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 29, 2019**

Commission File Number: 001-09249

GRACO INC.

(Exact name of registrant as specified in its charter)

Minnesota	41-0285640
(State of incorporation)	(I.R.S. Employer Identification Number)
88 - 11th Avenue N.E. Minneapolis, Minnesota	55413
(Address of principal executive offices)	(Zip Code)

(612) 623-6000
(Registrant's telephone number, including area code)

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 X 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 X 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 X 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 X

166,518,239 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of April 17, 2019.

TABLE OF CONTENTS

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

	Three Months Ended	
	March 29, 2019	March 30, 2018
Net Sales	$ 404,870	$ 406,348
Cost of products sold	188,828	183,927
Gross Profit	216,042	222,421
Product development	16,569	15,289
Selling, marketing and distribution	60,817	62,522
General and administrative	34,129	32,914
Operating Earnings	104,527	111,696
Interest expense	3,535	3,233
Other expense, net	269	1,035
Earnings Before Income Taxes	100,723	107,428
Income taxes	13,974	21,918
Net Earnings	$ 86,749	$ 85,510
Net Earnings per Common Share		
Basic	$ 0.52	$ 0.51
Diluted	$ 0.51	$ 0.49

See notes to consolidated financial statements.

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

	Three Months Ended	
	March 29, 2019	March 30, 2018
Net Earnings	$ 86,749	$ 85,510
Components of other comprehensive income (loss)		
Cumulative translation adjustment	1,169	8,746
Pension and postretirement medical liability adjustment	2,127	1,826
Income taxes - pension and postretirement medical liability adjustment	(470)	(401)
Other comprehensive income	2,826	10,171
Comprehensive Income	$ 89,575	$ 95,681

See notes to consolidated financial statements.

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

	March 29, 2019	December 28, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 119,711	$ 132,118
Accounts receivable, less allowances of $5,400 and $5,300	289,047	274,608
Inventories	297,458	283,982
Other current assets	27,293	32,508
Total current assets	733,509	723,216
Property, Plant and Equipment, net	256,776	229,295
Goodwill	295,136	293,846
Other Intangible Assets, net	166,613	166,310
Operating Lease Assets	33,726	—
Deferred Income Taxes	33,368	32,055
Other Assets	29,919	28,019
Total Assets	$ 1,549,047	$ 1,472,741
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 7,557	$ 11,083
Current portion of long term debt	75,000	—
Trade accounts payable	67,275	56,902
Salaries and incentives	39,937	62,297
Dividends payable	26,486	26,480
Other current liabilities	137,789	143,041
Total current liabilities	354,044	299,803
Long-term Debt	173,738	266,391
Retirement Benefits and Deferred Compensation	134,631	133,388
Operating Lease Liabilities	26,225	—
Deferred Income Taxes	15,971	16,586
Other Non-current Liabilities	—	4,700
Shareholders' Equity		
Common stock	166,364	165,171
Additional paid-in-capital	539,067	510,825
Retained earnings	281,038	220,734
Accumulated other comprehensive income (loss)	(142,031)	(144,857)
Total shareholders' equity	844,438	751,873
Total Liabilities and Shareholders' Equity	$ 1,549,047	$ 1,472,741

See notes to consolidated financial statements.

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

	Three Months Ended	
	March 29, 2019	March 30, 2018
Cash Flows From Operating Activities		
Net Earnings	$ 86,749	$ 85,510
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	12,013	12,651
Deferred income taxes	(2,215)	(2,037)
Share-based compensation	7,221	6,622
Change in		
Accounts receivable	(13,874)	(20,798)
Inventories	(13,547)	(7,142)
Trade accounts payable	8,043	(1,659)
Salaries and incentives	(23,692)	(22,803)
Retirement benefits and deferred compensation	3,547	3,558
Other accrued liabilities	(11,437)	6,247
Other	(2,262)	(1,397)
Net cash provided by operating activities	50,546	58,752
Cash Flows From Investing Activities		
Property, plant and equipment additions	(30,433)	(8,961)
Acquisition of businesses, net of cash acquired	(5,353)	(10,880)
Other	(367)	5
Net cash provided by (used in) investing activities	(36,153)	(19,836)
Cash Flows From Financing Activities		
Borrowings (payments) on short-term lines of credit, net	(3,596)	5,050
Borrowings on long-term lines of credit	16,057	115,465
Payments on long-term debt and lines of credit	(34,540)	(58,828)
Common stock issued	24,847	17,316
Common stock repurchased	(2,438)	(84,719)
Taxes paid related to net share settlement of equity awards	(1,268)	—
Cash dividends paid	(26,438)	(22,445)
Net cash provided by (used in) financing activities	(27,376)	(28,161)
Effect of exchange rate changes on cash	576	(606)
Net increase (decrease) in cash and cash equivalents	(12,407)	10,149
Cash, Cash Equivalents and Restricted Cash		
Beginning of year	132,118	112,904
End of period	$ 119,711	$ 123,053
Reconciliation to Consolidated Balance Sheets		
Cash and cash equivalents	$ 119,711	$ 113,832
Restricted cash included in other current assets	—	9,221
Cash, cash equivalents and restricted cash	$ 119,711	$ 123,053

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
Balance, December 29, 2017	$ 169,319	499,934	181,599	$ (127,789)	$ 723,063
Shares issued	765	17,323	—	—	18,088
Shares repurchased	(2,051)	(6,055)	(83,407)	—	(91,513)
Stock compensation cost	—	5,263	—	—	5,263
Restricted stock canceled (issued)	—	(772)	—	—	(772)
Net earnings	—	—	85,510	—	85,510
Dividends declared ($0.1325 per share)	—	—	(22,631)	—	(22,631)
Reclassified to retained earnings from AOCI	—	—	15,453	(15,453)	—
Other comprehensive income (loss)	—	—	—	10,171	10,171
Balance, March 30, 2018	$ 168,033	515,693	176,524	$ (133,071)	$ 727,179
Balance, December 28, 2018	$ 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
Balance, March 29, 2019	$ 166,364	539,067	281,038	$ (142,031)	$ 844,438

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 29, 2019 and the related statements of earnings, comprehensive income and shareholders' equity for the three months ended March 29, 2019 and March 30, 2018, and cash flows for the three months ended March 29, 2019 and March 30, 2018 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 29, 2019, and the results of operations and cash flows for all periods presented. Certain prior year disclosures have been revised to conform to current year reporting.

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 2018 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 29, 2019	March 30, 2018
Net Sales		
Industrial	$ 189,100	$ 195,196
Process	86,894	80,035
Contractor	128,876	131,117
Total	$ 404,870	$ 406,348
Operating Earnings		
Industrial	$ 65,203	$ 69,125
Process	20,014	17,702
Contractor	26,539	31,411
Unallocated corporate (expense)	(7,229)	(6,542)
Total	$ 104,527	$ 111,696

Assets by segment were as follows (in thousands):

	March 29, 2019	December 28, 2018
Industrial	$ 649,643	$ 640,683
Process	366,501	350,306
Contractor	295,457	283,727
Unallocated corporate	237,446	198,025
Total	$ 1,549,047	$ 1,472,741

Geographic information follows (in thousands):

	Three Months Ended	
	March 29, 2019	March 30, 2018
Net Sales (based on customer location)		
United States	$ 202,885	$ 193,782
Other countries	201,985	212,566
Total	$ 404,870	$ 406,348

	March 29, 2019	December 28, 2018
Long-lived Assets		
United States	$ 202,733	$ 178,331
Other countries	54,043	50,964
Total	$ 256,776	$ 229,295

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 29, 2019	March 30, 2018
Net earnings available to common shareholders	$ 86,749	$ 85,510
Weighted average shares outstanding for basic earnings per share	165,616	169,073
Dilutive effect of stock options computed using the treasury stock method and the average market price	5,243	6,576
Weighted average shares outstanding for diluted earnings per share	170,859	175,649
Basic earnings per share	$ 0.52	$ 0.51
Diluted earnings per share	$ 0.51	$ 0.49

Stock options to purchase 1,681,000 and 1,020,000 shares were not included in the March 29, 2019 and March 30, 2018 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 28, 2018	12,270	$ 24.67	7,312	$ 20.17
Granted	1,200	45.55		
Exercised	(815)	12.75		
Canceled	(10)	30.25		
Outstanding, March 29, 2019	12,645	$ 27.41	8,029	$ 22.74

The Company recognized year-to-date share-based compensation of $7.2 million in 2019 and $6.6 million in 2018. As of March 29, 2019, there was $18.4 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 1.7 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 29, 2019	March 30, 2018
Expected life in years	7.5	7.5
Interest rate	2.6%	2.8%
Volatility	24.6%	25.6%
Dividend yield	1.4%	1.2%
Weighted average fair value per share	$ 12.19	$ 12.79

Under the Company’s Employee Stock Purchase Plan, the Company issued 398,000 shares in 2019 and 480,000 shares in 2018. 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 29, 2019	March 30, 2018
Expected life in years	1.0	1.0
Interest rate	2.6%	2.1%
Volatility	22.7%	21.3%
Dividend yield	1.4%	1.2%
Weighted average fair value per share	$ 11.36	$ 10.28

5. Retirement Benefits

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

	Three Months Ended	
	March 29, 2019	March 30, 2018
Pension Benefits		
Service cost	$ 2,009	$ 2,213
Interest cost	3,738	3,434
Expected return on assets	(4,359)	(4,086)
Amortization and other	1,979	2,095
Net periodic benefit cost	$ 3,367	$ 3,656
Postretirement Medical		
Service cost	$ 150	$ 175
Interest cost	317	264
Amortization	108	136
Net periodic benefit cost	$ 575	$ 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
Balance, December 29, 2017	$ (78,430)	$ (49,359)	$ (127,789)
Other comprehensive income (loss) before reclassifications	—	8,746	8,746
Reclassified to pension cost and deferred tax	1,425	—	1,425
Reclassified to retained earnings	(15,453)	—	(15,453)
Balance, March 30, 2018	$ (92,458)	$ (40,613)	$ (133,071)
Balance, December 28, 2018	$ (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
Balance, March 29, 2019	$ (85,232)	$ (56,799)	$ (142,031)

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.

In February 2018, the Financial Accounting Standards Board ("FASB") issued a new standard related to reclassification of certain tax effects from accumulated other comprehensive income (AOCI). We adopted the new standard in the first quarter of 2018. We elected to reclassify $15.5 million from accumulated other comprehensive income to retained earnings, representing the amount of "stranded" tax effects resulting from the change in the U.S. federal tax rate and the consequent revaluation of deferred tax assets related to pension and postretirement medical expense.

7. Inventories

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

	March 29, 2019	December 28, 2018
Finished products and components	$ 145,934	$ 142,535
Products and components in various stages of completion	86,721	83,768
Raw materials and purchased components	123,509	115,705
Subtotal	356,164	342,008
Reduction to LIFO cost	(58,706)	(58,026)
Total	$ 297,458	$ 283,982

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 29, 2019					
Cost	$ 182,410	$ 18,913	$ 1,021	$ 60,220	$ 262,564
Accumulated amortization	(70,646)	(9,100)	(492)	—	(80,238)
Foreign currency translation	(10,560)	(896)	(74)	(4,183)	(15,713)
Book value	$ 101,204	$ 8,917	$ 455	$ 56,037	$ 166,613
Weighted average life in years	13	10	4	N/A	
As of December 28, 2018					
Cost	$ 179,449	$ 18,571	$ 1,020	$ 59,537	$ 258,577
Accumulated amortization	(67,322)	(8,647)	(439)	—	(76,408)
Foreign currency translation	(10,817)	(895)	(73)	(4,074)	(15,859)
Book value	$ 101,310	$ 9,029	$ 508	$ 55,463	$ 166,310
Weighted average life in years	13	10	4	N/A	

Amortization of intangibles for the quarter was $3.8 million in 2019 and $4.0 million in 2018. Estimated annual amortization expense based on the current carrying amount of other intangible assets is as follows (in thousands):

	2019	2020	2021	2022	2023	Thereafter
Estimated Amortization Expense	$ 15,424	$ 15,413	$ 14,838	$ 14,980	$ 13,992	$ 39,759

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

	Industrial	Process	Contractor	Total
Balance, December 28, 2018	$ 177,124	$ 97,168	$ 19,554	$ 293,846
Additions, adjustments from business acquisitions	—	1,354	—	1,354
Foreign currency translation	(630)	566	—	(64)
Balance, March 29, 2019	$ 176,494	$ 99,088	$ 19,554	$ 295,136

The Company completed business acquisitions in 2019 that were not material to the consolidated financial statements.

9. Other Current Liabilities

Components of other current liabilities were (in thousands):

	March 29, 2019	December 28, 2018
Accrued self-insurance retentions	$ 7,795	$ 7,870
Accrued warranty and service liabilities	11,448	11,056
Accrued trade promotions	7,222	11,449
Payable for employee stock purchases	2,413	11,916
Customer advances and deferred revenue	39,922	39,995
Income taxes payable	11,221	8,515
Right of return refund liability	12,691	12,705
Operating lease liability, current	9,460	—
Other	35,617	39,535
Total	$ 137,789	$ 143,041

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 28, 2018	$ 11,056
Charged to expense	2,429
Margin on parts sales reversed	961
Reductions for claims settled	(2,998)
Balance, March 29, 2019	$ 11,448

Deferred Revenues

For certain products or services and customer types, we require payment before delivery to the customer. We defer revenue when cash payments are received or due in advance of our 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 $39.9 million as of March 29, 2019 and $40.0 million as of December 28, 2018. Net sales for the quarter included $19.7 million in 2019 and $17.9 million in 2018 that related to deferred revenue as of the beginning of each period.

10. 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 29, 2019	December 28, 2018
Assets			
Cash surrender value of life insurance	2	$ 16,078	$ 14,320
Forward exchange contracts	2	—	82
Total assets at fair value		$ 16,078	$ 14,402
Liabilities			
Contingent consideration	3	$ 4,000	$ 7,200
Deferred compensation	2	4,595	4,203
Forward exchange contracts	2	9	—
Total liabilities at fair value		$ 8,604	$ 11,403

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. 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 an acquired business based on future revenues.

Long-term notes payable with fixed interest rates have a carrying amount of $225 million and an estimated fair value of $240 million as of March 29, 2019 and $235 million as of December 28, 2018. 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.

11. Recent Accounting Pronouncements

Leases

Adoption of New Accounting Standard

The Company adopted ASU No. 2016-02— *Leases (Topic 842)* as of December 29, 2018, the beginning of our fiscal year 2019. Using the modified retrospective approach with transition relief, we recorded operating lease assets and liabilities of approximately $35 million as of December 29, 2018, and made no adjustments to retained earnings. Adoption of the new standard did not materially impact our consolidated net earnings and cash flows.

Practical Expedients and Exemptions

Electing the package of practical expedients permitted under transition guidance, we did not reassess whether existing lease contracts contained a lease, historical lease classification, or initial direct costs. Electing the hindsight practical expedient to determine the lease term for existing leases did not result in any changes to existing lease terms. We elected not to apply recognition requirements to short term leases with terms of twelve months or less across all asset classes. We elected to analyze vehicle assets using the portfolio approach. Lastly, we elected as an accounting policy not to separate the lease and non-lease components in the lease payments across all asset classes.

Accounting Policy

The Company owns most of the assets used in its operations, but leases certain buildings and land, vehicles, office equipment and other rental assets. The Company determines if an arrangement is a lease at inception. All of the Company's current lease arrangements are classified as operating leases. The Company historically has not entered into financing leases. Operating lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease expense is recognized by amortizing the amount recorded as an asset on a straight-line basis over the lease term.

In determining lease asset value, the Company considers fixed or variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised. The Company generally uses its incremental borrowing rate based on information available at the lease commencement date in determining the present value of lease payments.

As of March 29, 2019, the weighted average remaining lease term was 6.0 years and the weighted average discount rate used to determine the operating lease liability was 4.2%. For the three months ended March 29, 2019, expense related to operating leases was $2.8 million, operating lease payments included in operating cash flows totaled $2.7 million and non-cash additions to operating lease assets totaled $1.8 million.

As of March 29, 2019, future maturities of operating lease liabilities were as follows (in thousands):

	Operating Leases
2019	$ 7,651
2020	8,250
2021	6,317
2022	5,012
2023	3,839
2024	1,831
Thereafter	7,527
Total lease payments	$ 40,427
Present value adjustment	(4,742)
Operating lease liabilities	$ 35,685

Aggregate annual rental commitments under operating leases with noncancelable terms of more than one year at December 28, 2018 were reported under previous lease accounting standards as follows (in thousands):

	Total
2019	$ 11,613
2020	8,759
2021	6,745
2022	5,102
2023	3,721
Thereafter	2,340
Total	$ 38,280

Credit Losses

In June 2016, the 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. The Company is evaluating the effect of the new standard on its consolidated financial statements and related disclosures and accounting systems.

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		
	Mar 29, 2019	Mar 30, 2018	% Change
Net Sales	$ 404.9	$ 406.3	— %
Operating Earnings	104.5	111.7	(6)%
Net Earnings	86.7	85.5	1 %
Net Earnings, adjusted (1)	80.1	84.1	(5)%
Diluted Net Earnings per Common Share	$ 0.51	$ 0.49	4 %
Diluted Net Earnings per Common Share, adjusted (1)	$ 0.47	$ 0.48	(2)%

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

Sales for the quarter were down slightly from the comparable period last year, with increases of 5 percent in the Americas offset by decreases of 2 percent in EMEA (increase of 5 percent at consistent translation rates) and 12 percent in Asia Pacific (decrease of 8 percent at consistent translation rates). In Asia Pacific, increases in Process and Contractor segment sales partially offset a decrease in Industrial segment sales. Changes in currency translation rates decreased worldwide sales and operating earnings by approximately $11 million (2 percentage points) and $6 million (5 percentage points), respectively.

Excluding the impact of tax benefits related to stock option exercises and the effects of 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 29, 2019	Mar 30, 2018
Earnings before income taxes	$ 100.7	$ 107.4
Income taxes, as reported	$ 14.0	$ 21.9
Excess tax benefit from option exercises	5.1	1.4
Other non-recurring tax benefit	1.5	—
Income taxes, adjusted	$ 20.6	$ 23.3
Effective income tax rate		
As reported	13.9%	20.4%
Adjusted	20.5%	21.7%
Net Earnings, as reported	$ 86.7	$ 85.5
Excess tax benefit from option exercises	(5.1)	(1.4)
Other non-recurring tax benefit	(1.5)	—
Net Earnings, adjusted	$ 80.1	$ 84.1
Weighted Average Diluted Shares	170.9	175.6
Diluted Earnings per Share		
As reported	$ 0.51	$ 0.49
Adjusted	$ 0.47	$ 0.48

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

	Three Months Ended	
	Mar 29, 2019	Mar 30, 2018
Net Sales	100.0%	100.0%
Cost of products sold	46.6	45.3
Gross Profit	53.4	54.7
Product development	4.1	3.7
Selling, marketing and distribution	15.0	15.4
General and administrative	8.4	8.1
Operating Earnings	25.8	27.5
Interest expense	0.9	0.8
Other expense, net	0.1	0.3
Earnings Before Income Taxes	24.9	26.4
Income taxes	3.5	5.4
Net Earnings	21.4%	21.0%

Net Sales

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

	Three Months Ended	
	Mar 29, 2019	Mar 30, 2018
Americas[1]	$ 232.0	$ 221.4
EMEA[2]	99.5	101.4
Asia Pacific	73.4	83.5
Consolidated	$ 404.9	$ 406.3

(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	5%	0%	0%	5%
EMEA	5%	0%	(7)%	(2)%
Asia Pacific	(8)%	0%	(4)%	(12)%
Consolidated	2%	0%	(2)%	0%

Gross Profit

Gross profit margin rate for the quarter decreased by 1 percentage point from the comparable period last year. Changes in currency translation rates accounted for approximately half of the decrease, and the impact of price changes partially offset the adverse impacts of higher material costs and product and channel mix. The full impact of price changes implemented in the first quarter will be realized as the year progresses.

Operating Expenses

Total operating expenses for the quarter increased $1 million (1 percent) compared to last year. Product development expense increased 8 percent as the Company continued to invest to launch products and drive future sales.

Income Taxes

The effective income tax rate was 14 percent for the quarter, down 6 percentage points from the comparable period last year. The decrease was primarily due to an increase in excess tax benefits related to stock option exercises and non-recurring benefits from other tax planning activities.

Table of Contents

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	
	Mar 29, 2019	Mar 30, 2018
Net Sales		
Americas	$ 80.9	$ 74.2
EMEA	58.1	60.2
Asia Pacific	50.1	60.8
Total	$ 189.1	$ 195.2
Operating earnings as a percentage of net sales	34%	35%

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	10%	0%	(1)%	9%
EMEA	3%	0%	(7)%	(4)%
Asia Pacific	(14)%	0%	(4)%	(18)%
Segment Total	0%	0%	(3)%	(3)%

Industrial segment constant-currency sales growth in the Americas and EMEA was offset by a decrease in Asia Pacific, where 2018 included large system sales that did not repeat in 2019. Currency translation drove a decrease in operating margin as a percentage of sales. Gross margin and operating expenses were flat at consistent currency translation rates.

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	
	Mar 29, 2019	Mar 30, 2018
Net Sales		
Americas	$ 57.1	$ 51.3
EMEA	15.8	15.0
Asia Pacific	14.0	13.7
Total	$ 86.9	$ 80.0
Operating earnings as a percentage of net sales	23%	22%

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	12%	0%	(1)%	11%
EMEA	9%	1%	(5)%	5%
Asia Pacific	6%	0%	(4)%	2%
Segment Total	10%	0%	(1)%	9%

The Process segment had strong sales growth in all product applications. Gross margin rates were consistent with the comparable period last year at constant currency translation rates. Operating margin rates for this segment improved by 1 percentage point, driven by higher sales volume and expense leverage.

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	
	Mar 29, 2019	Mar 30, 2018
Net Sales		
Americas	$ 94.0	$ 95.9
EMEA	25.6	26.2
Asia Pacific	9.3	9.0
Total	$ 128.9	$ 131.1
Operating earnings as a percentage of net sales	21%	24%

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%	0%	(2)%
EMEA	5%	0%	(7)%	(2)%
Asia Pacific	9%	0%	(5)%	4%
Segment Total	0%	0%	(2)%	(2)%

Contractor segment sales decreased by 2 percent (but were flat at consistent translation rates) against tough comparisons from 2018 (up 15 percent over 2017). Segment sales in 2019 were lower than planned as new products scheduled for launch early in the first quarter were released for sale late in the quarter. At consistent currency translation rates, segment gross margin rate decreased 2 percentage points due to lower factory volume, higher factory spending, higher material costs and unfavorable channel mix. The segment limited operating expenses to an increase of 1 percent.

Liquidity and Capital Resources

Net cash provided by operating activities totaled $51 million in the first quarter of 2019 compared to $59 million in 2018. Changes in accrued liabilities, including income taxes payable, drove the decrease. Increases in accounts receivable and inventories reflect growth in business activity in the three months ended March 29, 2019. 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. Although the Company did not repurchase any shares in the first quarter of 2019, it may make additional opportunistic purchases going forward.

In 2018, significant uses of cash included share repurchases of $85 million (partially offset by $17 million of net proceeds from shares issued), cash dividends of $22 million, business acquisitions of $11 million, and property, plant and equipment additions of $9 million.

At March 29, 2019, the Company had various lines of credit totaling $594 million, of which $564 million was unused. Internally generated funds and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2019, including its capital expenditure plan (including several building projects to expand production and distribution capacity), planned dividends, share repurchases, acquisitions and potential early retirement of $75 million of fixed rate notes due in January 2020.

Outlook

The Company continues to target mid single-digit organic sales growth on a constant currency basis, and growth in all reportable segments and regions for the full-year 2019,

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 2018 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: our Company's growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; economic conditions in the United States and other major world economies; 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 2018 for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at www.graco.com and the Securities and Exchange Commission's website at 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 2018 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

There have been no material changes to the Company's risk factors from those disclosed in the Company's 2018 Annual Report on Form 10-K.

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.

No shares were purchased in the first quarter of 2019. As of March 29, 2019, there were 21,002,528 shares that may yet be purchased under the Board authorizations.

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.)
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 24, 2019.
101	Interactive Data File.

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:	April 24, 2019	By:	/s/ Patrick J. McHale
			Patrick J. McHale
			President and Chief Executive Officer
			(Principal Executive Officer)
Date:	April 24, 2019	By:	/s/ Mark W. Sheahan
			Mark W. Sheahan
			Chief Financial Officer and Treasurer
			(Principal Financial Officer)
Date:	April 24, 2019	By:	/s/ Caroline M. Chambers
			Caroline M. Chambers
			Executive Vice President, Corporate Controller and Information Systems
			(Principal Accounting Officer)

Exhibit 31.1

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 24, 2019

/s/ Patrick J. McHale

Patrick J. McHale

President and Chief Executive Officer

Exhibit 31.2

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 24, 2019

/s/ Mark W. Sheahan
Mark W. Sheahan
Chief Financial Officer and Treasurer

Exhibit 32

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: April 24, 2019

/s/ Patrick J. McHale
Patrick J. McHale
President and Chief Executive Officer

Date: April 24, 2019

/s/ Mark W. Sheahan
Mark W. Sheahan
Chief Financial Officer and Treasurer

Exhibit 99.1

News Release

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

FOR IMMEDIATE RELEASE:
Wednesday, April 24, 2019

FOR FURTHER INFORMATION:
Financial Contact: Mark Sheahan, 612-623-6656
Media Contact: Charlotte Boyd, 612-623-6153
Charlotte_M_Boyd@graco.com

Graco Reports First Quarter Results
Currency Translation Offsets Underlying Sales Growth

MINNEAPOLIS (April 24, 2019) – Graco Inc. **(NYSE: GGG)** today announced results for the first quarter ended March 29, 2019.

Summary
$ in millions except per share amounts

	Three Months Ended		
	Mar 29, 2019	Mar 30, 2018	% Change
Net Sales	$ 404.9	$ 406.3	(0) %
Operating Earnings	104.5	111.7	(6) %
Net Earnings	86.7	85.5	1 %
Diluted Net Earnings per Common Share	$ 0.51	$ 0.49	4 %
Adjusted (non-GAAP): (1)			
Net Earnings, adjusted	$ 80.1	$ 84.1	(5) %
Diluted Net Earnings per Common Share, adjusted	$ 0.47	$ 0.48	(2) %

(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.

- Changes in currency translation rates offset modest underlying growth in sales compared to last year. At consistent currency rates, sales increased by 2 percent, driven by Process segment growth, while sales in other segments were flat.
- Gross margin rate for the quarter decreased by 1 percentage point compared to the first quarter last year. Changes in currency translation rates accounted for approximately half of the decrease, and the impact of price changes partially offset the adverse impacts of higher material costs and product and channel mix.
- Total operating expenses increased modestly, with increases in new product development and product launch expenses.
- The effective income tax rate decreased 6 percentage points due to an increase in excess tax benefits from option exercises and other non-recurring tax benefits.

"On a constant currency basis, the Company achieved low single-digit organic sales growth. This was below our expectations but we remain cautiously optimistic regarding the balance of the year," said Patrick J. McHale, Graco's President and CEO. "Price-change implementation is on track, and the full effect of increases instituted in the first quarter will be realized in future operating results. In addition, we anticipate the revenue and profitability for Contractor Americas will improve as new products released late in the first quarter make their way into the market in Q2."

More . . .

Consolidated Results

Sales for the quarter were down slightly from the comparable period last year, with increases of 5 percent in the Americas offset by decreases of 2 percent in EMEA (increase of 5 percent at consistent translation rates) and 12 percent in Asia Pacific (decrease of 8 percent at consistent translation rates). In Asia Pacific, increases in Process and Contractor segment sales partially offset a decrease in Industrial segment sales. Changes in currency translation rates decreased worldwide sales by approximately $11 million (2 percentage points).

Gross profit margin rate for the quarter decreased by 1 percentage point from the comparable period last year. Changes in currency translation rates accounted for approximately half of the decrease, and the impact of price changes partially offset the adverse impacts of higher material costs and product and channel mix. The full impact of price changes implemented in the first quarter will be realized as the year progresses.

Total operating expenses for the quarter increased $1 million (1 percent) compared to last year. Product development expense increased 8 percent as the Company continued to invest to launch products and drive future sales.

The effective income tax rate was 14 percent for the quarter, down 6 percentage points from the comparable period last year. The decrease was primarily due to an increase in excess tax benefits related to stock option exercises and non-recurring benefits from other tax planning activities.

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)	$ 189.1	$ 86.9	$ 128.9
Percentage change from last year			
Sales	(3)%	9%	(2)%
Operating earnings	(6)%	13%	(16)%
Operating earnings as a percentage of sales			
2019	34 %	23%	21 %
2018	35 %	22%	24 %

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

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	10%	0%	(1)%	9%
EMEA	3%	0%	(7)%	(4)%
Asia Pacific	(14)%	0%	(4)%	(18)%
Consolidated	0%	0%	(3)%	(3)%

More . . .

Industrial segment constant-currency sales growth in the Americas and EMEA was offset by a decrease in Asia Pacific, where 2018 included large system sales that did not repeat in 2019. Currency translation drove a decrease in operating margin as a percentage of sales. Gross margin and operating expenses were flat at consistent currency translation rates.

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

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	12%	0%	(1)%	11%
EMEA	9%	1%	(5)%	5%
Asia Pacific	6%	0%	(4)%	2%
Consolidated	10%	0%	(1)%	9%

The Process segment had strong sales growth in all product applications. Gross margin rates were consistent with the comparable period last year at constant currency translation rates. Operating margin rates for this segment improved by 1 percentage point, driven by higher sales volume and expense leverage.

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%	0%	(2)%
EMEA	5%	0%	(7)%	(2)%
Asia Pacific	9%	0%	(5)%	4%
Consolidated	0%	0%	(2)%	(2)%

Contractor segment sales decreased by 2 percent (but were flat at consistent translation rates) against tough comparisons from 2018 (up 15 percent over 2017). Segment sales in 2019 were lower than planned as new products scheduled for launch early in the first quarter were released for sale late in the quarter. At consistent currency translation rates, segment gross margin rate decreased 2 percentage points due to lower factory volume, higher factory spending, higher material costs and unfavorable channel mix. The segment limited operating expenses to an increase of 1 percent.

Outlook

“The Company continues to target mid single-digit organic sales growth on a constant currency basis, and growth in all reportable segments and regions for the full-year 2019,” said McHale.

More . . .

Financial Results Adjusted for Comparability

Excess tax benefits related to stock option exercises in 2019 and 2018, and additional benefit from tax planning activities in 2019 reduced income taxes. Excluding the impacts of those items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	Three Months Ended	
	Mar 29, 2019	Mar 30, 2018
Earnings before income taxes	$ 100.7	$ 107.4
Income taxes, as reported	$ 14.0	$ 21.9
Excess tax benefit from option exercises	5.1	1.4
Other non-recurring tax benefit	1.5	—
Income taxes, adjusted	$ 20.6	$ 23.3
Effective income tax rate		
As reported	13.9%	20.4%
Adjusted	20.5%	21.7%
Net Earnings, as reported	$ 86.7	$ 85.5
Excess tax benefit from option exercises	(5.1)	(1.4)
Other non-recurring tax benefit	(1.5)	—
Net Earnings, adjusted	$ 80.1	$ 84.1
Weighted Average Diluted Shares	170.9	175.6
Diluted Earnings per Share		
As reported	$ 0.51	$ 0.49
Adjusted	$ 0.47	$ 0.48

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 2018 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.

More . . .

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: our Company's growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; economic conditions in the United States and other major world economies; 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 2018 (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 and the Securities and Exchange Commission's website at 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 25, 2019, 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. 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 25, 2019, by dialing 888-203-1112, Conference ID #3050476, if calling within the U.S. or Canada. The dial-in number for international participants is 719-457-0820, with the same Conference ID #. The replay by telephone will be available through 2 p.m. ET Monday, April 29, 2019.

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 or on Twitter @GracoInc.

More . . .

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

	Three Months Ended	
	Mar 29, 2019	Mar 30, 2018
Net Sales	$ 404,870	$ 406,348
Cost of products sold	188,828	183,927
Gross Profit	216,042	222,421
Product development	16,569	15,289
Selling, marketing and distribution	60,817	62,522
General and administrative	34,129	32,914
Operating Earnings	104,527	111,696
Interest expense	3,535	3,233
Other expense, net	269	1,035
Earnings Before Income Taxes	100,723	107,428
Income taxes	13,974	21,918
Net Earnings	$ 86,749	$ 85,510
Net Earnings (Loss) per Common Share		
Basic	$ 0.52	$ 0.51
Diluted	$ 0.51	$ 0.49
Weighted Average Number of Shares		
Basic	165,616	169,073
Diluted	170,859	175,649

SEGMENT INFORMATION (Unaudited)
(In thousands)

	Three Months Ended	
	Mar 29, 2019	Mar 30, 2018
Net Sales		
Industrial	$ 189,100	$ 195,196
Process	86,894	80,035
Contractor	128,876	131,117
Total	$ 404,870	$ 406,348
Operating Earnings		
Industrial	$ 65,203	$ 69,125
Process	20,014	17,702
Contractor	26,539	31,411
Unallocated corporate (expense)	(7,229)	(6,542)
Total	$ 104,527	$ 111,696

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.

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