

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

☒ Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the quarterly period ended **March 27, 2020**

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from to

Commission File Number: 001-09249

**GRACO INC.**

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0285640

(I.R.S. Employer Identification Number)

88 - 11th Avenue N.E.

Minneapolis, Minnesota

(Address of principal executive offices)

55413

(Zip Code)

(612) 623-6000

(Registrant's telephone number, including area code)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	GGG	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

Emerging growth company ☐

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

166,598,093 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of April 15, 2020.

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**PART I   Item 1.**  
**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited) (In thousands except per share amounts)

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net Sales	\$ 373,567	\$ 404,870
Cost of products sold	174,936	188,828
Gross Profit	198,631	216,042
Product development	17,081	16,569
Selling, marketing and distribution	57,388	60,817
General and administrative	34,350	34,129
Operating Earnings	89,812	104,527
Interest expense	2,486	3,535
Other expense, net	5,223	269
Earnings Before Income Taxes	82,103	100,723
Income taxes	9,285	13,974
Net Earnings	\$ 72,818	\$ 86,749
Net Earnings per Common Share		
Basic	\$ 0.43	\$ 0.52
Diluted	\$ 0.42	\$ 0.51

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited) (In thousands)

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net Earnings	\$ 72,818	\$ 86,749
Components of other comprehensive income (loss)		
Cumulative translation adjustment	(4,677)	1,169
Pension and postretirement medical liability adjustment	2,749	2,127
Income taxes - pension and postretirement medical liability adjustment	(615)	(470)
Other comprehensive income	(2,543)	2,826
Comprehensive Income	\$ 70,275	\$ 89,575

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
(Unaudited) (In thousands)

	March 27, 2020	December 27, 2019
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 456,656	\$ 220,973
Accounts receivable, less allowances of \$5,600 and \$5,300	273,789	267,345
Inventories	289,567	273,233
Other current assets	28,760	29,917
Total current assets	1,048,772	791,468
Property, Plant and Equipment, net	332,078	325,546
Goodwill	306,850	307,663
Other Intangible Assets, net	158,069	162,623
Operating Lease Assets	30,478	29,891
Deferred Income Taxes	38,081	39,327
Other Assets	33,012	35,692
Total Assets	<u>\$ 1,947,340</u>	<u>\$ 1,692,210</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Notes payable to banks	\$ 45,742	\$ 7,732
Trade accounts payable	64,324	54,117
Salaries and incentives	31,178	51,301
Dividends payable	29,442	29,235
Other current liabilities	141,077	142,937
Total current liabilities	311,763	285,322
Long-term Debt	400,000	164,298
Retirement Benefits and Deferred Compensation	183,292	182,707
Operating Lease Liabilities	23,210	24,176
Deferred Income Taxes	10,417	10,776
Shareholders' Equity		
Common stock	166,840	167,287
Additional paid-in-capital	612,698	578,440
Retained earnings	411,450	448,991
Accumulated other comprehensive income (loss)	(172,330)	(169,787)
Total shareholders' equity	1,018,658	1,024,931
Total Liabilities and Shareholders' Equity	<u>\$ 1,947,340</u>	<u>\$ 1,692,210</u>

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited) (In thousands)

	Three Months Ended	
	March 27, 2020	March 29, 2019
<b>Cash Flows From Operating Activities</b>		
Net Earnings	\$ 72,818	\$ 86,749
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	13,062	12,013
Deferred income taxes	(65)	(2,215)
Share-based compensation	6,318	7,221
Change in		
Accounts receivable	(10,139)	(13,874)
Inventories	(17,726)	(13,547)
Trade accounts payable	5,185	8,043
Salaries and incentives	(20,182)	(23,692)
Retirement benefits and deferred compensation	3,172	3,547
Other accrued liabilities	1,441	(11,437)
Other	349	(2,262)
Net cash provided by operating activities	54,233	50,546
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment additions	(18,944)	(30,433)
Acquisition of businesses, net of cash acquired	—	(5,353)
Other	(256)	(367)
Net cash provided by (used in) investing activities	(19,200)	(36,153)
<b>Cash Flows From Financing Activities</b>		
Borrowings (payments) on short-term lines of credit, net	24,576	(3,596)
Borrowings on long-term lines of credit	250,000	16,057
Payments on long-term debt and lines of credit	—	(34,540)
Common stock issued	38,882	24,847
Common stock repurchased	(82,176)	(2,438)
Taxes paid related to net share settlement of equity awards	(1,796)	(1,268)
Cash dividends paid	(29,333)	(26,438)
Net cash provided by (used in) financing activities	200,153	(27,376)
Effect of exchange rate changes on cash	497	576
Net increase (decrease) in cash and cash equivalents	235,683	(12,407)
<b>Cash, Cash Equivalents and Restricted Cash</b>		
Beginning of year	220,973	132,118
End of period	\$ 456,656	\$ 119,711

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Unaudited) (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Three Months Ended March 27, 2020</b>					
<b>Balance, December 27, 2019</b>	\$ 167,287	\$ 578,440	\$ 448,991	\$ (169,787)	\$ 1,024,931
Shares issued	1,620	35,467			37,087
Shares repurchased	(2,067)	(7,143)	(80,819)		(90,029)
Stock compensation cost		5,934			5,934
Net earnings			72,818		72,818
Dividends declared (\$0.1750 per share)			(29,540)		(29,540)
Other comprehensive income (loss)				(2,543)	(2,543)
<b>Balance, March 27, 2020</b>	<u>\$ 166,840</u>	<u>\$ 612,698</u>	<u>\$ 411,450</u>	<u>\$ (172,330)</u>	<u>\$ 1,018,658</u>
<b>Balance, December 28, 2018</b>	\$ 165,171	510,825	220,734	\$ (144,857)	\$ 751,873
Shares issued	1,193	22,386	—	—	23,579
Stock compensation cost	—	5,856	—	—	5,856
Net earnings	—	—	86,749	—	86,749
Dividends declared (\$0.1600 per share)	—	—	(26,445)	—	(26,445)
Other comprehensive income (loss)	—	—	—	2,826	2,826
<b>Balance, March 29, 2019</b>	<u>\$ 166,364</u>	<u>539,067</u>	<u>281,038</u>	<u>\$ (142,031)</u>	<u>\$ 844,438</u>

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

1. Basis of Presentation

The consolidated balance sheet of Graco Inc. and Subsidiaries (the "Company") as of March 27, 2020 and the related statements of earnings, comprehensive income and shareholders' equity for the three months ended March 27, 2020 and March 29, 2019, and cash flows for the three months ended March 27, 2020 and March 29, 2019 have been prepared by the Company and have not been audited.

In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of March 27, 2020, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2019 Annual Report on Form 10-K.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. Segment Information

The Company has three reportable segments: Industrial, Process and Contractor. Sales and operating earnings by segment were as follows (in thousands):

	Three Months Ended	
	March 27, 2020	March 29, 2019
<b>Net Sales</b>		
Industrial	\$ 158,684	\$ 189,100
Process	86,078	86,894
Contractor	128,805	128,876
<b>Total</b>	<b>\$ 373,567</b>	<b>\$ 404,870</b>
<b>Operating Earnings</b>		
Industrial	\$ 50,233	\$ 65,203
Process	18,111	20,014
Contractor	28,630	26,539
Unallocated corporate (expense)	(7,162)	(7,229)
<b>Total</b>	<b>\$ 89,812</b>	<b>\$ 104,527</b>

Assets by segment were as follows (in thousands):

	March 27, 2020	December 27, 2019
Industrial	\$ 616,333	\$ 615,486
Process	383,876	387,216
Contractor	396,721	368,832
Unallocated corporate	550,410	320,676
<b>Total</b>	<b>\$ 1,947,340</b>	<b>\$ 1,692,210</b>

Geographic information follows (in thousands):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net Sales (based on customer location)		
United States	\$ 198,243	\$ 202,885
Other countries	175,324	201,985
Total	<u>\$ 373,567</u>	<u>\$ 404,870</u>
	March 27, 2020	December 27, 2019
Long-lived Assets		
United States	\$ 275,513	\$ 268,864
Other countries	56,565	56,682
Total	<u>\$ 332,078</u>	<u>\$ 325,546</u>

### 3. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net earnings available to common shareholders	<u>\$ 72,818</u>	<u>\$ 86,749</u>
Weighted average shares outstanding for basic earnings per share	167,977	165,616
Dilutive effect of stock options computed using the treasury stock method and the average market price	4,665	5,243
Weighted average shares outstanding for diluted earnings per share	<u>172,642</u>	<u>170,859</u>
Basic earnings per share	\$ 0.43	\$ 0.52
Diluted earnings per share	\$ 0.42	\$ 0.51

Stock options to purchase 2,014,000 and 1,681,000 shares were not included in the March 27, 2020 and March 29, 2019 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

### 4. Share-Based Awards

Options on common shares granted and outstanding, as well as the weighted average exercise price, are shown below (in thousands, except exercise prices):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 27, 2019	12,112	\$ 28.91	8,231	\$ 23.75
Granted	1,275	56.30		
Exercised	(1,286)	19.00		
Canceled	(14)	44.47		
Outstanding, March 27, 2020	<u>12,087</u>	\$ 32.84	8,294	\$ 26.19



The Company recognized year-to-date share-based compensation of \$6.3 million in 2020 and \$7.2 million in 2019. As of March 27, 2020, there was \$21.0 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 1.9 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Three Months Ended	
	March 27, 2020	March 29, 2019
Expected life in years	7.5	7.5
Interest rate	1.5%	2.6%
Volatility	21.7%	24.6%
Dividend yield	1.2%	1.4%
Weighted average fair value per share	\$ 12.44	\$ 12.19

Under the Company's Employee Stock Purchase Plan, the Company issued 400,000 shares in 2020 and 398,000 shares in 2019. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Three Months Ended	
	March 27, 2020	March 29, 2019
Expected life in years	1.0	1.0
Interest rate	1.5%	2.6%
Volatility	21.9%	22.7%
Dividend yield	1.4%	1.4%
Weighted average fair value per share	\$ 11.55	\$ 11.36

## 5. Retirement Benefits

The components of net periodic benefit cost for retirement benefit plans were as follows (in thousands):

	Three Months Ended	
	March 27, 2020	March 29, 2019
<b>Pension Benefits</b>		
Service cost	\$ 2,422	\$ 2,009
Interest cost	3,407	3,738
Expected return on assets	(4,750)	(4,359)
Amortization and other	2,721	1,979
Net periodic benefit cost	\$ 3,800	\$ 3,367
<b>Postretirement Medical</b>		
Service cost	\$ 175	\$ 150
Interest cost	248	317
Amortization	177	108
Net periodic benefit cost	\$ 600	\$ 575

## 6. Shareholders' Equity

Changes in components of accumulated other comprehensive income (loss), net of tax were (in thousands):

	Pension and Postretirement Medical	Cumulative Translation Adjustment	Total
<b>Three Months Ended March 27, 2020</b>			
<b>Balance, December 27, 2019</b>	\$ (113,721)	\$ (56,066)	\$ (169,787)
Other comprehensive income (loss) before reclassifications	—	(4,677)	(4,677)
Reclassified to pension cost and deferred tax	2,134	—	2,134
<b>Balance, March 27, 2020</b>	<u>\$ (111,587)</u>	<u>\$ (60,743)</u>	<u>\$ (172,330)</u>
<b>Three Months Ended March 29, 2019</b>			
<b>Balance, December 28, 2018</b>	\$ (86,889)	\$ (57,968)	\$ (144,857)
Other comprehensive income (loss) before reclassifications	—	1,169	1,169
Reclassified to pension cost and deferred tax	1,657	—	1,657
<b>Balance, March 29, 2019</b>	<u>\$ (85,232)</u>	<u>\$ (56,799)</u>	<u>\$ (142,031)</u>

Amounts related to pension and postretirement medical adjustments are reclassified to non-service components of pension cost that are included within other non-operating expenses.

## 7. Inventories

Major components of inventories were as follows (in thousands):

	March 27, 2020	December 27, 2019
Finished products and components	\$ 151,087	\$ 132,128
Products and components in various stages of completion	86,956	86,957
Raw materials and purchased components	114,888	117,026
Subtotal	352,931	336,111
Reduction to LIFO cost	(63,364)	(62,878)
Total	<u>\$ 289,567</u>	<u>\$ 273,233</u>

## 8. Intangible Assets

Components of other intangible assets were (dollars in thousands):

	Finite Life			Indefinite Life	
	Customer Relationships	Patents and Proprietary Technology	Trademarks, Trade Names and Other	Trade Names	Total
As of March 27, 2020					
Cost	\$ 186,310	\$ 20,413	\$ 700	\$ 61,920	\$ 269,343
Accumulated amortization	(84,246)	(11,057)	(444)	—	(95,747)
Foreign currency translation	(11,039)	(931)	—	(3,557)	(15,527)
Book value	\$ 91,025	\$ 8,425	\$ 256	\$ 58,363	\$ 158,069
Weighted average life in years	13	10	4	N/A	
As of December 27, 2019					
Cost	\$ 186,310	\$ 20,413	\$ 1,020	\$ 61,920	\$ 269,663
Accumulated amortization	(80,764)	(10,526)	(650)	—	(91,940)
Foreign currency translation	(10,412)	(885)	(73)	(3,730)	(15,100)
Book value	\$ 95,134	\$ 9,002	\$ 297	\$ 58,190	\$ 162,623
Weighted average life in years	13	10	4	N/A	

Amortization of intangibles for the quarter was \$4.1 million in 2020 and \$3.8 million in 2019. Estimated annual amortization expense based on the current carrying amount of other intangible assets is as follows (in thousands):

	2020	2021	2022	2023	2024	Thereafter
Estimated Amortization Expense	\$ 15,947	\$ 15,750	\$ 15,670	\$ 14,745	\$ 13,208	\$ 28,479

Changes in the carrying amount of goodwill for each reportable segment were (in thousands):

	Industrial	Process	Contractor	Total
Balance, December 27, 2019	\$ 177,112	\$ 110,997	\$ 19,554	\$ 307,663
Foreign currency translation	440	(1,253)	—	(813)
Balance, March 27, 2020	\$ 177,552	\$ 109,744	\$ 19,554	\$ 306,850

Subsequent to the end of the first quarter, the Company completed the acquisition of a business that is not material to the consolidated financial statements.

## 9. Other Current Liabilities

Components of other current liabilities were (in thousands):

	March 27, 2020	December 27, 2019
Accrued self-insurance retentions	\$ 7,600	\$ 7,570
Accrued warranty and service liabilities	12,759	12,785
Accrued trade promotions	6,654	8,390
Payable for employee stock purchases	2,976	13,722
Customer advances and deferred revenue	42,515	33,138
Income taxes payable	12,803	8,706
Right of return refund liability	13,788	13,791
Operating lease liability, current	9,116	7,690
Other	32,866	37,145
Total	<u>\$ 141,077</u>	<u>\$ 142,937</u>

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

Balance, December 27, 2019	\$ 12,785
Charged to expense	1,897
Margin on parts sales reversed	741
Reductions for claims settled	(2,664)
Balance, March 27, 2020	<u>\$ 12,759</u>

## Deferred Revenue

Revenue is deferred when cash payments are received or due in advance of performance, including amounts which are refundable. This is also the case for services associated with certain product sales. The balance in the deferred revenue and customer advances was \$42.5 million as of March 27, 2020 and \$33.1 million as of December 27, 2019. Net sales for the year to date included \$11.3 million in 2020 and \$19.7 million in 2019 that related to deferred revenue as of the beginning of each period.

## 10. Debt

On January 29, 2020, the Company entered into a master note agreement with a sole lender that expires on January 29, 2023. The note agreement sets forth certain terms on which the Company may issue, and affiliates of the lender may purchase, up to \$200 million of the Company's senior notes. Interest on the senior notes will be determined at the time of issuance, at a fixed or LIBOR-based floating rate at the option of the Company, provided that the maximum aggregate principal amount of notes bearing interest at a floating rate may not exceed \$100 million. Fixed rate notes issued under the agreement will mature no longer than 12 years from date of issuance and variable rate notes will mature no longer than 10 years from issuance. Under terms of the note agreement, the Company is required to maintain certain financial ratios as to cash flow leverage and interest coverage similar to the requirements of its other debt agreements. There were no senior notes issued under the note agreement as of March 27, 2020.

In March 2020, the Company borrowed \$250 million under its \$500 million revolving credit facility in order to increase its cash position and preserve financial flexibility. The proceeds from the advance are available to be used for working capital, general corporate or other purposes.

# 11. Fair Value

Assets and liabilities measured at fair value on a recurring basis and fair value measurement level were as follows (in thousands):

	Level	March 27, 2020	December 27, 2019
<b>Assets</b>			
Cash surrender value of life insurance	2	\$ 13,779	\$ 17,702
<b>Liabilities</b>			
Contingent consideration	3	\$ 2,965	\$ 9,072
Deferred compensation	2	4,361	4,719
Forward exchange contracts	2	410	87
<b>Total liabilities at fair value</b>		<b>\$ 7,736</b>	<b>\$ 13,878</b>

Contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans are held in trust. Cash surrender value of the contracts is based on performance measurement funds that shadow the deferral investment allocations made by participants in certain deferred compensation plans. Changes in cash surrender value are recorded in other non-operating expense. The deferred compensation liability balances are valued based on amounts allocated by participants to the underlying performance measurement funds.

Contingent consideration liability represents the estimated value (using a probability-weighted expected return approach) of future payments to be made to previous owners of certain acquired businesses based on future revenues.

Long-term notes payable with fixed interest rates had a carrying amount of \$150 million as of March 27, 2020 and \$150 million as of December 27, 2019, and estimated fair value of \$160 million and \$165 million, respectively. The fair value of variable rate borrowings approximates carrying value. The Company uses significant other observable inputs to estimate fair value (level 2 of the fair value hierarchy) based on the present value of future cash flows and rates that would be available for issuance of debt with similar terms and remaining maturities.

## 12 Recent Accounting Pronouncements

### Adoption of New Accounting Standard

In June 2016, the Financial Accounting Standards Board (FASB) issued a final standard on accounting for credit losses. The new standard is effective for the Company in fiscal 2020 and requires a change in credit loss calculations using the expected loss method. There was no significant impact on earnings or financial condition from the adoption of the new standard.

### Accounting Policy

Receivables reflected in the financial statements represent the net amount expected to be collected. An allowance for credit losses is established based on expected losses. Expected losses are estimated by reviewing individual accounts, considering aging, financial condition of the debtor, recent payment history, current and forecast economic conditions and other relevant factors. The corporate controller group evaluates the adequacy of the worldwide allowance amount quarterly, considering individual account reviews, historical write-offs, current sales levels and expected economic factors.

### Accounts Receivable

Accounts receivable includes trade receivables of \$262 million and other receivables of \$12 million as of March 27, 2020 and \$256 million and \$11 million, respectively, as of December 27, 2019.

### Allowance for Credit Losses

Following is a summary of activity in the allowance for credit losses (in thousands):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Balance, beginning	\$ 4,828	\$ 4,771
Additions charged to costs and expenses	317	30
Deductions from reserves <sup>(1)</sup>	(253)	(836)
Other additions (deductions) <sup>(2)</sup>	(94)	447
Balance, ending	<u>\$ 4,798</u>	<u>\$ 4,412</u>

(1) Represents amounts determined to be uncollectible and charged against reserves, net of collections on accounts previously charged against reserves.

(2) Includes amounts assumed or established in connection with acquisitions and effects of foreign currency translation.

## Item 2. GRACO INC. AND SUBSIDIARIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

The Company supplies technology and expertise for the management of fluids and coatings in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid and coating materials. Management classifies the Company's business into three reportable segments: Industrial, Process and Contractor. Key strategies include developing and marketing new products, leveraging products and technologies into additional, growing end-user markets, expanding distribution globally and completing strategic acquisitions that provide additional channel and technologies.

The following Management's Discussion and Analysis reviews significant factors affecting the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

#### Consolidated Results

A summary of financial results follows (in millions except per share amounts):

	Three Months Ended		
	March 27, 2020	March 29, 2019	% Change
Net Sales	\$ 373.6	\$ 404.9	(8)%
Operating Earnings	89.8	104.5	(14)%
Net Earnings	72.8	86.7	(16)%
Net Earnings, adjusted <sup>(1)</sup>	65.0	80.1	(19)%
Diluted Net Earnings per Common Share	\$ 0.42	\$ 0.51	(18)%
Diluted Net Earnings per Common Share, adjusted <sup>(1)</sup>	\$ 0.38	\$ 0.47	(19)%

(1) See below for a reconciliation of adjusted non-GAAP financial measures to GAAP.

Sales decreased in all segments and regions, including double-digit percentage declines in the EMEA and Asia Pacific regions. Changes in currency translation rates decreased worldwide sales by approximately \$4 million (1 percentage point). Gross margin rate remained relatively strong, and operating expenses decreased by \$3 million (2 percent). Other non-operating expenses increased \$5 million due to market valuation losses on investments held to fund certain retirement benefits liabilities.

Excluding the impact of tax benefits related to stock option exercises and certain tax provision adjustments presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Earnings before income taxes	\$ 82.1	\$ 100.7
Income taxes, as reported	\$ 9.3	\$ 14.0
Excess tax benefit from option exercises	7.8	5.1
Other non-recurring tax benefit	—	1.5
Income taxes, adjusted	\$ 17.1	\$ 20.6
Effective income tax rate		
As reported	11.3%	13.9%
Adjusted	20.8%	20.5%
Net Earnings, as reported	\$ 72.8	\$ 86.7
Excess tax benefit from option exercises	(7.8)	(5.1)
Other non-recurring tax benefit	—	(1.5)
Net Earnings, adjusted	\$ 65.0	\$ 80.1
Weighted Average Diluted Shares	172.6	170.9
Diluted Earnings per Share		
As reported	\$ 0.42	\$ 0.51
Adjusted	\$ 0.38	\$ 0.47

The following table presents an overview of components of net earnings as a percentage of net sales:

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net Sales	100.0%	100.0%
Cost of products sold	46.8	46.6
Gross Profit	53.2	53.4
Product development	4.6	4.1
Selling, marketing and distribution	15.4	15.0
General and administrative	9.2	8.4
Operating Earnings	24.0	25.9
Interest expense	0.6	0.9
Other expense, net	1.4	0.1
Earnings Before Income Taxes	22.0	24.9
Income taxes	2.5	3.5
Net Earnings	19.5%	21.4%



## Net Sales

The following table presents net sales by geographic region (in millions):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Americas <sup>(1)</sup>	\$ 224.8	\$ 232.0
EMEA <sup>(2)</sup>	87.8	99.5
Asia Pacific	61.0	73.4
Consolidated	<u>\$ 373.6</u>	<u>\$ 404.9</u>

(1)North, South and Central America, including the United States

(2)Europe, Middle East and Africa

The following table presents the components of net sales change by geographic region:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	(4)%	1%	0%	(3)%
EMEA	(11)%	1%	(2)%	(12)%
Asia Pacific	(18)%	3%	(2)%	(17)%
Consolidated	(8)%	1%	(1)%	(8)%

## Gross Profit

Gross profit margin rate decreased slightly from the comparable period last year. Strong price realization nearly offset the adverse impacts of lower factory volume, unfavorable product and channel mix, and changes in currency translation rates.

## Operating Expenses

Total operating expenses decreased \$3 million (2 percent) compared to last year. Reductions in volume and earnings-based expenses more than offset increases in product development and occupancy expenses.

## Other Expense

Other expense for the year increased \$5 million from last year, driven by losses on investments used to fund certain retirement benefits liabilities.

## Income Taxes

The effective income tax rate was 11 percent, down approximately 3 percentage points from the comparable period last year. The decrease was due primarily to an increase in excess tax benefits related to stock option exercises, partially offset by the effect of non-recurring tax benefits from other tax planning activities last year.

## Economic Uncertainty

In the first quarter of 2020, the COVID-19 pandemic and related governmental and business responses began to have an adverse effect on our operations, supply chains, distribution channels, and end-user customers.

We manufacture and provide essential products and services to a variety of critical infrastructure customers, and nearly all of our locations worldwide are running and able to fulfill customer orders. Our commercial teams are focused on customer service, maintaining end-user customer contact and providing support to our distributors. Our engineering teams continue to develop and launch new products.

As a result of the pandemic and various governmental orders, a significant number of our employees are working from home, and we have altered our manufacturing operations to allow for appropriate social distancing, hygiene, cleaning and disinfecting. In our supply chain, we have experienced isolated instances of suppliers temporarily closing their operations,

delaying order fulfillment or limiting their production, and we are utilizing alternative supply arrangements as needed. We have also experienced isolated instances of distributors reducing or closing their operations, impacting the ability of some of our end-user customers to procure our products through our traditional distribution channels. Some of our end-user customers are delaying projects, deferring capital equipment purchases, and/or eliminating in-person sales meetings. In addition, trade shows, industry events and product demonstrations have been cancelled during a critical selling season. As a result, our selling activities and our ability to convert those activities into sales have been and we expect will continue to be adversely impacted by the pandemic. We will continue to manage our working capital, such as receivables and inventory, to align with customer needs and changes in demand for our products and services.

Incoming order rates have declined by approximately 30 percent since the middle of March, on an organic, constant currency basis. Operating cash flows and available liquidity are sufficient to support operations at current order rates (see Liquidity and Capital Resources below).

## Segment Results

Certain measurements of segment operations compared to last year are summarized below:

### Industrial Segment

The following table presents net sales and operating earnings as a percentage of sales for the Industrial segment (dollars in millions):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net Sales		
Americas	\$ 74.4	\$ 80.9
EMEA	46.2	58.1
Asia Pacific	38.1	50.1
Total	\$ 158.7	\$ 189.1
Operating earnings as a percentage of net sales	32%	34%

The following table presents the components of net sales change by geographic region for the Industrial segment:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	(8)%	0%	0%	(8)%
EMEA	(19)%	0%	(1)%	(20)%
Asia Pacific	(22)%	0%	(2)%	(24)%
Segment Total	(15)%	0%	(1)%	(16)%

Industrial segment sales declined in all regions with the spread of worldwide government actions that severely reduced economic activity in major geographies. Improved gross margin rate in this segment, from realized pricing and favorable product and channel mix, offset the adverse impact of changes in translation rates. Decreases in operating expenses did not keep pace with the drop in sales volume, driving operating earnings as a percentage of sales down compared to last year.

## Process Segment

The following table presents net sales and operating earnings as a percentage of sales for the Process segment (dollars in millions):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net Sales		
Americas	\$ 55.1	\$ 57.1
EMEA	15.8	15.8
Asia Pacific	15.2	14.0
Total	\$ 86.1	\$ 86.9
Operating earnings as a percentage of net sales	21%	23%

The following table presents the components of net sales change by geographic region for the Process segment:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	(6)%	2%	0%	(4)%
EMEA	(7)%	8%	(1)%	0%
Asia Pacific	(3)%	15%	(3)%	9%
Segment Total	(6)%	5%	0%	(1)%

Process segment sales decreased slightly, with sales from acquired operations nearly offsetting volume declines in organic businesses. Lower volume, higher product costs, unfavorable channel and product mix, and lower operating margins of acquired operations combined to decrease operating earnings as a percentage of sales.

## Contractor Segment

The following table presents net sales and operating earnings as a percentage of sales for the Contractor segment (dollars in millions):

	Three Months Ended	
	March 27, 2020	March 29, 2019
Net Sales		
Americas	\$ 95.3	\$ 94.0
EMEA	25.8	25.6
Asia Pacific	7.7	9.3
Total	\$ 128.8	\$ 128.9
Operating earnings as a percentage of net sales	22%	21%

The following table presents the components of net sales change by geographic region for the Contractor segment:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	2%	0%	(1)%	1%
EMEA	3%	0%	(2)%	1%
Asia Pacific	(14)%	0%	(4)%	(18)%
Segment Total	1%	0%	(1)%	0%

Contractor segment sales increased by 1 percent at consistent currency translation rates, with favorable response to new product offerings and continued stability in construction markets in the Americas and EMEA. This segment saw a marked reduction in orders during the latter part of March that offset solid revenue gains earlier in the quarter. Operating margin rate increased by 1 percentage point, driven by strong realized pricing, favorable product and channel mix, and expense leverage.

### **Liquidity and Capital Resources**

Net cash provided by operating activities totaled \$54 million in the first quarter of 2020, \$4 million higher than the comparable period of 2019. Purchases of Company common stock totaling \$82 million in 2020 were partially offset by net proceeds from shares issued totaling \$37 million. Other significant uses of cash included dividend payments of \$29 million and property, plant and equipment additions of \$19 million. The Company may make additional opportunistic share purchases going forward. Subsequent to the end of the first quarter, the Company completed the acquisition of a business that is not material to the consolidated financial statements.

In March 2020, the Company borrowed \$250 million under its \$500 million revolving credit facility in order to increase its cash position and preserve financial flexibility. The proceeds from the advance are available to be used for working capital, general corporate or other purposes.

Significant uses of cash in 2019 included cash dividends of \$26 million, property, plant and equipment additions of \$30 million and business acquisitions of \$5 million. Proceeds from shares issued in the first quarter of 2019 totaled \$25 million, partially offset by \$2 million of payments for shares repurchased in 2018 and settled in 2019.

At March 27, 2020, the Company had various lines of credit totaling \$594 million, of which \$300 million was unused. In addition to its lines of credit, under the terms of a master note agreement with a sole lender expiring in January 2023, the Company may issue up to \$200 million of senior notes. Interest on the notes will be determined at the time of issuance, at a fixed or LIBOR-based floating rate at the option of the Company, provided that the maximum aggregate principal amount of notes bearing interest at a floating rate may not exceed \$100 million. Fixed rate notes issued under the agreement will mature no longer than 12 years from date of issuance and variable rate notes will mature no longer than 10 years from date of issuance.

Cash balances and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2020, including its capital expenditure plan, planned dividends, share repurchases, acquisitions and operating requirements.

### **Outlook**

Due to economic uncertainty, we are withdrawing our 2020 revenue guidance for the remainder of the year. While the current environment presents unforeseen challenges, for now our playbook remains the same. In the short term, Graco is well positioned financially and strategically to operate without making major changes that would adversely impact our key stakeholders. We will continue to monitor what is happening in our end markets and may adjust our approach if warranted by facts. We are confident that our loyal customer base, strong management team and business model position us well for the long term.

### **Cautionary Statement Regarding Forward-Looking Statements**

The Company desires to take advantage of the “safe harbor” provisions regarding forward-looking statements of the Private Securities Litigation Reform Act of 1995 and is filing this Cautionary Statement in order to do so. From time to time various forms filed by our Company with the Securities and Exchange Commission, including our Form 10-K, Form 10-Qs and Form 8-Ks, and other disclosures, including our 2019 Overview report, press releases, earnings releases, analyst briefings, conference calls and other written documents or oral statements released by our Company, may contain forward-looking statements. Forward-looking statements generally use words such as “expect,” “foresee,” “anticipate,” “believe,” “project,” “should,” “estimate,” “will,” and similar expressions, and reflect our Company’s expectations concerning the future. All forecasts and projections are forward-looking statements. Forward-looking statements are based upon currently available information, but various risks and uncertainties may cause our Company’s actual results to differ materially from those expressed in these statements. The Company undertakes no obligation to update these statements in light of new information or future events.

Future results could differ materially from those expressed due to the impact of changes in various factors. These risk factors include, but are not limited to: the impact of the COVID-19 pandemic on our business; economic conditions in the United States and other major world economies; our Company’s growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; the ability to meet our customers’ needs and changes in product demand; supply interruptions or delays; security breaches; new entrants who copy our products or infringe on our intellectual property; risks incident to conducting business internationally; catastrophic events; changes in laws and regulations; compliance with anti-corruption and trade laws; changes in tax rates or the adoption of new tax legislation; the possibility of asset impairments if acquired businesses do not meet performance expectations; political instability; results of and costs associated with litigation, administrative proceedings and regulatory reviews incident to our business; our ability to attract, develop and retain qualified personnel; the possibility of decline in purchases from a few large customers of the Contractor segment; and variations in activity in the construction, automotive, mining and oil and natural gas industries. Please refer to Item 1A of our Annual Report on Form 10-K for fiscal year 2019 and Item 1A of this Form 10-Q for a more comprehensive discussion of these and other risk factors. These reports are available on the Company’s website at [www.graco.com](http://www.graco.com) and the Securities and Exchange Commission’s website at [www.sec.gov](http://www.sec.gov). Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

Investors should realize that factors other than those identified above and in Item 1A might prove important to the Company’s future results. It is not possible for management to identify each and every factor that may have an impact on the Company’s operations in the future as new factors can develop from time to time.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes related to market risk from the disclosures made in the Company’s 2019 Annual Report on Form 10-K.

### **Item 4. Controls and Procedures**

#### **Evaluation of disclosure controls and procedures**

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company’s President and Chief Executive Officer and the Chief Financial Officer and Treasurer. Based upon that evaluation, the Company’s President and Chief Executive Officer and the Chief Financial Officer and Treasurer concluded that the Company’s disclosure controls and procedures are effective.

#### **Changes in internal controls**

During the quarter, there was no change in the Company’s internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company’s internal control over financial reporting.

## PART II OTHER INFORMATION

### Item 1A. Risk Factors

Except as noted below, there have been no material changes to the Company's risk factors from those disclosed in the Company's 2019 Annual Report on Form 10-K.

**Coronavirus Disease 2019 (COVID-19) - The COVID-19 pandemic has adversely affected our business and results of operations, and could have a material and adverse effect on our business, results of operations and financial condition in the future.**

In March of 2020, the World Health Organization declared the COVID-19 outbreak a pandemic, and the President of the United States declared the outbreak a national emergency. In response to the COVID-19 pandemic, federal, provincial, state, county and local governments and public health organizations or authorities around the world have implemented a variety of measures intended to control the spread of the virus, including quarantines, "shelter-in-place," "stay-at-home" and similar orders, travel restrictions, school closures, business curtailments and closures, social distancing and hygiene requirements, and other measures.

We manufacture and provide essential products and services to a variety of critical infrastructure customers around the globe, and we intend to continue providing our products and services to these customers. However, the COVID-19 pandemic and related governmental and business responses have begun to have, and will likely continue to have, an adverse effect on our operations, supply chains, distribution channels, and end-user customers. For example, as a result of the pandemic and various governmental orders, a significant number of our employees are currently working from home, and we have substantially altered our manufacturing operations to allow for appropriate social distancing and hygiene, which could lead to decreased efficiency and productivity in our workforce and our operations. In our supply chain, we have experienced isolated instances of suppliers temporarily closing their operations, delaying order fulfillment or limiting their production due to the pandemic, and we are utilizing alternative supply arrangements where appropriate or necessary, which may lead to increased costs and delays. Similarly, we have experienced isolated instances of distributors reducing or closing their operations, impacting the ability of some of our end-user customers to procure our products through our traditional distribution channels. Some of our end-user customers are delaying projects, deferring capital equipment purchases, and/or eliminating in-person sales meetings. In addition, trade shows, industry events and product demonstrations have been cancelled and are continuing to be cancelled during a critical selling season. As a result, our selling activities and our ability to convert those activities into actual sales have been and will continue to be adversely impacted by the pandemic. In addition, management is focused on mitigating the effects of the COVID-19 pandemic, which has required and will continue to require a large investment of time, energy, resources and focus.

The extent to which the COVID-19 pandemic impacts us will depend on numerous evolving factors and future developments that are uncertain and that we are not able to predict, including: the severity of the virus; the duration and scope of the pandemic; governmental, business, individual and other actions taken in response to the pandemic; the effect on our suppliers and distributors, and disruptions to the global supply chain; the impact on economic activity; the extent and duration of the impact on consumer and business confidence and spending; the effect on our end-user customers and their demand and buying patterns for our products and services; the effect of any closures or other changes in operations of our and our suppliers', distributors' and end-user customers' facilities; the health of and the effect on our employees and our ability to meet staffing needs in our manufacturing and distribution facilities and other critical functions, particularly if employees become ill, are quarantined as a result of exposure, or are reluctant to show up for work; our ability to sell our products and services and provide product support, including as a result of travel restrictions, work from home requirements and arrangements, and other restrictions or changes in behavior or preferences for interactions; the effect on employee healthcare costs under our self-insurance programs; restrictions or disruptions to transportation, including reduced availability of ground, sea or air transport; the ability of our distributors and end-user customers to pay for our products and services; the potential effects on our internal controls, including those over financial reporting, as a result of changes in working arrangements that are applicable to our employees and business partners; and the effect on our ability to access capital on favorable terms and continue to meet our liquidity needs, all of which are highly uncertain and cannot be predicted. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of any economic recession that has occurred or may occur in the future. The COVID-19 pandemic could also exacerbate or trigger other risks discussed in our 2019 Annual Report on Form 10-K, any of which could have a material and adverse effect on our business, results of operations and financial condition.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Issuer Purchases of Equity Securities

On April 24, 2015, the Board of Directors authorized the Company to purchase up to 18,000,000 shares of its outstanding common stock, primarily through open-market transactions. There were approximately 3.3 million shares remaining under the authorization on December 7, 2018, when the board of Directors authorized the purchase of up to an additional 18 million shares. The authorizations are for an indefinite period of time or until terminated by the Board.

In addition to shares purchased under the Board authorizations, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax due upon exercise of options or vesting of restricted stock.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Dec 28, 2019 - Jan 24, 2020	835	\$ 52.00	—	20,844,131
Jan 25, 2020 - Feb 21, 2020	—	\$ —	—	20,844,131
Feb 22, 2020 - Mar 27, 2020	2,064,830	\$ 43.58	2,064,830	18,779,301

## Item 6. Exhibits

- 3.1 Restated Articles of Incorporation as amended December 8, 2017. ([Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K filed December 8, 2017.](#))
- 3.2 Restated Bylaws as amended February 14, 2014. ([Incorporated by reference to Exhibit 3.2 to the Company's 2013 Annual Report on Form 10-K.](#))
- 10.1 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to Chief Executive Officer under the Graco Inc. 2019 Stock Incentive Plan in 2020. ([Incorporated by reference to Exhibit 10.21 to the Company's 2019 Annual Report on Form 10-K.](#))
- 10.2 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. 2019 Stock Incentive Plan in 2020. ([Incorporated by reference to Exhibit 10.22 to the Company's 2019 Annual Report on Form 10-K.](#))
- 10.3 Master Note Agreement, dated January 29, 2020, between Graco Inc. and NYL Investors LLC. ([Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed February 3, 2020.](#))
- [10.4](#) Amendment No. 5 dated as of April 17, 2020 to Note Agreement dated as of March 11, 2011.
- [10.5](#) Fifth Amendment to Credit Agreement dated as of April 17, 2020, amending the Credit Agreement among Graco Inc., the borrowing subsidiaries from time to time party thereto, the banks from time to time party thereto and U.S. Bank National Association, as administrative agent.
- [31.1](#) Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
- [31.2](#) Certification of Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a).
- [32](#) Certification of President and Chief Executive Officer and Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C.
- [99.1](#) Press Release Reporting First Quarter Earnings dated April 22, 2020.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline eXtensible Business Reporting Language).
- 104 Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).

## SIGNATURES

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

### GRACO INC.

Date:	<u>April 22, 2020</u>	By:	<u>/s/ Patrick J. McHale</u> Patrick J. McHale President and Chief Executive Officer (Principal Executive Officer)
Date:	<u>April 22, 2020</u>	By:	<u>/s/ Mark W. Sheahan</u> Mark W. Sheahan Chief Financial Officer and Treasurer (Principal Financial Officer)
Date:	<u>April 22, 2020</u>	By:	<u>/s/ Caroline M. Chambers</u> Caroline M. Chambers Executive Vice President, Corporate Controller and Information Systems (Principal Accounting Officer)



April 17, 2020

Graco Inc.  
88 11<sup>th</sup> Avenue NE  
Minneapolis, Minnesota 55413

Re: Amendment No. 5 to Note Agreement

Ladies and Gentlemen:

Reference is made to that certain Note Agreement, dated as of March 11, 2011 (as amended by the Amendment and Restatement of Amendment No. 1 to Note Agreement, dated as of March 27, 2012, by the Amendment No. 2 to Note Agreement, dated as of June 26, 2014, by the Amendment No. 3 to Note Agreement, dated as of December 15, 2016, and by the Amendment No. 4 to Note Agreement, dated as of May 23, 2017, the “**Note Agreement**”), between Graco Inc., a Minnesota corporation (the “**Company**”), on the one hand, and The Prudential Insurance Company of America, Gibraltar Life Insurance Co., Ltd., The Prudential Life Insurance Company, Ltd., Forethought Life Insurance Company, RGA Reinsurance Company, MTL Insurance Company and Zurich American Insurance Company, on the other hand. Capitalized terms used herein and not otherwise defined herein shall have the meanings assigned to such terms in the Note Agreement.

The Company has requested an amendment to the Note Agreement set forth below. Subject to the terms and conditions hereof, the undersigned holders of the Notes are willing to agree to such request. Accordingly, and in accordance with the provisions of paragraph 11C of the Note Agreement, the parties hereto agree as follows:

**SECTION 1. Amendment to the Note Agreement.** Effective upon the Effective Date (as defined in Section 2 below), the parties hereto agree that the Note Agreement is amended as follows:

1.1 Paragraph 4F of the Note Agreement is hereby amended and restated in its entirety to read as follows:

**4F. No Acquisition of Notes.** The Company shall not, and shall not permit any of its Subsidiaries or Affiliates to, prepay or otherwise retire in whole or in part prior to their stated final maturity (other than by prepayment pursuant to paragraph 4B or upon acceptance of an offer to prepay pursuant to paragraph 4E or upon acceleration of such final maturity pursuant to paragraph 7A), or purchase or otherwise acquire, directly or indirectly, Notes of any Series held by any holder unless the Company or such Subsidiary or Affiliate shall have offered to prepay or otherwise retire or purchase or otherwise acquire, as the case may be, the same proportion of the aggregate principal amount of

Notes of such Series held by each other holder of Notes of such Series at the time outstanding upon the same terms and conditions; provided, however, that if at the time of such offer and after giving effect thereto, a Default under paragraph 7A(ii) or any Event of Default shall be in existence, then the Notes of such Series shall not be prepaid or otherwise retired or purchased or otherwise acquired unless the Company makes an offer pursuant to this paragraph 4F to the holders of Notes of each Series on a pro rata basis in accordance with the respective outstanding principal amounts thereof. Any Notes so prepaid or otherwise retired or purchased or otherwise acquired by the Company or any of its Subsidiaries or Affiliates shall not be deemed to be outstanding for any purpose under this Agreement.

1.2 Clause (iv) and the last paragraph of paragraph 5A of the Note Agreement are hereby amended and restated in their entirety to read as follows:

(iv) immediately upon a Responsible Employee (a) becoming aware of the occurrence, with respect to any Plan, of any Reportable Event (other than a Reportable Event for which the reporting requirements have been waived by PBGC regulations as in effect on the date of this Agreement) or any material "prohibited transaction" (as defined in Section 4975 of the Code), which, in either case, is material to the Company and its Subsidiaries, a notice specifying the nature thereof and what action the Company proposes to take with respect thereto, and, when received, copies of any notice from PBGC of intention to terminate or have a trustee appointed for any Plan or (b) receiving notice of the imposition of a Material financial penalty (which for this purpose shall mean any tax, penalty or other liability, whether by way of indemnity or otherwise) with respect to one or more Non-U.S. Plans;

Together with each delivery of financial statements required by clauses (i) and (ii) above, the Company will deliver to each Significant Holder an Officer's Certificate demonstrating (with computations in reasonable detail) compliance by the Company and its Subsidiaries with the provisions of paragraphs 6A(1), 6A(2), 6C(vii), 6F and 6I(ix) and stating that there exists no Event of Default or Default, or, if any Event of Default or Default exists, specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto. In the event that the Company or any Subsidiary has made an election to measure any financial liability using fair value (which election is being disregarded for purposes of determining compliance with this Agreement pursuant to paragraph 10C) as to the period covered by any such financial statement, such Officer's Certificate as to such period shall include a reconciliation from GAAP with respect to such election. The Company also covenants that immediately after any Responsible Employee obtains knowledge of an Event of Default or Default, it will deliver to each Significant Holder an Officer's Certificate specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto.

1.3. Paragraph 7A of the Note Agreement is hereby amended by amending and restating clauses (iv), (v), (vi) and (xii) in their entirety to read as follows:

(iv) (a) any representation or warranty made by the Company herein or by the Company or any of its officers in any writing furnished in connection with or pursuant to this Agreement shall be false or misleading in any material respect on the date as of which made or (b) any representation or warranty made by a Guarantor herein or by a Guarantor or any of its officers in any writing furnished in connection with or pursuant to its Guaranty Agreement shall be false or misleading in any material respect on the date as of which made; or

(v) the Company fails to perform or observe any agreement contained in paragraph 4E, the last sentence of the last paragraph of paragraph 5A or paragraph 6; or

(vi) the Company or any Guarantor fails to perform or observe any agreement, term or condition contained herein (other than those referred to in paragraphs 7A(i), (ii) and (v)) or in a Guaranty Agreement and such failure shall not be remedied within 30 days after the earlier of (a) a Responsible Employee obtaining actual knowledge of such failure or (b) notice of such failure being given to the Company by any holder of any Note; or

(xii) one or more final judgments or orders in an aggregate amount in excess of \$25,000,000 is rendered against the Company or any Material Subsidiary, including any final order enforcing a binding arbitration decision, and either (a) enforcement proceedings have been commenced by any creditor upon any such judgment or (b) within 60 days after entry thereof, any such judgment or order is not discharged or execution thereof stayed pending appeal, or within 60 days after the expiration of any such stay, such judgment or order is not discharged; or

1.4. Paragraph 10B of the Note Agreement is hereby amended by amending and restating or adding, as applicable, the following definitions:

**“Credit Agreement”** shall mean that certain Credit Agreement dated as of May 23, 2011, among the Company, the Borrowing Subsidiaries defined therein, the Banks named therein, U.S. Bank National Association, as Administrative Agent, and JPMorgan Chase Bank N.A., as Syndication Agent, as amended by First Amendment thereof dated March 27, 2012, Omnibus Amendment thereof dated June 26, 2014, Third Amendment thereof dated December 15, 2016, Fourth Amendment thereof dated May 23, 2017 and Fifth Amendment thereof dated April 17, 2020, and as such agreement is further amended, restated, supplemented or otherwise modified or extended, renewed or refinanced from time to time.

**“ERISA Event”** shall mean one of the following that, alone or together with any other event described in clauses (i) through (x) that have occurred, could reasonably be expected to result in a Material Adverse Effect or the imposition of a Lien under Title IV of ERISA: (i) the institution by the Company or any ERISA Affiliate of steps to terminate any Plan if in order to effectuate such termination, the Company or any ERISA Affiliate would be required to make a contribution to such Plan, or would incur a liability or obligation to such Plan, if such contribution or such liability or obligation would constitute a Material Adverse Effect, (ii) the institution by the PBGC of steps to terminate

any Plan, (iii) the Company or any ERISA Affiliate fails to make a contribution payment to a Plan on or before the applicable due date which could result in the imposition of a Lien under Section 430(k) of the Code or Section 303(k) of ERISA, (iv) the occurrence of any Reportable Event, (v) the failure of any Plan to satisfy the “minimum funding standard”, as defined in Section 412(a) of the Code or Section 302(a) of ERISA for a plan year, whether or not waived, (vi) the filing pursuant to Section 412(c) of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan, (vii) the incurrence by the Company or any ERISA Affiliates of any withdrawal liability under ERISA, or the receipt by the Company or any ERISA Affiliate of any notice that a multiemployer plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA, (viii) the aggregate present value of accrued benefit liabilities under all funded Non-U.S. Plans exceeds the aggregate current value of the assets of such Non-U.S. Plans allocable to such liabilities by more than \$50,000,000 (or the equivalent amount in the relevant currencies of payment), (ix) the Company or any Subsidiary fails to administer or maintain a Non-U.S. Plan in compliance with the requirements of any and all applicable laws, statutes, rules, regulations or court orders or any Non-U.S. Plan is involuntarily terminated or wound up, or (x) the Company or any Subsidiary becomes subject to the imposition of a financial penalty (which for this purpose shall mean any tax, penalty or other liability, whether by way of indemnity or otherwise) with respect to one or more Non-U.S. Plans.

**“Non-U.S. Plan”** shall mean any plan, fund or other similar program that (i) is established or maintained outside the United States by the Company or any Subsidiary primarily for the benefit of employees of the Company or one or more Subsidiaries residing outside the United States, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and (ii) is not subject to ERISA or the Code.

**“Primary Credit Facility”** shall mean (i) the Credit Agreement, (ii) the Master Note Agreement dated as of January 29, 2020, between the Company, NYL Investors LLC and each New York Life Affiliate (as defined therein) that becomes bound by certain provisions thereof, (iii) any other working capital facility of the Company providing for a revolving line of credit having a stated maximum outstanding amount greater than \$20,000,000 and (iv) any private placement transaction for the issuance of notes entered into by the Company after April 17, 2020. In no event shall the credit provided pursuant to this Agreement and the Notes be deemed a Primary Credit Facility.

**SECTION 2. Effectiveness.** The amendment in Section 1 of this letter agreement shall become effective as of April 17, 2020 (the **“Effective Date”**) when each of the following conditions has been satisfied:

2.1 **Documents.** Each holder of a Note shall have received original counterparts or electronic copies of this letter agreement executed by the holders of the Notes, the Company and each Guarantor.

2.2 Amended and Restated Intercreditor Agreement. Each holder of a Note shall have received original counterparts or electronic copies of the Amended and Restated Intercreditor and Collateral Agency Agreement, dated as of April 17, 2020 in form and substance satisfactory to each holder of a Note and such agreement shall be in full force and effect.

2.3. Credit Agreement Amendment. Each holder of a Note shall have received copies of an executed amendment to or restatement of the Credit Agreement in form and substance satisfactory to each holder of a Note and such amendment or restatement shall be in full force and effect.

2.4. Representations. All representations set forth in Section 3 shall be true and correct as of the Effective Date, except for such representations and warranties that speak of an earlier date, in which case such representations and warranties shall be true and correct as of such earlier date.

2.5. Proceedings. All corporate and other proceedings taken or to be taken in connection with the transactions contemplated by this letter agreement shall be satisfactory to each holder of a Note and its counsel, and each holder of a Note shall have received all such counterpart originals or certified or other copies of such documents as they may reasonably request.

**SECTION 3. Representations and Warranties**. The Company represents and warrants to each holder of a Note that (i) the execution and delivery of this letter agreement has been duly authorized by all necessary corporate action on behalf of the Company and each Guarantor, this letter agreement has been executed and delivered by a duly authorized officer of the Company and each Guarantor, and all necessary or required consents to and approvals of this letter have been obtained and are in full force and effect, (ii) immediately before and after giving effect to the amendment to the Note Agreement in Section 1 hereof, (a) each representation and warranty set forth in paragraph 8 of the Note Agreement is true and correct other than those representations and warranties that speak as of a certain date, in which case such representation and warranty was true and correct as of such earlier date and (b) no Event of Default or Default exists and (iii) neither the Company, any Guarantor nor any of their Subsidiaries has paid or agreed to pay, or will pay or agree to pay, any fees or other consideration other than upfront fees, arrangement fees, commitment fees, extension fees and administrative fees relating to the extension of the commitments thereunder and other than reimbursement of legal fees, costs and expenses in accordance with the terms thereof, with respect to the amendment to the Credit Agreement referenced in Section 2.3 above.

**SECTION 4. Reference to and Effect on Note Agreement**. Upon the effectiveness of the amendment made in this letter agreement, each reference to the Note Agreement in any other document, instrument or agreement shall mean and be a reference to the Note Agreement as modified by this letter agreement. Except as specifically set forth in Section 1 hereof, the Note Agreement and the Notes shall remain in full force and effect and are hereby ratified and confirmed in all respects. Except as specifically stated in Section 1 of this letter agreement, the execution, delivery and effectiveness of this letter agreement shall not (a) amend the Note Agreement, any Note or any other Transaction Document, (b) operate as a waiver of any right, power or remedy of the holder of any Note, or (c) constitute a waiver of, or consent to any

departure from, any provision of the Note Agreement, any Note or any of the other Transaction Documents at any time. The execution, delivery and effectiveness of this letter agreement shall not be construed as a course of dealing or other implication that any holder of Notes has agreed to or is prepared to grant any amendment to, waiver of or consent under the Note Agreement, any Note or any other Transaction Document in the future, whether or not under similar circumstances.

**SECTION 5. Expenses.** The Company hereby confirms its obligations under the Note Agreement, whether or not the transactions hereby contemplated are consummated, to pay, promptly after request by the holders of the Notes, all reasonable out-of-pocket costs and expenses, including attorneys' fees and expenses, incurred by such holders in connection with this letter agreement or the transactions contemplated hereby, in enforcing any rights under this letter agreement, or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this letter agreement or the transactions contemplated hereby. The obligations of the Company under this Section 5 shall survive transfer by any holder of any Note and payment of any Note.

**SECTION 6. Reaffirmation.** Each Guarantor hereby consents to the foregoing amendment to the Note Agreement and hereby ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under the Guaranty Agreement after giving effect to such amendment. Each Guarantor hereby acknowledges that, notwithstanding the foregoing amendment, that the Guaranty Agreement remains in full force and effect and is hereby ratified and confirmed. Without limiting the generality of the foregoing, each Guarantor agrees and confirms that the Guaranty Agreement continues to guaranty the obligations arising under or in connection with the Note Agreement, as the same may be amended by this letter agreement.

**SECTION 7. Governing Law.** THIS LETTER AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH THE INTERNAL LAWS OF THE STATE OF ILLINOIS, WITHOUT REGARD TO PRINCIPLES OF CONFLICT OF LAWS OF SUCH STATE WHICH WOULD OTHERWISE CAUSE THIS LETTER TO BE CONSTRUED OR ENFORCED OTHER THAN IN ACCORDANCE WITH THE LAWS OF THE STATE OF ILLINOIS.

**SECTION 8. Counterparts; Section Titles.** This letter agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which when taken together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this letter agreement by facsimile or electronic transmission shall be effective as delivery of a manually executed counterpart of this letter agreement. The section titles contained in this letter agreement are and shall be without substance, meaning or content of any kind whatsoever and are not a part of the agreement between the parties hereto.

*(Signature Page Follows)*

Very truly yours,

**THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**

By: /s/ J. Alex Stuart  
Vice President

**GIBRALTAR LIFE INSURANCE CO., LTD.  
THE PRUDENTIAL LIFE INSURANCE  
COMPANY, LTD.**

By: Prudential Investment Management Japan  
Co., Ltd., as Investment Manager

By: PGIM, Inc.,  
as Sub-Adviser

By: /s/ J. Alex Stuart  
Vice President

**RGA REINSURANCE COMPANY  
ZURICH AMERICAN INSURANCE COMPANY**

By: Prudential Private Placement Investors, L.P.  
(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.  
(as its General Partner)

By: /s/ J. Alex Stuart  
Vice President

Accepted and Agreed to:

**GRACO INC.**

By: /s/ Mark W. Sheahan

Name: Mark W. Sheahan

Title: Chief Financial Officer and Treasurer

**GRACO MINNESOTA INC.**

By: /s/ Caroline M. Chambers

Name: Caroline M. Chambers

Title: Chief Financial Officer and Treasurer

**GEMA USA INC.**

**GRACO HIGH PRESSURE EQUIPMENT INC.**

**Q.E.D. ENVIRONMENTAL SYSTEMS, INC.**

**WHITE KNIGHT FLUID HANDLING INC.**

**(formerly known as Graco Fluid Handling (A) Inc.)**

By: /s/ Mark W. Sheahan

Name: Mark W. Sheahan

Title: President



## FIFTH AMENDMENT TO CREDIT AGREEMENT

THIS FIFTH AMENDMENT TO CREDIT AGREEMENT (this "Amendment"), is entered into as of April 17, 2020, with an effective date as of the Fifth Amendment Effective Date (as defined below), by and among GRACO INC. (the "Company"), the Banks (as defined in the Credit Agreement) signatory hereto and U.S. Bank National Association, as administrative agent for the Banks (in such capacity, the "Agent"). Capitalized terms used herein but not defined herein shall have the meaning given such terms in the Credit Agreement (as defined below).

W I T N E S S E T H

WHEREAS, the Company, the Borrowing Subsidiaries party thereto from time to time, the Banks and the Agent are party to that certain Credit Agreement, dated as of May 23, 2011 (as amended, restated, supplemented, or otherwise modified prior to the date hereof, the "Credit Agreement");

WHEREAS, the Company has requested that certain modifications be made to the Credit Agreement, the Intercreditor Agreement and the Pledge Agreement; and

WHEREAS, the Banks party hereto have agreed to amend the Credit Agreement, the Intercreditor Agreement and the Pledge Agreement on the terms and conditions set forth herein.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree to amend the Credit Agreement, the Intercreditor Agreement and the Pledge Agreement as follows:

SECTION 1. Amendments. Effective as of the Fifth Amendment Effective Date (as defined in Section 2 below), but subject to the satisfaction of the conditions precedent set forth in Section 2 below,

(a) the definition of "Senior Note Agreements" in Section 1.1 of the Credit Agreement is hereby amended in its entirety as follows:

"Senior Note Agreements" means (i) the Note Agreement, dated as of March 11, 2011, evidencing a \$300,000,000 note facility, by and among the Company, The Prudential Life Insurance Company of America and certain other Senior Noteholders from time to time party thereto, (ii) the Master Note Agreement, dated as of January 29, 2020, setting forth certain terms with respect to a \$200,000,000 note facility, by and among the Company, NYL Investors LLC and certain other Senior Noteholders from time to time party thereto, and (iii) one or more other Note Agreements executed from time to time by and among the Company and the Senior Noteholders party thereto, so long as the aggregate principal amount of the loans advanced under such Note Agreements does not exceed \$75,000,000, in each case together with the agreements, documents and instruments delivered together therewith, and in each case as each of the same may be amended, restated, supplemented, or modified from time to time, or as the same may be refinanced or replaced from time to time.

(b) The Intercreditor Agreement is hereby amended and restated in its entirety pursuant to Exhibit A hereto.

(c) The Pledge Agreement is hereby amended and restated in its entirety pursuant to Exhibit B hereto.

SECTION 2. Conditions of Effectiveness. This Amendment shall become effective as of April 17, 2020 (the "Fifth Amendment Effective Date") when, and only when:

(d) the Agent shall have received counterparts of this Amendment duly executed by the Company, the Required Banks and the Agent;

(e) the Agent shall have received a fully executed and effective copy of the Intercreditor Agreement, as amended and restated pursuant to Exhibit A hereto;

(f) the Agent shall have received a fully executed and effective copy of the Pledge Agreement, as amended and restated pursuant to Exhibit B hereto;

(g) all of the Agent's accrued costs, fees and expenses through the date hereof shall be fully paid;

(h) the Senior Note Agreement to which The Prudential Life Insurance Company is a party shall have been amended in a manner satisfactory to the Agent; and

(i) the Agent shall have received fully executed and effective copies of the Senior Note Documents to which NYL Investors LLC is subject.

SECTION 3. Representations and Warranties; No Default or Event of Default. Each of the parties hereto represents and warrants that this Amendment and the Credit Agreement, as amended by this Amendment, constitute legal, valid and binding obligations of such party enforceable against such party in accordance with their terms, except as enforceability may be limited by bankruptcy, insolvency or similar laws affecting the enforcement of creditors' rights generally and general equitable principles. This Amendment shall constitute a Loan Document. The Company agrees and confirms that no Default or Event of Default is or shall be outstanding immediately before and after giving effect to this Amendment.

SECTION 4. Reaffirmation. The Company hereby ratifies and reaffirms its duties and obligations under the Loan Documents to which it is a party and its pledge of stock or Ownership Interests of Foreign Subsidiaries under the Pledge Agreement.

SECTION 5. Reference to and the Effect on the Credit Agreement.

(j) On and after the Fifth Amendment Effective Date, each reference in the Credit Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import referring to the Credit Agreement and each reference to the Credit Agreement in any certificate delivered in connection therewith, shall mean and be a reference to the Credit Agreement as amended hereby.

(k) Each of the parties hereto hereby agrees that, except as specifically amended above, the Credit Agreement is hereby ratified and confirmed and shall continue to be in full force and effect and enforceable, except as such enforcement may be limited by applicable bankruptcy, insolvency, reorganization or other similar laws relating to or limiting creditors' rights generally and general equitable principles.

(l) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Agent or the Banks, nor constitute a waiver of any provision of the Credit Agreement or any other documents, instruments and agreements executed and/or delivered in connection therewith.

SECTION 6. Headings. Section headings in this Amendment are included herein for convenience only and shall not constitute a part of this Amendment for any other purpose.

SECTION 7. Execution in Counterparts. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any of the parties hereto may execute this Amendment by signing any such counterpart. Delivery of an executed counterpart of a signature page to this Amendment by facsimile or by e-mail transmission of a PDF or similar copy shall be equally as effective as delivery of an original executed counterpart of this Amendment.

SECTION 8. Governing Law. The validity, construction and enforceability of this Amendment shall be governed by the internal laws of the State of Minnesota, without giving effect to conflict of laws principles thereof, but giving effect to federal laws of the United States applicable to national banks.

SECTION 9. Expenses. The Company agrees to pay on demand all reasonable out-of-pocket costs and expenses of the Agent (including, without limitation, the reasonable fees and expenses of outside counsel to the Agent) incurred in connection with the preparation, negotiation and execution of this Amendment and any other document required to be furnished herewith.

SECTION 10. Severability. Any provision of this Amendment which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

SECTION 11. Successors; Enforceability. The terms and provisions of this Amendment shall be binding upon the Borrowers, the Agent and the Banks and their respective successors and assigns, and shall inure to the benefit of the Borrowers, the Agent and the Banks and the successors and assigns of the Agent and the Banks.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed by their respective authorized signatories as of the day and year first above written.

GRACO INC.

By: /s/ Mark W. Sheahan

Name: Mark W. Sheahan

Title: Chief Financial Officer and Treasurer

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

U.S. BANK NATIONAL ASSOCIATION  
as Agent and a Bank

By: /s/ Tim Landro  
Name: Tim Landro  
Title: Senior Vice President

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

JPMORGAN CHASE BANK, N.A.  
as a Bank

By: /s/ Suzanne Ergastolo  
Name: Suzanne Ergastolo  
Title: Executive Director

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

WELLS FARGO BANK, NATIONAL ASSOCIATION  
as a Bank

By: /s/ Mark H. Halldorson  
Name: Mark H. Halldorson  
Title: Director

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

BANK OF AMERICA, N.A.  
as a Bank

By: /s/ Chad Kardash  
Name: Chad Kardash  
Title: Vice President

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*



PNC BANK, NATIONAL ASSOCIATION  
as a Bank

By: /s/ Donna Benson

Name: Donna Benson

Title: Assistant Vice President

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

CITIZENS BANK, N.A.  
as a Bank

By: /s/ Darran Wee

Name: Darran Wee

Title: Senior Vice President

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

ING BANK N.V., DUBLIN BRANCH  
as a Bank

By: /s/ Sean Hassett  
Name: Sean Hassett  
Title: Director

By: /s/ Pádraig Matthews  
Name: Pádraig Matthews  
Title: Director

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

THE NORTHERN TRUST COMPANY  
as a Bank

By: /s/ Molly Drennan  
Name: Molly Drennan  
Title: Senior Vice President

*Signature Page to  
Fifth Amendment to Graco Credit Agreement*

EXHIBIT A

Intercreditor Agreement, as amended and restated

Attached

## AMENDED AND RESTATED INTERCREDITOR AND COLLATERAL AGENCY AGREEMENT

This Amended and Restated Intercreditor and Collateral Agency Agreement (this “**Agreement**”), dated as of April 17, 2020, is entered into by and among (i) U.S. Bank National Association, as the administrative agent under the below-defined Bank Credit Agreement (the “**Bank Agent**”), (ii) U.S. Bank National Association, as the collateral agent appointed pursuant to the terms and conditions hereof (the “**Collateral Agent**”), (iii) The Prudential Insurance Company of America, Gibraltar Life Insurance Co., Ltd., The Prudential Life Insurance Company, Ltd., and Zurich American Insurance Company (each, together with its successors and permitted assigns, and any other holder of any Prudential Senior Notes, a “**Prudential Noteholder**”, and collectively the “**Prudential Noteholders**”, and (iv) NYL Investors LLC (each, together with its successors and permitted assigns, and any other holder of any NY Life Senior Notes, a “**NY Life Noteholder**”, and collectively the “**NY Life Noteholders**”; the Prudential Noteholders and the NY Life Noteholders, together, the “**Noteholders**”, and each, a “**Noteholder**”).

### WITNESSETH:

**WHEREAS**, Graco Inc. (the “**Company**”), the institutions from time to time party thereto as lenders (the “**Banks**”), and the Bank Agent are parties to a Credit Agreement dated as of May 23, 2011 (as the same has been amended and as the same may be amended, restated, supplemented or otherwise modified from time to time, the “**Bank Credit Agreement**”);

**WHEREAS**, the Company and the Prudential Noteholders are party to that certain Note Agreement, dated as of March 11, 2011 (as the same has been amended and as the same may be amended, restated, supplemented or otherwise modified from time to time, the “**Prudential Note Purchase Agreement**”), pursuant to which the Company has issued or may issue certain senior notes from time to time (as the same have been or may be amended, restated, supplemented or otherwise modified from time to time, the “**Prudential Senior Notes**”);

**WHEREAS**, the Company and the NY Life Noteholders are party to that certain Master Note Agreement, dated as of January 29, 2020 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “**NY Life Note Purchase Agreement**”; together with the Prudential Note Purchase Agreement, the “**Note Purchase Agreements**”), pursuant to which the Company may from time to time issue certain senior notes (as the same have been or may be amended, restated, supplemented or otherwise modified from time to time, the “**NY Life Senior Notes**”; together with the Prudential Senior Notes, the “**Senior Notes**”);

**WHEREAS**, the Banks and the Noteholders (together with the Bank Agent, the “**Creditors**”) have provided or will provide the Company with various loans, extensions of credit and financial accommodations under the below-defined Senior Indebtedness Documents (collectively, the “**Senior Indebtedness**”);

**WHEREAS**, in order to make and continue making and extending such loans, extensions of credit and financial accommodations, the Creditors have required that the Company

and certain of its subsidiaries (collectively, the “**Grantors**”) guaranty and/or secure the Obligations (as hereafter defined);

**WHEREAS**, the Creditors wish to appoint the Collateral Agent to hold all security interests and liens granted by the Grantors in respect of the Obligations; and

**WHEREAS**, the Creditors wish to agree upon certain matters in respect of the Senior Indebtedness, including, without limitation, payment priorities and the application of Collateral (as defined below) proceeds;

**NOW, THEREFORE**, for the above reasons, in consideration of the mutual covenants herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

**1. Definitions.**

For the purposes of this Agreement, the following terms shall have the meanings specified with respect thereto below. Any plural term that is used herein in the singular shall be taken to mean each entity or item of the defined class and any singular term that is used herein in the plural shall be taken to mean all of the entities or items of the defined class, collectively.

“**Affiliate**” of any Person shall mean any other Person which directly or indirectly controls, is controlled by or is under common control with such first Person. A Person shall be deemed to control a corporation or other entity if such Person possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of such corporation or other entity, whether through the ownership of voting securities, by contract or otherwise.

“**Collateral**” shall mean all property and assets, and interests in property and assets, upon or in which the Grantors have granted a lien or security interest to the Collateral Agent to secure all or any part of the Obligations.

“**Collateral Agent Expenses**” shall mean, without limitation, all costs and expenses incurred by the Collateral Agent in connection with the performance of its duties under this Agreement, including the realization upon or protection of the Collateral or enforcing or defending any lien upon or security interest in the Collateral or any other action taken in accordance with the provisions of this Agreement, expenses incurred for legal counsel (including reasonable allocated costs of staff counsel) in connection with the foregoing, and any other costs, expenses or liabilities incurred by the Collateral Agent for which the Collateral Agent is entitled to be reimbursed or indemnified by any Grantor pursuant to this Agreement or any Collateral Document or by the Creditors pursuant to this Agreement.

“**Collateral Documents**” shall mean all agreements, documents and instruments (including, without limitation, all pledge agreements, security agreements, mortgages, collateral assignments, financing statements, and other perfection documents) entered into, delivered or authorized from time to time by any Grantor in favor of the Collateral Agent in respect of the Obligations or otherwise entered into, delivered or authorized from time to time by a Grantor to

secure all or any part of the Obligations, as each may be amended, restated, supplemented or otherwise modified from time to time.

**“Enforcement”** shall mean:

(a) for the Bank Agent or any Bank to make demand for payment of or accelerate the time for payment prior to the scheduled payment date of any loan, extension of credit or other financial accommodation under the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith or to call for funding of cash collateral for any Letter of Credit prior to being presented with a draft drawn thereunder (or in the event the draft is a time draft, prior to its due date), in each case on account of an “Event of Default” under and as defined in the Bank Credit Agreement;

(b) for any Noteholder to make demand for payment of or accelerate the time for payment prior to the scheduled payment date of any loan, extension of credit or other financial accommodation under its Note Purchase Agreement, its Senior Notes, or the agreements, documents and instruments delivered in connection therewith;

(c) for the Bank Agent or any Bank to terminate its commitment to extend loans or other financial accommodations, including issuances of Letters of Credit, to the Company or any other Grantor prior to the final scheduled payment date for all Obligations thereunder or prior to the scheduled termination date for such commitment (as such scheduled termination date is in effect on the date hereof or, if later, such date to which any such scheduled termination date may hereafter be extended), in each case on account of an “Event of Default” under and as defined in the Bank Credit Agreement;

(d) for the Bank Agent or any Bank to commence judicial enforcement of any rights or remedies under or with respect to the Obligations, the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith, or to set off against any balances held by the Bank Agent or such Bank for the account of any Grantor or any other property at any time held or owing by the Bank Agent or such Bank to or for the credit or account of any Grantor;

(e) for any Noteholder to commence judicial enforcement of any rights or remedies under or with respect to the Obligations, its Note Purchase Agreement, its Senior Notes, or any agreement, document or instrument delivered in connection therewith, or, if applicable, to set off against or appropriate any balances held by such Noteholder for the account of any Grantor or any other property at any time held or owing by such Noteholder to or for the credit or account of any Grantor;

(f) for the Collateral Agent to commence the judicial enforcement of any rights or remedies under any Collateral Document (other than an action solely for the purpose of establishing or defending the lien or security interest intended to be created by any Collateral Document upon or in any Collateral as against or from claims of third parties on or in such Collateral), to setoff against any balances held by it for the account of any Grantor or any other property at any time held or owing by it to or for the credit or for the account of any Grantor or to otherwise take



any action to realize upon the Collateral (provided, however, that “Enforcement” shall not include the Bank Agent’s charging of the Company’s deposit account for non-accelerated amounts due in the ordinary course pursuant to the Bank Credit Agreement); or

(g) the commencement by, against or with respect to any Grantor of any proceeding under any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law or for the appointment of a receiver for any Grantor or its assets.

“**Event of Default**” shall mean (i) an “Event of Default” under and as defined in the Bank Credit Agreement, (ii) an “Event of Default” under and as defined in either Note Purchase Agreement, or (iii) any event, occurrence or action (or any failure to take any of the foregoing) that permits or automatically results in the acceleration of the repayment of any amount of Obligations under a Senior Indebtedness Document.

“**Insolvent Entity**” shall mean any entity that has (i) become or is insolvent or has a parent company that has become or is insolvent or (ii) become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment or has a parent company that has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee or custodian appointed for it, or has taken any action in furtherance of, or indicating its consent to, approval of or acquiescence in any such proceeding or appointment.

“**L/C Interests**” shall mean, with respect to any Bank, such Bank’s direct or participation interests in all unpaid reimbursement obligations with respect to Letters of Credit, and such Bank’s direct obligations or risk participations with respect to undrawn amounts of all outstanding Letters of Credit; provided, that the undrawn amounts of outstanding Letters of Credit shall be considered to have been reduced to the extent of any amount on deposit with the Collateral Agent at any time as provided in Section 5(b) hereof.

“**Letters of Credit**” shall mean all letters of credit issued under the Bank Credit Agreement.

“**Obligation Share**” shall mean, with respect to any Creditor at any time, a fraction (expressed as a percentage), the numerator of which is the amount of Obligations owing to such Creditor at such time, and the denominator of which is the aggregate amount of all Obligations owing to all of the Creditors at such time.

“**Obligations**” shall mean each and every monetary obligation owed by a Grantor to the Creditors and the Collateral Agent under the Senior Indebtedness Documents, including, without limitation, (1) the outstanding principal amount of, accrued and unpaid interest on, and any unpaid Yield-Maintenance Amount or other breakage or prepayment indemnification due with respect to Senior Indebtedness, (2) any unpaid reimbursement obligations with respect to any Letters of Credit, (3) any undrawn amounts of any outstanding Letters of Credit, and (4) any other unpaid amounts including amounts in respect of hedging obligations, foreign exchange obligations and

treasury and cash management obligations permitted under the Senior Indebtedness Documents, and fees, expenses, indemnifications, and reimbursements due from the Grantors under any of the Senior Indebtedness Documents; provided that the undrawn amounts of any outstanding Letters of Credit shall be considered to have been reduced to the extent of any amount on deposit with the Collateral Agent at any time as provided in Section 5(b) hereof. The term “Obligations” shall include all of the foregoing indebtedness, liabilities and obligations whether or not allowed as a claim in any bankruptcy, insolvency, receivership or similar proceeding.

**“Person”** shall mean any individual, corporation, partnership, limited liability company, trust or other entity.

**“Principal Exposure”** shall mean, with respect to any Creditor at any time, (i) if such Creditor is a Bank, the aggregate amount of such Bank’s commitments to extend revolving credit (including letters of credit) under the Bank Credit Agreement plus, to the extent any term loans have been extended, the principal amount of such term loans, or, if the Banks shall then have terminated their commitments to extend credit under the Bank Credit Agreement, the sum of (x) the outstanding principal amount of all of such Bank’s loans under the Bank Credit Agreement and (y) the outstanding face amount and/or principal amount of such Bank’s L/C Interests at such time, and (ii) if such Creditor is a Noteholder, the outstanding principal amount of such Creditor’s Senior Notes at such time.

**“Pro Rata Share”** shall mean, with respect to any Creditor at any time, a fraction, expressed as a percentage, the numerator of which is the amount of such Creditor’s Principal Exposure at such time, and the denominator of which is the aggregate amount of Principal Exposure of all of the Creditors of the same class (i.e. Banks, Prudential Noteholders or NY Life Noteholders, as applicable) at such time.

**“Pro Rata Expenses Share”** shall mean, with respect to any Creditor at any time, a fraction, expressed as a percentage, the numerator of which is the amount of such Creditor’s Principal Exposure at such time, and the denominator of which is the aggregate amount of Principal Exposure of all Creditors at such time.

**“Qualified Creditor”** shall mean any Creditor which is not an Affiliate of any Grantor.

**“Required Creditors”** shall mean, at any time, (i) Banks whose Pro Rata Shares represent greater than 50% of the aggregate Principal Exposure of all of the Banks, (ii) Prudential Noteholders whose Pro Rata Shares represent greater than 50% of the aggregate Principal Exposure of all of the Prudential Noteholders and (iii) NY Life Noteholders whose Pro Rata Shares represent greater than 50% of the aggregate Principal Exposure of all of the NY Life Noteholders; provided, however, that only Pro Rata Shares of Senior Indebtedness held by Qualified Creditors shall be included in this determination; provided, further, that if at any time Obligations owing to Banks, the Prudential Noteholders or the NY Life Noteholders, as the case may be, are less than both (A) \$1,000,000, and (B) 10% of the aggregate Obligations (the Banks, the Prudential Noteholders or the NY Life Noteholders, as the case may be, a **“Deminimis Group”**), then the Required Creditors shall be determined without regard to clause (i) if the Deminimis Group is the Banks, clause (ii) if

the Deminimis Group is the Prudential Noteholders and clause (iii) if the Deminimis Group is the NY Life Noteholders.

**“Senior Indebtedness Documents”** shall mean the Senior Notes, the Bank Credit Agreement, the Note Purchase Agreements and the agreements, documents and instruments delivered in connection with any or all of the foregoing (as each may be amended, restated, supplemented or otherwise modified from time to time).

**“Specified Provisions”** shall mean any of the terms relating to (i) amounts or timing of payment of interest or fees, (ii) terms relating to required payments or prepayments of any Obligations, (iii) financial and negative covenants set forth in the Senior Indebtedness Documents (including paragraph 6 of the Prudential Note Purchase Agreement, paragraph 6 of the NY Life Note Purchase Agreement and Article IX of the Bank Credit Agreement), (iv) covenants relating to the operations of the Company or its subsidiaries, (v) Events of Default, and (vi) definitions as used in any of the foregoing.

**“Yield-Maintenance Amount”** shall mean the “Yield-Maintenance Amount” as defined in either Note Purchase Agreement.

## **2. Appointment of Collateral Agent.**

(a) Appointment of Collateral Agent. Subject in all respects to the terms and provisions of this Agreement, the Bank Agent, for itself and on behalf of the Banks, and the Noteholders hereby appoint U.S. Bank National Association to act as collateral agent for the benefit of the Creditors (the **“Collateral Agent”**) with respect to the liens upon and the security interests in the Collateral and the rights and remedies granted under and pursuant to the Collateral Documents, and U.S. Bank National Association hereby accepts such appointment and agrees to act as such collateral agent. The agency created by this Section 2 shall in no way impair or affect any of the rights and powers of, or impart any duties or obligations upon, U.S. Bank National Association in its individual capacity as a lender or creditor under any Senior Indebtedness Document. To the extent legally necessary to enable the Collateral Agent to enforce or otherwise foreclose and realize upon any of the liens or security interests in the Collateral in any legal proceeding which the Collateral Agent either commences or joins as a party in accordance with the terms of this Agreement, each of the Creditors agrees to join as a party in such proceeding and take such action therein concurrently to enforce and obtain a judgment for the payment of the Obligations held by it.

(b) Duties of Collateral Agent. Subject to the Collateral Agent having been directed to take such action in accordance with the terms of this Agreement, each Creditor hereby irrevocably authorizes the Collateral Agent to take such action on its behalf under the provisions of the Collateral Documents and any other instruments, documents and agreements referred to in the Collateral Documents and to exercise such powers under the Collateral Documents as are specifically delegated to the Collateral Agent by the terms of the Collateral Documents and such other powers as are reasonably incidental thereto. Subject to the provisions of Section 11 of this Agreement, the Collateral Agent is hereby irrevocably authorized to take all actions on behalf of the Creditors to enforce the rights and remedies of the Collateral Agent and the Creditors provided for in the Collateral Documents or by applicable law with respect to the liens upon and security

interests in the Collateral granted to secure the Obligations or the other rights and remedies granted to the Collateral Agent pursuant thereto, provided, however, that, notwithstanding any provision to the contrary in any Collateral Documents, (i) the Collateral Agent shall act solely at and in accordance with the written direction of the Required Creditors, (ii) the Collateral Agent shall not, without the written consent of all of the Qualified Creditors, release or terminate by affirmative action or consent any lien upon or security interest in any Collateral granted under any Collateral Documents (except (x) upon (1) dispositions of Collateral by a Grantor and (2) removal of the Material Subsidiary (as defined in the Bank Credit Agreement) designation of a Subsidiary (as defined in the Bank Credit Agreement), in each case as permitted in accordance with the terms of all of the Senior Indebtedness Documents and prior to the occurrence of an Event of Default, (y) upon disposition of such Collateral after an Event of Default pursuant to direction given under clause (i) of this Section 2(b) and (z) to the extent authorized under the provisions of the last sentence of Section 12.1 of the Bank Credit Agreement, paragraph 11V of the Prudential Note Purchase Agreement and paragraph 11V of the NY Life Note Purchase Agreement), and (iii) the Collateral Agent shall not accept any Obligations in whole or partial consideration for the disposition of any Collateral without the written consent of all of the Qualified Creditors. The Collateral Agent agrees to make such demands and give such notices under the Collateral Documents as may be requested by, and to take such action to enforce the Collateral Documents and to foreclose upon, collect and dispose of the Collateral or of the Collateral Documents as may be directed by, the Required Creditors; provided, however, that the Collateral Agent shall not be required to take any action that is contrary to law or the terms of the Collateral Documents or this Agreement. Once a direction to take any action has been given by the Required Creditors to the Collateral Agent, and subject to any other directions which may be given from time to time by the Required Creditors, decisions regarding the manner in which any such action is to be implemented and conducted (with the exception of any decision to settle, compromise or dismiss any legal proceeding, with or without prejudice) shall be made by the Collateral Agent, with the assistance and upon the advice of its counsel. Notwithstanding the provisions of the preceding sentence, any decision to settle, compromise or dismiss any legal proceeding, with or without prejudice, which implements, approves or results in or has the effect of causing any release, change or occurrence, where such release, change or occurrence otherwise would require unanimous approval of all of the Qualified Creditors pursuant to the terms of this Agreement, also shall require the unanimous approval of all of the Qualified Creditors.

(c) Requesting Instructions. The Collateral Agent may at any time request directions from the Creditors as to any course of action or other matter relating to the performance of its duties under this Agreement and the Collateral Documents, and the Creditors shall respond to such request in a reasonably prompt manner.

(d) Emergency Actions. If the Collateral Agent has asked the Required Creditors for instructions following the receipt of any notice of an Event of Default and if the Required Creditors have not responded to such request within 30 days, the Collateral Agent shall be authorized to take such actions with regard to such Event of Default which the Collateral Agent, in good faith, believes to be reasonably required to protect the Collateral from damage or destruction; provided, however, that once instructions have been received from the Required Creditors, the actions of the Collateral Agent shall be governed thereby and the Collateral Agent shall not take any further action which would be contrary to such instructions.

(e) Collateral Document Amendments. Except as provided in Section 2(b)(ii) of this Agreement, an amendment, supplement, modification, restatement or waiver of any provision of any Collateral Document, any consent to any departure by any Grantor from any such provision, or the execution or acceptance by the Collateral Agent of any Collateral Document not in effect on the date of this Agreement shall be effective if, and only if, consented to in writing by the Required Creditors (with the understanding that the Collateral Documents that are identified in Exhibit A hereto are hereby approved by the Required Creditors); provided, however, that, (i) no such amendment, supplement, modification, restatement, waiver, consent or such Collateral Document not in effect on the date of this Agreement which imposes any additional responsibilities upon the Collateral Agent shall be effective without the written consent of the Collateral Agent, and (ii) no such amendment, supplement, modification, waiver or consent shall release any Collateral from the lien or security interest created by any Collateral Document not subject to the exception in Section 2(b)(ii) of this Agreement or narrow the scope of the property or assets in which a lien or security interest is granted pursuant to any Collateral Document or change the description of the obligations secured thereby without the written consent of all Qualified Creditors.

(f) Administrative Actions. The Collateral Agent shall have the right to take such actions under this Agreement and under the Collateral Documents, not inconsistent with the instructions of the Required Creditors or the terms of the Collateral Documents and this Agreement, as the Collateral Agent deems necessary or appropriate to perfect or continue the perfection of the liens on the Collateral for the benefit of the Creditors.

(g) Collateral Agent Acting Through Others. The Collateral Agent may perform any of its duties under this Agreement and the Collateral Documents by or through attorneys (which attorneys may be the same attorneys who represent any Creditor), agents or other persons reasonably deemed appropriate by the Collateral Agent. In addition, the Collateral Agent may act in good faith reliance upon the opinion or advice of attorneys selected by the Collateral Agent. In all cases the Collateral Agent may pay reasonable fees and expenses of all such attorneys, agents or other persons as may be employed in connection with the performance of its duties under this Agreement and the Collateral Documents.

(h) Resignation of Collateral Agent.

(i) The Collateral Agent (A) may resign at any time upon notice to the Creditors, and (B) may be removed at any time upon the written request of the Required Creditors sent to the Collateral Agent and the other Creditors. For the purposes of any determination of Required Creditors under this Section 2(h)(i), the Pro Rata Share of any Insolvent Entity shall be disregarded.

(ii) If the Collateral Agent shall resign or be removed, the Required Creditors shall have the right to select a replacement Collateral Agent by notice to the Collateral Agent and the other Creditors.

(iii) Upon any replacement of the Collateral Agent, the Collateral Agent shall assign all of the liens upon and security interests in all Collateral under the Collateral Documents, and all right, title and interest of the Collateral Agent under all the Collateral

Documents, to the replacement Collateral Agent, without recourse to the Collateral Agent or any Creditor and at the expense of the Company.

(iv) No resignation or removal of the Collateral Agent shall become effective until a replacement Collateral Agent shall have been selected as provided in this Agreement and shall have assumed in writing the obligations of the Collateral Agent under this Agreement and under the Collateral Documents. In the event that a replacement Collateral Agent shall not have been selected as provided in this Agreement or shall not have assumed such obligations within 90 days after the resignation or removal of the Collateral Agent, then the Collateral Agent may apply to a court of competent jurisdiction for the appointment of a replacement Collateral Agent.

(v) Any replacement Collateral Agent shall be a bank, trust company, or insurance company having capital, surplus and undivided profits of at least \$250,000,000.

(i) Indemnification of Collateral Agent. Each Grantor, by its consent to this Agreement, hereby agrees to indemnify and hold the Collateral Agent, its officers, directors, employees and agents (including, but not limited to, any attorneys acting at the direction or on behalf of the Collateral Agent) harmless against any and all costs, claims, damages, penalties, liabilities, losses and expenses (including, but not limited to, court costs and reasonable attorneys' fees) which may be incurred by or asserted against the Collateral Agent or any such officers, directors, employees and agents by reason of its status as agent under this Agreement or which pertain, whether directly or indirectly, to this Agreement, the Collateral Documents, or to any action or failure to act of the Collateral Agent as agent hereunder, except to the extent any such action or failure to act by the Collateral Agent constitutes gross negligence, willful misconduct or a breach of this Agreement. The obligations of the Grantor under this Section 2(i) shall survive the payment in full of the Obligations and the termination of this Agreement.

(j) Liability of Collateral Agent. In the absence of gross negligence, willful misconduct or a breach of this Agreement, the Collateral Agent will not be liable to any Creditor for any action or failure to act or any error of judgment, negligence, mistake or oversight on its part or on the part of any of its officers, directors, employees or agents. To the extent not paid by any Grantor, each Creditor hereby severally, and not jointly, agrees to indemnify and hold the Collateral Agent and each of its officers, directors, employees and agents (collectively, **"Indemnitees"**) harmless from and against any and all liabilities, costs, claims, damages, penalties, losses and actions of any kind or nature whatsoever (including, without limitation, the reasonable fees and disbursements of counsel for any Indemnatee) incurred by or asserted against any Indemnatee arising out of or in relation to this Agreement or the Collateral Documents or its status as agent under this Agreement or any action taken or omitted to be taken by any Indemnatee pursuant to and in accordance with any of the Collateral Documents and this Agreement, except to the extent arising from the gross negligence, willful misconduct or breach of this Agreement, with each Creditor being liable only for its Pro Rata Expenses Share of any such indemnification liability. The obligations of the Creditors under this Section 2(j) shall survive the payment in full of the Obligations and the termination of this Agreement.

(k) **No Reliance on Collateral Agent.** Neither the Collateral Agent nor any of its officers, directors, employees or agents (including, but not limited to, any attorneys acting at the direction or on behalf of the Collateral Agent) shall be deemed to have made any representations or warranties, express or implied, with respect to, nor shall the Collateral Agent or any such officer, director, employee or agent be liable to any Creditor or responsible for (i) any warranties or recitals made by any Grantor in the Collateral Documents or any other agreement, certificate, instrument or document executed by any Grantor in connection with the Collateral Documents, (ii) the due or proper execution or authorization of this Agreement or any Collateral Documents by any party other than the Collateral Agent, or the effectiveness, enforceability, validity, genuineness or collectability as against any Grantor of any Collateral Document or any other agreement, certificate, instrument or document executed by any Grantor in connection with any Collateral Document, (iii) the present or future solvency or financial worth of any Grantor, or (iv) the value, condition, existence or ownership of any of the Collateral or the perfection of any lien upon or security interest in the Collateral (whether now or hereafter held or granted) or the sufficiency of any action, filing, notice or other procedure taken or to be taken to perfect, attach or vest any lien or security interest in the Collateral. Except as may be required by Section 2(b) of this Agreement, the Collateral Agent shall not be required, either initially or on a continuing basis, to (A) make any inquiry, investigation, evaluation or appraisal respecting, or enforce performance by any Grantor of, any of the covenants, agreements or obligations of any Grantor under any Collateral Document, or (B) undertake any other actions (other than actions expressly required to be taken by it under this Agreement). Nothing in any of the Collateral Documents, expressed or implied, is intended to or shall be so construed as to impose upon the Collateral Agent any obligations, duties or responsibilities except as set forth in this Agreement and in the Collateral Documents. The Collateral Agent shall be protected in acting upon any notice, request, consent, certificate, order, affidavit, letter, telegram, telecopy or other paper or document given to it by any person reasonably and in good faith believed by it to be genuine and correct and to have been signed or sent by such person. The Collateral Agent shall have no duty to inquire as to the performance or observance of any of the terms, covenants or conditions of any of the Senior Indebtedness Documents. Except upon the direction of the Required Creditors pursuant to Section 2(b) of this Agreement, the Collateral Agent shall not be required to inspect the properties or books and records of any Grantor for any purpose, including to determine compliance by any Grantor with its covenants respecting the perfection of security interests.

**3. Lien Priorities.** The parties to this Agreement expressly agree that the security interests and liens granted to the Collateral Agent shall secure the Obligations on a pari passu basis for the benefit of the Creditors and that, notwithstanding the relative priority or the time of grant, creation, attachment or perfection under applicable law of any security interests and liens, if any, of the Creditors upon or in any of the Collateral to secure any Obligations, whether such security interests and liens are now existing or hereafter acquired or arising and whether such security interests and liens are in or upon now existing or hereafter arising Collateral, such security interests and liens shall be first and prior security interests and liens (subject to security interests and liens permitted by the Senior Indebtedness Documents) in favor of the Collateral Agent to secure all of the Obligations on a pari passu basis for the benefit of the Creditors.

**4. Certain Notices.** Each of the Collateral Agent and each Creditor agrees to use its best efforts to give to the others (a) copies of any notice of the occurrence or existence of an

Event of Default sent to any Grantor, simultaneously with the sending of such notice to such Grantor, (b) notice of the occurrence or existence of an Event of Default of which such party has knowledge, promptly after obtaining knowledge thereof, (c) notice of the refusal of any Bank to make any loan or extension of credit pursuant to the terms of any Senior Indebtedness Document, promptly after such refusal, and (d) notice of an Enforcement by such party (excluding an Enforcement approved by the Required Creditors as required by this Agreement), prior to commencing such Enforcement, but the failure to give any of the foregoing notices shall not affect the validity of such notice of an Event of Default given to a Grantor or create a cause of action against or cause a forfeiture of any rights of the party failing to give such notice or create any claim or right on behalf of any third party. The Collateral Agent agrees to deliver to each Creditor a copy of each notice or other communication received by it under any Collateral Document as soon as practicable after receipt of such notice or communication and a copy of any Collateral Document executed after the date of this Agreement as soon as practicable after the execution thereof.

**5. Distribution of Proceeds of Collateral and Payments and Collections After Enforcement.**

(a) On and after the occurrence of an Event of Default (unless such Event of Default has been waived pursuant to the terms of the Bank Credit Agreement with the consent of the holders of a majority of the outstanding principal amount of the Senior Notes issued under each Note Purchase Agreement (in the case of an Event of Default under the Bank Credit Agreement) or waived pursuant to the terms of the applicable Note Purchase Agreement with the consent of the Required Lenders as defined in the Bank Credit Agreement (in the case of an Event of Default under a Note Purchase Agreement) and the holders of a majority of the outstanding principal amount of the Senior Notes issued under the other Note Purchase Agreement), all proceeds of Collateral held or received by the Collateral Agent or any Creditor and any other collections or payments received, directly or indirectly, by the Collateral Agent or any Creditor on or with respect to any Obligations (including, without limitation, any amount of any balances held by the Collateral Agent or any Creditor for the account of any Grantor or any other property held or owing by it to or for the credit or for the account of any Grantor setoff or appropriated by it, any payment under any guaranty constituting a Senior Indebtedness Document, any payment in an insolvency or reorganization proceeding and the proceeds from any sale of any Obligations or any interest therein to any Grantor or any Affiliate of any Grantor, but excluding, except as otherwise provided in paragraph (b) of this Section 5, amounts on deposit in the Special Cash Collateral Account provided for in paragraph (b) of this Section 5) shall be delivered to the Collateral Agent and distributed as follows:

(i) First, to the Collateral Agent in the amount of any unpaid Collateral Agent Expenses;

(ii) Next, to the extent proceeds remain, to the Creditors in the amount of any unreimbursed amounts paid by the Creditors to any Indemnatee pursuant to Section 2(j) of this Agreement, pro rata in proportion to the respective unreimbursed amounts thereof paid by each Creditor; and



(iii) Next, to the extent proceeds remain, to each Creditor an amount equal to its Obligation Share of such proceeds in respect of Obligations owing to it under the Senior Indebtedness Documents.

Notwithstanding the foregoing, with respect to any collections or payments received by any Creditor on or after the occurrence of an Event of Default but prior to the date of the occurrence of an Enforcement, (1) such collections and payments shall be subject to the distribution provisions of clauses (i) through (iii), above, only to the extent that the principal amount of the Obligations owed to such Creditor on the date of such Enforcement is less than the principal amount of the Obligations owed to such Creditor on the date of such Event of Default, and (2) the amount of any such collections and payments subject to the distribution provisions of clause (i) through (iii) above, in accordance with clause (1) shall not be so distributed until the date of the occurrence of such Enforcement. For the purposes of the preceding sentence, any collection or payment received by the Bank Agent on behalf of the Banks shall be considered to have been received by the Banks, and applied to pay the Obligations owed to the Banks, to which such payment or collection relates whether or not distributed by the Bank Agent to the Banks.

After the Obligations have been finally paid in full in cash, the balance of proceeds of the Collateral, if any, shall be paid to any Grantor or as otherwise required by law.

(b) Any payment pursuant to clause (a)(iii) above with respect to undrawn amounts of outstanding Letters of Credit shall be paid to the Collateral Agent for deposit in an account (the “**Special Cash Collateral Account**”) to be held as collateral for the Obligations and disposed of as provided herein. On each date after the occurrence of an Enforcement on which a payment is made to a beneficiary pursuant to a draw on a Letter of Credit, the Collateral Agent shall distribute from the Special Cash Collateral Account for application to the payment of the reimbursement obligation due to the Banks with respect to such draw an amount equal to the product of (1) the amount then on deposit in the Special Cash Collateral Account, and (2) a fraction, the numerator of which is the amount of such draw and the denominator of which is the aggregate undrawn amount of all outstanding Letters of Credit immediately prior to such draw. On each date after the occurrence of an Enforcement on which a reduction in the undrawn amount of any outstanding Letter of Credit occurs other than on account of a payment made to a beneficiary pursuant to a draw on a Letter of Credit, then the Collateral Agent shall distribute from the Special Cash Collateral Account an amount equal to the product of (1) the amount then on deposit in the Special Cash Collateral Account and (2) a fraction the numerator of which is the amount of such reduction and the denominator of which is the aggregate undrawn amount of all outstanding Letters of Credit immediately prior to such reduction, which amount shall be distributed as provided in clauses (a)(i) through (iii) above. At such time as the undrawn amount of outstanding Letters of Credit is reduced to zero, any amount remaining in the Special Cash Collateral Account, after the distribution therefrom as provided above, shall be distributed as provided in clauses (a)(i) through (iii) above.

(c) Any re-allocations of any payments or distributions initially made or received on any Obligations due to payments and transfers among the Creditors and the Collateral Agent under this Section 5 shall be deemed to reduce the Obligations of any Creditor receiving any such

payment or other transfer under this Section 5 and shall be deemed to restore and reinstate the Obligations of any Creditor making any such payment or other transfer under this Section 5, in each case by the amount of such payment and other transfer; provided that if for any reason such restoration and reinstatement shall not be binding against the Company or any other Grantor, then the Creditors and the Collateral Agent agree to take such actions as shall have the effect of placing them in the same relative positions as they would have been if such restoration and reinstatement had been binding against the Company and the other Grantors.

**6. Certain Credit Extensions and Amendments to Agreements by the Creditors; Actions Related to Collateral; Other Liens, Security Interests and Guaranties.**

(a) The Bank Agent, on its behalf and on behalf of the Banks, agrees that, without the prior written consent of Noteholders holding a majority of the outstanding principal amount of the Senior Notes under each Note Purchase Agreement, it will not (i) amend, modify, supplement or restate, or waive (A) any Specified Provision if the effect of such amendment, modification, supplement, restatement, or waiver causes any Specified Provision to become more restrictive with respect to the Company or any subsidiary thereof or (B) any other provision of the Bank Credit Agreement or any agreement, document or instrument delivered in connection therewith, if any Grantor makes any payment or gives any other financial accommodation (other than reimbursement of out-of-pocket expenses and customary amendment fees) in connection therewith, (ii) except for any guarantees securing all of the Obligations constituting Senior Indebtedness Documents, retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to all or any part of the Obligations evidenced by the Bank Credit Agreement and the agreements, documents and instruments delivered in connection therewith or (iii) from and after the institution of any bankruptcy or insolvency proceeding involving any Grantor, as respects the Collateral enter into any agreement with any Grantor with respect to post-petition usage of cash collateral, post-petition financing arrangements or adequate protection.

(b)

(i) Each Prudential Noteholder under the Prudential Note Purchase Agreement agrees that, without the prior written consent of Banks holding a majority of the outstanding principal amount of Obligations under and undrawn commitments to extend credit under the Bank Credit Agreement and without the prior written consent of NY Life Noteholders holding a majority of the outstanding principal amount of the Senior Notes under the NY Life Note Purchase Agreement, it will not (i) amend, modify, supplement, restate, or waive (A) any Specified Provision if the effect of such amendment, modification, supplement, restatement or waiver causes any Specified Provision to become more restrictive with respect to the Company or any subsidiary of the Company or (B) any other provision of the Prudential Note Purchase Agreement or Prudential Senior Notes if any Grantor makes any payment or gives any other financial accommodation (other than reimbursement of out-of-pocket expenses and customary amendment fees) in connection therewith, (ii) except for any guarantees securing all of the Obligations constituting Senior Indebtedness Documents, retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to all or any part of the Obligations evidenced by the Prudential Note Purchase Agreement and the Prudential Senior Notes or (iii) from and after the institution of any bankruptcy

or insolvency proceeding involving any Grantor, as respects the Collateral enter into any agreement with any Grantor with respect to post-petition usage of cash collateral, post-petition financing arrangements or adequate protection.

(ii) Each NY Life Noteholder under the NY Life Note Purchase Agreement agrees that, without the prior written consent of Banks holding a majority of the outstanding principal amount of Obligations under and undrawn commitments to extend credit under the Bank Credit Agreement and without the prior written consent of Prudential Noteholders holding a majority of the outstanding principal amount of the Senior Notes under the Prudential Note Purchase Agreement, it will not (i) amend, modify, supplement, restate, or waive (A) any Specified Provision if the effect of such amendment, modification, supplement, restatement or waiver causes any Specified Provision to become more restrictive with respect to the Company or any subsidiary of the Company or (B) any other provision of the NY Life Note Purchase Agreement or NY Life Senior Notes if any Grantor makes any payment or gives any other financial accommodation (other than reimbursement of out-of-pocket expenses and customary amendment fees) in connection therewith, (ii) except for any guarantees securing all of the Obligations constituting Senior Indebtedness Documents, retain or obtain the primary or secondary obligations of any other obligor or obligors with respect to all or any part of the Obligations evidenced by the NY Life Note Purchase Agreement and the NY Life Senior Notes or (iii) from and after the institution of any bankruptcy or insolvency proceeding involving any Grantor, as respects the Collateral enter into any agreement with any Grantor with respect to post-petition usage of cash collateral, post-petition financing arrangements or adequate protection.

(c) Each Creditor agrees that it will have recourse to the Collateral only through the Collateral Agent, that it shall have no independent recourse to the Collateral and that it shall refrain from exercising any rights or remedies under the Collateral Documents which have or may have arisen or which may arise as a result of an Event of Default or an acceleration of the maturities of the Obligations, except that, upon the direction of the Required Creditors, any Creditor may set off any amount of any balances held by it for the account of any Grantor or any other property held or owing by it to or for the credit or for the account of any Grantor, provided that the amount set off is delivered to the Collateral Agent for application pursuant to Section 5 of this Agreement. Without such direction, no Creditor shall set off any such amount. For the purposes of determining whether such direction to setoff has been given, any Creditor which has not voted in favor of or against such setoff within three business days of receiving notice from another Creditor of its intent to setoff will be deemed to have voted in favor of such setoff. For the purposes of perfection any setoff rights which may be available under applicable law, any balances held by the Collateral Agent or any Creditor for the account of any Grantor or any other property held or owing by the Collateral Agent or any Creditor to or for the credit or account of any Grantor shall be deemed to be held as agent for all Creditors.

(d) No Creditor shall take or receive a security interest in or a lien upon any of the property or assets of any Grantor as security for the payment of any Obligations other than liens and security interests granted to the Collateral Agent in the Collateral pursuant to the Collateral Documents. The existence of a common law lien on deposit accounts shall not be prohibited by

the provisions of this paragraph (d) provided that any realization on such lien and the application of the proceeds thereof shall be subject to the provisions of this Agreement.

(e) Nothing contained in this Agreement shall (i) prevent any Creditor from imposing a default rate of interest in accordance with any Senior Indebtedness Document or prevent a Creditor from raising any defenses in any action in which it has been made a party defendant or has been joined as a third party, except that the Collateral Agent may direct and control any defense directly relating to the Collateral or any one or more of the Collateral Documents as directed by the Required Creditors, which shall be governed by the provisions of this Agreement, or (ii) affect or impair the right any Creditor may have under the terms and conditions governing the Obligations to accelerate and demand repayment of such Obligations. Subject only to the express limitations set forth in this Agreement, each Creditor retains the right to freely exercise its rights and remedies as a general creditor of the Grantors in accordance with applicable law and agreements with the Grantors, including without limitation the right to file a lawsuit and obtain a judgment therein against the Grantors and to enforce such judgment against any assets of the Grantors other than the Collateral.

(e) Subject to the provisions set forth in this Agreement, each Creditor and its affiliates may (without having to account therefor to any Creditor) own, sell, acquire and hold equity and debt securities of the Grantors and lend money to and generally engage in any kind of business with the Grantors (as if, in the case of U.S. Bank National Association, it was not acting as Collateral Agent), and, subject to the provisions of this Agreement, the Creditors and their affiliates may accept dividends, interest, principal payments, fees and other consideration from the Grantors for services in connection with this Agreement or otherwise without having to account for the same to the other Creditors, provided that any such amounts which constitute Obligations are provided for in the applicable Senior Indebtedness Documents.

## **7. Accounting; Adjustments.**

(a) The Collateral Agent and each Creditor agrees to render an accounting to any of the others of the amounts of the outstanding Obligations, receipts of payments from the Grantors or from the Collateral and of other items relevant to the provisions of this Agreement upon the reasonable request from one of the others as soon as reasonably practicable after such request, giving effect to the application of payments and collections as hereinbefore provided in this Agreement.

(b) Each party hereto agrees that to the extent any payment of any Obligations made to it hereunder is in excess of the amount due to be paid to it hereunder, or in the event any payment of any Obligations made to any party hereto is subsequently invalidated, declared fraudulent or preferential, set aside or required to be paid to a trustee, receiver, or any other party under any bankruptcy act, state or federal law, common law or equitable cause ("**Avoided Payments**"), then it shall pay to the other parties hereto (or in the case of Avoided Payments the other parties shall pay to it) such amounts so that, after giving effect to the payments hereunder by all parties, the amounts received by all parties are not in excess of the amounts to be paid to them hereunder as though any payment so invalidated, declared to be fraudulent or preferential, set aside or required to be repaid had not been made.

**8. Notices.** Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered hereunder shall be in writing, and shall be deemed to have been validly served, given or delivered three (3) business days after deposit in the United States mails, with proper postage prepaid, one business day after delivery to a courier for next day delivery, upon delivery by courier or upon transmission by telecopy or similar electronic medium (provided that a copy of any such notice sent by such transmission is also sent by one of the other means provided hereunder within one day after the date sent by such transmission) to the addresses set forth below the signatures hereto, with a copy to any person or persons set forth below such signature shown as to receive a copy, or to such other address as any party designates to the others in the manner herein prescribed. Any party giving notice to any other party hereunder shall also give copies of such notice to all other parties. Any notice delivered to the Bank Agent shall be deemed to be delivered to all of the Banks.

**9. Contesting Liens or Security Interests; No Partitioning or Marshaling of Collateral; Contesting Obligations.**

(a) No Creditor shall contest the validity, perfection, priority or enforceability of or seek to avoid, have declared fraudulent or have put aside any lien or security interest granted to the Collateral Agent and each party hereby agrees to cooperate in the defense of any action contesting the validity, perfection, priority or enforceability of such liens or security interests. Each party shall also use its best efforts to notify the other parties of any change in the location of any of the Collateral or the business operations of any Grantor or of any change in law which would make it necessary or advisable to file additional financing statements in another location as against any Grantor with respect to the liens and security interests intended to be created by the Collateral Documents, but the failure to do so shall not create a cause of action against the party failing to give such notice or create any claim or right on behalf of any other party to this Agreement and any third party.

(b) Notwithstanding anything to the contrary in this Agreement or in any Collateral Document, no Creditor shall have the right to have any of the Collateral, or any security interest or other property being held as security for all or any part of the Obligations by the Collateral Agent, partitioned, or to file a complaint or institute any proceeding at law or in equity to have any of the Collateral or any such security interest or other property partitioned, each Creditor hereby waives any such right. The Collateral Agent and each Creditor hereby waive any and all rights to have the Collateral, or any part thereof, marshaled upon any foreclosure of any of the liens or security interests securing the Obligations.

(c) Neither the Collateral Agent nor any Creditor shall contest the validity or enforceability of or seek to avoid, have declared fraudulent or have set aside any Obligations (including, without limitation, any guaranty thereof). In the event any Obligations are invalidated, avoided, declared fraudulent or set aside for the benefit of any Grantor, the Collateral Agent and the Creditors agree that such Obligations shall nevertheless be considered to be outstanding for all purposes of this Agreement.

**10. No Additional Rights for Grantors Hereunder.** Each Grantor, by its consent hereto, acknowledges that it shall have no rights under this Agreement. If the Collateral

Agent or any Creditor shall violate the terms of this Agreement, each Grantor agrees, by its consent hereto, that it shall not use such violation as a defense to any enforcement by any such party against such Grantor nor assert such violation as a counterclaim or basis for setoff or recoupment against any such party.

**11. Bankruptcy Proceedings.** Nothing contained herein shall limit or restrict the independent right of any Creditor to initiate an action or actions in any bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar proceeding in its individual capacity and to appear or be heard on any matter before the bankruptcy or other applicable court in any such proceeding, including, without limitation, with respect to any question concerning the post-petition usage of Collateral and post-petition financing arrangements, provided such initiating Creditor provides all other Creditors prior notice of the initiation of any such action. The Collateral Agent is not entitled to initiate such actions on behalf of any Creditor or to appear and be heard on any matter before the bankruptcy or other applicable court in any such proceeding as the representative of any Creditor. The Collateral Agent is not authorized in any such proceeding to enter into any agreement for, or give any authorization or consent with respect to, the post-petition usage of Collateral, unless such agreement, authorization or consent has been approved in writing by the Required Creditors. This Agreement shall survive the commencement of any such bankruptcy, reorganization, compromise, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar proceeding.

**12. Independent Credit Investigation.** Neither the Collateral Agent nor any Creditor, nor any of its respective directors, officers, agents or employees, shall be responsible to any of the others for the solvency or financial condition of any Grantor or the ability of any Grantor to repay any of the Obligations, or for the value, sufficiency, existence or ownership of any of the Collateral, the perfection or vesting of any lien or security interest, or the statements of any Grantor, oral or written, or for the validity, sufficiency or enforceability of any of the Obligations, any Senior Indebtedness Document, any Collateral Documents, any document or agreement executed or delivered in connection with or pursuant to any of the foregoing, or the liens or security interests granted by the Grantors in connection therewith. Each of the Collateral Agent and each Creditor has entered into its respective financial agreements with the Grantors based upon its own independent investigation, and makes no warranty or representation to the other, nor does it rely upon any representation by any of the others, with respect to the matters identified or referred to in this Section.

**13. Supervision of Obligations.** Except to the extent otherwise expressly provided herein, each Creditor shall be entitled to manage, supervise, amend and modify (including, without limitation, an amendment to increase the amount of such Obligations or waive an Event of Default) the obligations of the Grantors to it in accordance with applicable law and such Creditor's practices in effect from time to time without regard to the existence of any other Creditor.

**14. Turnover of Collateral.** If any Creditor acquires custody, control or possession of any Collateral or any proceeds thereof other than pursuant to the terms of this Agreement, such Creditor shall promptly cause such Collateral or the proceeds of such Collateral to be delivered to or put in the custody, possession or control of the Collateral Agent for disposition and distribution in accordance with the provisions of Section 5 of this Agreement. Until such time

as such Creditor shall have complied with the provisions of the immediately preceding sentence, such Creditor shall be deemed to hold such Collateral and the proceeds thereof in trust for the parties entitled thereto under this Agreement.

**15. Options to Purchase.**

(a) After the occurrence of a Purchase Option Trigger Event (as defined below), each Bank shall have the option to purchase all (but not less than all) of the outstanding Obligations owed to the Noteholders under each Note Purchase Agreement at a purchase price equal to 100% of the amount of such Obligations on the date of purchase (including all interest thereon to the date of purchase), plus an amount equal to the Yield-Maintenance Amount which would be payable under the applicable Note Purchase Agreement if the Senior Notes issued thereunder were prepaid pursuant to the optional prepayment provisions of the applicable Note Purchase Agreement on such date of purchase.

(b) After the occurrence of a Purchase Option Trigger Event, each Noteholder under a Note Purchase Agreement shall have the option to purchase all (but not less than all) of the outstanding Obligations owed to the Banks at a purchase price equal to 100% of the amount thereof on the date of purchase (including all interest thereon to the date of purchase) and all (but not less than all) of the outstanding Obligations owed to the Noteholders under the other Note Purchase Agreement at a purchase price equal to 100% of the amount of such Obligations on the date of purchase (including all interest thereon to the date of purchase), plus an amount equal to the Yield-Maintenance Amount which would be payable under such other Note Purchase Agreement if the Senior Notes issued thereunder were prepaid pursuant to the optional prepayment provisions of the applicable Note Purchase Agreement on such date of purchase.

(c) Any Creditor desiring to exercise its option to purchase under this Section 15 may do so by giving notice to the Creditors whose Obligations are to be purchased. The closing of the purchase and sale shall take place on the fifth business day after such notice is given. At the closing, the buyer will pay the sellers the purchase price of the Obligations being purchased except that, with respect to the purchase of exposures in respect of outstanding but undrawn Letters of Credit, the purchase shall be a risk participation therein payable at the same time as the related Letters of Credit are drawn. Payment of such purchase price shall be made in the same manner as specified in the applicable Senior Indebtedness Documents. Any notice of exercise of any such option to purchase shall be irrevocable. In the event more than one notice of exercise of an option to purchase under this Section 15 is given, only the notice first given shall be effective and the other notices given shall be ineffective.

(d) For the purposes of this Section 15, a "Purchase Option Trigger Event" shall occur when (i) an Event of Default has occurred and is continuing, (ii) any Creditor has notified the Collateral Agent and each other Creditor of its desire to direct the Collateral Agent to take action hereunder, and (iii) within 60 days after the notice specified in clause (ii), the Required Creditors shall not have authorized the Collateral Agent to take such action and the Creditor giving such notice shall not have withdrawn such notice by notice given to the Collateral Agent and the other Creditors.

16. **Amendment.** This Agreement and the provisions hereof may be amended, modified or waived only by a writing signed by the Collateral Agent, the Bank Agent, on its behalf and on behalf of the Banks, and each of the Noteholders.

17. **Successors and Assigns.** This Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of each of the parties hereto, including subsequent holders of the Obligations and persons subsequently becoming parties to the Senior Indebtedness Documents as Creditors; provided that (a) neither the Collateral Agent nor any Creditor shall assign or transfer any interest in any Obligations or permit such person to become such a party to the applicable Senior Indebtedness Documents unless such transfer or assignment is made subject to this Agreement and such transferee, assignee or person assumes the obligations of the transferor or assignor or the obligations of a Creditor, as the case may be, hereunder from and after the time of such transfer or assignment or the time such person becomes a party to the applicable Senior Indebtedness Documents, as the case may be, and (b) the appointment of any replacement Collateral Agent shall be subject to the provisions of Section 2 of this Agreement.

18. **Limitation Relative to Other Agreements.** Nothing contained in this Agreement is intended to impair (a) as between the Noteholders and the Grantors, the rights of the Noteholders and the obligations of the Grantors under their respective Note Purchase Agreements and Senior Notes, or (b) as between the Bank Agent, the Banks and the Grantors, the rights of the Bank Agent and the Banks and the obligations of the Grantors under the Bank Credit Agreement and the agreements, documents and instruments delivered in connection therewith.

19. **Counterparts.** This Agreement may be executed in several counterparts and by each party on a separate counterpart, each of which, when so executed and delivered, shall be an original, but all of which together shall constitute but one and the same instrument. In proving this Agreement, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Any facsimile or .pdf copy of a signature hereto shall have the same effect as the original thereof.

20. **Governing Law.** THIS AGREEMENT SHALL BE GOVERNED AS TO VALIDITY, INTERPRETATIONS, ENFORCEABILITY AND EFFECT BY THE INTERNAL LAWS (AS OPPOSED TO CONFLICT OF LAWS PROVISIONS) OF THE STATE OF ILLINOIS.

21. **Confirmations and Agreements.**

(i) The Bank Agent confirms that the Banks have approved this Agreement as of the date hereof. The Company confirms that each Noteholder party to a Note Purchase Agreement as of the date hereof appears in the signature pages hereto.

(ii) Each party subject hereto agrees that it will not, and will use commercially reasonable efforts to cause its agents, employees, officers, directors, shareholders, partners, and its representatives associated with or acting on its behalf (collectively, the “**Representatives**”), and its sub-contractors, if any, not to, directly or indirectly through a third-party intermediary, in connection with this Agreement and the transactions resulting herefrom, offer, pay, promise to pay,



or authorize the giving of money or anything of value to any Government Official (as defined below) for the purpose of inducing such Government Official to use his or her influence or position with the government or instrumentality thereof to affect or influence any act or decision of such government or instrumentality, in order to assist in obtaining or retaining business for, directing business to, or securing an improper advantage for such party.

(b) Each party subject hereto will, and will use commercially reasonable efforts to cause its Representatives and sub-contractors, if any, to maintain books and records that accurately reflect any payment of money or thing of value to a Government Official, directly or indirectly, in connection with any matter relating to this Agreement.

(c) The term "Government Official" includes any employee, agent or representative of a non-US government, and any non-US political party, party official or candidate. Government Official may also include royalty, non-US legislators, representatives of non-US state-owned enterprises, employees of public international organizations (including but not limited to the United Nations, International Monetary Fund, World Bank and other international agencies and organizations), and employees and officers of foreign embassies or trade organizations having offices in the US, regardless of rank or position, and any individuals acting on behalf of a Government Official.

(d) On any date on which the Obligations or any other amounts need to be determined, the Collateral Agent shall use the rate of exchange specified in Section 5.8 of the Bank Credit Agreement to determine the U.S. Dollar equivalent of any foreign currency (if any) in which such Obligations or other amounts are denominated, and such U.S. Dollar equivalent shall be used for purposes of determining that portion of the Obligations or such other amounts denominated in the applicable foreign currencies on such date.

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IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first written above.

**U.S. BANK NATIONAL ASSOCIATION**  
as Bank Agent and Collateral Agent

By: \_\_\_\_\_

Name:

Title:

**Notice information:**

800 Nicollet Mall  
Mail Code BC-MN-HO3P  
Minneapolis, MN 55402  
Attention: Andrew Feikema  
Telephone: (612) 303-3505  
Fax: (612) 303-2265  
E-mail: Andrew.feikema@usbank.com

*Signature Page to  
Amended and Restated Intercreditor and Collateral Agency Agreement*

**THE PRUDENTIAL INSURANCE COMPANY OF AMERICA**, as a Noteholder

By: \_\_\_\_\_  
Vice President

**Notice information:**

The Prudential Insurance Company of America  
c/o Prudential Private Capital  
60 South Sixth Street, Suite 3710  
Minneapolis, MN 55402

Attention: Managing Director

*Signature Page to  
Amended and Restated Intercreditor and Collateral Agency Agreement*

**GIBRALTAR LIFE INSURANCE CO., LTD.,** as  
a Noteholder  
**THE PRUDENTIAL LIFE INSURANCE**  
**COMPANY, LTD.,** as a Noteholder

By: Prudential Investment Management Japan  
Co., Ltd., as Investment Manager

By: PGIM, Inc., as Sub-Adviser

By: \_\_\_\_\_  
Vice President

**Notice information:**

The Prudential Insurance Company of America  
c/o Prudential Private Capital  
60 South Sixth Street, Suite 3710  
Minneapolis, MN 55402

Attention: Managing Director

*Signature Page to  
Amended and Restated Intercreditor and Collateral Agency Agreement*

**RGA REINSURANCE COMPANY**, as a  
Noteholder  
**ZURICH AMERICAN INSURANCE  
COMPANY**, as a Noteholder

By: Prudential Private Placement Investors, L.P.  
(as Investment Advisor)

By: Prudential Private Placement Investors, Inc.  
(as its General Partner)

By: \_\_\_\_\_  
Vice President

**Notice information:**

The Prudential Insurance Company of America  
c/o Prudential Private Capital  
60 South Sixth Street, Suite 3710  
Minneapolis, MN 55402

Attention: Managing Director

*Signature Page to  
Amended and Restated Intercreditor and Collateral Agency Agreement*

**NYL INVESTORS LLC, as Investment  
Manager**

By: \_\_\_\_\_

**Notice information:**

NYL Investors LLC  
51 Madison Avenue  
2nd Floor, Room 208  
New York, New York 10010  
Attention: Private Capital Investors  
2nd Floor  
Fax # 908-840-3385

with a copy sent electronically to:

FIIGLibrary@nylim.com  
TraditionalPVtOPs@nylim.com

and with a copy of any notices regarding defaults or Events of Default under the operative documents to:

Attention: Office of General Counsel  
Investment Section, Room 1016  
Fax #212-576-8340

*Signature Page to  
Amended and Restated Intercreditor and Collateral Agency Agreement*

**EXHIBIT A**

**LIST OF COLLATERAL DOCUMENTS**

Amended and Restated Pledge Agreement, dated as of April 17, 2020, made by Graco Inc.

## **ACKNOWLEDGMENT OF AND CONSENT AND AGREEMENT**

### **TO AMENDED AND RESTATED INTERCREDITOR AND COLLATERAL AGENCY AGREEMENT**

Each of the undersigned, a Grantor described in the Amended and Restated Intercreditor and Collateral Agency Agreement set forth above, acknowledges and, to the extent required, consents to the terms and conditions of the Amended and Restated Intercreditor and Collateral Agency Agreement. Each of the undersigned Grantors does hereby further acknowledge and agree to its agreements under Sections 2(i), 5(c) and 10 of the Amended and Restated Intercreditor and Collateral Agency Agreement and acknowledges and agrees that it is not a third-party beneficiary of, nor has any rights under, the Amended and Restated Intercreditor and Collateral Agency Agreement. Each of the undersigned confirms that the signatories to this Acknowledgment of and Consent and Agreement to Amended and Restated Intercreditor and Collateral Agency Agreement constitute all of the Grantors in existence as of the date hereof.

This Acknowledgment of and Consent and Agreement to Amended and Restated Intercreditor and Collateral Agency Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which, when so executed and delivered, shall be an original, but all of which together shall constitute but one of the same instrument. In proving this Acknowledgment of and Consent and Agreement to Amended and Restated Intercreditor and Collateral Agency Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

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**IN WITNESS WHEREOF**, each party below has caused this Acknowledgment of and Consent and Agreement to Amended and Restated Intercreditor and Collateral Agency Agreement to be executed by its duly authorized officer as of April \_\_, 2020.

GRACO INC.

By: \_\_\_\_\_

Name: Mark W. Sheahan

Title: Chief Financial Officer and Treasurer

GEMA USA INC.

GRACO HIGH PRESSURE EQUIPMENT INC.

Q.E.D. ENVIRONMENTAL SYSTEMS, INC.

WHITE KNIGHT FLUID HANDLING INC.

By: \_\_\_\_\_

Name: Mark W. Sheahan

Title: President

GRACO MINNESOTA INC.

By: \_\_\_\_\_

Name: Caroline M. Chambers

Title: Chief Financial Officer and Treasurer

EXHIBIT B

Pledge Agreement, as amended and restated

Attached

## AMENDED AND RESTATED PLEDGE AGREEMENT

THIS AMENDED AND RESTATED PLEDGE AGREEMENT (this “Agreement”), dated as of April 17, 2020, is made and given by GRACO INC., a corporation organized under the laws of the State of Minnesota (the “Pledgor”) to U.S. BANK NATIONAL ASSOCIATION as Collateral Agent (in such capacity, and together with any successors in such capacity, the “Secured Party”) for the banks (the “Banks”) from time to time party to the Credit Agreement defined below and the noteholders (the “Noteholders” and collectively with the Banks, the “Creditors”) from time to time holding notes issued under the Note Purchase Agreements defined below.

### RECITALS

A. Graco Inc., a Minnesota corporation (the “Borrower”), the Borrowing Subsidiaries from time to time party thereto, the Banks (as named therein from time to time) and U.S. Bank National Association, as Agent, have entered into a Credit Agreement dated as of May 23, 2011 (as the same has been amended and as the same may be amended, restated, supplemented or otherwise modified from time to time, the “Credit Agreement”) pursuant to which the Banks have agreed to extend to the Borrower certain credit accommodations, including loan and letter of credit facilities.

B. The Borrower, The Prudential Life Insurance Company and certain other Noteholders are parties to a Note Agreement dated as of March 11, 2011 (as the same has been amended and as the same may be amended, restated, supplemented or otherwise modified from time to time, the “Prudential Note Purchase Agreement”).

C. The Borrower, NYL Investors LLC, and certain other Noteholders are parties to a Master Note Agreement dated as of January 29, 2020 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “NY Life Note Purchase Agreement”; together with the Prudential Note Purchase Agreement, the “Note Purchase Agreements”; the Note Purchase Agreements, together with the Credit Agreement and the agreements, documents and instruments delivered in connection with any or all of the foregoing, as each may be amended, restated, supplemented or otherwise modified from time to time, the “Senior Indebtedness Documents”).

D. The Agent, the Secured Party and the Noteholders have entered into an Amended and Restated Intercreditor and Collateral Agency Agreement dated as of April 17, 2020 (as the same may be amended, restated, supplemented or otherwise modified from time to time, the “Intercreditor Agreement”), pursuant to which the Secured Party has been appointed Collateral Agent.

E. The Pledgor is the owner of the stock or other ownership or membership interests (the “Pledged Interests”) described in Schedule I hereto issued by the issuers named thereon. The Pledgor may own stock or other ownership or membership interests in such issuers in excess

of the percentage set forth on Schedule I, but the term “Pledged Interests” shall be limited to the percentage of stock or other ownership or membership interest listed on Schedule I, and all assets described in Sections 2(b) and (c) hereof consistent therewith.

F. It is a term and condition of the Senior Indebtedness Documents that Pledgor enter into this Agreement and grant the security interests and pledges provided herein.

G. The Pledgor finds it advantageous, desirable and in the best interests of the Pledgor to comply with the requirement that this Agreement be executed and delivered to the Secured Party.

H. The relative rights and priorities of the Creditors in respect of the Collateral (as defined below) are governed by the Intercreditor Agreement.

NOW, THEREFORE, in consideration of the premises and in order to induce the Creditors to continue to extend credit accommodations to the Borrower, the Pledgor hereby agrees with the Secured Party for the benefit of the Secured Party (on behalf of the Creditors) as follows:

Section 1. Defined Terms. As used in this Agreement, the following terms shall have the meanings indicated:

“Collateral” shall have the meaning given to such term in Section 2.

“Event of Default” shall have the meaning given to such term in the Intercreditor Agreement.

“Lien” shall mean any security interest, mortgage, pledge, lien, charge, encumbrance, title retention agreement or analogous instrument or device (including the interest of the lessors under capitalized leases), in, of or on any assets or properties of the Person referred to.

“Permitted Lien” shall have the meaning given to such term in Section 4(a).

“Person” shall have the meaning given to such term in the Intercreditor Agreement.

“Pledged Interests” shall have the meaning given to such term in the Recitals.

“Secured Obligations” shall mean all of the “Obligations” under and as defined in the Credit Agreement and all of the obligations owing to the Noteholders under the Note Purchase Agreements, including, without limitation, all of the “Obligations” under and as defined in the Intercreditor Agreement.

“Security Interest” shall have the meaning given to such term in Section 2.

(a) Terms Defined in Uniform Commercial Code. All other terms used in this Agreement that are not specifically defined herein or the definitions of which are not incorporated herein by reference shall have the meaning assigned to such terms in Article 9 of the Uniform Commercial Code as adopted in the State of Minnesota.

(b) Singular/Plural, Etc. Unless the context of this Agreement otherwise clearly requires, references to the plural include the singular, the singular, the plural and “or” has the inclusive meaning represented by the phrase “and/or.” The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The words “hereof,” “herein,” “hereunder,” and similar terms in this Agreement refer to this Agreement as a whole and not to any particular provision of this Agreement. References to Sections are references to Sections in this Agreement unless otherwise provided.

Section 2. Pledge. As security for the payment and performance of all of the Secured Obligations, the Pledgor hereby pledges to the Secured Party for the benefit of the Secured Party and the Creditors and grants to the Secured Party for the benefit of the Secured Party and the Creditors a security interest (the “Security Interest”) in the following, including any securities account containing a securities entitlement with respect to the following (the “Collateral”):

(a) The Pledged Interests and the certificates representing the Pledged Interests, and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of the Pledged Interests.

(b) All additional shares of stock or ownership or membership interests of any issuer of the Pledged Interests from time to time acquired by the Pledgor in any manner in exchange for, as a dividend on, as a result of stock splits or combinations or otherwise in connection with the initial Pledged Interests, and the certificates representing such additional shares of stock or ownership or membership interests, and all dividends, cash, instruments and other property from time to time received, receivable or otherwise distributed in respect of or in exchange for any or all of such shares of stock or ownership or membership interests.

(c) All proceeds of any and all of the foregoing (including proceeds that constitute property of types described above).

Section 3. Delivery of Collateral. To the extent not prohibited by applicable law, all certificates and instruments representing or evidencing the Pledged Interests shall be delivered to the Secured Party contemporaneously with the execution of this Agreement. To the extent not prohibited by applicable law, all certificates and instruments representing or evidencing Collateral received by the Pledgor after the execution of this Agreement shall be delivered to the Secured Party promptly upon the Pledgor’s receipt thereof. All such certificates and instruments shall be held by or on behalf of the Secured Party pursuant hereto and shall be in suitable form for transfer by delivery, or shall be accompanied by duly executed instruments of transfer or assignment in blank, all in form and substance reasonably satisfactory to the Secured Party. With respect to all Pledged Interests consisting of uncertificated securities, book-entry securities or securities entitlements, the Pledgor shall either (a) execute and deliver, and cause any necessary issuers or securities intermediaries to execute and deliver, control agreements in form and

substance reasonably satisfactory to the Secured Party covering such Pledged Interests, or (b) cause such Pledged Interests to be transferred into the name of the Secured Party. The Secured Party shall have the right at any time, when an Event of Default has occurred and is continuing, to cause any or all of the Collateral to be transferred of record into the name of the Secured Party or its nominee for the benefit of the Creditors (but subject to the rights of the Pledgor under Section 6) and to exchange certificates representing or evidencing Collateral for certificates of smaller or larger denominations. If the Collateral is in the possession of a bailee, the Pledgor will join with the Secured Party in notifying the bailee of the interest of the Secured Party and in obtaining from the bailee an acknowledgment that it hold the Collateral for the benefit of the Secured Party.

Section 4. Certain Warranties and Covenants. The Pledgor makes the following warranties and covenants:

(a) The Pledgor has title to the Pledged Interests and will have title to each other item of Collateral hereafter acquired, free of all Liens except the Security Interest and liens permitted by the Senior Indebtedness Documents or that arise by operation of law ("Permitted Liens"). As of the date of this Agreement, the Pledgor is unaware of the existence of any such liens arising by operation of law.

(b) The Pledgor has full corporate power and authority to execute this Agreement, to perform the Pledgor's obligations hereunder and to subject the Collateral to the Security Interest created hereby.

(c) No financing statement covering all or any part of the Collateral is on file in any public office (except for any financing statements filed by the Secured Party or as permitted by the Intercreditor Agreement).

(d) The Pledged Interests have been duly authorized and validly issued by the issuer thereof and are fully paid and non-assessable. The certificates representing the Pledged Interests are genuine.

(e) The Pledged Interests constitute the percentage of the issued and outstanding member interests of the respective issuers thereof indicated on Schedule I (if any such percentage is so indicated).

Section 5. Further Assurances. The Pledgor agrees that at any time and from time to time, at the expense of the Pledgor, the Pledgor will promptly execute and deliver all further instruments and documents, and take all further action that may be necessary or that the Secured Party may reasonably request, in order to perfect and protect the Security Interest or to enable the Secured Party to exercise and enforce its rights and remedies hereunder with respect to any Collateral (but any failure to request or assure that the Pledgor execute and deliver such instruments or documents or to take such action shall not affect or impair the validity, sufficiency or enforceability of this Agreement and the Security Interest, regardless of whether any such item

was or was not executed and delivered or action taken in a similar context or on a prior occasion).

Section 6. Voting Rights; Dividends; Etc.

(a) Subject to paragraph (d) of this Section 6, the Pledgor shall be entitled to exercise or refrain from exercising any and all voting and other consensual rights pertaining to the Pledged Interests or any other stock or member interests that becomes part of the Collateral or any part thereof for any purpose not inconsistent with the terms of this Agreement or the other Senior Indebtedness Documents.

(b) Subject to paragraph (e) of this Section 6 and Section 3 hereof, the Pledgor shall be entitled to receive, retain, and use in any manner not prohibited by the Senior Indebtedness Documents any and all interest and dividends paid in respect of the Collateral.

(c) The Secured Party shall execute and deliver (or cause to be executed and delivered) to the Pledgor all such proxies and other instruments as the Pledgor may reasonably request for the purpose of enabling the Pledgor to exercise the voting and other rights that it is entitled to exercise pursuant to Section 6(a) hereof and to receive the dividends and interest that it is authorized to receive and retain pursuant to Section 6(b) hereof.

(d) Upon the occurrence and during the continuance of any Event of Default, the Secured Party shall have the right in its sole discretion, and the Pledgor shall execute and deliver all such proxies and other instruments as may be necessary or appropriate to give effect to such right, to terminate all rights of the Pledgor to exercise or refrain from exercising the voting and other consensual rights that it would otherwise be entitled to exercise pursuant to Section 6(a) hereof, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to exercise or refrain from exercising such voting and other consensual rights; provided, however, that the Secured Party shall not be deemed to possess or have control over any voting rights with respect to any Collateral unless and until the Secured Party has given written notice to the Pledgor that any further exercise of such voting rights by the Pledgor is prohibited and that the Secured Party and/or its assigns will henceforth exercise such voting rights; and provided, further, that neither the registration of any item of Collateral in the Secured Party's name nor the exercise of any voting rights with respect thereto shall be deemed to constitute a retention by the Secured Party of any such Collateral in satisfaction of the Secured Obligations or any part thereof.

(e) Upon the occurrence and during the continuance of any Event of Default following written notice from the Secured Party to the Pledgor of revocation of the Pledgor's rights under Section 6(b) hereof (provided that no such notice shall be required in the case of an Event of Default under Section 10.1(e) or (f) of the Credit Agreement, Section 7A(viii), (ix) or (x) of the Prudential Note Purchase Agreement and Section 7A(viii), (ix) or (x) of the NY Life Note Purchase Agreement):

(i) all rights of the Pledgor to receive the dividends and interest that it would otherwise be authorized to receive and retain pursuant to Section 6(b) hereof shall cease, and all such rights shall thereupon become vested in the Secured Party who shall thereupon have the sole right to receive and hold such dividends as Collateral, and

(ii) all payments of interest and dividends that are received by the Pledgor contrary to the provisions of paragraph (i) of this Section 6(e) shall be received in trust for the benefit of the Secured Party, shall be segregated from other funds of the Pledgor and shall be forthwith paid over to the Secured Party as Collateral in the same form as so received (with any necessary endorsement).

Section 7. Transfers and Other Liens; Additional Member Interests.

(a) Except as may be permitted by the Senior Indebtedness Documents, the Pledgor agrees that it will not (i) sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral, or (ii) create or permit to exist any Lien, upon or with respect to any of the Collateral other than Permitted Liens to the extent that the holder thereof shall not be seeking enforcement thereof in any way.

(b) The Pledgor agrees that it will (i) cause each issuer of the Pledged Interests not to issue any additional stock or member interests that would cause the percentage of all such stock or membership interest represented by the Pledged Interests to be less than such percentage as of the date of this Agreement, and (ii) pledge hereunder, immediately upon its acquisition (directly or indirectly) thereof, any and all additional shares of stock or member interests or other securities of each issuer of the Pledged Interests issued to or received by the Pledgor, provided, that at no time shall the Pledged Interests of a Foreign Subsidiary (as defined in the Credit Agreement) subject to this Agreement be required to exceed, on a percentage basis, 65% of all outstanding stock or membership interests of such Foreign Subsidiary.

Section 8. Secured Party Appointed Attorney-in-Fact. As additional security for the Secured Obligations, the Pledgor hereby irrevocably appoints the Secured Party the Pledgor's attorney-in-fact, with full authority in the place and stead of such Pledgor and in the name of such Pledgor or otherwise, from time to time in the Secured Party's good-faith discretion, to take any action and to execute any instrument that the Secured Party may reasonably believe necessary or advisable to accomplish the purposes of this Agreement (subject to the rights of the Pledgor under Section 6 hereof), in a manner consistent with the terms hereof, including, without limitation, to receive, indorse and collect all instruments made payable to the Pledgor representing any dividend or other distribution in respect of the Collateral or any part thereof and to give full discharge for the same.

Section 9. Secured Party May Perform. The Pledgor hereby authorizes the Secured Party to file financing statements with respect to the Collateral. The Pledgor irrevocably waives any right to notice of any such filing. If the Pledgor fails to perform any agreement contained herein, the Secured Party may itself perform, or cause performance of, such agreement, and the



reasonable expenses of the Secured Party incurred in connection therewith shall be payable by the Pledgor under Section 13 hereof.

Section 10. The Secured Party's Duties. The powers conferred on the Secured Party hereunder are solely to protect its and the Creditors' interest in the Collateral and shall not impose any duty upon it to exercise any such powers. The Secured Party shall be deemed to have exercised reasonable care in the safekeeping of any Collateral in its possession if such Collateral is accorded treatment substantially equal to the safekeeping which the Secured Party accords its own property of like kind. Except for the safekeeping of any Collateral in its possession and the accounting for monies and for other properties actually received by it hereunder, neither the Secured Party nor any Creditor shall have any duty, as to any Collateral, as to ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relative to any Collateral, whether or not the Secured Party or any Creditor has or is deemed to have knowledge of such matters, or as to the taking of any necessary steps to preserve rights against any Persons or any other rights pertaining to any Collateral. The Secured Party will take action in the nature of exchanges, conversions, redemption, tenders and the like requested in writing by the Pledgor with respect to any of the Collateral in the Secured Party's possession if the Secured Party in its reasonable judgment determines that such action will not impair the Security Interest or the value of the Collateral, but a failure of the Secured Party to comply with any such request shall not of itself be deemed a failure to exercise reasonable care.

Section 11. Remedies upon Default. If any Event of Default shall have occurred and be continuing:

(a) The Secured Party may exercise in respect of the Collateral, in addition to other rights and remedies provided for herein or otherwise available to it, all the rights and remedies of a secured party on default under Article 9 of the Uniform Commercial Code as adopted in the State of Minnesota (the "Code") in effect at that time, and may, without notice except as specified below, sell the Collateral or any part thereof in one or more parcels at public or private sale, at any exchange, broker's board or at any of the Secured Party's offices or elsewhere, for cash, on credit or for future delivery, and upon such other terms as the Secured Party may reasonably believe are commercially reasonable. The Secured Party agrees to give at least ten days' prior notice to the Pledgor of the time and place of any public sale or the time after which any private sale is to be made, and the Pledgor agrees that such notice shall constitute reasonable notification. The Secured Party shall not be obligated to make any sale of Collateral regardless of notice of sale having been given. The Secured Party may adjourn any public or private sale from time to time by announcement at the time and place fixed therefor, and such sale may, without further notice, be made at the time and place to which it was so adjourned. The Pledgor hereby waives all requirements of law, if any, relating to the marshalling of assets which would be applicable in connection with the enforcement by the Secured Party of its remedies hereunder, absent this waiver. The Secured Party may disclaim warranties of title and possession and the like.

(b) The Secured Party may notify any Person obligated on any of the Collateral that the same has been assigned or transferred to the Secured Party and that the same should be

performed as requested by, or paid directly to, the Secured Party, as the case may be. The Pledgor shall join in giving such notice, if the Secured Party so requests. The Secured Party may, in the Secured Party's name or in the Pledgor's name, demand, sue for, collect or receive any money or property at any time payable or receivable on account of, or securing, any such Collateral or grant any extension to, make any compromise or settlement with or otherwise agree to waive, modify, amend or change the obligation of any such Person.

(c) Any cash held by the Secured Party as Collateral and all cash proceeds received by the Secured Party in respect of any sale of, collection from, or other realization upon all or any part of the Collateral may, in the discretion of the Secured Party, be held by the Secured Party as collateral for, or then or at any time thereafter be applied in whole or in part by the Secured Party against, all or any part of the Secured Obligations (including any expenses of the Secured Party payable pursuant to Section 13 hereof).

Section 12. Waiver of Certain Claims. The Pledgor acknowledges that because of present or future circumstances, a question may arise under the Securities Act of 1933, as from time to time amended (the "Securities Act"), with respect to any disposition of the Collateral permitted hereunder. The Pledgor understands that compliance with the Securities Act may very strictly limit the course of conduct of the Secured Party if the Secured Party were to attempt to dispose of all or any portion of the Collateral and may also limit the extent to which or the manner in which any subsequent transferee of the Collateral or any portion thereof may dispose of the same. There may be other legal restrictions or limitations affecting the Secured Party in any attempt to dispose of all or any portion of the Collateral under the applicable Blue Sky or other securities laws or similar laws analogous in purpose or effect. The Secured Party may be compelled to resort to one or more private sales to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such Collateral for their own account for investment only and not to engage in a distribution or resale thereof. The Pledgor agrees that the Secured Party shall not incur any liability, and any liability of the Pledgor for any deficiency shall not be impaired, as a result of the sale of the Collateral or any portion thereof at any such private sale in a manner that the Secured Party reasonably believes is commercially reasonable (within the meaning of Section 9-627 of the Uniform Commercial Code as adopted in the State of Minnesota). The Pledgor hereby waives any claims against the Secured Party arising by reason of the fact that the price at which the Collateral may have been sold at such sale was less than the price that might have been obtained at a public sale or was less than the aggregate amount of the Secured Obligations, even if the Secured Party shall accept the first offer received and does not offer any portion of the Collateral to more than one possible purchaser. The Pledgor further agrees that the Secured Party has no obligation to delay sale of any Collateral for the period of time necessary to permit the issuer of such Collateral to qualify or register such Collateral for public sale under the Securities Act, applicable Blue Sky laws and other applicable state and federal securities laws, even if said issuer would agree to do so. Without limiting the generality of the foregoing, the provisions of this Section would apply if, for example, the Secured Party were to place all or any portion of the Collateral for private placement by an investment banking firm, or if such investment banking firm purchased all or any portion of the Collateral for its own account, or if the Secured Party placed all or any portion of the Collateral privately with a purchaser or purchasers.

Section 13. Costs and Expenses; Indemnity. The Pledgor will pay or reimburse the Secured Party on demand for all reasonable out-of-pocket expenses (including in each case all filing and recording fees and taxes and all reasonable fees and expenses of counsel and of any experts and agents) incurred by the Secured Party in connection with the creation, perfection, protection, satisfaction, foreclosure or enforcement of the Security Interest and the preparation, administration, continuance, amendment or enforcement of this Agreement, and all such costs and expenses shall be part of the Secured Obligations secured by the Security Interest. The Pledgor shall indemnify and hold the Secured Party and each Creditor harmless from and against any and all claims, losses and liabilities (including reasonable attorneys' fees) growing out of or resulting from this Agreement (including enforcement of this Agreement) or the Secured Party's actions pursuant hereto, except claims, losses or liabilities resulting from the Secured Party's gross negligence or willful misconduct as determined by a final judgment of a court of competent jurisdiction. Any liability of the Pledgor to indemnify and hold the Secured Party and each Creditor harmless pursuant to the preceding sentence shall be part of the Secured Obligations secured by the Security Interest. The obligations of the Pledgor under this Section shall survive any termination of this Agreement.

Section 14. Waivers and Amendments; Remedies. This Agreement can be waived, modified, amended, terminated or discharged, and the Security Interest can be released, only explicitly in a writing signed by the Secured Party and the Pledgor. A waiver so signed shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any rights and remedies available to the Secured Party. All rights and remedies of the Secured Party shall be cumulative and may be exercised singly in any order or sequence, or concurrently, at the Secured Party's option, and the exercise or enforcement of any such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

Section 15. Notices. Any notice or other communication to any party in connection with this Agreement shall be sent as provided in the Intercreditor Agreement.

Section 16. Pledgor Acknowledgments. The Pledgor hereby acknowledges that (a) the Pledgor has been advised by counsel in the negotiation, execution and delivery of this Agreement, (b) the Secured Party has no fiduciary relationship to the Pledgor, the relationship being solely that of debtor and creditor, and (c) no joint venture exists between the Pledgor and the Secured Party.

Section 17. Continuing Security Interest; Assignments under Credit Agreement. This Agreement shall create a continuing security interest in the Collateral and shall (a) subject to release by the Secured Party as provided in Section 13.16 of the Credit Agreement, Section 11V of the Prudential Note Purchase Agreement and Section 11V of the NY Life Note Purchase Agreement, remain in full force and effect until Termination Conditions (as defined in and determined under the Credit Agreement) and conditions for termination under the Note Purchase Agreements exist, (b) be binding upon the Pledgor, its successors and assigns, and (c) inure, together with the rights and remedies of the Secured Party hereunder, to the benefit of, and be enforceable by, the Secured Party and its successors and permitted transferees and assigns.

Without limiting the generality of the foregoing clause (c), the Secured Party may assign or otherwise transfer all or any portion of its rights and obligations under the Senior Indebtedness Documents to any other Person to the extent and in the manner provided in the Senior Indebtedness Documents, and may similarly transfer all or any portion of its rights under this Agreement to such Persons.

Section 18. Termination of Security Interest. At such time as Termination Conditions (as defined in and determined under the Credit Agreement) and conditions for termination under the Note Purchase Agreements exist, the security interest granted hereby shall terminate and all rights to the Collateral shall revert to the Pledgor. Upon any such termination, the Secured Party will return to the Pledgor such of the Collateral as shall not have been sold or otherwise applied pursuant to the terms hereof and execute and deliver to the Pledgor such documents as the Pledgor shall reasonably request to evidence such termination. Any reversion or return of the Collateral upon termination of this Agreement and any instruments of transfer or termination shall be at the expense of the Pledgor and shall be without warranty by, or recourse on, the Secured Party. As used in this Section, "Pledgor" includes any assigns of Pledgor, any Person holding a subordinate security interest in any part of the Collateral or whoever else may be lawfully entitled to any part of the Collateral.

Section 19. Governing Law and Construction. THE VALIDITY, CONSTRUCTION AND ENFORCEABILITY OF THIS AGREEMENT SHALL BE GOVERNED BY THE LAWS OF THE STATE OF MINNESOTA; PROVIDED, HOWEVER, THAT NO EFFECT SHALL BE GIVEN TO CONFLICT OF LAWS PRINCIPLES OF THE STATE OF MINNESOTA, EXCEPT TO THE EXTENT THAT THE VALIDITY OR PERFECTION OF THE SECURITY INTEREST HEREUNDER, OR REMEDIES HEREUNDER, IN RESPECT OF ANY PARTICULAR COLLATERAL ARE MANDATORILY GOVERNED BY THE LAWS OF A JURISDICTION OTHER THAN THE STATE OF MINNESOTA. Whenever possible, each provision of this Agreement and any other statement, instrument or transaction contemplated hereby or relating hereto shall be interpreted in such manner as to be effective and valid under such applicable law, but, if any provision of this Agreement or any other statement, instrument or transaction contemplated hereby or relating hereto shall be held to be prohibited or invalid under such applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement or any other statement, instrument or transaction contemplated hereby or relating hereto.

Section 20. Consent to Jurisdiction. AT THE OPTION OF THE SECURED PARTY, THIS AGREEMENT MAY BE ENFORCED IN ANY FEDERAL COURT OR MINNESOTA STATE COURT SITTING IN MINNEAPOLIS OR ST. PAUL, MINNESOTA; AND THE PLEDGOR CONSENTS TO THE JURISDICTION AND VENUE OF ANY SUCH COURT AND WAIVES ANY ARGUMENT THAT VENUE IN SUCH FORUMS IS NOT CONVENIENT. IN THE EVENT THE PLEDGOR COMMENCES ANY ACTION IN ANOTHER JURISDICTION OR VENUE UNDER ANY TORT OR CONTRACT THEORY ARISING DIRECTLY OR INDIRECTLY FROM THE RELATIONSHIP CREATED BY THIS AGREEMENT, THE SECURED PARTY AT ITS OPTION SHALL BE ENTITLED TO HAVE

THE CASE TRANSFERRED TO ONE OF THE JURISDICTIONS AND VENUES ABOVE-DESCRIBED, OR IF SUCH TRANSFER CANNOT BE ACCOMPLISHED UNDER APPLICABLE LAW, TO HAVE SUCH CASE DISMISSED WITHOUT PREJUDICE.

Section 21. Waiver of Jury Trial. EACH OF THE PLEDGOR AND THE SECURED PARTY, BY ITS ACCEPTANCE OF THIS AGREEMENT, IRREVOCABLY WAIVES ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

Section 22. Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument. Delivery of an executed counterpart of a signature page to this Agreement by facsimile or by e-mail transmission of a PDF or similar copy shall be equally as effective as delivery of an original executed counterpart of this Agreement. Any party delivering an executed counterpart signature page to this Agreement by facsimile or by e-mail transmission shall also deliver an original executed counterpart of this Agreement, but the failure to deliver an original executed counterpart shall not affect the validity, enforceability or binding effect of this Agreement.

Section 23. General. All representations and warranties contained in this Agreement or in any other agreement between the Pledgor and the Secured Party shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Secured Obligations. The Pledgor waives notice of the acceptance of this Agreement by the Secured Party. Captions in this Agreement are for reference and convenience only and shall not affect the interpretation or meaning of any provision of this Agreement.

Section 24. Collateral Agent. U.S. Bank National Association, in its capacity as Secured Party, has been appointed collateral agent for the Creditors hereunder pursuant to the Intercreditor Agreement. It is expressly understood and agreed by the parties to this Agreement that any authority conferred upon the Secured Party hereunder is subject to the terms of the delegation of authority made by the Creditors to the Secured Party pursuant to the Intercreditor Agreement, and that the Secured Party has agreed to act (and any successor Secured Party shall act) as such hereunder only on the express conditions contained in such Section 2. Any successor Secured Party appointed pursuant to the Intercreditor Agreement shall be entitled to all the rights, interests and benefits of the Secured Party hereunder. For the avoidance of doubt, each Pledgor hereby acknowledges and agrees that it is not a third-party beneficiary of, nor has any rights under, the Intercreditor Agreement. If the Secured Party or any Creditor shall violate the terms of the Intercreditor Agreement, each Pledgor agrees, by its execution and delivery hereof, that it shall not use such violation as a defense to any enforcement by any such party against such Pledgor nor assert such violation as a counterclaim or basis for setoff or recoupment against any such party. No such violation shall limit or impair the rights of the Secured Party or any Creditor hereunder.

(signature page follows)

IN WITNESS WHEREOF, the Pledgor has caused this Agreement to be duly executed and delivered by its officer thereunto duly authorized as of the date first above written.

PLEDGOR:

GRACO INC.

By: \_\_\_\_\_

Name: Mark W. Sheahan

Title: Chief Financial Officer and Treasurer

Address for Pledgor:

88 11th Avenue N.E.

Minneapolis, MN 55413

Attention: Christopher D. Knutson

Telephone: (612) 623-6260

Fax: (612) 378-3565

and

Attention: General Counsel

Telephone: (612) 623-6604

Fax: (612) 623-6944

Accepted:

U.S. BANK NATIONAL ASSOCIATION,

Secured Party

By: \_\_\_\_\_

Title: \_\_\_\_\_

Address for Secured Party:

800 Nicollet Mall

Mail Code BC-MN-H03P

Minneapolis, MN 55402

Fax Number: (612) 303-2265

Signature page to Amended and Restated Pledge Agreement

SCHEDULE I  
TO  
AMENDED AND RESTATED PLEDGE AGREEMENT  
GRACO INC.

PLEDGED INTERESTS

Issuer:	Graco Global Holdings
Jurisdiction of Organization:	Luxembourg
Type of Interest:	<i>Parts sociales</i> (shares)
Percentage Ownership:	65.00%
Certificate No(s).:	N/A
Number of Units/Shares:	13,000

Issuer:	Graco Finance Hong Kong Limited
Jurisdiction of Organization:	Hong Kong
Type of Interest:	Shares
Percentage Ownership:	65.00%
Certificate No(s).:	2
Number of Units/Shares:	650

**CERTIFICATION**

I, Patrick J. McHale, certify that:

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

Date: April 22, 2020

/s/ Patrick J. McHale

Patrick J. McHale

President and Chief Executive Officer



**CERTIFICATION**

I, Mark W. Sheahan, certify that:

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

Date: April 22, 2020

/s/ Mark W. Sheahan

Mark W. Sheahan

Chief Financial Officer and Treasurer

CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date:	<u>April 22, 2020</u>	<u>/s/ Patrick J. McHale</u> Patrick J. McHale President and Chief Executive Officer
Date:	<u>April 22, 2020</u>	<u>/s/ Mark W. Sheahan</u> Mark W. Sheahan Chief Financial Officer and Treasurer

# News Release

**FOR IMMEDIATE RELEASE:**

Wednesday, April 22, 2020

 GRACO INC.  
 P.O. Box 1441  
 Minneapolis, MN  
 55440-1441  
 NYSE: GGG

**FOR FURTHER INFORMATION:**

Financial Contact: Mark Sheahan, 612-623-6656

Media Contact: Charlotte Boyd, 612-623-6153

[Charlotte\\_M\\_Boyd@graco.com](mailto:Charlotte_M_Boyd@graco.com)

## Graco Reports First Quarter Results Withdraws 2020 Revenue Guidance Due to Economic Uncertainty

**MINNEAPOLIS (April 22, 2020)** – Graco Inc. (NYSE: GGG) today announced results for the first quarter ended March 27, 2020.

**Summary**

\$ in millions except per share amounts

	Three Months Ended		
	Mar 27, 2020	Mar 29, 2019	% Change
Net Sales	\$ 373.6	\$ 404.9	(8) %
Operating Earnings	89.8	104.5	(14) %
Net Earnings	72.8	86.7	(16) %
Diluted Net Earnings per Common Share	\$ 0.42	\$ 0.51	(18) %
Adjusted (non-GAAP): <sup>(1)</sup>			
Net Earnings, adjusted	\$ 65.0	\$ 80.1	(19) %
Diluted Net Earnings per Common Share, adjusted	\$ 0.38	\$ 0.47	(19) %

(1) Excludes impacts of excess tax benefits from stock option exercises and certain non-recurring tax provision adjustments. See Financial Results Adjusted for Comparability below for a reconciliation of adjusted non-GAAP financial measures to GAAP.

- Sales decreased 8 percent, with double-digit percentage declines in the Industrial segment and in the EMEA and Asia Pacific regions.
- Gross margin rate remained relatively strong as favorable realized pricing mostly offset the adverse impacts of lower factory volume, unfavorable product and channel mix, and changes in currency translation rates.
- Total operating expenses decreased 2 percent. Reductions in volume and earnings-based expenses more than offset a 3 percent increase in product development expenses.
- Other non-operating expenses increased \$5 million due to market valuation losses on investments held to fund certain retirement benefits liabilities.

“First quarter sales did not meet our expectations and deteriorated as the quarter progressed,” said Patrick J. McHale, Graco's President and CEO.

## Consolidated Results

Sales decreased 8 percent from the comparable period last year (7 percent at consistent translation rates). Sales decreased 3 percent in the Americas, 12 percent in EMEA (10 percent at consistent translation rates) and 17 percent in Asia Pacific (15 percent at consistent translation rates). Changes in currency translation rates decreased worldwide sales by approximately \$4 million (1 percentage point). Sales from acquired operations contributed approximately \$5 million to the first quarter.

Gross profit margin rate decreased slightly from the comparable period last year. Strong price realization nearly offset the adverse impacts of lower factory volume, unfavorable product and channel mix, and changes in currency translation rates.

Total operating expenses decreased \$3 million (2 percent) compared to last year. Reductions in volume and earnings-based expenses more than offset increases in product development and occupancy expenses.

Other expense for the year increased \$5 million from last year, driven by losses on investments used to fund certain retirement benefits liabilities.

The effective income tax rate was 11 percent, down approximately 3 percentage points from the comparable period last year. The decrease was due primarily to an increase in excess tax benefits related to stock option exercises, partially offset by the effect of non-recurring tax benefits from other tax planning activities last year.

## Segment Results

Management assesses performance of segments by reference to operating earnings excluding unallocated corporate expenses. For a reconciliation of segment operating earnings to consolidated operating earnings, refer to the segment information table included in the financial statement section of this release. Certain measurements of segment operations are summarized below:

	Three Months		
	Industrial	Process	Contractor
Net Sales (in millions)	\$ 158.7	\$ 86.1	\$ 128.8
Percentage change from last year			
Sales	(16)%	(1)%	0 %
Operating earnings	(23)%	(10)%	8 %
Operating earnings as a percentage of sales			
2020	32 %	21 %	22 %
2019	34 %	23 %	21 %

Components of net sales change by geographic region for the Industrial segment were as follows:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	(8)%	0%	0%	(8)%
EMEA	(19)%	0%	(1)%	(20)%
Asia Pacific	(22)%	0%	(2)%	(24)%
Consolidated	(15)%	0%	(1)%	(16)%

Industrial segment sales declined in all regions with the spread of worldwide government actions that severely reduced economic activity in major geographies. Improved gross margin rate in this segment, from realized pricing and favorable product and channel mix, offset the adverse impact of changes in translation rates. Decreases in operating expenses did not keep pace with the drop in sales volume, driving operating earnings as a percentage of sales down compared to last year.

Components of net sales change by geographic region for the Process segment were as follows:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	(6)%	2%	0%	(4)%
EMEA	(7)%	8%	(1)%	0%
Asia Pacific	(3)%	15%	(3)%	9%
Consolidated	(6)%	5%	0%	(1)%

Process segment sales decreased slightly, with sales from acquired operations nearly offsetting volume declines in organic businesses. Lower volume, higher product costs, unfavorable channel and product mix, and lower operating margins of acquired operations combined to decrease operating earnings as a percentage of sales.

Components of net sales change by geographic region for the Contractor segment were as follows:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	2%	0%	(1)%	1%
EMEA	3%	0%	(2)%	1%
Asia Pacific	(14)%	0%	(4)%	(18)%
Consolidated	1%	0%	(1)%	0%

Contractor segment sales increased by 1 percent at consistent currency translation rates, with favorable response to new product offerings and continued stability in construction markets in the Americas and EMEA. This segment saw a marked reduction in orders during the latter part of March that offset solid revenue gains earlier in the quarter. Operating margin rate increased by 1 percentage point, driven by strong realized pricing, favorable product and channel mix, and expense leverage.

## Outlook

“Due to economic uncertainty, we are withdrawing our 2020 revenue guidance for the remainder of the year,” said McHale. “While the current environment presents unforeseen challenges, for now our playbook remains the same. In the short term, Graco is well positioned financially and strategically to operate without making major changes that would adversely impact our key stakeholders. We will continue to monitor what is happening in our end markets and may adjust our approach if warranted by facts. We are confident that our loyal customer base, strong management team and business model position us well for the long term. I want to recognize the hard work and dedication of our employees, who have kept our factories running and our company open for business.”

## Financial Results Adjusted for Comparability

Excluding the impacts of excess tax benefits related to stock option exercises and certain tax provision adjustments presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	Three Months Ended	
	Mar 27, 2020	Mar 29, 2019
Earnings before income taxes	\$ 82.1	\$ 100.7
Income taxes, as reported	\$ 9.3	\$ 14.0
Excess tax benefit from option exercises	7.8	5.1
Other non-recurring tax benefit	—	1.5
Income taxes, adjusted	\$ 17.1	\$ 20.6
Effective income tax rate		
As reported	11.3%	13.9%
Adjusted	20.8%	20.5%
Net Earnings, as reported	\$ 72.8	\$ 86.7
Excess tax benefit from option exercises	(7.8)	(5.1)
Other non-recurring tax benefit	—	(1.5)
Net Earnings, adjusted	\$ 65.0	\$ 80.1
Weighted Average Diluted Shares	172.6	170.9
Diluted Earnings per Share		
As reported	\$ 0.42	\$ 0.51
Adjusted	\$ 0.38	\$ 0.47

## Cautionary Statement Regarding Forward-Looking Statements

The Company desires to take advantage of the “safe harbor” provisions regarding forward-looking statements of the Private Securities Litigation Reform Act of 1995 and is filing this Cautionary Statement in order to do so. From time to time various forms filed by our Company with the Securities and Exchange Commission, including our Form 10-K, Form 10-Qs and Form 8-Ks, and other disclosures, including our overview report, press releases, earnings releases, analyst briefings, conference calls and other written documents or oral statements released by our Company, may contain forward-looking statements. Forward-looking statements generally use words such as “expect,” “foresee,” “anticipate,” “believe,” “project,” “should,” “estimate,” “will,” and similar expressions, and reflect our Company’s expectations concerning the future. All forecasts and projections are forward-looking statements. Forward-looking statements are based upon currently available information, but various risks and uncertainties may cause our Company’s actual results to differ materially from those expressed in these statements. The Company undertakes no obligation to update these statements in light of new information or future events.

Future results could differ materially from those expressed due to the impact of changes in various factors. These risk factors include, but are not limited to: the impact of the COVID-19 pandemic on our business; economic conditions in the United States and other major world economies; our Company’s growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; the ability to meet our customers’ needs and changes in product demand; supply interruptions or delays; security breaches; new entrants who copy our products or infringe on our intellectual property; risks incident to conducting business internationally; catastrophic events; changes in laws and regulations; compliance with anti-corruption and trade laws; changes in tax rates or the adoption of new tax legislation; the possibility of asset impairments if acquired businesses do not meet

performance expectations; political instability; results of and costs associated with litigation, administrative proceedings and regulatory reviews incident to our business; our ability to attract, develop and retain qualified personnel; the possibility of decline in purchases from a few large customers of the Contractor segment; and variations in activity in the construction, automotive, mining and oil and natural gas industries. Please refer to Item 1A of our Annual Report on Form 10-K for fiscal year 2019 (and most recent Form 10-Q) for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at [www.graco.com](http://www.graco.com) and the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

Investors should realize that factors other than those identified above and in Item 1A might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

### **Conference Call**

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Thursday, April 23, 2020, at 11 a.m. ET, 10 a.m. CT, to discuss Graco's first quarter results.

A real-time webcast of the conference call will be broadcast live over the internet. Individuals wanting to listen and view slides can access the call at the Company's website at [www.graco.com](http://www.graco.com). Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

For those unable to listen to the live event, a replay will be available soon after the conference call at Graco's website, or by telephone beginning at approximately 2 p.m. ET on Thursday, April 23, 2020, by dialing 888-203-1112, Conference ID #6655137, if calling within the U.S. or Canada. The dial-in number for international participants is +1 786-789-4797, with the same Conference ID number. The replay by telephone will be available through 2 p.m. ET on Monday, April 27, 2020.

### **About Graco**

Graco Inc. supplies technology and expertise for the management of fluids and coatings in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid and powder materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at [www.graco.com](http://www.graco.com).

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)**  
(In thousands except per share amounts)

	Three Months Ended	
	Mar 27, 2020	Mar 29, 2019
Net Sales	\$ 373,567	\$ 404,870
Cost of products sold	174,936	188,828
Gross Profit	198,631	216,042
Product development	17,081	16,569
Selling, marketing and distribution	57,388	60,817
General and administrative	34,350	34,129
Operating Earnings	89,812	104,527
Interest expense	2,486	3,535
Other expense, net	5,223	269
Earnings Before Income Taxes	82,103	100,723
Income taxes	9,285	13,974
Net Earnings	\$ 72,818	\$ 86,749
Net Earnings per Common Share		
Basic	\$ 0.43	\$ 0.52
Diluted	\$ 0.42	\$ 0.51
Weighted Average Number of Shares		
Basic	167,977	165,616
Diluted	172,642	170,859

**SEGMENT INFORMATION (Unaudited)**  
(In thousands)

	Three Months Ended	
	Mar 27, 2020	Mar 29, 2019
Net Sales		
Industrial	\$ 158,684	\$ 189,100
Process	86,078	86,894
Contractor	128,805	128,876
Total	\$ 373,567	\$ 404,870
Operating Earnings		
Industrial	\$ 50,233	\$ 65,203
Process	18,111	20,014
Contractor	28,630	26,539
Unallocated corporate (expense)	(7,162)	(7,229)
Total	\$ 89,812	\$ 104,527

The Consolidated Balance Sheets, Consolidated Statements of Cash Flows and Management's Discussion and Analysis are available in our Quarterly Report on Form 10-Q on our website at [www.graco.com](http://www.graco.com).

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