement. The Corporate Governance and Nominating Committee will consider candidates recommended by shareholders on the same basis as candidates from other sources. The Corporate Governance and Nominating Committee generally will not, however, consider recommendations for Director nominees submitted by individuals who are not affiliated with us.

DIRECTOR QUALIFICATIONS; BOARD DIVERSITY.

We believe that oversight from a highly-qualified and diverse Board of Directors is essential for the short-term and long-term success of our business. The size and scope of our global operations, markets, product offerings and employee base raise a wide range of issues. Consequently, we strive to attract and retain Directors who represent a broad range of backgrounds, educations, experiences, skills and viewpoints that will enable them to individually and collectively address the issues affecting our Board of Directors, our business, our employees and our shareholders.

Our Board of Directors, through its Corporate Governance and Nominating Committee, diligently evaluates each Director and Director nominee and our Board of Directors as a whole to ensure that our Board of Directors has a complementary mix of qualified and diverse individuals designed to optimize the functioning and the decision-making and oversight roles of our Board of Directors and its Committees. Our Board of Directors does not have any formal policies with respect to Director qualifications or diversity. As a general matter, however, the Corporate Governance and Nominating Committee considers a broad range of factors such as judgment, skill, integrity, independence, possible conflicts of interest, experience with businesses and other organizations of comparable size or character, the

interplay of the candidate s experience and approach to addressing business issues with the experience and approach of incumbent members of our Board of Directors and other new Director

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candidates, and the candidate's ability to effectively monitor and oversee the risks facing our business. More specifically, our Board of Directors seeks to identify nominees who have one or more of the following attributes:

current or recent service as a Chief Executive Officer or in other senior executive positions at publicly-traded companies;

significant experience in corporate strategy, manufacturing, sales and marketing, industrial and/or aerospace industries, international business, finance and accounting, technology and digital applications, and other key areas;

ability to effectively monitor and oversee the most critical current risks facing our business;

independence under the applicable independence standards of the New York Stock Exchange and our Independence Standards for Directors; and/or

other relevant skills, experiences and characteristics.

Our Corporate Governance Guidelines and our Global Code of Business Conduct also require each of our Directors to act with the commitment, integrity, honesty, judgment and professionalism necessary to serve the long-term interests of our Board of Directors, our business, our employees and our shareholders.

RISK MANAGEMENT.

Management and our Board of Directors and its Committees are collectively engaged in identifying, overseeing, evaluating and managing the material risks facing our business and ensuring that our strategies and objectives work to minimize such risks. Our Board of Directors has the ultimate responsibility to monitor the risks facing our business. Among other things, our Board of Directors reviews and discusses in detail, at least annually, our corporate strategy and annual operating plan, which cover significant strategic topics such as our key markets, operational priorities under The Win Strategy, strategic positioning, financial and operational outlooks, capital allocation, balance sheet strength, debt portfolio and positions, share repurchase activity, and dividend history and strategies.

Various members of our management are responsible for our day-to-day risk management activities, including members of our Human Resources, Internal Audit and Compliance, Legal, Tax, Risk Management, Treasury, Finance, and IT departments, and our internal Cyber Security Committee. Those individuals are charged with identifying, overseeing, evaluating and managing risks in their areas of responsibility and for ensuring that any significant risks are addressed with our Board of Directors or in the appropriate Committee of the Board. The Committees of our Board of Directors are each responsible for the various areas of risk oversight as described in the Committees of the Board of Directors section of this Proxy Statement. Management and the Chair of the applicable Committee ensure that any significant risks are reported to and addressed with the entire Board of Directors. Our Lead Director and the other Committee Chairs ensure that risk management is a recurring agenda item for meetings of our Board of Directors and its Committees.

Management and our Board of Directors and its Committees also engage outside advisors where appropriate to assist in the identification, oversight, evaluation and management of the risks facing our business. These outside advisors include our independent registered public accounting firm, external legal counsel and insurance providers, and the independent executive and non-employee Director compensation consultant retained by the Human Resources and Compensation Committee of our Board of Directors.

Our Board of Directors believes that its current level of independence, leadership structure and qualifications and diversity of its members facilitate the effective identification, oversight, evaluation and management of risk. Our Lead Director meets regularly with our other independent Directors without management to discuss current and potential risks and the means of mitigating those risks, and has the authority to direct and evaluate our risk management efforts.

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Management and our Board of Directors and its Committees view the risk management role of our Board of Directors and its Committees, and their relationship with management in the identification, oversight, evaluation and management of risk, as paramount to the short-term viability and long-term sustainability of our business. The ability to effectively monitor and oversee the most critical current risks facing our business is a key consideration for our Board of Directors and its Committees in identifying potential Director nominees and evaluating current Directors and Committee assignments.

COMMITTEES OF OUR BOARD OF DIRECTORS***BOARD COMMITTEES; COMMITTEE CHARTERS.***

Our Board of Directors has established and delegated certain authorities and responsibilities to three committees: Human Resources and Compensation Committee, Corporate Governance and Nominating Committee, and Audit Committee. Our Board of Directors has adopted a written charter for each of these Committees, which charters are posted and available on the Corporate Governance page of our investor relations website at www.phstock.com. Shareholders may request copies of these charters, free of charge, by writing to Parker-Hannifin Corporation, 6035 Parkland Boulevard, Cleveland, Ohio 44124-4141, Attention: Secretary, or by calling (216) 896-3000.

During fiscal year 2018, our Board also maintained a separate Finance Committee, the members of which were Kevin A. Lobo (committee chair), Linda S. Harty, Robert J. Kohlhepp, Klaus-Peter Müller, and Åke Svensson. The Finance Committee met two times during fiscal year 2018. Effective July 1, 2018, our Board of Directors elected to eliminate the Finance Committee and reallocate its responsibilities among the Board of Directors and the Audit Committee.

All members of each Committee are independent under the listing standards of the New York Stock Exchange as well as our Independence Standards for Directors. Each Committee provides regular reports of its activities to the full Board of Directors, as the full Board of Directors has the ultimate responsibility for monitoring the risks facing our business.

Information about the respective Committee purposes, memberships and number of meetings are reflected in the following chart:

Standing Committee	Purpose	Members in FY2018	Meetings in FY2018
Human Resources & Compensation Committee	Oversight of our processes, plans and programs for compensation of executive officers and non-employee Directors, succession planning for executive officers, employee benefit, equity and incentive compensation plans, and other related matters.	C. Obourn* R. Bohn R. Kohlhepp J. Scaminace	5

J. Verrier

J. Wainscott

J. Wainscott*

Corporate

K.P. Müller

Governance &

Oversight of our corporate governance and other related matters.

C. Obourn

3

Nominating

J. Scaminace

Committee

W. Schmitt

L. Harty* (ACFE)

Oversight of our audit, compliance, and other related matters, including integrity of financial statements and financial reporting, accounting practices, legal and regulatory compliance, internal audit functions and processes, and independence, qualifications, and performance of the independent auditor.

R. Bohn

K. Lobo (ACFE)

Audit Committee

W. Schmitt

5

Å. Svensson

J. Verrier

* Committee Chair

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Our Board of Directors has determined that each of Linda S. Harty, the Chair of the Audit Committee, and Kevin A. Lobo, a member of the Audit Committee, is an audit committee financial expert (designated in the above chart as ACFE) as defined in the federal securities laws.

Each of our Committees works with the applicable members of our Human Resources, Internal Audit and Compliance, Legal, Tax, Risk Management, Treasury, Finance, and IT departments and other management personnel to oversee and evaluate risks or concerns to each Committee.

THE HUMAN RESOURCES AND COMPENSATION COMMITTEE.

As described on page 23 of this Proxy Statement, the Human Resources and Compensation Committee has duties and responsibilities with respect to the administration, oversight and determination of our executive compensation program. In addition, the Human Resources and Compensation Committee works with its independent executive compensation consultant and our Human Resources, Legal and other management personnel to oversee and evaluate risks arising from and relating to: our compensation policies and practices for all employees; our succession planning and talent development strategies and initiatives; and other human resources issues facing our business.

In particular, the Human Resources and Compensation Committee monitors any significant existing or potential risks arising from our compensation policies and practices for all employees through its oversight of an annual compensation risk review conducted by management and the Human Resources and Compensation Committee's independent executive compensation consultant. The results of this review are evaluated and discussed among management, the Human Resources and Compensation Committee and its independent executive compensation consultant and, if any significant risks are identified, the full Board of Directors. Based on the review conducted during fiscal year 2018, we do not believe that any risks arising from our compensation policies and practices are reasonably likely to have a material adverse effect on our business.

The annual compensation risk review begins with a global assessment of any plans or programs that could potentially encourage excessive risk-taking or otherwise present significant risks to our business. The review also surveys our individual business units to determine whether any of them carries a significant portion of our risk profile, structures compensation significantly different than others or is significantly more profitable than others. The review then evaluates whether the applicable plans and programs are likely to encourage excessive risk-taking or detrimental behavior, vary significantly from our risk-reward structure, or otherwise present significant risks to our business.

During our fiscal year 2018 compensation risk review, we also identified and evaluated various mechanisms that we currently have in place that may serve to mitigate any existing or potential risks arising from our compensation policies and practices, including the following:

- our executive officers and other management-level employees are compensated with a mix of annual and long-term incentives, fixed and at-risk compensation, cash and equity compensation, and multiple forms of equity compensation;

- compensation packages gradually become more focused on long-term, at-risk and equity compensation as our employees ascend to and through management-level positions;

our global compensation plans and programs generally utilize the same or substantially similar performance measures;

we use multiple performance measures to determine payout levels under certain elements of incentive compensation and different performance measures for our annual incentives as compared to our long-term incentives;

the performance of our employees is not evaluated or measured based solely on changes in our stock price;

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our incentive compensation programs generally limit payouts to a specified maximum, while those that do not are mitigated by other factors (e.g., stock appreciation rights are mitigated by long-term vesting periods and stock ownership guidelines);

we do not offer guaranteed bonuses and all of our incentive compensation elements carry downside risk for participants;

our executive officers are subject to specific stock ownership guidelines, a claw-back policy and provisions requiring forfeiture of certain elements of incentive compensation upon termination for cause;

our compensation packages, including severance packages and supplemental pensions, are within market ranges;

the Human Resources and Compensation Committee has the discretion to assess the quality of our results in our various performance measures and the risks taken to attain those results in approving final incentive payouts;

our de-centralized organizational structure lessens the impact of any excessive risks taken by individual business units or operating groups; and

our employees are evaluated, measured and assessed based on their compliance with our Global Code of Business Conduct and other internal policies and controls, and the extent to which they act in the best interests of our business and our shareholders.

During the annual compensation risk review, we also consider whether any changes to our compensation plans and programs may be necessary to further mitigate risk. The Human Resources and Compensation Committee did not make any such changes based on the results of our fiscal year 2018 review.

THE CORPORATE GOVERNANCE AND NOMINATING COMMITTEE.

Among other things, the Corporate Governance and Nominating Committee is responsible for evaluating and recommending to our Board of Directors qualified nominees for election as Directors and qualified Directors for Committee membership, establishing evaluation procedures for the performance of our Board of Directors and its Committees, developing corporate governance guidelines and independence standards, and considering other matters pertaining to our corporate governance. In addition, the Corporate Governance and Nominating Committee works with our Legal and other management personnel to oversee and evaluate risks arising from:

Director independence, qualifications and diversity issues;

Board of Directors and Committee leadership, composition, function and effectiveness;

alignment of the interests of our shareholders with the performance of our Board of Directors;

compliance with applicable corporate governance rules and standards; and

other corporate governance issues and trends.

THE AUDIT COMMITTEE.

The Audit Committee of our Board of Directors is our standing audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934. Each Director who is a member of our Audit Committee is independent, as defined in our Independence Standards for Directors and in compliance with the independence standards applicable to audit committee members under the New York Stock Exchange listing standards and under the federal securities laws.

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Among other things, the Audit Committee is responsible for appointing, compensating, retaining, and overseeing our independent registered public accounting firm and evaluating its independence, approving all audit and non-audit engagements with our independent registered public accounting firm, and reviewing our annual and quarterly financial statements, internal and independent audit plans, the results of such audits and the adequacy of our internal control structure.

In addition, the Audit Committee works with our Internal Audit and Compliance, Legal, Tax, Treasury and Finance departments and other management personnel to oversee and evaluate risks, including major financial, tax, strategic, and operational risk exposures and risks related to compliance with legal and regulatory requirements, and significant litigation and claims.

The Audit Committee also meets privately at each of its meetings with representatives from our independent registered public accounting firm and our Vice President Internal Audit and Compliance.

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OTHER GOVERNANCE MATTERS

REVIEW AND APPROVAL OF TRANSACTIONS WITH RELATED PERSONS.

The Charter of the Corporate Governance and Nominating Committee provides that the Corporate Governance and Nominating Committee is responsible for considering questions of possible conflicts of interest of Directors and executive officers and for making recommendations to prevent, minimize or eliminate such conflicts of interest. Our Global Code of Business Conduct provides that our Directors, officers, employees and their spouses and other close family members must avoid interests or activities that create any actual or potential conflict of interest. These restrictions cover, among other things, interests or activities that result in receipt of improper personal benefits by any person as a result of his or her position as our Director, officer, employee or as a spouse or other close family member of any of our Directors, officers or employees. Our Global Code of Business Conduct also requires our Directors, officers and employees to promptly disclose any potential conflicts of interest to our Corporate Compliance Office. We also require that each of our executive officers and Directors complete a detailed annual questionnaire that requires, among other things, disclosure of any transactions with a related person meeting the minimum threshold for disclosure under the relevant Securities and Exchange Commission, or SEC, rules. All responses to the annual questionnaires are reviewed and analyzed by our legal counsel and, as necessary or appropriate, presented to the Corporate Governance and Nominating Committee for analysis, consideration and, if appropriate, approval.

The Corporate Governance and Nominating Committee will consider the following in determining if any transaction presented should be approved, ratified or rejected:

the nature of the related person's interest in the transaction;

the material terms of the transaction;

the importance of the transaction to the related person and to us;

whether the transaction would impair the judgment or the exercise of the fiduciary obligations of any Director or executive officer;

the possible alternatives to entering into the transaction;

whether the transaction is on terms comparable to those available to third parties; and

the potential for an actual or apparent conflict of interest.

During fiscal year 2018, we reviewed the annual questionnaires and determined that no potential related-party transactions exist. This review included a detailed evaluation of the transactions reviewed and analyzed by our Board of Directors in determining Director independence as described in the Director Independence section beginning on page 10. Based on management's review and analysis, no potential related-party transactions were presented to the

Corporate Governance and Nominating Committee for analysis, consideration or approval.

SECTION 16(A) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.

Section 16(a) of the Securities Exchange Act of 1934 requires our executive officers, Directors and beneficial owners of more than 10% of our Common Shares to file initial stock ownership reports and reports of changes in ownership with the SEC. SEC regulations require that we are furnished with copies of these reports. Based solely on a review of these reports and written representations from our executive officers and Directors, we believe that there was compliance with all such filing requirements for fiscal year 2018, except that (i) Yoon Michael Chung, former Vice President E-Business, IoT & Services, inadvertently filed one late Form 4, to report the sale of 3,950 common shares owned outright, during fiscal year 2018, and (ii) Lee C. Banks, President and Chief Operating Officer, inadvertently filed one late Form 4, to report the disposition of 16,171 shares which were withheld to satisfy tax obligations.

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COMPENSATION DISCUSSION AND ANALYSIS

EXECUTIVE SUMMARY FISCAL YEAR 2018.

Objectives and Philosophies of the Executive Compensation Program.

Refreshed in 2015, The Win Strategy™ has been the foundation of our business and has represented the unified vision of our employees worldwide since it was first introduced in 2001. The Win Strategy™ defines the key goals, operational priorities and metrics used to profitably grow our business. We are confident that a worldwide focus on The Win Strategy™ will maximize the long-term value of our shareholders' investments by helping us to realize top-quartile performance among our competitors and peers and steady appreciation of our stock price.

The Win Strategy™ also provides the means by which we can measure and reward success. In fact, the objective of our executive compensation program is to encourage and reward performance that implements the strategies and advances the goals of The Win Strategy™. The program is designed to:

align the financial interests of our executive officers and our shareholders by encouraging and rewarding our executive officers for performance that achieves or exceeds significant financial and operational performance goals and by holding them accountable for results;

encourage and reward our executive officers for experience, expertise, level of responsibility, continuity of leadership, leadership qualities, advancement, individual accomplishment and other significant contributions to the enhancement of shareholder value and to the success of our business;

attract, retain and motivate highly-talented and ethical individuals at all levels who are focused on the long-term success of our business and who are equipped, motivated and poised to lead and manage our business presently and in the future;

offer compensation that keeps us competitive with companies that compete with us for talented employees and shareholder investment;

promote accountability by providing executive officers an optimal mix of cash and equity compensation, allocating a greater proportion of the compensation for executive officers, as compared to other employees, to elements that are dependent on the performance of our business; and

maintain a level of flexibility sufficient to adjust for trends and changes in the continuously evolving global business and regulatory environment.

Categories and Elements of Executive Compensation.

Our executive compensation program covers all compensation paid to our executive officers. Our executive officers include, among others, our Chief Executive Officer, our Chief Financial Officer and the three other most highly

compensated executive officers identified in the Summary Compensation Table for Fiscal Year 2018 on page 48, which we refer to as the Named Executive Officers.

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Our executive compensation program offers the categories and elements of compensation identified in the following table. Each element of compensation is more specifically defined and described in the Elements of Executive Compensation section of this Compensation Discussion and Analysis beginning on the page indicated in the table.

Category of Compensation	Element(s) of Compensation	Defined/Described Beginning on:
Base Salaries	Base Salaries	Page 30
Annual Cash Incentive Compensation	Target Incentive Bonuses	Page 31
	General RONA Bonuses	Page 33
	Converted RONA Bonuses	Page 33
	PGI Plan	Page 35
Long-Term Incentive Compensation	LTIP Awards	Page 36
	Stock Incentives	Page 38
Employee Benefits	Various	Page 39
Executive Perquisites	Various	Page 45

Pay-for-Performance Structure, Key Financial Metrics and Impact on Compensation Payouts.

Our executive compensation program is structured to ensure that a significant portion of the compensation for executive officers is dependent upon the performance of our business. This pay-for-performance structure drives the program to achieve its objective to encourage and reward performance that implements the strategies and advances the

goals of The Win Strategy™. Our program is also structured to ensure that the compensation for our executive officers is not overly weighted toward annual cash incentive compensation and does not otherwise have the potential to threaten long-term shareholder value by promoting unnecessary or excessive risk-taking by our executive officers. The Allocation of Executive Compensation section beginning on page 26 describes our policies and practices for allocating executive compensation among the various categories and elements.

To illustrate, the chart below shows the mix of fixed and at-risk annual and long-term and cash and equity compensation represented by base salaries and the elements of annual cash incentive compensation and long-term incentive compensation for the Named Executive Officers. The percentages of total compensation reflected in this chart were calculated using each Named Executive Officer's fiscal year 2018 base salary, target annual cash incentive compensation and target long-term incentive compensation.

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Emphasis on Sustained Performance

The Elements of Executive Compensation section beginning on page 30 provides detailed discussion and analysis as to how each element of compensation encourages and rewards performance that implements the strategies and advances the goals of The Win Strategy™. Our compensation structure includes both fixed and at-risk compensation as noted above, the various cash and equity elements of which may be depicted generally as follows:

* General RONA and Converted RONA

We provide base salaries, employee benefits and executive perquisites primarily to ensure that our executive compensation program remains competitive to attract, retain and motivate the individuals needed to implement and advance our strategies and goals. In addition, as illustrated in the following table, we provide each element of annual cash incentive compensation and each element of long-term incentive compensation primarily to encourage and reward performance that implements and advances The Win Strategy , in particular our

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strategies and goals relating to financial performance and profitable growth, aligning such elements with our performance in certain key financial metrics that we use to measure the overall performance of our business.

The following table shows the behaviors, key financial metrics and fiscal year 2018 results driven by each element of at-risk compensation provided to the Named Executive Officers.

Element of Compensation	Encourages executive officers to maximize...	By focusing on various key business strategies, such as...	Fiscal year 2018 results...
RONA Bonuses (General and Converted)	return on net assets	strategic pricing and procurement, innovative products, system solutions and strong distribution	Our return on consolidated net assets was above target.
Target Incentive Bonuses	free cash flow	continuous improvement in net income, lean initiatives, inventory controls, collection of receivables, control of payables and capital expenditures, and the ability to finance dividends, acquisitions and product innovations	Our operating cash flows were \$1.6 billion or 11.2% of sales, resulting in a free cash flow margin of 9.46%.*
Profitable Growth Incentive Plan**	sales growth (organic and through acquisitions)	profitable and sustainable sales growth	The Profitable Growth Incentive Plan multiplier was applied to Mr. Malone's General RONA Bonus with the effect of increasing his General RONA Bonus payout by approximately

			30%.
LTIP Awards	long-term revenue growth, earnings per share growth, and growth in average return on invested capital	product innovation, on-time delivery of quality products, value-added services and systems, strategic procurement of goods and services, lean operations, strategic pricing and profitable growth	Our results for average return on invested capital and revenue growth were between the median and top quartile performance levels, and results for EPS growth were at top quartile, resulting in a payout at 175% of target.
Stock Incentives	our stock price	sustained profitable growth and financial and operational performance that contribute to appreciation of our stock price	Our average daily closing per share stock price was \$177.39 in fiscal year 2018, as compared to \$139.35 in fiscal year 2017.

* Free cash flow margin is calculated as disclosed on page 32.

** Officer participation on our Profitable Growth Incentive Plan is limited to our operating group presidents; as such, Mr. Malone (Vice President and President Filtration Group) is the only Named Executive Officer who was subject to the Profitable Growth Incentive Plan in fiscal year 2018.

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Highlights and Significant Changes to Executive Compensation Program during Fiscal Year 2018.

We continue to maintain several long-standing compensation practices that we believe contribute to good corporate governance, including our claw-back policy described on page 29, our stock ownership guidelines described on page 30, our hedging, pledging and other stock ownership restrictions described on page 30, and our annual compensation risk review described beginning on page 15. In fiscal year 2018, after review and consideration of peer data and our annual plan for free cash flow margin, the Human Resources and Compensation Committee approved updated free cash flow payout thresholds for our Target Incentive Bonuses of 5% for a 50% payout, 8% for a 100% payout, and 11% for a 200% payout, all as more fully described on page 32.

ADMINISTRATION, OVERSIGHT AND DETERMINATION OF EXECUTIVE COMPENSATION.

Human Resources and Compensation Committee.

The Human Resources and Compensation Committee, which we refer to in this Compensation Discussion and Analysis as the Committee, consists solely of independent directors and has various duties and responsibilities with respect to the administration, oversight and determination of executive compensation. As described in the Committee's Charter, which is posted and available on the Corporate Governance page of our investor relations website at www.phstock.com, these duties and responsibilities include:

working with our management establishing our executive compensation program and philosophies and overseeing their development and implementation;

reviewing and approving the performance and compensation of our Chief Executive Officer and our other executive officers; and

performing other duties and responsibilities assigned by our Board of Directors.

The Committee also retains the discretion to authorize periodic compensation adjustments due to promotions or increases in the responsibilities of our executive officers.

In fulfilling its duties and responsibilities, the Committee seeks periodic input, advice and recommendations from various sources, including our Board of Directors, our executive officers and the Committee's independent executive compensation consultant. The Committee is not bound by that input or advice or those recommendations. The Committee at all times exercises independent discretion in its executive compensation decisions.

Board of Directors.

Our Board of Directors approves all incentive compensation plans and equity-based plans reviewed and recommended by the Committee and all other plans and programs which, by their terms, require approval of our Board of Directors. Our Board of Directors does not authorize or approve any other specific executive compensation matters. Our Board of Directors oversees the Committee's activities and performance, including the identification, evaluation and monitoring of risks arising from our compensation policies and practices, and reviews all material information relating to executive compensation matters approved by the Committee. This oversight ensures that the Committee fulfills its duties and responsibilities and that the executive compensation program is reasonable and appropriate, meets its

objectives and effectively serves the interests of our business and our shareholders.

Executive Officers.

Our executive officers also play a role in the administration, oversight and determination of executive compensation. At the beginning of each fiscal year, each executive officer sets annual performance goals for his or her direct reports, which may include other executive officers. The performance goals are designed to promote

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individual performance consistent with the strategies and goals of The Win Strategy™. Throughout the fiscal year, each executive officer's performance is reviewed and evaluated against his or her performance goals. At the end of the fiscal year, each executive officer conducts a final performance review for each of his or her direct reports. Based on those reviews, our executive officers, other than our Chief Executive Officer, recommend any annual compensation adjustments and awards for their executive officer direct reports to our Chief Executive Officer.

Our Chief Executive Officer similarly reviews and evaluates his direct reports, which include each of the other Named Executive Officers except for Mr. Malone who is reviewed and evaluated by Mr. Banks. Our Chief Executive Officer also reviews and evaluates the recommendations made with respect to all of our other executive officers and makes any modifications that he deems appropriate. Our Chief Executive Officer then recommends to the Committee annual compensation adjustments and awards for all of our executive officers other than himself.

Our Chief Executive Officer, our Chief Operating Officer, our Executive Vice President Human Resources & External Affairs and our Secretary attend all meetings of the Committee other than appropriate executive sessions, and neither our Chief Executive Officer nor our Chief Operating Officer attends any meetings relating to his performance or compensation. Our executive officers prepare and provide to the Committee tally sheets for certain executive officers, which are used by the Committee to understand and measure the performance and effectiveness of our annual cash incentive compensation and long-term incentive compensation. Our executive officers also periodically consult with and assist the Committee in calculating incentive compensation payouts, establishing and monitoring performance goals and addressing other appropriate executive compensation matters.

COMPENSATION CONSULTANTS AND BENCHMARKING.

The Committee regularly monitors, reviews and evaluates our executive compensation program to ensure that it provides reasonable compensation ranges at appropriate levels and remains competitive and effective. The Committee engages Mercer Human Resource Consulting, an independent human resources and compensation consulting firm, which we refer to as Mercer, to assist the Committee in its monitoring, review and evaluation and to otherwise provide assistance and guidance to the Committee on executive officer and director compensation matters. Mercer is a wholly owned subsidiary of Marsh & McLennan Companies, Inc. The Committee first engaged Mercer in fiscal year 2009 following a robust procurement process involving multiple consulting firms. Mercer emerged from that process as the Committee's provider of choice based on its level of expertise and financial and strategic fit. Mercer reports directly to the Committee and attends all meetings of the Committee. The Committee has sole authority for the appointment, removal, replacement, compensation and oversight of Mercer and its affiliates for executive officer and director compensation matters.

Mercer provides a wide range of executive officer and director compensation consulting services for the Committee. Mercer prepares and provides to the Committee a comprehensive annual review of base salaries, target annual cash incentive compensation, target long-term incentive compensation and target total cash and direct compensation for all of our executive officers. Mercer uses this annual review to advise the Committee with respect to the effectiveness and competitiveness of our executive compensation program. The Committee considers this annual review when establishing compensation levels and otherwise to ensure that our executive compensation program remains competitive and effective.

Mercer prepares the annual review by using proxy statement data and surveys published by leading human resources and compensation consultants to conduct market analyses of base salaries, target annual bonuses, target long-term incentive compensation and target total cash and direct compensation offered to executives of other diversified industrial companies with revenues and market values comparable to ours, which we refer to as the Peer Group. Mercer also uses broader market data on companies outside of the Peer Group to the extent that it is available and

appropriate.

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The Committee regularly reviews and, when necessary or advisable, updates the Peer Group to make sure that it consists of companies which directly compete with us for talented employees and shareholder investment and that it otherwise represents a meaningful group of peers. In evaluating the Peer Group companies, the Committee looks for companies in the Diversified Industrials industry/sector with similar characteristics and business strategies to ours. The Peer Group for fiscal year 2018 consisted of the following companies:

Caterpillar Inc.
Colfax Corporation
Cummins Inc.

Eaton Corporation plc
Emerson Electric Co.

Ingersoll-Rand plc
ITT Corporation