



3rd Quarter 2015 Earnings

Conference Call

October 22, 2015

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 Part 1, Item 1A of the Company's Form 10-K, and Item 1A of the current Quarterly Report on Form 10-Q.

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, October 22, 2015. The replay by telephone will be available through October 26, 2015

- 888-203-1112 – Conference ID #263158
- 719-457-0820 – Conference ID #263158, for International participants

Financial Results



\$ millions except EPS	Third Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Sales	\$ 319.0	\$ 302.6	5 %	\$ 960.9	\$ 915.1	5 %
Gross Profit	170.2	165.8	3 %	512.9	502.0	2 %
% of Sales	53.4 %	54.8 %	(1.4) pts	53.4 %	54.9 %	(1.5) pts
Operating Earnings	76.9	78.9	(3)%	226.0	239.5	(6)%
% of Sales	24.1 %	26.1 %	(2.0) pts	23.5 %	26.2 %	(2.7) pts
Held Separate Investment Income, Net	2.4	8.5		190.7	22.8	
Net Earnings	\$ 50.7	\$ 59.6	(15)%	\$ 292.2	\$ 176.5	66 %
% of Sales	15.9 %	19.7 %	(3.8) pts	30.4 %	19.3 %	11.1 pts
Diluted Earnings Per Share	\$ 0.86	\$ 0.97	(11)%	\$ 4.90	\$ 2.85	72 %
<i>Diluted Shares in Millions</i>	58.7	61.5		59.6	62.0	

- Changes in currency translation rates reduced sales by approximately \$16 million for the quarter and \$46 million year-to-date, and decreased net earnings by approximately \$6 million for the quarter and \$16 million for the year-to-date
- Non-recurring income tax benefits in the second quarter increased year-to-date net earnings by a total of \$9 million, or \$0.15 per diluted share
- In April, the Company sold the Held Separate business assets acquired in 2012. Net earnings and diluted EPS excluding investment income are:

	Third Quarter		Year-to-Date	
	2015	2014	2015	2014
Adjusted Net Earnings	\$ 49.1 M	\$ 50.9 M	\$ 151.2 M	\$ 153.2 M
Diluted EPS as adjusted	\$ 0.84	\$ 0.83	\$ 2.54	\$ 2.47

See page 5 for detailed information on the sale

Divestiture of Held Separate Business Assets



- April 1, 2015, pursuant to the Federal Trade Commission final order, the Company sold the Liquid Finishing business assets acquired in 2012
- The sale proceeds were \$610 million, including the post-closing purchase price adjustment settled in the third quarter. No further adjustments are expected
- Net earnings include gain on the sale, after transaction costs and tax, and investment income of \$2 million (\$0.02 per diluted share) for the quarter (post-closing purchase price adjustments) and \$141 million (\$2.36 per diluted share) year-to-date
 - Transaction costs include a \$7 million contribution to the Company's charitable foundation
- Calculation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

	Third Quarter		Year-to-Date	
	2015	2014	2015	2014
Net earnings as reported	\$ 50.7	\$ 59.6	\$ 292.2	\$ 176.5
Held separate investment (income), net	(2.4)	(8.5)	(190.7)	(22.8)
Income tax effect on Held Separate income	0.8	(0.2)	49.7	(0.5)
Adjusted net earnings	<u>\$ 49.1</u>	<u>\$ 50.9</u>	<u>\$ 151.2</u>	<u>\$ 153.2</u>
Diluted EPS as reported	\$ 0.86	\$ 0.97	\$ 4.90	\$ 2.85
Diluted EPS as adjusted	0.84	0.83	2.54	2.47

- No further investment dividends will be received

Tax Items



- The effective tax rate was 31% for the quarter, up from 28% last year due to post-tax dividends that reduced the rate in the third quarter of 2014
- The year-to-date effective income tax rate of 27% decreased 2 percentage points compared to last year
 - A change in the Company's assertion with respect to reinvestment of foreign earnings decreased deferred income taxes related to undistributed foreign earnings by \$7 million and reduced the year-to-date effective tax rate compared to last year
 - Higher post-tax dividend income and an additional non-recurring tax benefit of \$2 million further reduced the year-to-date effective tax rate. Those reductions were partially offset by the tax rate effects of the gain on the sale of the Liquid Finishing assets
- Tax rate for fourth quarter is expected to be approximately 32-33%; for the full year approximately 28%
 - Assumes the Federal R&D tax credit will not be reinstated in 2015. If renewed, the annual benefit is expected to be approximately \$3 million and reduce the tax rate 1 percentage point

Financial Results



Components of Net Sales Change

Third Quarter September 2015

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	5 %	(3)%	6 %	5 %	3 %	3 %	4 %
Acquisitions	3 %	31 %	—	5 %	9 %	9 %	7 %
Currency	(7)%	(5)%	(3)%	(2)%	(13)%	(7)%	(6)%
Total	1 %	23 %	3 %	8 %	(1)%	5 %	5 %

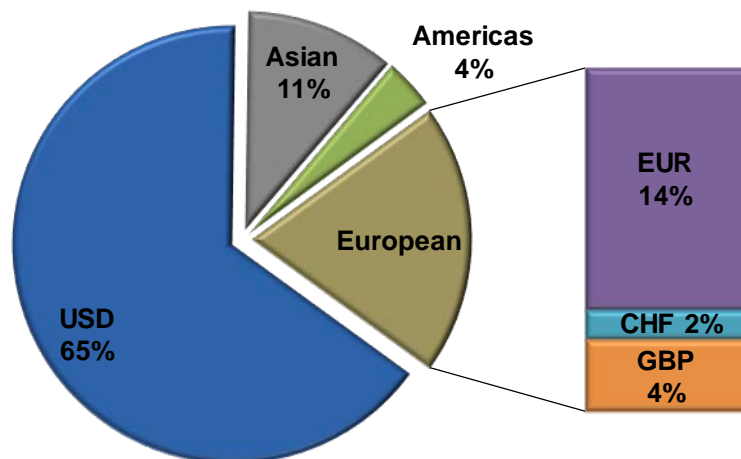
Year-to-Date September 2015

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	2 %	2 %	8 %	7 %	1 %	(1)%	4 %
Acquisitions	2 %	30 %	—	4 %	9 %	7 %	6 %
Currency	(6)%	(5)%	(4)%	(1)%	(14)%	(5)%	(5)%
Total	(2)%	27 %	4 %	10 %	(4)%	1 %	5 %

Sales by Currency YTD September 2015

Asian currencies include:
AUD, CNY/RMB, KRW,
JPY

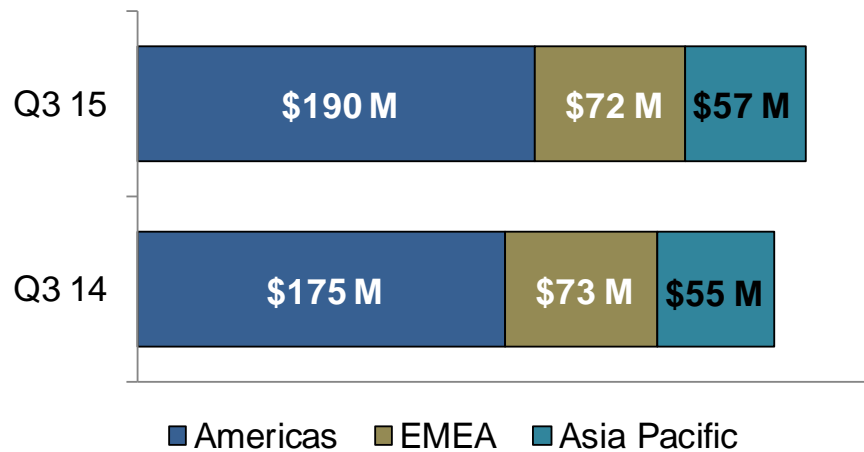
Americas currencies
include:
CAD, BRL, MXN



Third Quarter 2015 Results

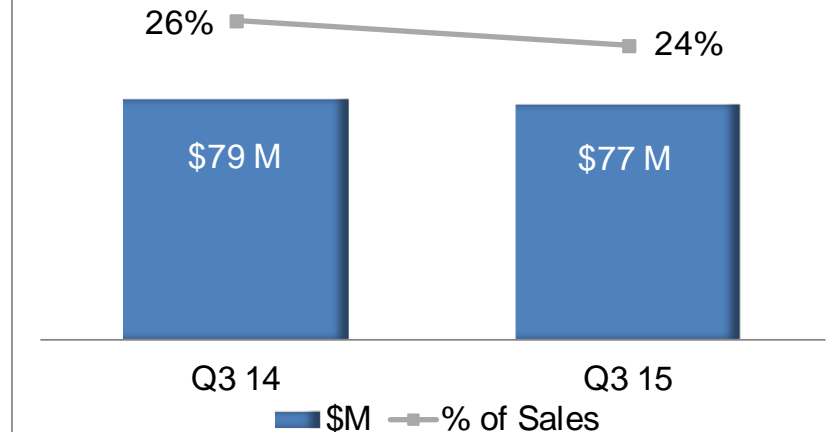


Sales



- Sales increase of 5% (11% at consistent currency translation rates)
 - Acquired businesses sales of \$19 million account for 7 percentage points of growth
- Gross margin rate down 1½ percentage points from third quarter 2014
 - Gross margin rate was lower than third quarter 2014 due mostly to changes in currency translation rates
 - Favorable effects of realized pricing and lower material costs offset the impact of lower average gross margin rates of acquired operations

Operating Earnings

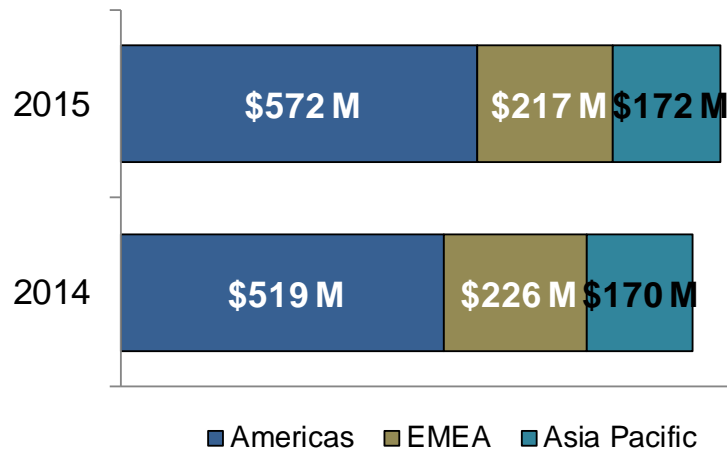


- Operating earnings down \$2 million, 2 percentage points lower, as a percentage of sales, than third quarter 2014
 - Currency headwinds, 1 percentage point
 - Acquired operations reduced operating margin 1 percentage point
 - Unallocated corporate expenses, mostly pension and stock compensation, reduced operating margin 1 percentage point
 - Expense leverage increased operating margin 1 percentage point
- Tax rate of 31% is higher than third quarter 2014 rate of 28%
 - 2015 rate higher than 2014 due to no post-tax dividend income

September 2015 Year-to-Date Results

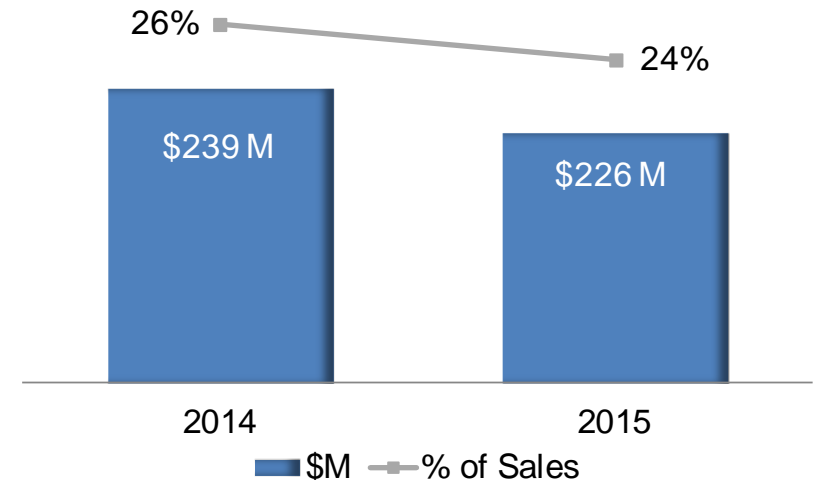


Sales



- Sales increase of 5% (10% at consistent currency translation rates)
 - Acquired businesses sales of \$53 million account for 6 percentage points of growth
- Gross margin rate down 1½ percentage points from 2014
 - Gross margin rate was lower than 2014 due mostly to changes in currency translation rates
 - Favorable effects of realized pricing and lower material costs offset the impact of lower average gross margin rates of acquired operations (including purchase accounting effects)

Operating Earnings



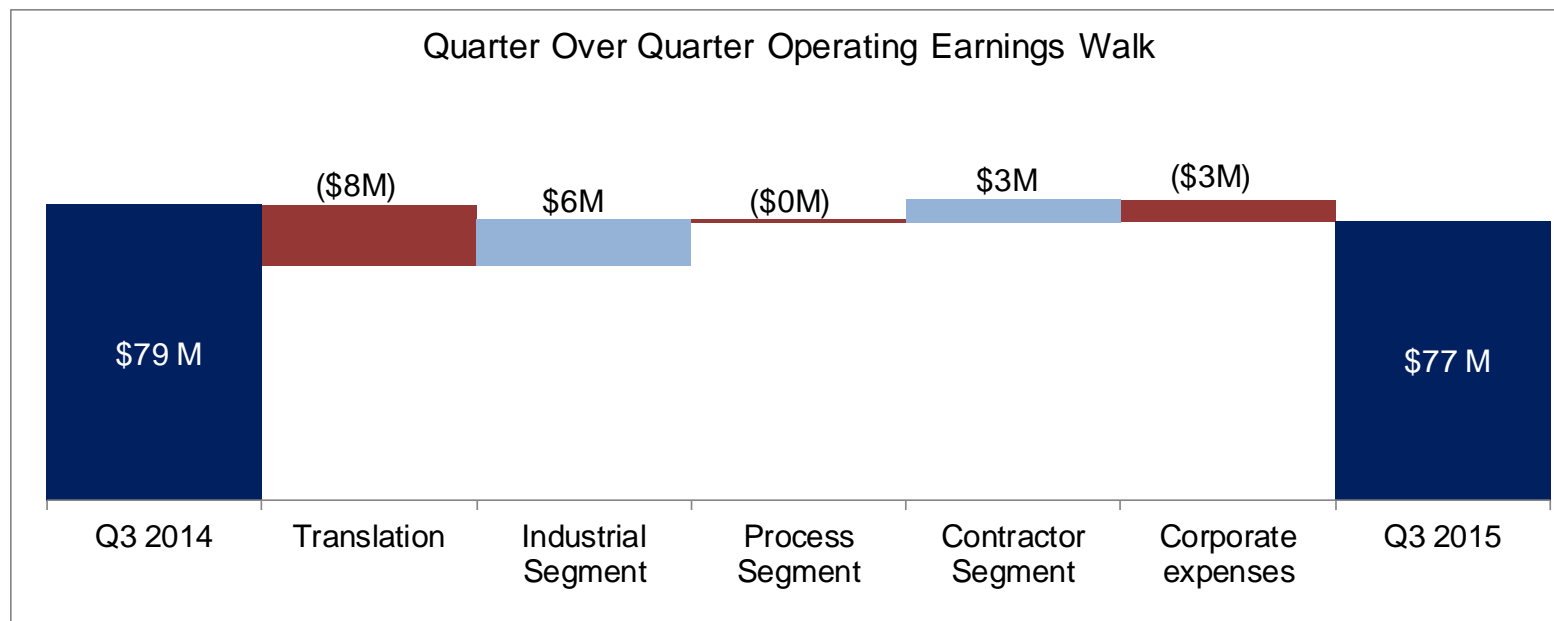
- Operating earnings down \$13 million, 2 percentage points lower, as a percentage of sales, than 2014
 - Currency headwinds 1 percentage point
 - Acquired operations reduced operating margin 1 percentage point
 - Unallocated corporate expenses, mostly pension and stock compensation, reduced operating margin 1 percentage point
 - Expense leverage increased operating margin 1 percentage point
- Tax rate of 27% is lower than 2014 rate of 29%
 - 2015 rate is lower than 2014 due to the assertion to indefinitely reinvest earnings of foreign subsidiaries (\$7 million, non-recurring), higher post-tax dividend income and additional non-recurring tax benefit of \$2 million partially offset by the tax rate effects of the gain on the sale of the Held Separate assets

Operating Earnings

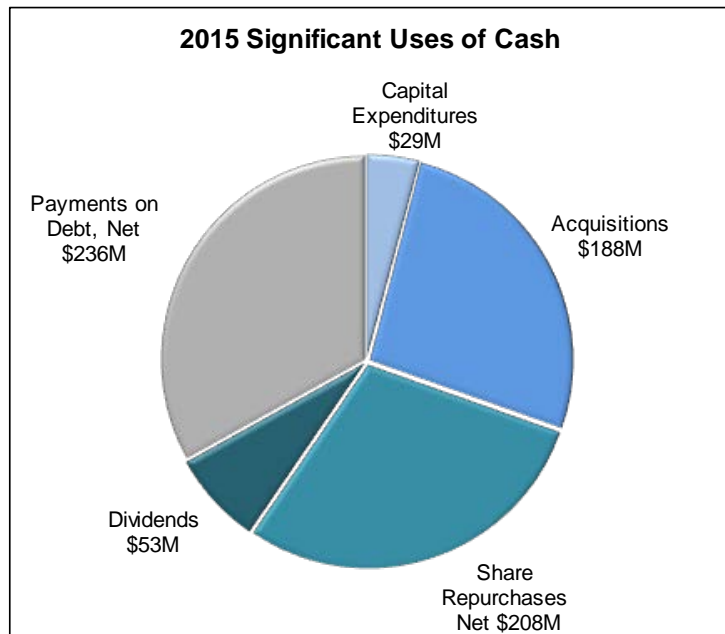
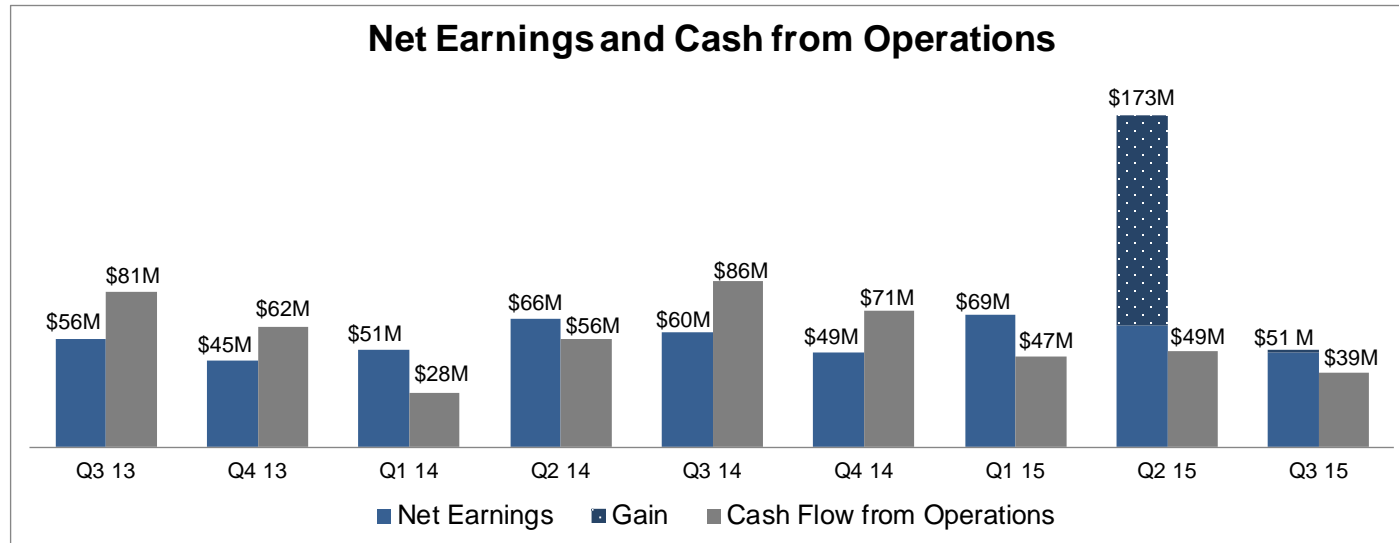


Change in Operating Earnings

	Third Quarter		Year-to-Date	
2014 Q3 Operating Earnings (\$M and % of sales)	\$ 79	26 %	\$ 239	26 %
Translation effect	(8)	(1)	(23)	(1)
Mix, pricing and product cost	7	—	22	—
Effect of acquired businesses on operating earnings leverage	2	(1)	7	(1)
Effect of inventory step-up, net, and acquisition costs for acquired businesses	—	—	(3)	—
Incremental investment in growth initiatives	(1)	—	(3)	—
Increased unallocated corporate expenses (pension, stock compensation)	(3)	(1)	(6)	(1)
Volume effect on expense leverage	1	1	(7)	1
2015 Q3 Operating Earnings (\$M and % of sales)	\$ 77	24 %	\$ 226	24 %



Cash Flow and Liquidity



- Effect of divestiture of Liquid Finishing Held Separate - sale completed in Q2 2015
 - Proceeds from the sale of the business were \$610 million and are included in cash flows from investing activities
 - Gain on the sale, net of expenses, was \$139 million and reflected in Q2 net income
 - Post-closing adjustments of \$2 million were recorded in Q3 net income
 - Effect of taxes on the gain, transaction costs and foundation contribution are included in operating cash flows. Payments of \$18 million and \$36 million for these items were made in Q2 and Q3, respectively
- Growth in accounts receivable and inventory balances from year-end of \$15 million and \$37 million, respectively, due to acquisitions, growth in our business and service-level improvements
- Debt, including notes payable, \$384 million; down \$236 million from 2014
 - Interest expense, \$13 million, comparable to prior year

Other Discussion Items



- Capital expenditures expected to be approximately \$40 million in 2015
- Share repurchases will continue via open market transactions and/or short-dated accelerated share repurchase programs
- Full year 2015 unallocated corporate expenses are expected to be approximately \$7-8 million above last year, primarily due to increased pension, stock compensation and the new central warehouse

Current Environment and Outlook *(as of October 2015)*

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



Worldwide	Americas	EMEA	Asia Pacific
Current Environment			
Sales Growth Q3 2015 +4% YTD 2015 +4%	Sales Growth Q3 2015 +5% YTD 2015 +7%	Sales Growth Q3 2015 +3% YTD 2015 +1%	Sales Growth Q3 2015 +3% YTD 2015 (1%)
Industrial Segment			
Contractor Segment			
Process Segment			
Full Year 2015 Outlook			
Mid Single Digits	Mid to High Single Digits	Low Single Digits	Flat to Low Single Digits

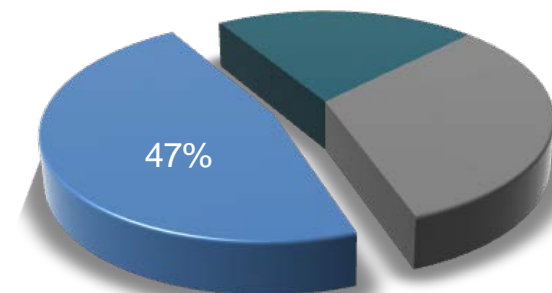
Notes

- Recent demand combined with macroeconomic headwinds and a continued spotty capital equipment environment in the emerging markets of EMEA and Asia Pacific may limit growth to the lower end of our expectations
- At current exchange rates, unfavorable changes in foreign currency translation rates create a full-year headwind of approximately 5 percent on sales and 11 percent on earnings in 2015

Industrial Segment Results






Sales (\$M)	Third Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Americas	\$ 70	\$ 65	7 %	\$ 209	\$ 200	4 %
EMEA	45	48	(6)	128	146	(12)
Asia Pacific	37	37	—	112	113	(1)
Total	\$ 152	\$ 150	1 %	\$ 449	\$ 459	(2)%
Operating Earnings	\$ 51	\$ 49	3 %	\$ 144	\$ 149	(3)%
% of sales	33 %	33 %		32 %	32 %	



Sept. 2015 YTD Industrial Segment Sales as % of Consolidated Sales

Components of Net Sales Change

Current Environment

	Third Quarter	Year-to-Date	
Americas			
Volume & Price	6 %	3 %	 <ul style="list-style-type: none"> • Improving: Residential & Non-Residential Construction • Stable: General Industrial, Marine • Challenging: Heavy Machinery, South & Central America
Acquisitions	3 %	2 %	
Currency	(2)%	(1)%	
Total	7 %	4 %	
EMEA			
Volume & Price	8 %	2 %	 <ul style="list-style-type: none"> • Recovering: Western Europe • Challenging: Currency, Geopolitical, and Q4 comps
Acquisitions	—	—	
Currency	(14)%	(14)%	
Total	(6)%	(12)%	
Asia Pacific			
Volume & Price	1 %	1 %	 <ul style="list-style-type: none"> • Stable: General Industrial, Adhesive Dispense • Challenging: Marine, Mining • Spotty: Project Activity
Acquisitions	5 %	2 %	
Currency	(6)%	(4)%	
Total	—	(1)%	
Segment Total			
Volume & Price	5 %	2 %	
Acquisitions	3 %	2 %	
Currency	(7)%	(6)%	
Total	1 %	(2)%	



Industrial Segment Results



Change in % of sales

2014 Q3 Operating Earnings (percentage of sales)

Translation effect

Price, cost, mix

Effect of acquired businesses on operating leverage

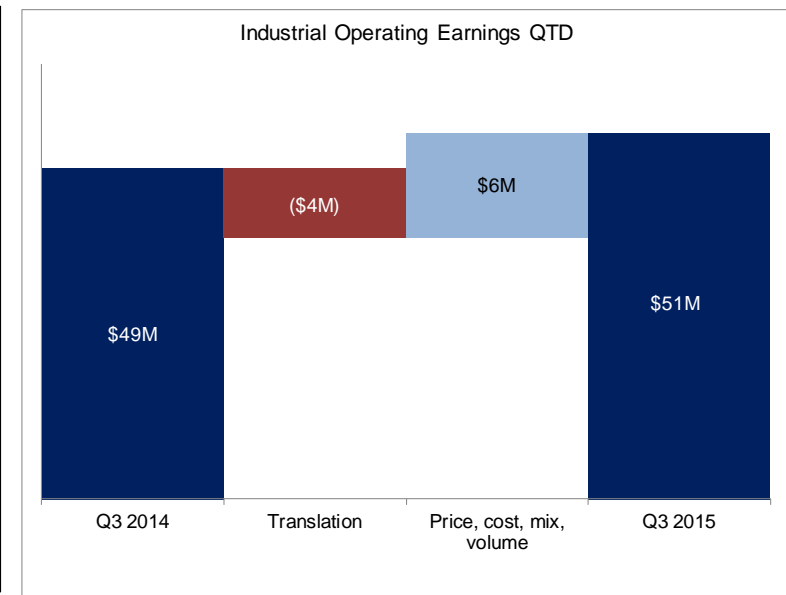
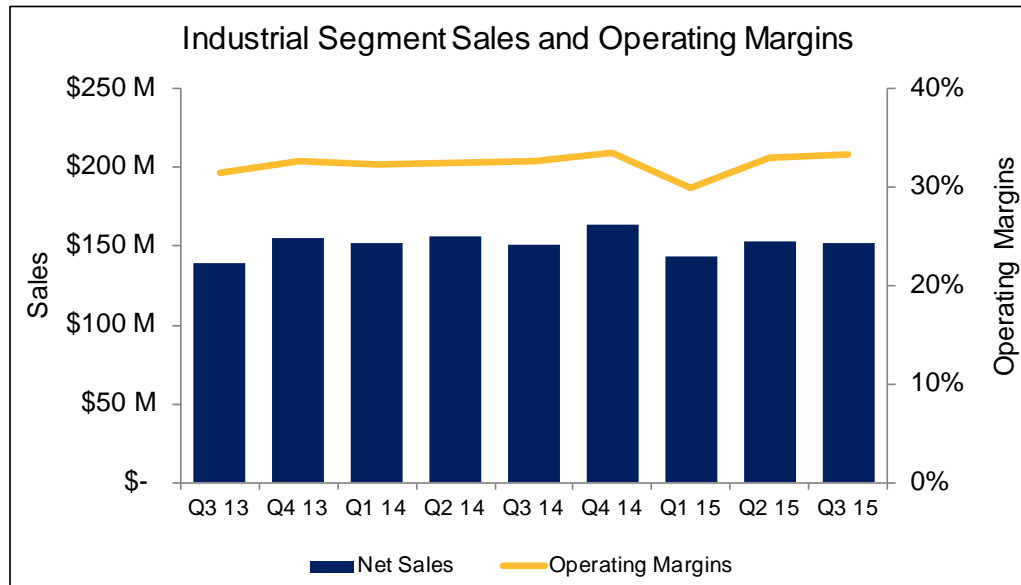
Expense leverage

2015 Q3 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

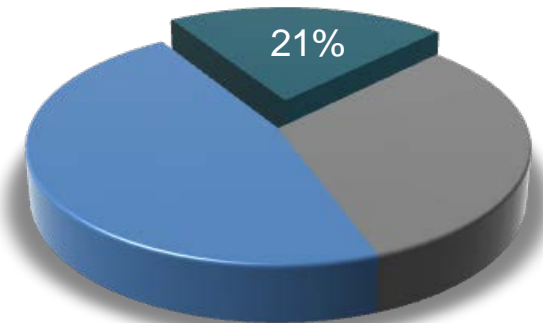
33 %	32 %
(1)	(1)
1	1
(1)	—
1	—
33 %	32 %



Process Segment Results



Sales (\$M)	Third Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Americas	\$ 41	\$ 37	13 %	\$ 128	\$ 107	20 %
EMEA	13	8	56	42	27	56
Asia Pacific	11	8	32	34	27	28
Total	\$ 65	\$ 53	23 %	\$ 204	\$ 161	27 %
Operating Earnings	\$ 10	\$ 12	(14)%	\$ 35	\$ 38	(9)%
% of sales	16 %	23 %		17 %	24 %	



Sept. 2015 YTD Process Segment Sales as % of Consolidated Sales

<u>Components of Net Sales Change</u>			<u>Current Environment</u>	
	Third Quarter	Year-to-Date		
Americas				
Volume & Price	(4)%	2 %		<ul style="list-style-type: none"> • Favorable: Process applications • Stable: Vehicle Services & Industrial Lube • Challenging: Oil & Natural Gas
Acquisitions	19 %	19 %		
Currency	(2)%	(1)%		
Total	13 %	20 %		
EMEA				
Volume & Price	(10)%	2 %		<ul style="list-style-type: none"> • Stable: Western Europe • Challenging: Currency, Geopolitical, Q4 comps, and Oil & Natural Gas
Acquisitions	82 %	71 %		
Currency	(16)%	(17)%		
Total	56 %	56 %		
Asia Pacific				
Volume & Price	5 %	—		<ul style="list-style-type: none"> • Stable: Process applications • Challenging: Mining and Oil & Natural Gas
Acquisitions	40 %	37 %		
Currency	(13)%	(9)%		
Total	32 %	28 %		
Segment Total				
Volume & Price	(3)%	2 %		
Acquisitions	31 %	30 %		
Currency	(5)%	(5)%		
Total	23 %	27 %		



Process Segment Results



Change in % of sales

2014 Q3 Operating Earnings (percentage of sales)

Translation effect

Effect of acquired businesses on operating earnings leverage

Effect of inventory step-up and acquisition costs, net of 2014 costs

Incremental investment in growth initiatives

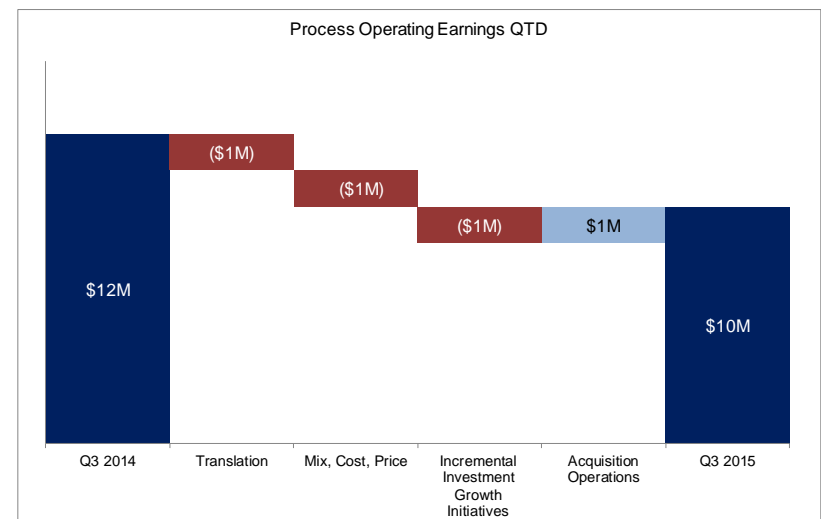
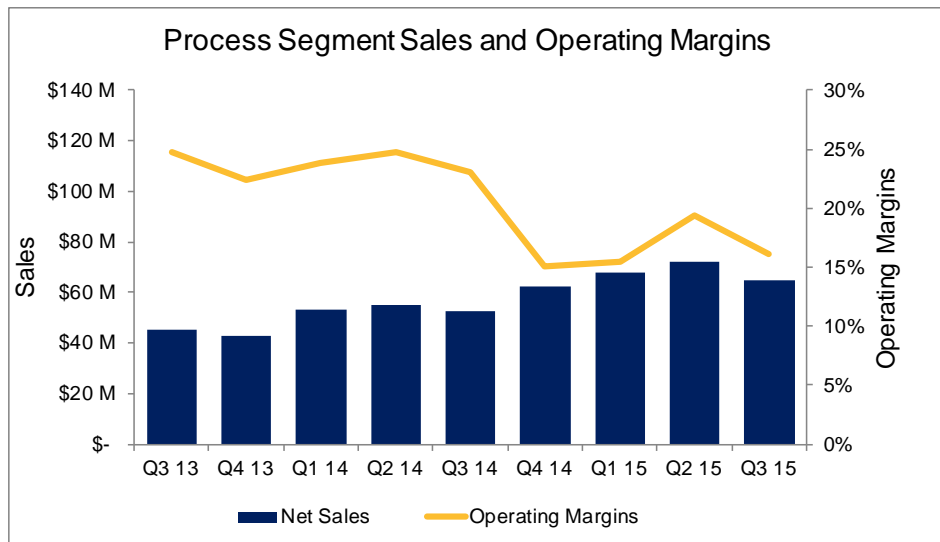
Expense/volume leverage

2015 Q3 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

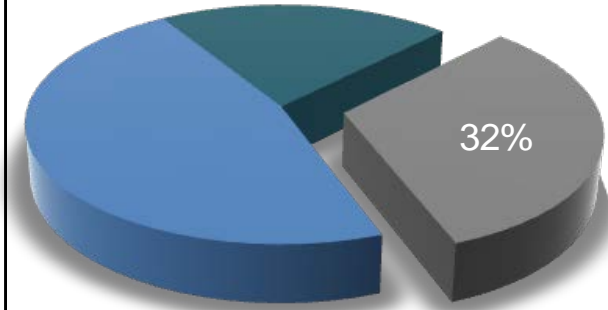
23 %	24 %
(2)	(2)
(2)	(1)
—	(1)
(2)	(2)
(1)	(1)
<u>16 %</u>	<u>17 %</u>



Contractor Segment Results



Sales (\$M)	Third Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Americas	\$ 79	\$ 74	8 %	\$ 235	\$ 211	11 %
EMEA	14	16	(16)	47	54	(13)
Asia Pacific	9	9	(3)	26	30	(14)
Total	\$ 102	\$ 99	3 %	\$ 308	\$ 295	4 %
Operating Earnings	\$ 24	\$ 23	3 %	\$ 71	\$ 70	1 %
% of sales	24 %	23 %		23 %	24 %	



Sept. 2015 YTD Contractor Segment Sales as % of Consolidated Sales

<u>Components of Net Sales Change</u>			<u>Current Environment</u>	
	Third Quarter	Year-to-Date		
Americas				
Volume & Price	8 %	12 %		<ul style="list-style-type: none"> • Long Runway: Residential & Non-Residential Construction • Focus Sectors: Pro Paint, General Construction, and DIY
Acquisitions	—	—		
Currency	—	(1)%		
Total	8 %	11 %		
EMEA				
Volume & Price	(4)%	—		<ul style="list-style-type: none"> • Favorable: North & Central Europe, Middle East • Challenging: Currency and Geopolitical
Acquisitions	—	—		
Currency	(12)%	(13)%		
Total	(16)%	(13)%		
Asia Pacific				
Volume & Price	8 %	(8)%		<ul style="list-style-type: none"> • Favorable: Southeast Asia & Australia • Challenging: Gen Construction, Equipment Adoption Rates
Acquisitions	—	—		
Currency	(11)%	(6)%		
Total	(3)%	(14)%		
Segment Total				
Volume & Price	6 %	8 %		
Acquisitions	—	—		
Currency	(3)%	(4)%		
Total	3 %	4 %		



Contractor Segment Results



Change in % of sales

2014 Q3 Operating Earnings (percentage of sales)

Translation effect

New product launch

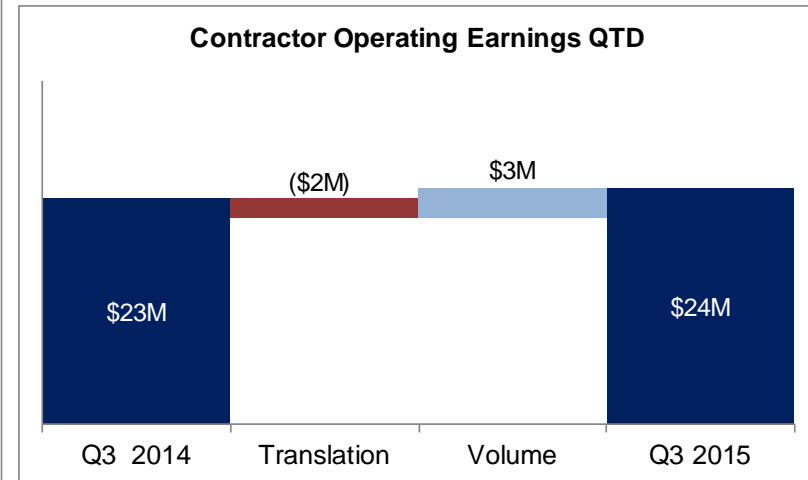
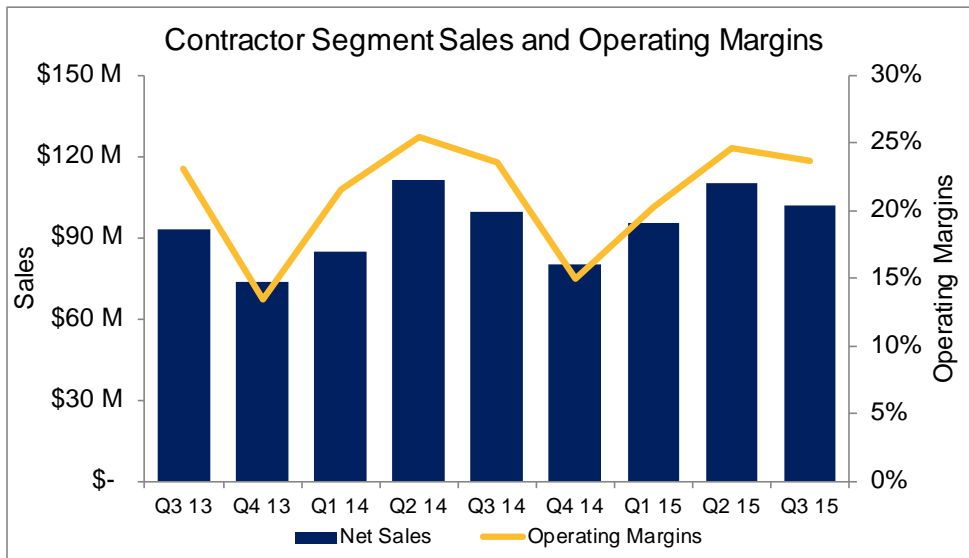
Expense/volume leverage

2015 Q3 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

23 %	24 %
(1)	(1)
—	(1)
2	1
<u>24 %</u>	<u>23 %</u>



Change in Segment Reporting



- During Q1, the Company revised the presentation of its financial reporting segments into the following three segments:
 - Industrial includes Industrial Products and Applied Fluid Technologies divisions
 - Process includes Process, Oil and Natural Gas, and Lubrication divisions
 - Contractor remains unchanged
- Change aligns the types of products offered and markets served within the segments

2014 Reportable Segments

Contractor Segment

- Professional grade handheld paint sprayers
- Architectural paint, stain and lacquer sprayers
- Pavement marking and grinding equipment

Industrial Segment

- Proportioning systems
- Protective coatings and foam sprayers
- Adhesives dispensing equipment
- Liquid and powder application pumps
- Circulating and paint supply sprayers

Lubrication Segment

- Vehicle servicing equipment
- Metered and non-metered dispense for oil, grease, or automotive fluids
- Industrial lubrication equipment

Contractor Segment

Industrial Segment

Process Segment

2015 Reportable Segments



move

measure

mix

control

dispense

spray

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