



1st Quarter 2017 Earnings Conference Call

April 27, 2017

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 April 26, 2017.

Conference Call Logistics



The release, accompanying slides and replay web cast are available online at www.graco.com/ir

Telephone replay will be available after 2 p.m. ET, April 27, 2017. The replay by telephone will be available through May 1, 2017

- ▶ 888-203-1112 – Conference ID #7118428
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Financial Results



Statement of Earnings First Quarter

\$ in millions except per share amounts	2017	2016	Change
Sales	\$ 340.6	\$ 304.9	12 %
Gross Profit	185.3	161.8	15 %
% of Sales	54.4 %	53.1 %	1.3 pts
Operating Earnings	85.8	60.9	41 %
% of Sales	25.2 %	20.0 %	5.2 pts
Net Earnings	\$ 60.7	\$ 39.6	54 %
% of Sales	17.8 %	13.0 %	4.8 pts
Diluted Earnings			
Per Share	\$ 1.05	\$ 0.70	50 %
<i>Diluted Shares in Millions</i>	<i>57.7</i>	<i>56.7</i>	

The increase in diluted EPS includes:

- ▶ \$0.05 from a required change in accounting for stock compensation adopted in first quarter 2017, see page 6
- ▶ \$0.01 from reduced intangible amortization expense resulting from the impairment charge recorded in fourth quarter 2016

Components of Net Sales Change

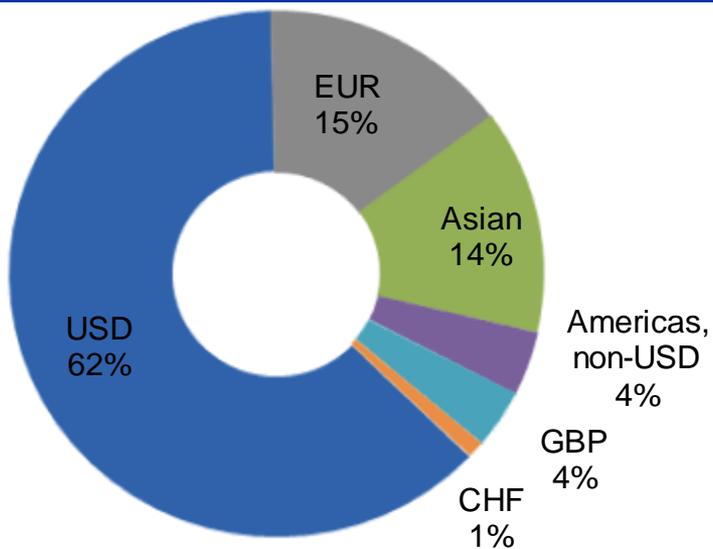
First Quarter March 2017

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	7 %	11 %	23 %	15 %	9 %	11 %	13 %
Acquisitions	1 %	0 %	0 %	0 %	0 %	1 %	0 %
Currency	(2)%	(2)%	(1)%	0 %	(5)%	(2)%	(1)%
Total	6 %	9 %	22 %	15 %	4 %	10 %	12 %

2017 Sales by Currency

Asian currencies include:
AUD, CNY, KRW, JPY

Americas currencies
include:
CAD, BRL, MXN



Change in Accounting for Stock Compensation



A required change in accounting for stock compensation, FASB ASU 2016-09 “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”, was adopted in first quarter 2017. Impact on first quarter:

- ▶ Net effect on diluted EPS was an increase of \$0.05
- ▶ Excess tax benefits, previously credited to equity, reduced the tax provision by \$4M, and decreased the effective tax rate by 4 percentage points
- ▶ New accounting standard also changed certain calculations for diluted average shares outstanding with the effect of increasing diluted outstanding shares by 423,000 in first quarter 2017

Operating Earnings



Change in Operating Earnings

2016 Operating Earnings (\$M and % of sales)

Translation effect

Volume, price and cost

Effect of 2016 inventory step-up, acquisition costs and 2017 acquired business operations, net

Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment

Unallocated corporate expenses (primarily stock compensation)

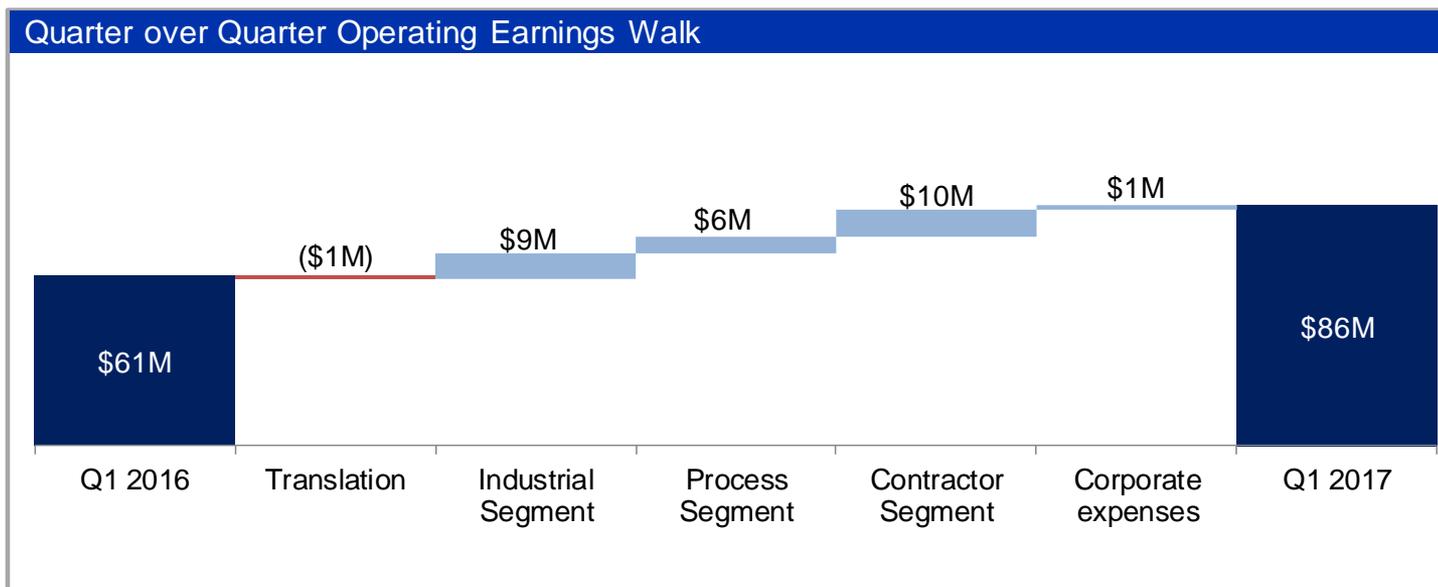
Volume effect on expense leverage

2017 Operating Earnings (\$M and % of sales)

First Quarter

\$ 61	20 %
(1)	—
25	1
1	—
1	—
1	1
(2)	3
\$ 86	25 %

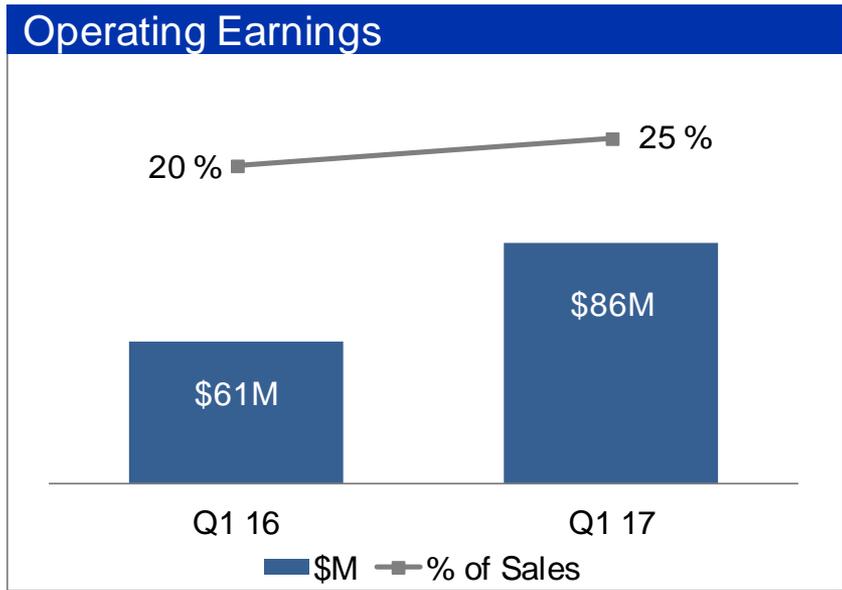
Quarter over Quarter Operating Earnings Walk



First Quarter 2017 Results



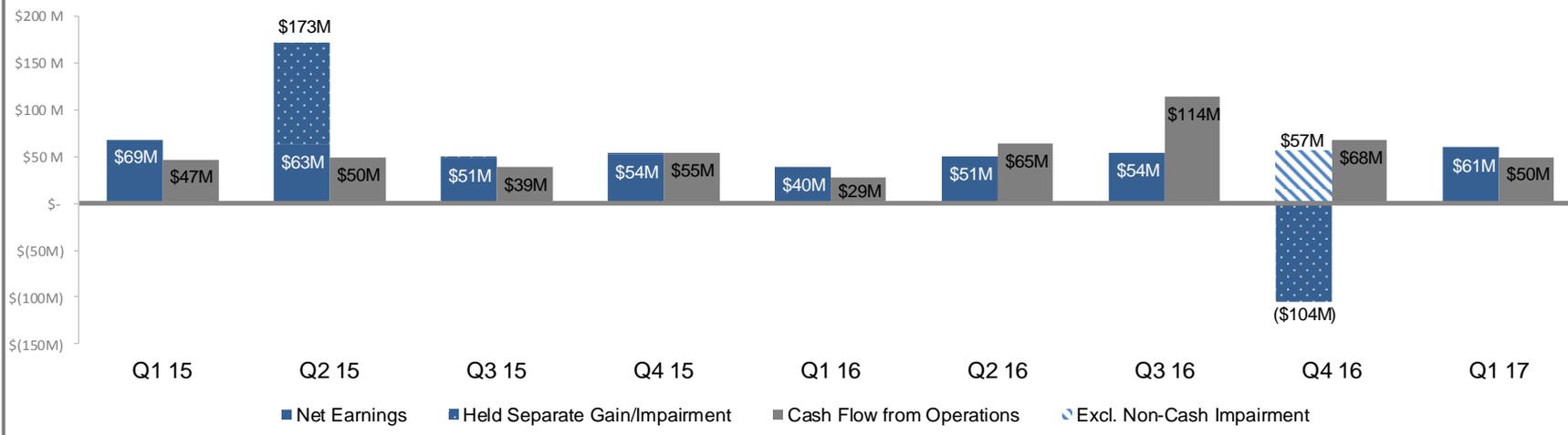
- ▶ Sales increase of 12% (at consistent currency translation rates up 13%)
 - Acquired businesses had no significant impact on the quarter
 - Effect of currency translation rates negatively impacted sales by approximately \$4 million
- ▶ Gross margin rate up 1.3 percentage points from first quarter 2016
 - Higher production volume and realized pricing more than offset unfavorable impact of mix
- ▶ Operating earnings are up \$25 million, or 41%, from first quarter 2016
 - Higher sales volume
 - Net effect of year over year inventory step-up, acquisition costs and 2017 acquired business operations
 - Lower intangible amortization related to the 2016 Oil and Natural Gas impairment
 - Lower unallocated corporate expenses, primarily stock compensation
- ▶ Tax rate for the quarter was 26%, down from 31% in the first quarter last year
 - 2017 rate benefited from the adoption of a change in accounting for stock compensation. Excess tax benefits reduced the tax provision \$4M and reduced the effective tax rate by 4 percentage points
 - 2017 rate benefit from foreign earnings taxed at lower rates than the U.S. was higher compared to first quarter 2016



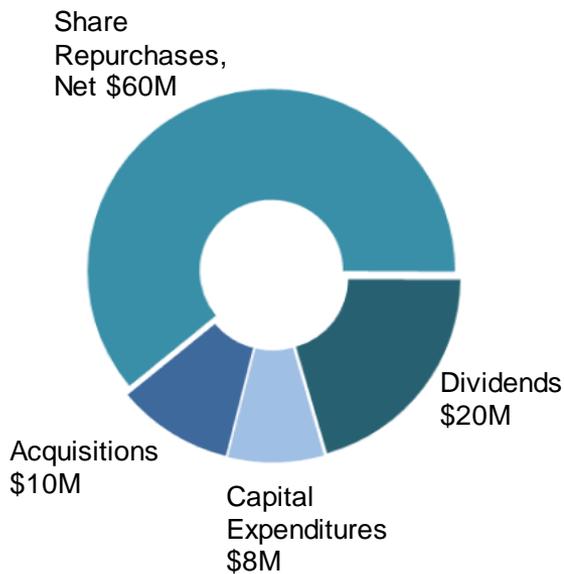
Cash Flow and Liquidity



Net Earnings and Cash from Operations



2017 Significant Uses of Cash



- ▶ Net cash provided by operating activities was \$50 million in 2017 vs. \$29 million in 2016
- ▶ Changes in working capital: accounts receivable, inventory, in line with volume growth
- ▶ Debt, including notes payable, was \$387 million; up \$72 million from year-end
 - Reclass current portion of long-term debt, \$75 million
 - Interest expense down \$0.5 million from first quarter 2016
- ▶ Repurchased 850,000 shares of stock and issued 550,000 shares, resulting in a net cash outlay of \$60 million
 - Common stock outstanding at the end of the quarter, 55.5 million

Other Discussion Items



- ▶ Capital expenditure expectations of approximately \$40 million in 2017
- ▶ Unallocated corporate expenses in 2017 are expected to be approximately \$31 million
- ▶ Impairment of intangible assets in fourth quarter 2016 is expected to reduce amortization expense by approximately \$1 million in each of the first three quarters of 2017 compared to 2016
- ▶ In the first quarter, we repurchased 850,000 shares under an accelerated share repurchase arrangement and we may make further share repurchases
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2016, the unfavorable movement in foreign currencies would be a headwind of approximately 1% on sales and 3% on earnings, with the greatest headwind in the first three quarters
- ▶ The effective tax rate was 26% for the quarter, below the 31% rate in the first quarter of 2016. First quarter 2017 benefited \$4M, 4 percentage points, from the adoption of a change in accounting for stock compensation. Exclusive of the change in accounting, the effective rate for the quarter was 30%. The benefit from foreign earnings taxed at lower rates than the U.S. was higher in 2017 than first quarter 2016
- ▶ The effective tax rate for second quarter and the full year is expected to be approximately 30%, excluding any impact from the change in accounting for stock compensation

Current Environment and Outlook



Constant currency basis and excluding acquisitions completed in the prior 12 months

	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Change Q1 2017 15%	Sales Change Q1 2017 9%	Sales Change Q1 2017 11%	Sales Change Q1 2017 13%
Industrial Segment	 Sales Change Q1 2017 6%	 Sales Change Q1 2017 3%	 Sales Change Q1 2017 16%	Sales Change Q1 2017 7%
Contractor Segment	 Sales Change Q1 2017 26%	 Sales Change Q1 2017 18%	 Sales Change Q1 2017 1%	Sales Change Q1 2017 23%
Process Segment	 Sales Change Q1 2017 11%	 Sales Change Q1 2017 15%	 Sales Change Q1 2017 3%	Sales Change Q1 2017 11%
Full Year 2017 Outlook	Mid Single-digit	Mid Single-digit	Mid Single-digit	Mid Single-digit

Demand in the first quarter was broad-based across products and geographies and exceeded our expectations. We are raising our full-year 2017 outlook to mid single-digit organic sales growth on a constant currency basis worldwide, from a prior outlook of low single-digit growth. We expect to achieve mid single-digit growth in each geographic region in 2017.

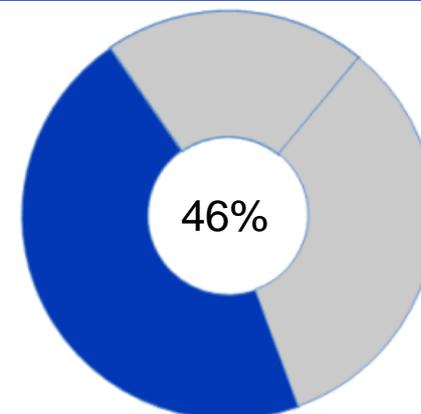
Industrial Segment Results



Sales

\$ in millions	First Quarter		Change
	2017	2016	
Americas	\$ 69	\$ 65	6 %
EMEA	44	44	0
Asia Pacific	43	38	14
Total	\$ 156	\$ 147	6 %
Operating Earnings	\$ 54	\$ 46	17 %
% of sales	34 %	31 %	

2017 Industrial Segment Sales as % of Graco



2017 Components of Net Sales Change Current Environment

First Quarter

Americas	
Volume & Price	6 %
Acquisitions	0 %
Currency	0 %
Total	6 %
EMEA	
Volume & Price	3 %
Acquisitions	1 %
Currency	(4)%
Total	0 %
Asia Pacific	
Volume & Price	16 %
Acquisitions	1 %
Currency	(3)%
Total	14 %
Segment Total	
Volume & Price	7 %
Acquisitions	1 %
Currency	(2)%
Total	6 %



- Stable: Wood, tier one auto
- Challenging: Protective coatings, heavy machinery, agriculture, South America



- Stable: Western Europe, general industrial, truck & trailer
- Challenging: Currency, geopolitical



- Stable: General industrial, adhesive dispense
- Challenging: Marine, agriculture, construction
- Spotty: Project activity



Industrial Segment Results



Change in % of sales

First Quarter

2016 Operating Earnings (% of sales)

Translation effect

Volume and price

Expense leverage

2017 Operating Earnings (% of sales)

31 %

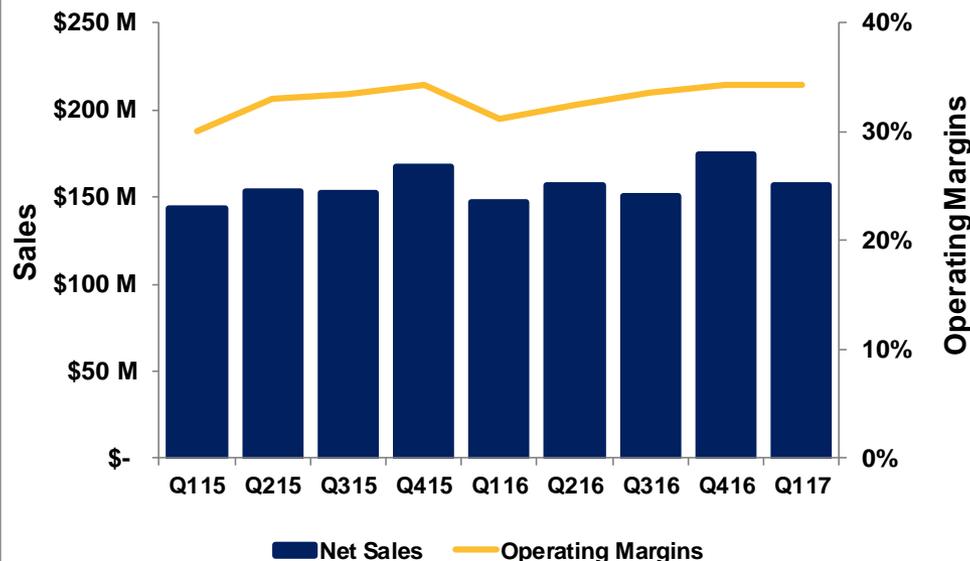
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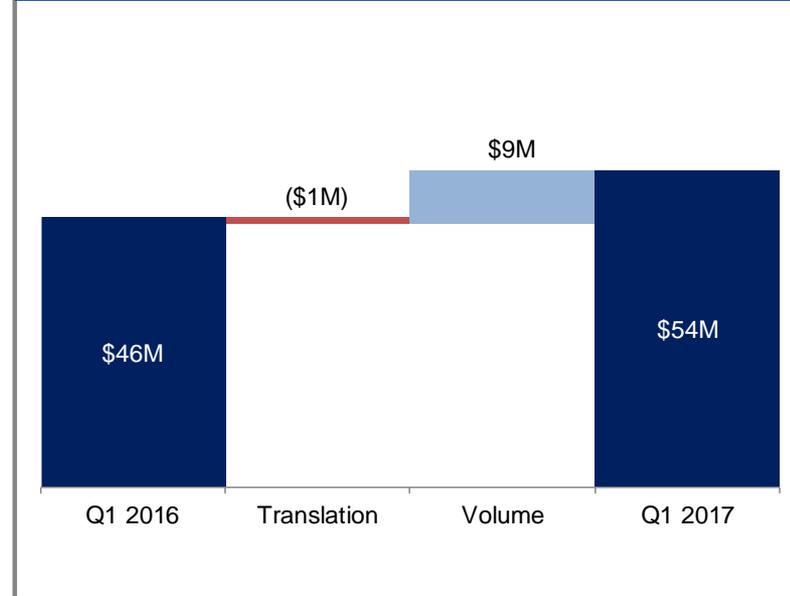
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34 %

Industrial Segment Sales and Operating Margins



Industrial Operating Earnings QTD



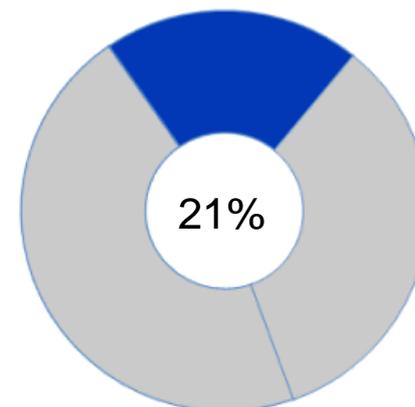
Process Segment Results



Sales

\$ in millions	First Quarter		Change
	2017	2016	
Americas	\$ 45	\$ 40	12 %
EMEA	15	14	7
Asia Pacific	10	10	1
Total	\$ 70	\$ 64	9 %
Operating Earnings	\$ 13	\$ 7	85 %
% of sales	19 %	11 %	

2017 Process Segment Sales as % of Graco



2017 Components of Net Sales Change

Current Environment

First Quarter

Americas	
Volume & Price	11 %
Acquisitions	0 %
Currency	1 %
Total	12 %



- Favorable: Environmental applications, technology, sanitary
- Bottom: Oil & natural gas, industrial lubrication
- Spotty: Project activity

EMEA	
Volume & Price	15 %
Acquisitions	0 %
Currency	(8)%
Total	7 %



- Stable: Western Europe, chemical
- Bottom: Oil & natural gas
- Challenging: Currency, geopolitical

Asia Pacific	
Volume & Price	3 %
Acquisitions	0 %
Currency	(2)%
Total	1 %



- Stable: Process applications
- Bottom: Mining, oil & natural gas

Segment Total	
Volume & Price	11 %
Acquisitions	0 %
Currency	(2)%
Total	9 %

Process Segment Results



Change in % of sales

First Quarter

2016 Operating Earnings (% of sales)

Translation effect

Volume, cost and price

Effect of 2016 inventory step-up, acquisition costs, net

Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment

Expense leverage

2017 Operating Earnings (% of sales)

11 %

0

1

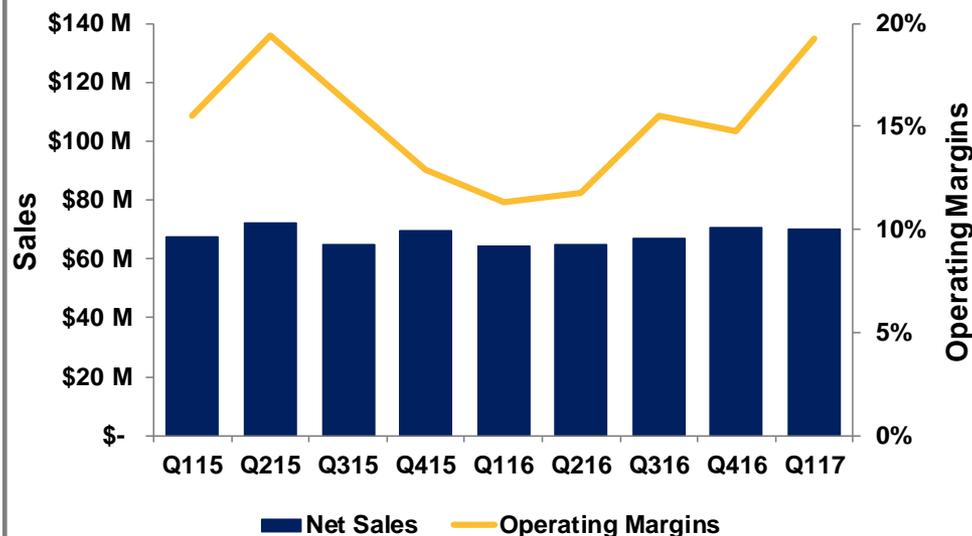
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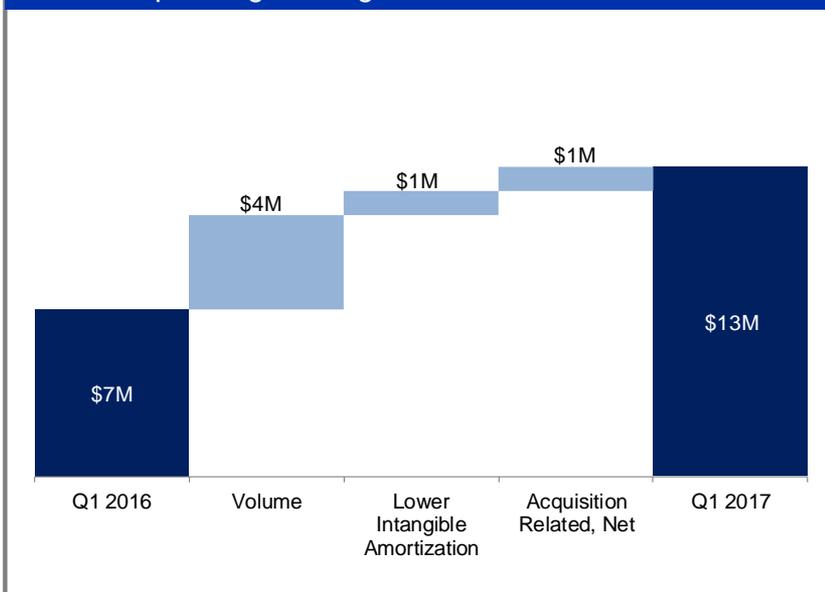
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19 %

Process Segment Sales and Operating Margins



Process Operating Earnings QTD



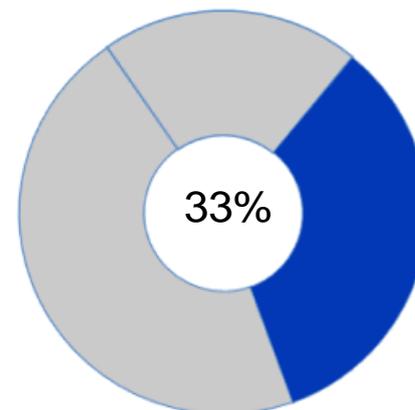
Contractor Segment Results



Sales

\$ in millions	First Quarter		Change
	2017	2016	
Americas	\$ 86	\$ 68	26 %
EMEA	20	18	14
Asia Pacific	8	8	1
Total	\$ 114	\$ 94	22 %
Operating Earnings	\$ 26	\$ 17	55 %
% of sales	23 %	18 %	

2017 Contractor Segment Sales as % of Graco



2017 Components of Net Sales Change Current Environment

First Quarter

Americas	
Volume & Price	26 %
Acquisitions	0 %
Currency	0 %
Total	26 %



- Stable: Residential and commercial construction
- Focus Sectors: Pro paint, general construction, DIY
- Challenging: Q2 and Q4 comparables

EMEA	
Volume & Price	18 %
Acquisitions	0 %
Currency	(4)%
Total	14 %



- Favorable: Western Europe
- Stable: Emerging markets
- Challenging: Currency, geopolitical

Asia Pacific	
Volume & Price	1 %
Acquisitions	0 %
Currency	0 %
Total	1 %



- Stable: Pavement, texture products
- Challenging: General construction, equipment adoption rates

Segment Total	
Volume & Price	23 %
Acquisitions	0 %
Currency	(1)%
Total	22 %



Contractor Segment Results



Change in % of sales

First Quarter

2016 Operating Earnings (% of sales)

Translation effect

Volume and cost

Expense leverage

2017 Operating Earnings (% of sales)

18 %

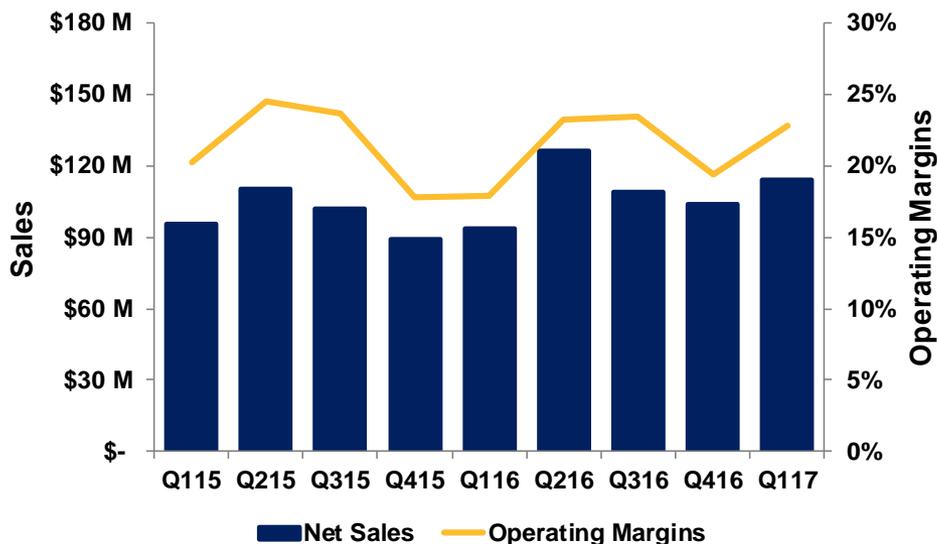
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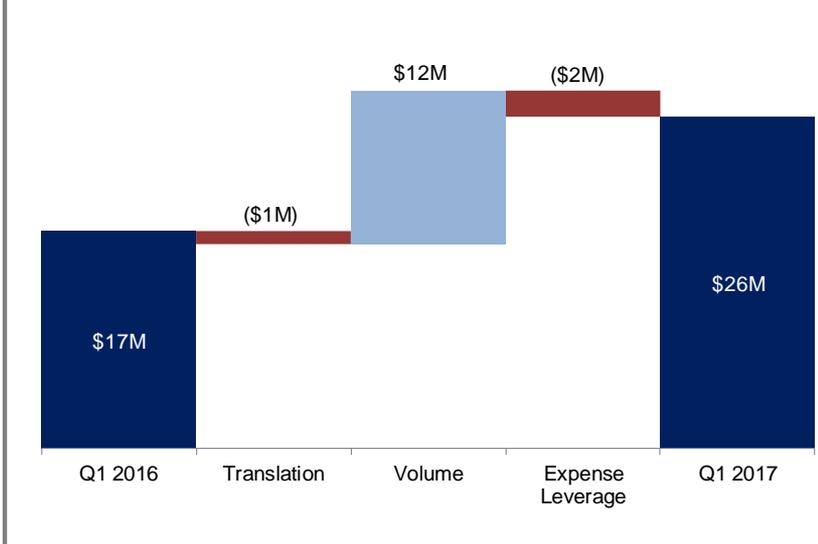
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23 %

Contractor Segment Sales and Operating Margins



Contractor Operating Earnings QTD



2016 U.S and Non-US Business Data Points*



Sales	2016 sales \$1,329 million Sales from U.S production to U.S. customers ~ 45-47% Sales from U.S. production to foreign customers ~ 30% Sales from foreign production to foreign customers ~ 20% Sales from foreign production to U.S. customers ~ 3-5%
Cost of Good Sold	2016 cost of goods sold \$621 million U.S.-based cost of goods sold is ~ 70-75% Foreign-based cost of goods sold is ~ 25-30%
Operating Expenses	Operating expenses are 30% of sales (excluding 2016 impairment) U.S.-based expenses are ~ 65-70% of operating expenses
Capital Expenditures	Capital expenditures \$42 million U.S.-based capital expenditures ~ 75%
Interest Expense	\$18 million, predominately U.S.-based

*Graco management estimates. May vary year to year



move

measure

mix

control

dispense

spray

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