



# **4<sup>th</sup> Quarter 2020 Earnings Conference Call**

January 26, 2021

# Safe Harbor



Today's presentation includes forward-looking statements that reflect management's current expectations about the Company's future business and financial performance.

These statements are subject to certain risks and uncertainties that could cause actual results to differ from anticipated results.

Factors that could cause actual results to differ from anticipated results are identified in Item 1A of the Company's Form 10-K, and Item 1A of the most recent Quarterly Report on Form 10-Q and also the Company's Earnings Release dated January 25, 2021.

# Conference Call Logistics

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The release, accompanying slides and replay webcast are available online at [www.graco.com/ir](http://www.graco.com/ir)

Telephone replay will be available after 2 p.m. ET, January 26, 2021. The replay by telephone will be available through 1 p.m. ET, February 2, 2021.

- ▶ 855-859-2056 – Conference ID #5162659
- ▶ 404-537-3406 – with the same conference ID #, for international participants

# Financial Results

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## Statement of Earnings

\$ in millions except per share amounts

	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
<b>Sales</b>	\$ 470.3	\$ 412.3	14 %	\$1,650.1	\$1,646.0	0 %
<b>Gross Profit</b>	244.8	209.4	17 %	854.9	859.8	(1)%
% of Sales	52.1%	50.8%	1.3 pts	51.8%	52.2%	(0.4) pts
<b>Operating Earnings</b>	132.1	104.2	27 %	391.7	424.5	(8)%
% of Sales	28%	25%	3 pts	24%	26%	(2) pts
<b>Net Earnings</b>	\$ 114.7	\$ 84.8	35 %	\$ 330.5	\$ 343.9	(4)%
% of Sales	24%	21%	3 pts	20%	21%	(1) pts
<b>Diluted Earnings Per Share</b>	\$ 0.66	\$ 0.49	35 %	\$ 1.92	\$ 2.00	(4)%
Diluted Shares in Millions	173.2	171.8	1 %	172.0	171.6	0 %
Operating Earnings, Adjusted (1)	\$ 132.1	\$ 104.2	27 %	\$ 426.9	\$ 424.5	1 %
Net Earnings, Adjusted (1)	\$ 106.0	\$ 82.0	29 %	\$ 335.2	\$ 325.4	3 %
Diluted Earnings Per Share, Adjusted (1)	\$ 0.61	\$ 0.48	27 %	\$ 1.95	\$ 1.90	3 %

(1) Operating earnings, net earnings and diluted earnings per share for 2020 and 2019 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 5 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

# Financial Results Adjusted for Comparability

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Certain items have caused fluctuation in the Company's financial results. Excluding the impacts of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements follows:

Non-GAAP Reconciliation	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
\$ in millions except per share amounts						
<b>Operating earnings, as reported</b>	\$ 132.1	\$ 104.2	27 %	\$ 391.7	\$ 424.5	(8)%
Impairment	-	-		35.2	-	
<b>Operating earnings, adjusted</b>	<b>\$ 132.1</b>	<b>\$ 104.2</b>	<b>27 %</b>	<b>\$ 426.9</b>	<b>\$ 424.5</b>	<b>1 %</b>
<b>Income taxes, as reported</b>	\$ 14.8	\$ 15.7	(6)%	\$ 44.2	\$ 62.0	(29)%
Impairment tax benefit	-	-		1.2	-	
Excess tax benefit from option exercises	8.7	2.3		21.3	10.4	
Other non-recurring tax benefit	-	0.5		8.0	8.1	
<b>Income taxes, adjusted</b>	<b>\$ 23.5</b>	<b>\$ 18.5</b>	<b>27 %</b>	<b>\$ 74.7</b>	<b>\$ 80.5</b>	<b>(7)%</b>
Effective income tax rate						
As reported	11%	16%		12%	15%	
Adjusted	18%	18%		18%	20%	
<b>Net earnings, as reported</b>	\$ 114.7	\$ 84.8	35 %	\$ 330.5	\$ 343.9	(4)%
Impairment, net	-	-		34.0	-	
Excess tax benefit from option exercises	(8.7)	(2.3)		(21.3)	(10.4)	
Other non-recurring tax benefit	-	(0.5)		(8.0)	(8.1)	
<b>Net earnings, adjusted</b>	<b>\$ 106.0</b>	<b>\$ 82.0</b>	<b>29 %</b>	<b>\$ 335.2</b>	<b>\$ 325.4</b>	<b>3 %</b>
Weighted average diluted shares, in millions	173.2	171.8		172.0	171.6	
Diluted earnings per share						
As reported	\$ 0.66	\$ 0.49	35 %	\$ 1.92	\$ 2.00	(4)%
Adjusted	\$ 0.61	\$ 0.48	27 %	\$ 1.95	\$ 1.90	3 %

# Non-cash Impairment



- ▶ In the second quarter, the Company entered into negotiations to sell its U.K.-based valve business ("Alco"), which has significant exposure to oil and natural gas markets, and has accumulated operating losses since acquired in 2014. Alco operations contributed \$7 million of sales and \$2 million in operating losses for 2020 and are included within the Company's Process segment
- ▶ Based on the negotiations to sell, the Company revalued its investment in Alco during the second quarter, recording non-cash impairment charges of \$35 million, including \$24 million of previously unrealized foreign currency translation losses recorded in accumulated other comprehensive income
- ▶ The sale of Alco was completed in the third quarter
- ▶ For the year, the impact of the impairment on net earnings was \$34 million or \$0.20 per diluted share

# Sales



## Components of Net Sales Changes

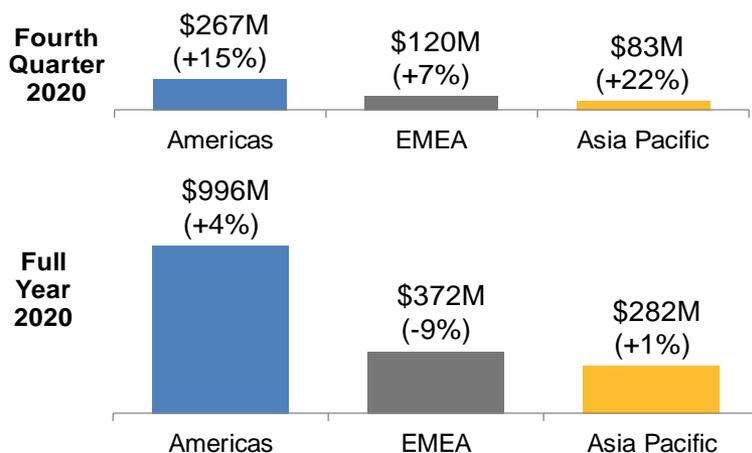
### Fourth Quarter December 2020

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	6 %	(10)%	33 %	14 %	1 %	16 %	11 %
Acquisitions	0 %	3 %	0 %	1 %	0 %	1 %	1 %
Currency	3 %	1 %	2 %	0 %	6 %	5 %	2 %
<b>Total</b>	<b>9 %</b>	<b>(6)%</b>	<b>35 %</b>	<b>15 %</b>	<b>7 %</b>	<b>22 %</b>	<b>14 %</b>

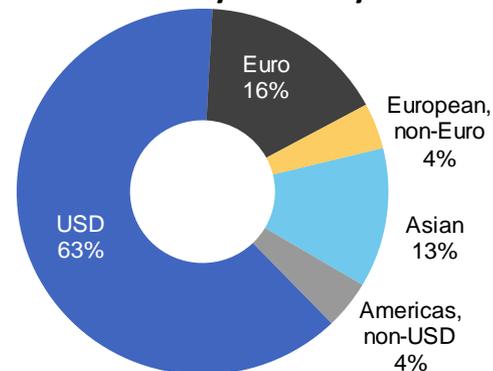
### Full Year 2020

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(10)%	(10)%	17 %	3 %	(11)%	(1)%	(1)%
Acquisitions	0 %	5 %	0 %	1 %	1 %	2 %	1 %
Currency	1 %	0 %	0 %	0 %	1 %	0 %	0 %
<b>Total</b>	<b>(9)%</b>	<b>(5)%</b>	<b>17 %</b>	<b>4 %</b>	<b>(9)%</b>	<b>1 %</b>	<b>0 %</b>

## Sales by Region



## 2020 Sales by Currency



Asian currencies include: AUD, CNY, JPY, KRW. European, non-euro currencies include: CHF, GBP, RON. Americas, non-USD currencies include: BRL, CAD, MXN.

# Operating Earnings

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2019 Operating earnings (\$M and % of sales)

Translation effect

Volume and product and channel mix

Increase in sales and earnings-based costs

Volume effect on expense leverage

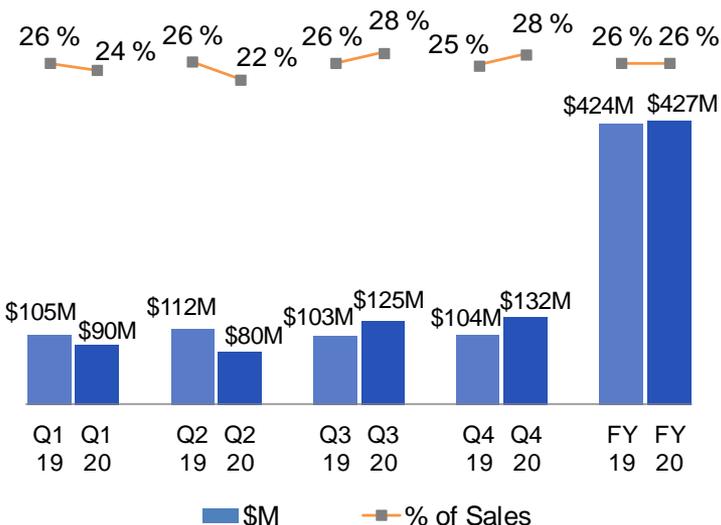
**2020 Operating earnings, excluding impairment**

Non-cash impairment

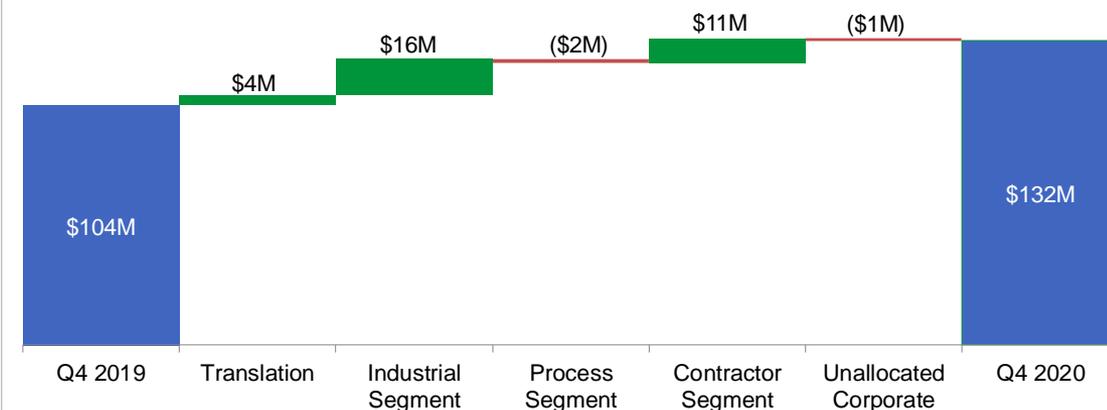
**2020 Operating earnings, as reported (\$M and % of sales)**

	Fourth Quarter		Full Year	
\$	104	25 %	\$ 424	26 %
	4	1	0	0
	34	1	2	0
	(10)	(2)	(7)	(1)
	0	3	8	1
<b>\$</b>	<b>132</b>	<b>28 %</b>	<b>\$ 427</b>	<b>26 %</b>
	0	0	(35)	(2)
<b>\$</b>	<b>132</b>	<b>28 %</b>	<b>\$ 392</b>	<b>24 %</b>

Operating Earnings, Excluding Impairment



Quarter Over Quarter Operating Earnings Walk



# Fourth Quarter 2020

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<b>Sales</b>	<ul style="list-style-type: none"><li>▶ Up 14 percent from 2019, up 12 percent at consistent translation rates<ul style="list-style-type: none"><li>▪ Acquired businesses did not have a meaningful impact</li></ul></li></ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"><li>▶ Rate up 1.3 percentage points from 2019<ul style="list-style-type: none"><li>▪ Strong realized pricing, improved sales volume in the Industrial segment and favorable effects of changes in currency translation rates. Unfavorable product and channel mix in the Contractor segment softened the increase in the gross profit margin rate</li></ul></li></ul>
<b>Operating Earnings</b>	<ul style="list-style-type: none"><li>▶ Operating earnings up \$28 million, 27%<ul style="list-style-type: none"><li>▪ Increase in volume and favorable currency translation driving operating earnings</li></ul></li></ul>
<b>Other Expense</b>	<ul style="list-style-type: none"><li>▶ Decreased \$1 million<ul style="list-style-type: none"><li>▪ Driven by market value fluctuations on investments held to fund certain retirement benefits liabilities</li></ul></li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ Effective tax rate for the quarter was 11%, down 5 percentage points from fourth quarter 2019<ul style="list-style-type: none"><li>▪ Decrease due to additional excess tax benefits related to stock option exercises</li></ul></li></ul>

# 2020 Full Year

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<b>Sales</b>	<ul style="list-style-type: none"><li>▶ Comparable to 2019, the same at consistent translation rates<ul style="list-style-type: none"><li>▪ Acquired businesses added 1 percentage point</li></ul></li></ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"><li>▶ Rate down 0.4 percentage point from 2019<ul style="list-style-type: none"><li>▪ Unfavorable product and channel mix</li></ul></li></ul>
<b>Operating Earnings</b>	<ul style="list-style-type: none"><li>▶ Operating earnings, excluding non-cash impairment, up \$3 million, 1%<ul style="list-style-type: none"><li>▪ Expense leverage offsets unfavorable product and channel mix</li></ul></li><li>▶ Operating earnings, as reported, down \$32 million, 8%<ul style="list-style-type: none"><li>▪ Non-cash impairment charge of \$35 million</li></ul></li></ul>
<b>Other Expense</b>	<ul style="list-style-type: none"><li>▶ Comparable to 2019</li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ Effective tax rate for 2020 was 12%, down 3 percentage points from 2019<ul style="list-style-type: none"><li>▪ Decrease due primarily to additional foreign tax benefits and excess tax benefits related to stock option exercises partially offset by non-deductible impairment charges</li></ul></li></ul>

# Outlook

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## 2020 Organic Sales by Segment - Compared to 2019

	October	November	December	6 Week Avg.
Industrial Segment	15%	16%	(5%)	12%
Process Segment	(6%)	(15%)	(8%)	(6%)
Contractor Segment	41%	34%	26%	37%
	19%	14%	3%	15%

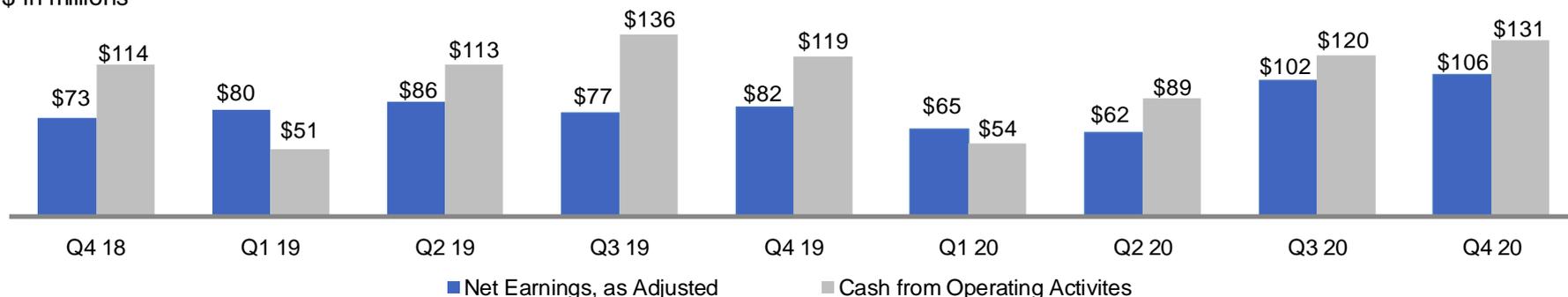
## Bookings

- ▶ Revenue and order rates have improved in the Industrial segment, although timing of projects can impact results
- ▶ Declines in the Process segment continued into fourth quarter, although the rate of decline slowed from previous quarters
- ▶ Outlook for the Contractor segment remains positive as favorable conditions continue
- ▶ Expect challenging conditions to remain in place in many end markets and geographies, for at least the first half of 2021

# Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operating Activities  
\$ in millions



## 2020 Significant Uses of Cash (\$M)

	2020	2019
Dividends	\$ 117	\$ 106
Capital Expenditures	71	128
Acquisitions	28	27
Share Repurchases, Net of Issued	21	-
Pension Contribution	20	-
Net Payments on Debt	2	105

- ▶ Net cash provided by operating activities was \$394 million in 2020 vs. \$419 million in 2019
  - Changes in working capital elements are in line with volume
- ▶ Capital expenditures of \$71 million
- ▶ The Company made a \$20 million voluntary contribution to a U.S. pension plan during the fourth quarter 2020. No contribution was made in 2019
- ▶ Debt, including notes payable, was \$172 million – comparable to December 2019
  - Interest expense down \$2 million compared to 2019
  - Discretionary cash outflows in the fourth quarter included the repayment of the final \$125 million of the \$250 million that was borrowed in the first quarter

# Other Discussion Items

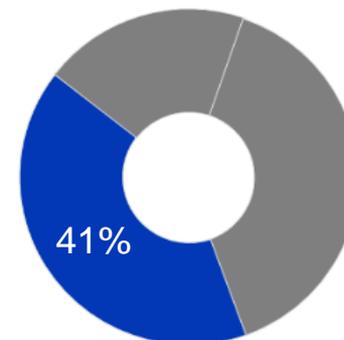
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<b>Cap Ex</b>	<ul style="list-style-type: none"><li>▶ Capital expenditure expectations of approximately \$115 million in 2021, including approximately \$80 million in facility expansion</li></ul>
<b>Expenses</b>	<ul style="list-style-type: none"><li>▶ Unallocated corporate expenses in 2021 are expected to be approximately \$30 million</li></ul>
<b>Shares</b>	<ul style="list-style-type: none"><li>▶ During 2020, we repurchased 2.3 million shares. We may make share repurchases in 2021 via opportunistic open market transactions or short-dated accelerated share repurchase (“ASR”) programs</li></ul>
<b>Currency</b>	<ul style="list-style-type: none"><li>▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2020, the movement in foreign currencies would be a benefit of approximately 2% on sales and 6% on earnings in 2021, with the most significant impact in the first half of the year</li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ We anticipate the effective tax rate in 2021 to be between 18% - 19%, excluding any impact from excess tax benefits related to stock option exercises and other one time items. Actual results and mix of earnings may materially impact the expected tax rate</li></ul>
<b>Fiscal Year 2021</b>	<ul style="list-style-type: none"><li>▶ There will be 53 weeks in fiscal 2021, with 14 weeks in the fourth quarter compared to 52 weeks in fiscal 2020, with 13 weeks in the fourth quarter</li></ul>

# Industrial Segment Results



2020 Industrial Segment Sales as % of Graco

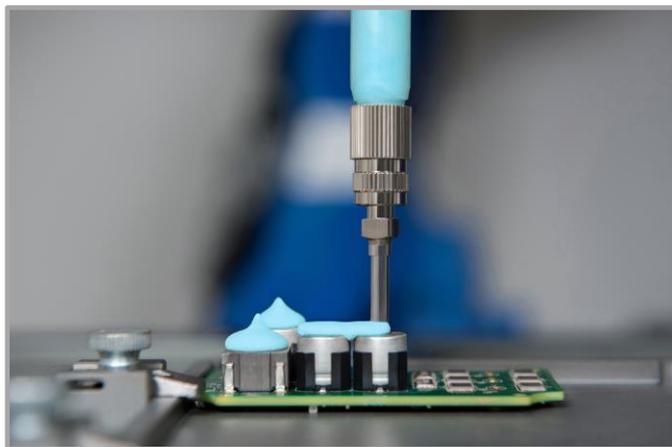


\$ in millions

	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
<b>Sales</b>						
Americas	\$ 86	\$ 85	0%	\$ 295	\$ 324	(9)%
EMEA	73	68	8	207	240	(14)
Asia Pacific	54	42	29	176	183	(4)
<b>Total</b>	<b>\$ 213</b>	<b>\$ 195</b>	<b>9%</b>	<b>\$ 678</b>	<b>\$ 747</b>	<b>(9)%</b>
<b>Operating Earnings</b>	<b>\$ 79</b>	<b>\$ 61</b>	<b>30%</b>	<b>\$ 227</b>	<b>\$ 247</b>	<b>(8)%</b>
% of sales	37 %	31 %		33 %	33 %	

## Components of Net Sales Change

	Q4 2020	Year 2020		Q4 2020	Year 2020
<b>Americas</b>			<b>Asia Pacific</b>		
Volume & Price	1 %	(9)%	Volume & Price	23 %	(4)%
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	(1)%	0 %	Currency	6 %	0 %
<b>Total</b>	<b>0 %</b>	<b>(9)%</b>	<b>Total</b>	<b>29 %</b>	<b>(4)%</b>
<b>EMEA</b>			<b>Segment Total</b>		
Volume & Price	2 %	(15)%	Volume & Price	6 %	(10)%
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	6 %	1 %	Currency	3 %	1 %
<b>Total</b>	<b>8 %</b>	<b>(14)%</b>	<b>Total</b>	<b>9 %</b>	<b>(9)%</b>



# Industrial Segment Results

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Change in % of sales

## 2019 Operating Earnings (% of sales)

Volume and product and channel mix

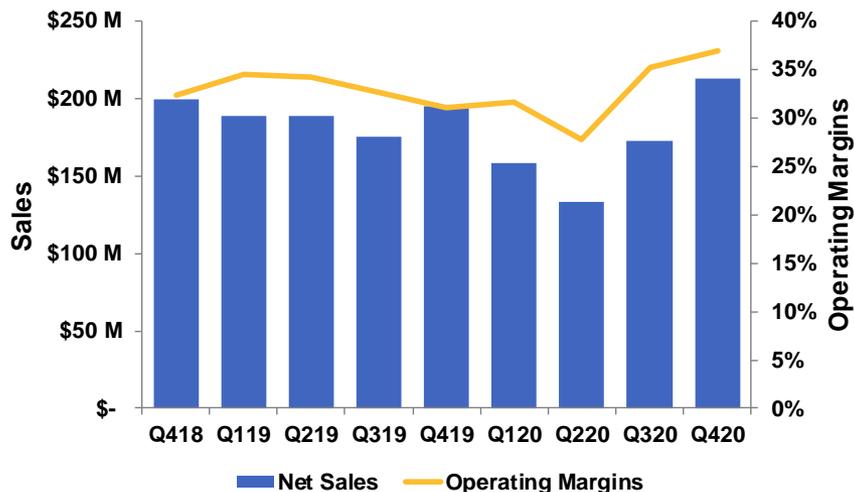
Sales and earnings-based costs

Volume effect on expense leverage

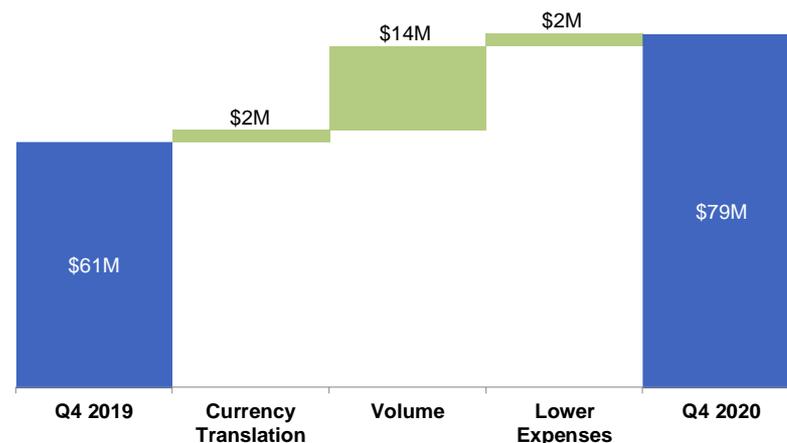
## 2020 Operating Earnings (% of sales)

	Fourth Quarter	Full Year
	31 %	33 %
	4	1
	(1)	0
	3	(1)
	<b>37 %</b>	<b>33 %</b>

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



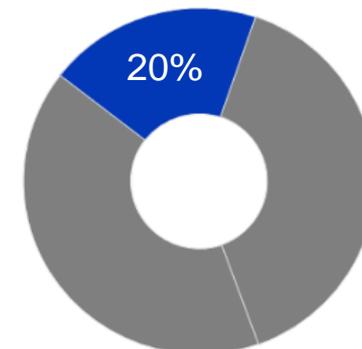
# Process Segment Results



\$ in millions

	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
<b>Sales</b>						
Americas	\$ 53	\$ 55	(3)%	\$ 206	\$ 222	(7)%
EMEA	12	16	(21)	53	62	(14)
Asia Pacific	18	18	(2)	67	61	9
<b>Total</b>	<b>\$ 83</b>	<b>\$ 89</b>	<b>(6)%</b>	<b>\$ 326</b>	<b>\$ 345</b>	<b>(5)%</b>
<b>Operating Earnings</b>	<b>\$ 19</b>	<b>\$ 20</b>	<b>(6)%</b>	<b>\$ 64</b>	<b>\$ 76</b>	<b>(16)%</b>
% of sales	22 %	22 %		20 %	22 %	

2020 Process Segment Sales as % of Graco



## Components of Net Sales Change

	Q4 2020	Year 2020		Q4 2020	Year 2020
<b>Americas</b>			<b>Asia Pacific</b>		
Volume & Price	(6)%	(10)%	Volume & Price	(8)%	(2)%
Acquisitions	3 %	3 %	Acquisitions	3 %	11 %
Currency	0 %	0 %	Currency	3 %	0 %
<b>Total</b>	<b>(3)%</b>	<b>(7)%</b>	<b>Total</b>	<b>(2)%</b>	<b>9 %</b>
<b>EMEA</b>			<b>Segment Total</b>		
Volume & Price	(24)%	(19)%	Volume & Price	(10)%	(10)%
Acquisitions	1 %	5 %	Acquisitions	3 %	5 %
Currency	2 %	0 %	Currency	1 %	0 %
<b>Total</b>	<b>(21)%</b>	<b>(14)%</b>	<b>Total</b>	<b>(6)%</b>	<b>(5)%</b>

# Process Segment Results

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Change in % of sales

## 2019 Operating Earnings (% of sales)

Currency Translation

Product and channel mix

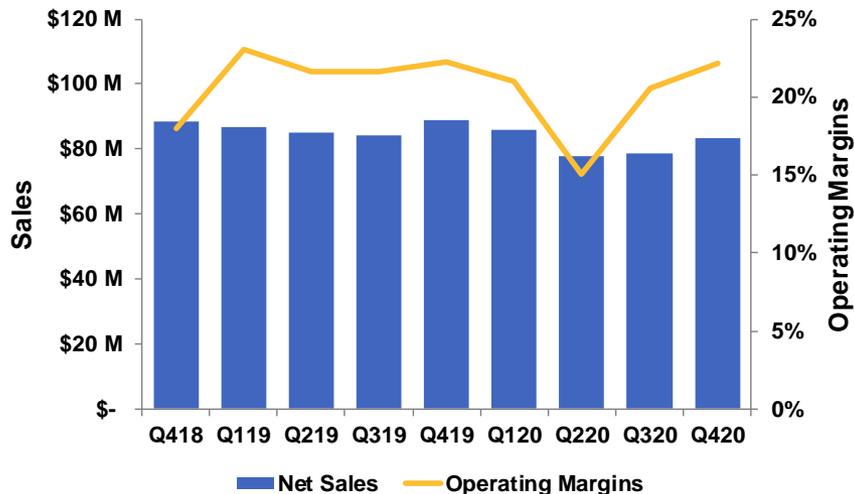
Effect of acquired business operations

Volume effect on expense leverage

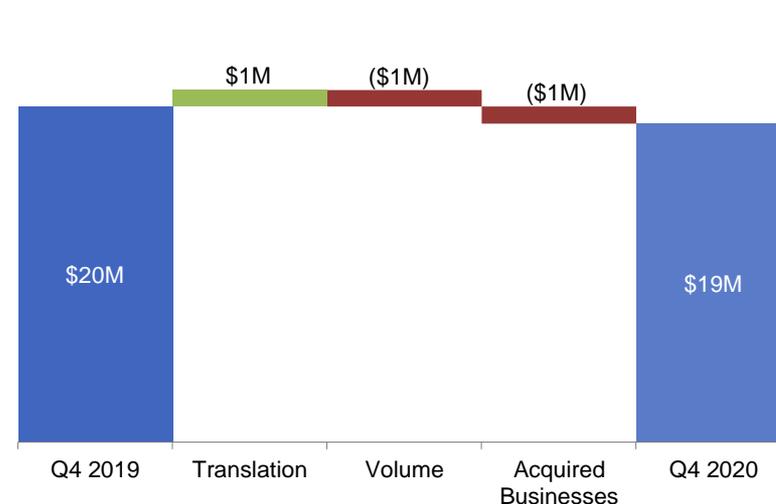
## 2020 Operating Earnings (% of sales)

	Fourth Quarter	Full Year
	22 %	22 %
	1	0
	4	0
	(2)	(1)
	(3)	(1)
	<b>22 %</b>	<b>20 %</b>

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



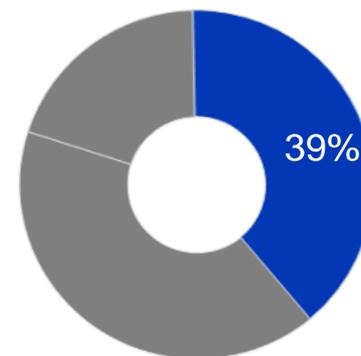
# Contractor Segment Results



\$ in millions

	Fourth Quarter			Full Year		
	2020	2019	Change	2020	2019	Change
<b>Sales</b>						
Americas	\$ 128	\$ 92	39%	\$ 496	\$ 414	20%
EMEA	34	29	20	111	105	6
Asia Pacific	12	8	45	39	35	13
<b>Total</b>	<b>\$ 174</b>	<b>\$ 129</b>	<b>35%</b>	<b>\$ 646</b>	<b>\$ 554</b>	<b>17%</b>
<b>Operating Earnings</b>	<b>\$ 40</b>	<b>\$ 28</b>	<b>44%</b>	<b>\$ 165</b>	<b>\$ 128</b>	<b>28%</b>
% of sales	23 %	22 %		25 %	23 %	

2020 Contractor Segment Sales as % of Graco



## Components of Net Sales Change

	Q4 2020	Year 2020
<b>Americas</b>		
Volume & Price	39 %	20 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
<b>Total</b>	<b>39 %</b>	<b>20 %</b>
<b>EMEA</b>		
Volume & Price	13 %	5 %
Acquisitions	0 %	0 %
Currency	7 %	1 %
<b>Total</b>	<b>20 %</b>	<b>6 %</b>

	Q4 2020	Year 2020
<b>Asia Pacific</b>		
Volume & Price	40 %	14 %
Acquisitions	0 %	0 %
Currency	5 %	(1)%
<b>Total</b>	<b>45 %</b>	<b>13 %</b>
<b>Segment Total</b>		
Volume & Price	33 %	17 %
Acquisitions	0 %	0 %
Currency	2 %	0 %
<b>Total</b>	<b>35 %</b>	<b>17 %</b>

# Contractor Segment Results

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Change in % of sales

## 2019 Operating Earnings (% of sales)

Product and channel mix

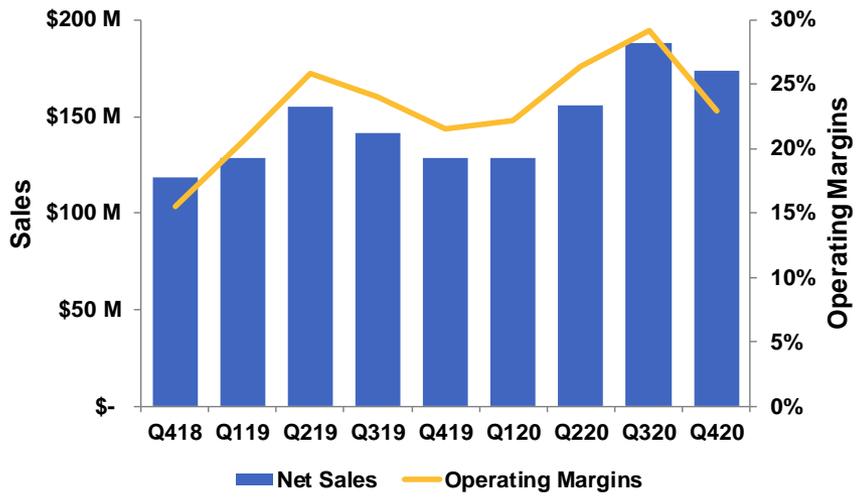
Increase in sales and earnings-based costs

Volume effect on expense leverage

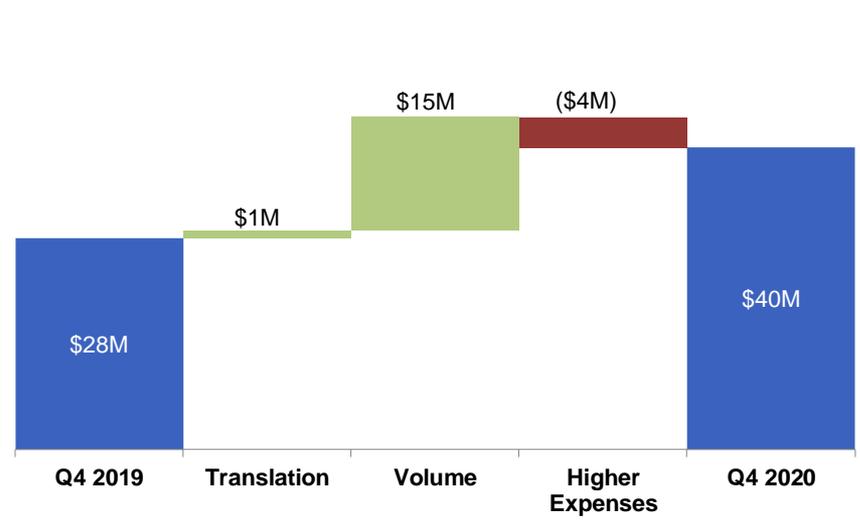
## 2020 Operating Earnings (% of sales)

	Fourth Quarter	Full Year
	22 %	23 %
	(2)	(1)
	(3)	(1)
	6	4
	<b>23 %</b>	<b>25 %</b>

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD





MOVE | MEASURE | MIX | CONTROL | DISPENSE | SPRAY

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