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GGG - Q3 2012 Graco Inc Earnings Conference Call

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OVERVIEW:

GGG reported 3Q12 sales of \$256m and net earnings of \$37m or \$0.60 per diluted share.



CORPORATE PARTICIPANTS

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Liam Burke *Janney Capital Markets - Analyst*

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PRESENTATION

Operator

Good morning and welcome to the third-quarter 2012 conference call for Graco Inc. If you wish to access a replay for this call, you may do so by dialing 1-800-406-7325 within the United States or Canada. The dial-in numbers for international callers is 303-590-3030. The conference ID number is 4568468. The replay will be available through October 28, 2012.

Graco has additional information available in a PowerPoint slide presentation, which is available as part of the webcast player. At the request of the company, we will open up for conference -- for question and answers after opening remarks from management.

And during this call, various remarks may be made by management about their expectations plans and prospects for the future. These remarks constitute forward-looking statements for the purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act. Actual results may differ materially from those indicated as a result of various risk factors including those identified in Item 1A of an Exhibit 99 to the company's 2011 annual reports on Form 10-K, and in Item 1A of the company's most recent quarterly report on Form 10-Q. These reports are available on the company's website at www.graco.com/ir and the SEC's website at www.SEC.gov.

Forward-looking statements reflect management's current views and speak only as of the time they are made. The company undertakes no obligations to update these statements in light of the new information or future events. I will now turn the conference over to Caroline Chambers, Vice President and Controller. Please go ahead.

Caroline Chambers - *Graco Inc - VP, Controller*

Good morning everyone. I am here this morning with Pat McHale, Jim Graner and Christian Rothe. I will start by providing some top level discussion on our overall financial results for the third quarter and then will turn the call over to Pat.

Slides are available to accompany our call and can be accessed on our website. The slides include information about our consolidated financial results for the third quarter in our usual format. We have also included several additional slides about the effective Powder Finishing operations for the quarter and year-to-date that may be helpful.

Sales totaled \$256 million for the quarter including \$30 million from Powder Finishing operations. A table showing impact of volume, acquisitions and currency by segment and region is included on page five of the slides.



Changes in currency translation rates decreased sales by approximately \$6 million. Without the increase in sales in the Industrial segment related to the addition of Powder Finishing sales, sales in this segment were flat compared to the prior year.

Lubrication segment sales increased by 7% and Contractor segment sales declined by 4%. Without the channel dynamics base business sales in the Contractor segment were slightly higher in the Americas and worldwide. Also about the increase in sales related to the addition of Powder Finishing and at consistent exchange rates, sales in the Americas grew by 5%, sales in Europe grew by 4% and sales in Asia-Pacific declined by 10%. By region, Powder Finishing sales were \$7 million in the Americas, \$16 million in Europe, and \$7 million in Asia-Pacific.

Net earnings totaled \$37 million, or \$0.60 per diluted share for the quarter. Changes in currency translation rates decreased earnings by approximately \$2 million for the quarter. We have also included a walk to provide an overview of change in operating earnings, quarter-over-quarter on page 10 of our slide deck.

Gross profit margins as a percent of sales were 55% for the quarter, down 1 percentage point from the third quarter last year. Lower margin rates on acquired Powder Finishing operations, which affected margin rates by approximately 2 percentage points in the quarter, while margins on the legacy Graco operations improved as compared to the prior year.

Higher production cost, the effect of currency translation and product mix, particularly in the contracted segment partially offset favorable real life pricing.

Total operating expenses increased \$14 million for the quarter. Powder operations accounted for \$8 million of the increase of which \$2 million was intangible amortization. Acquisition expenses accounted for another \$1 million of the increase for the quarter.

Increases in product development in general and administrative costs were partially offset by changes in currency translation rates.

Our unallocated corporate expenses include stock compensation, pension and contributions to the Graco foundation, as well as acquisition divestiture costs. On a quarter-over-quarter basis we saw an increase in pension of expense of approximately \$1 million, and as noted earlier an increase in acquisition divestiture costs also of approximately \$1 million. We continue to see unallocated corporate expenses, excluding acquisition divestiture costs, running at \$5 million to \$6 million per quarter going forward.

Included another income are \$4 million of dividends, post-tax, received from the Liquid Finishing business that is required to be held separate from Graco, and which is accounted for as a cost method investment.

Interest expense increased \$2 million for the quarter due to higher levels of borrowings.

The effective tax rate of 32% is consistent with the third quarter last year. This year's rate is reduced by the effect of investment income from the Liquid Finishing business held separate. Last year's rate was reduced by the effect of the Federal R&D credit that is not available in 2012.

Our usual slides about segment results are also included in the slide deck starting on page 14.

Net cash provided by operating activities was \$67 million for the quarter. Working capital is being managed in line with business volumes and we did see modest improvement in inventory levels in the organic Graco operations.

Capital expenditures are \$14 million year-to-date and we expect capital expenditures to be around \$20 million for the full year. We have paid dividends of \$41 million. We also made a voluntary \$10 million contribution to our US funded pension plan during the third quarter in line with our expectations. Our outstanding long-term debt declined by \$37 million during the quarter to \$590 million.

I will take just a moment to once again briefly discuss the accounting for the Liquid Finishing business that is reflected as a cost investment on our balance sheet. Under terms of the hold separate order from the Federal Trade Commission, we cannot exercise direction or control the operation direction of Liquid Finishing, nor are we able to exert significant influence over the Liquid Finishing operation. Consequently, the \$427 million



investment in the Liquid Finishing business has been reflected as a cost method investment, and its financial results have not been consolidated with those of the Company.

Income is recognized based on dividends received from current earnings, post-tax, and is included in other income in Graco's income statement. Dividends from the Liquid Finishing business totaled \$4 million post-tax in the third quarter. With that, I will turn the call over to Pat for more comments on our results.

Pat McHale - Graco Inc - President & CEO

Thank you Carolyn, good morning everyone. This morning I will give you some color on the general trends we saw in our business in the third quarter and our reviews for the remainder of 2012.

Q3 business conditions in the legacy Graco business, excluding the Powder business acquired in April, continue to be challenging, particularly in Asia-Pacific were base business comparisons to the second-quarter's run rate and to last year's Q3 were both negative, and, frankly, were significantly worse than what we had anticipated on our second-quarter call in July.

Third-quarter performance in the Legacy business in Europe was in line with our expectations and the Americas performed well with the exception of our Contractor business, which was disappointing. I do not have any particularly concerns regarding our Contractor Americas business and remain positive about segment going forward. More on that in a moment.

Factory performance was solid again in Q3, as our operating people continue to do a great job despite the volume challenges. Factory performance along with price realization drove nice underlying gross margin results for the quarter. The Powder business also had a decent quarter and is contributing to our profitability, as expected.

I will walk through each of the regions and segments and briefly give you a few data points and our go-forward outlook. My comments are based on year-over-year performance on a constant currency basis.

Starting with Asia, all segments down compared to last year Q3. China, India, Korea and Japan were all down double digits. We do continue to see growth in Australia and the developing economies of Southeast Asia. It is challenging to get hard data on short-term trends in specific end markets in our Industrial business, due to our selling through third-party distribution.

We did do some specific sampling of wear parts and accessories that are typically identified with certain end markets, and although the results are anecdotal, I will give you some color on what we saw. While automotive project activity, particularly new plant builds has been weak in 2012, it appears that production levels in existing facilities have been holding fairly steady. Some of the industries where we've seen a decline in both unit sales and wear parts and accessories included construction equipment, shipbuilding, solar and wind.

Clearly, there is some over capacity in these and markets, which is going to take some time to work through. At this point we are focusing our efforts in the industries and geographies where pockets of opportunity continue to exist.

The fourth quarter of 2011 was Asia-Pacific's best quarter, so we anticipate next quarter to be off compared to last year, and may approximate our third quarter's run rate. We don't see any catalyst in the short-term that will have a major positive impact on our incoming order rate. We continue to work our own strategic initiatives, including launching new products and adding distribution but plan to be conservative on adding more growth investment or headcount until there is more clarity.

Moving on to Europe. We had growth in both the west and the east during the quarter, although the growth in the west was at low single digit pace. Eastern Europe and Russia continue to grow at a double-digit pace. Our geographic mix in Europe continues to move towards the developing economies.



In 2003, the west was 86% of our sales, the east only 14%. Today we are 60% in the west and 40% in the east. We believe conditions in Western Europe will remain soft for some time; however, we like our growth initiatives and the investments we have made in the developing markets of EMEA and we are working hard to outperform what the market will give us.

Now some comments regarding the Americas. The Industrial and Lube businesses remain strong in Q3, both growing double digits in the quarter. In Industrial we are seeing ongoing investments in industrial and automotive finishing applications, while the lubrication segment had strong growth from both vehicle services and industrial lube.

Contractor sales were a bit soft during the quarter. Out-the-door sales at key distributor accounts in the Propane business continued at a healthy double-digit rates, reflective of improving housing market. Some channel inventory realignment on parts and accessories during the quarter negatively impacted our sales and particularly our margin performance, and I don't expect this to recur in Q4.

As I mentioned on our second quarter call, we have a new product launch in the Contractor segment that was planned to hit sometime between Q3 and Q4. The product did not launch in Q3 and I'm not sure if it will launch in Q4. We are working out some pre-launch technical challenges and will not release until we are confident we have it right.

In any case, we believe base business in Contractor Americas will be improved in the fourth quarter versus last year. We expect market conditions to remain favorable as we move into 2013, and I continue to be positive about the short and medium-term prospects for recovery in Contractor Americas.

A few comments just on overall outlook. Entering the fourth quarter we continued to see a high level of variability in our businesses and geographies. The Americas have been our leading region throughout 2012 and we believe that trend will continue through the last quarter of the year. Outside of the significant FX headwind, Europe has been a low single-digit growth story in 2012. We are expecting that to continue in the fourth quarter.

As stated earlier, activity levels in our Asia-Pacific region have been challenging in 2012 and we have a difficult comp in Q4. As such, we're expecting AP will be down in the fourth quarter compared to last year. We continue to look at our resources around the world and the investments we made in our growth initiatives to make sure that their funding at appropriate levels.

All in all, we still have a strong belief in our strategic initiatives and the long-term value that they bring. We remain focused on execution, bringing our best-in-class new products to market, investing for growth in emerging economies, adding distribution, expanding our product breadth into new applications, and working to convert end users from manual application methods to using sprayers.

A few final comments regarding the Liquid Finishing divestiture process, the final decision and order from the SEC has not yet been issued. During the past months we have been completing our preparations for the sale process. Audited financials are complete. We have a good set of standalone Liquid Finishing financials.

We are well along our path of separating the handful of intermingled Liquid and Powder sales offices, and the offering memorandum and other sales documents are drafted. As stated in the press release, the business continues to perform well with Q3 grown nicely over the last year, and we expect that there'll be significant interest in the asset.

This concludes my prepared remarks. Operator, we are ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The question and answer session will begin at this time. (Operator Instructions) Our first question comes from Charley Brady with BMO Capital Markets.

Charley Brady - *BMO Capital Markets - Analyst*

Thank you good morning. Just on the Contractor segment, Pat, can you go into more detail about what the channel realignment was on the parts, and why that is not going to repeat again? And then can you talk a little bit about -- I guess in the release you talked about higher marketing costs. Is that a temporary issue or is that level at a higher level now going forward?

Pat McHale - *Graco Inc - President & CEO*

Regarding the inventory alignment that happened during the quarter, it is not a completely unusual event, but I will call it a one-off and one of our major channel partners just went through an inventory analysis and decided to make some changes in terms of what quantities of what they stock, where. And so we had an adjustment based upon that.

In terms of the marketing spend, those are really supporting some selling initiatives that we have, and they may or may not recur in the fourth quarter.

Charley Brady - *BMO Capital Markets - Analyst*

Okay. I don't know if I missed it or not. Did you comment on the activity level at the Home Center channel and contract during the quarter?

Pat McHale - *Graco Inc - President & CEO*

We did not. Overall, the Home Center business in the fourth quarter was soft, excuse me, the third quarter was soft compared to last year. Although you'll remember that we had the impact of the big rollout in Lowe's last year and we also had a pretty good sized order going into the home centers regarding another initiative that had in rental. Overall, I think it is okay, although for us our sales were not so great.

Jim Graner - *Graco Inc - CFO*

So, year-to-date sales in the Home Center, including the Lowe's that Pat talked about are down \$1 million. So we expect by the end of the year our Home Center sales will be equal to last year.

Charley Brady - *BMO Capital Markets - Analyst*

All right. That's helpful. Thank you.

Operator

Your next question comes from Matt Summerville with KeyBanc.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Morning, a couple of questions. First, Pat, can you talk -- as you progressed through the quarter, month-to-month and what you are seeing in October thus far? Did incoming order rates change meaningfully, were they volatile? It sounded like July was maybe okay. And then, I guess, when did things incrementally soften up for you?



Jim Graner - Graco Inc - CFO

So Matt, this is Jim. August was our really disaster month with respect to orders. We had significant declines there. September was better; orders were over last year and sequentially much better than they were in August. In the first few weeks we had visibility into October, are also over last year and better than both August and July.

Matt Summerville - KeyBanc Capital Markets - Analyst

Do you get the sense that your Asia-Pacific business has bottomed yet? Or is that not what you would glean from the conversations you're having with your sales folks or your incoming order rates?

Pat McHale - Graco Inc - President & CEO

I am not ready to make that call yet. I think it is too early to say. On a comparative basis they had a bang up fourth quarter last year, but just on a run rate basis, we don't see a cliff. But we just kind of see flat and not really any big positives here in the short-term that I think can turn that around.

Matt Summerville - KeyBanc Capital Markets - Analyst

Okay, and then just one last one. With the respect to the Contractor business maybe speak about both the Professional Paint and Home Center channels. Is there any sort of trend that you can share as what you're seeing in terms of -- you mentioned out the door volumes but what you are seeing there with respect to average selling prices?

Jim Graner - Graco Inc - CFO

So I think the underlying trends in both paint and home center and out the door sales are nice improvements. Again, there is some noise here in the third quarter and I would say that average sales prices -- we're really are not seeing any difference. There is no headwind with respect to average sales prices.

Matt Summerville - KeyBanc Capital Markets - Analyst

I'm sorry, maybe I asked the question the wrong way. I'm trying to get a sense for in your propane channel, for example, if you're seeing a greater mix of higher dollar systems going out the door versus lower dollar.

Jim Graner - Graco Inc - CFO

So, when we take a look at the mix we have been sharing with you the significant improvement from the lower-priced units to the higher-priced units. That trend in our shipments to the stores changed in the third quarter where they were more equal; equal growth rates or equal sales rates. So the trend that we have been seeing for the first half of the year had some temporary abatement here in the third quarter.

Matt Summerville - KeyBanc Capital Markets - Analyst

Great. Thanks guys.

Operator

Your next question comes from Kevin Maczka with BB&T Capital Markets.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Good morning. Pat, I apologize, my phone cut out, but if I missed this. In respect to your comment on Asia, you are clearly challenging the comp in Q4 is more difficult. Is it your sense though that is bottoming in any way? Or is that just a function of a more difficult comp in Q4 that makes you sound like the numbers may be still be very challenging?

Pat McHale - *Graco Inc - President & CEO*

Yes, you know we have got a tough comp in Q4, but I am really expecting that the most likely result in Q4 is sort of a continuation of the current run rate. I don't really see a big catalyst to move that to the positive nor do I see it falling off a cliff. It just seems to me that we are sort of flat right now.

Kevin Maczka - *BB&T Capital Markets - Analyst*

And is that a fair statement regarding Europe as well, with the east maybe continuing to do better and the west continuing to be a drag?

Pat McHale - *Graco Inc - President & CEO*

Yes, I would say that is the way we see it. Although we are seeing a little -- without currency effect we are still seeing a [titch] of growth in the west and there is some reason to believe with our own initiatives that that might sustain.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay. Then as it relates to the housing lift, I think that is something most people have been waiting to see, and of course the industry data looking better. Your Americas' Contractor was down 5% but is that more a function of this inventory realignment versus not seeing that lift yet, and that still being a coming attraction maybe even in Q4 we will see better numbers there?

Pat McHale - *Graco Inc - President & CEO*

A couple of us can weigh in on that, I will give you my thoughts. That was only a part of it. I can tell you that it was just -- third quarter was just soft, it was softer than I thought it would be and that inventory realignment was a piece of it. But that is not the whole story. My gut tells me it is noise, but I will let Jim weigh in.

Jim Graner - *Graco Inc - CFO*

I would echo Pat's comments that even with the inventory, after you exclude the impact of the inventory realignment, our sales were disappointing. We did have modest -- we would have had modest growth.

The belief is that the out-the-door sales in the Professional Paints channel is still about 9%, you know with the few people that report information to us. So the division is still positive and expects to have a good close to the year in part of that again is reflected in Pat's outlook that we will have improved sales in Contractor.



Pat McHale - Graco Inc - President & CEO

The data that we get does not indicate that there is anything happening with market share or anything else. So, again, I don't have any reason to be overly concerned at this point.

Jim Graner - Graco Inc - CFO

And remember that, painting is the last thing that is done on the house before it is complete. So starts are one thing; we tend to have a lag. Whether that happens in the fourth quarter or next year we are unsure.

Kevin Maczka - BB&T Capital Markets - Analyst

Got it. Thank you.

Operator

Your next question on the line comes from Jim Giannakouros with Oppenheimer & Co.

Jim Giannakouros - Oppenheimer & Co. - Analyst

Thank you, good morning. Not to harp on Asia, but just one quick question on the Japanese autos taking capacity out of China recently, those announcements there. How disruptive do you think that is going to be you near-term and could it even serve as a source of opportunity for new equipment?

Pat McHale - Graco Inc - President & CEO

Well, you know, as things move around, that's typically a positive for us, but it can be a timing issue as well. When one industry picks up and moves somewhere else for whatever reason, typically they can't pull the equipment out and move it and start that facility up again. Typically it is a new install so over the longer term that relocation of production volumes tends to favor us.

Jim Giannakouros - Oppenheimer & Co. - Analyst

Okay. Great. On Industrials in the Americas. I think your core growth, either you said or my math indicates low double-digit growth, if you strip out the Gema acquisition. That is an acceleration from 2Q, if my math is correct. I guess the question is where are you seeing the strength there and how sustainable is that in the coming quarters?

Pat McHale - Graco Inc - President & CEO

You know it has been fairly broad in the Industrial business. It hasn't been all one segment that has been carrying the load. Our Americas business in Industrial has been pretty decent. I don't have a crystal ball, and I hate to say what the future might hold. We have got the election coming up and lots of other noise. For right now, it seems reasonably solid to us.

Jim Giannakouros - Oppenheimer & Co. - Analyst

Great thanks.

Operator

You next question comes from Liam Burke with Janney Capital Markets.

Liam Burke - *Janney Capital Markets - Analyst*

Thank you. Good morning Pat, good morning, Jim. Pat, on the Powder Coatings business have you been able to pick up any additional distribution now that the Powder is under the Graco umbrella?

Pat McHale - *Graco Inc - President & CEO*

You know, I would have to go back and find that out. It has not been substantial, I can tell you that. Whether we've added -- converted anybody, I don't know. Our main focus for that management team here over the last number of months has been really getting the business ready to split away from the Liquid business.

So, those things that have to happen in shared sales locations around the world and then, of course, making sure that they are fully engaged in driving the topline which has been the number one priority that we've given them. I am not aware of anything specific at this point.

Jim Graner - *Graco Inc - CFO*

Liam, we are being very deliberate with respect to the channel. We want to make sure that the powder distributors don't envision their business disappearing. We don't intend for that to happen, so we want to make sure we are careful on where we add or convert Graco distributors. We are not just taking away from the existing channels.

Liam Burke - *Janney Capital Markets - Analyst*

Sure. Jim, on the CapEx front, it is a little lower than last year, is there any significant difference or is it just this is way it's falling out for 2012?

Jim Graner - *Graco Inc - CFO*

I will say it a little bit less growth rate, so the factory still have lots of ideas and they'll be executing those when the growth rate returns. So we have -- I will call it a more aggressive CapEx for next year than we'll spend this year, closer again to the \$30 million kind of number.

Liam Burke - *Janney Capital Markets - Analyst*

Great. Thank you.

Operator

(Operator Instructions) One moment please for our next question. Your next question comes from Kevin Maczka with BB&T Capital Markets

Kevin Maczka - *BB&T Capital Markets - Analyst*

Your buyback announcement from last month, does the SEC timing influence that at all? Do plan to be -- can you say anything about your plans in terms of being more or less aggressive than you have been historically now that you have such a big buyback in place?



Jim Graner - *Graco Inc - CFO*

We will be aggressive again when it gets us the right ROI. For sure we are being cautious now until we sell the Liquid business. So, once that is done we will have lots of cash, net cash, debt that is close to zero. So we have the opportunity to be more aggressive going forward than we have been for the past nine months.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay. And then as it relates to the Powder business, maybe it's too early yet, but I know you had intended to do a number of things to kind of boost the margins more towards Graco-like margins in that area. Insourcing some products and other things like that. Can you maybe give a little bit of an update on how those plans are progressing and have you seen any tangible improvements yet?

Jim Graner - *Graco Inc - CFO*

Again, Kevin, remember, that is a five year journey. So, a couple of things that we have done is we funded some CapEx for the business that they wouldn't have had funded under their prior ownership. So they have some plans there that are directed to take costs out of the existing product.

We have had their manufacturing team here in our factories. We are studying the various ways we put together the liquid spray guns versus the powder spray guns, so that study continues. We continue to share ideas with vendors and sourcing. So small incremental things that over time we expect to have the margin get higher.

Kevin Maczka - *BB&T Capital Markets - Analyst*

Okay. Thank you.

Operator

Your next question comes from Matt Summerville with Key Bank.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

I just had two quick follow-ups. One, a clarification on Contractor, you indicated a heightened degree of competency growth in that business, I assume that is year-over-year basis, you're not talking sequentially. Correct? You would still anticipate year-end seasonality there?

Pat McHale - *Graco Inc - President & CEO*

That is correct.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Okay. And then second, as indicated in your press release and on slide 12, the SEC has yet to issue the final decision and order thing. I would assume that there is not a whole lot involved in doing with that -- doing that. So, I guess I am lost as to why that hasn't been done yet so that you can formally get under the way -- get in the process of selling these businesses and moving on.



Jim Graner - *Graco Inc - CFO*

Matt, again, there is some, I'll call them, issues that the SEC is deliberating around intellectual property. And the split from Gema and the Liquid businesses they're are not significant in Graco's opinion relative to revenues. But there are a couple of things that need to be cleaned up and there's, I will say, analysis going on in the SEC with respect to those issues. Again, today we own all of it, it is just a separation between the Liquid and Powder assets.

Matt Summerville - *KeyBanc Capital Markets - Analyst*

Thank you.

Operator

Your next question on the line comes from Charley Brady with BMO Capital Markets.

Charley Brady - *BMO Capital Markets - Analyst*

Thanks, just a follow-up. So the margin impact from Powder in the quarter was 400 basis points. And I guess just back to a couple questions ago on what you're doing to get the profitability up over time. It sounds like though near-term we can still expect that kind of year-on-year drag on the margin?

Jim Graner - *Graco Inc - CFO*

Yes, that is correct. Again, remember, they were earning about 1500 basis points less than us and on top of that we have some amortization of intangible assets that will be with us for a few years.

Charley Brady - *BMO Capital Markets - Analyst*

Thanks.

Operator

Your next question on the line comes from Jim Krapfel from Morningstar.

Jim Krapfel - *Morningstar - Analyst*

How do you see the market reception for the Liquid Finishing assets? Do think you'll be able to recoup your investments there?

Pat McHale - *Graco Inc - President & CEO*

Yes, we are quite confident that we should get in excess of the \$427 million that is on our balance sheet.

Jim Krapfel - *Morningstar - Analyst*

Okay. Then, on the Industrial margins, excluding the Powder Finishing, how long do you think you can sustain these historically high margin levels?



Pat McHale - *Graco Inc - President & CEO*

Well, it is been part of Graco's business model for 15 or 20 years. Again, we sell highly engineered, specific applications in few quantities to markets where they get a significant return on our investment. So they like what value we add to their ability to return profits to their P&L.

So again, as long as we continue the innovation that we have done and continue to introduce new products that continue to improve the end-users' productivity, I think we will be there and maybe even get a few tenths of a point higher margin. Again, as we bring innovation to the end user.

Jim Krapfel - *Morningstar - Analyst*

All right. Thanks.

Operator

If there are no further questions, I will turn the conference over to Pat McHale, President and Chief Executive Officer.

Pat McHale - *Graco Inc - President & CEO*

All right. Thank you very much. Have a good day.

Operator

This concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.

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