



2nd Quarter 2015 Earnings Conference Call

July 23, 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, July 23, 2015. The replay by telephone will be available through July 27, 2015

- 888-203-1112 – Conference ID #7932377
- 719-457-0820 – Conference ID #7932377, for International participants

Financial Results



\$ millions except EPS

	Second Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Sales	\$ 335.5	\$ 322.5	4 %	\$ 641.9	\$ 612.5	5 %
Gross Profit	180.6	176.9	2 %	342.8	336.2	2 %
% of Sales	53.8 %	54.8 %	(1.0) pts	53.4 %	54.9 %	(1.5) pts
Operating Earnings	83.9	85.8	(2)%	149.1	160.6	(7)%
% of Sales	25.0 %	26.6 %	(1.6) pts	23.2 %	26.2 %	(3.0) pts
Held Separate Investment Income, Net	158.8	10.6		188.4	14.2	
Net Earnings	\$ 172.6	\$ 66.2	161 %	\$ 241.5	\$ 117.0	106 %
% of Sales	51.5 %	20.5 %	31.0 pts	37.6 %	19.1 %	18.5 pts
Diluted Earnings Per Share	\$ 2.90	\$ 1.07	171 %	\$ 4.02	\$ 1.88	114 %
<i>Diluted Shares in Millions</i>	59.6	62.0		60.0	62.2	

- Changes in currency translation rates reduced sales by approximately \$17 million for the quarter and \$30 million year-to-date, and decreased net earnings by approximately \$6 million for the quarter and \$10 million for the year-to-date
- Non-recurring income tax benefits increased net earnings by a total of \$9 million, or \$0.15 per diluted share for both the quarter and year-to-date
- In April, the Company sold the Held Separate business assets acquired in 2012. Net earnings and diluted EPS excluding investment income are:

	Second Quarter		Year-to-Date	
	2015	2014	2015	2014
Adjusted Net Earnings	\$ 62.9 M	\$ 55.4 M	\$ 102.0 M	\$ 102.5 M
Diluted EPS as adjusted	\$ 1.05	\$ 0.89	\$ 1.70	\$ 1.65

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 price was \$590 million. The transaction is subject to customary working capital and other post-closing adjustments
- Net earnings include gain on the sale, after transaction costs and tax, and investment income of \$110 million (\$1.85 per diluted share) for the quarter and \$139 million (\$2.32 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):

	Second Quarter		Year-to-Date	
	2015	2014	2015	2014
Net earnings	\$ 172.6	\$ 66.2	\$ 241.5	\$ 117.0
Held separate investment (income), net	(158.8)	(10.6)	(188.4)	(14.2)
Income tax effect on Held Separate income	49.1	(0.2)	48.9	(0.3)
Adjusted net earnings	<u>\$ 62.9</u>	<u>\$ 55.4</u>	<u>\$ 102.0</u>	<u>\$ 102.5</u>
Diluted EPS as reported	\$ 2.90	\$ 1.07	\$ 4.02	\$ 1.88
Diluted EPS as adjusted	1.05	0.89	1.70	1.65

- No further investment dividends will be received

Tax Items



- The effective tax rate was 28% for the quarter, consistent with the comparable period last year, and 26% for the year-to-date down 3 percentage points compared to last year
 - During the second quarter, the Company asserted that it will indefinitely reinvest earnings of foreign subsidiaries to support expansion of its international business. The change in assertion decreased deferred income taxes related to undistributed foreign earnings by \$7 million (non-recurring), reducing the effective tax rate as compared to last year
 - Tax rate effects of the gain on the sale of the Liquid Finishing assets offset the effects of the foreign earnings reinvestment assertion
 - Higher post-tax dividend income and an additional non-recurring tax benefit related to completion of certain tax items of \$2 million further reduced the year-to-date effective tax rate
- Tax rate for third quarter and the second half is expected to be approximately 31-33%; for the year approximately 28-29%
 - 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 or 1 percentage point on earnings (exclusive of the Held Separate gain)

Financial Results



Components of Net Sales Change

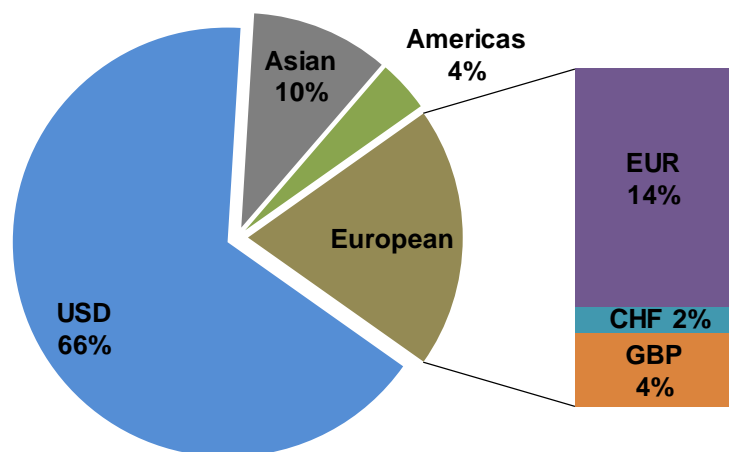
Second Quarter June 2015

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	4 %	3 %	3 %	1 %	5 %	3 %
Acquisitions	1 %	32 %	—	5 %	9 %	8 %	6 %
Currency	(6)%	(5)%	(4)%	(1)%	(15)%	(5)%	(5)%
Total	(2)%	31 %	(1)%	7 %	(5)%	8 %	4 %

Year-to-Date June 2015

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	1 %	4 %	9 %	7 %	—	(2)%	4 %
Acquisitions	1 %	30 %	—	5 %	9 %	6 %	6 %
Currency	(6)%	(5)%	(4)%	(1)%	(15)%	(4)%	(5)%
Total	(4)%	29 %	5 %	11 %	(6)%	—	5 %

Sales by Currency YTD June 2015



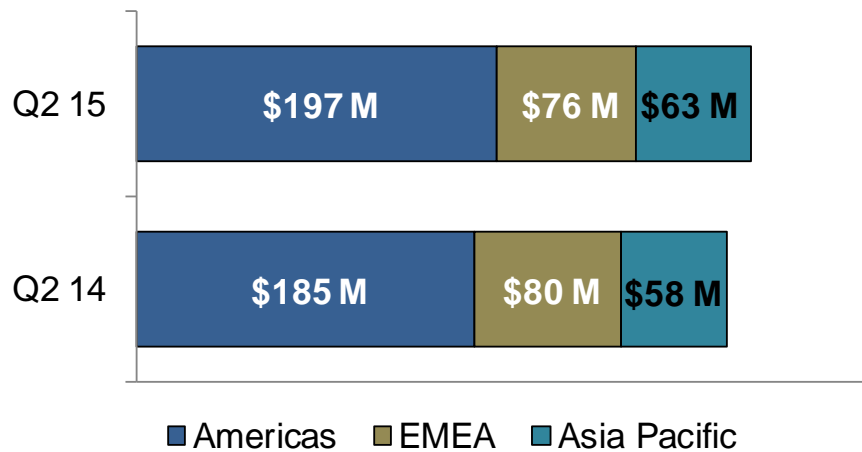
Asian currencies include:
AUD, CNY/RMB, KRW, JPY

Americas currencies include:
CAD, BRL, MXN

Second Quarter 2015 Results

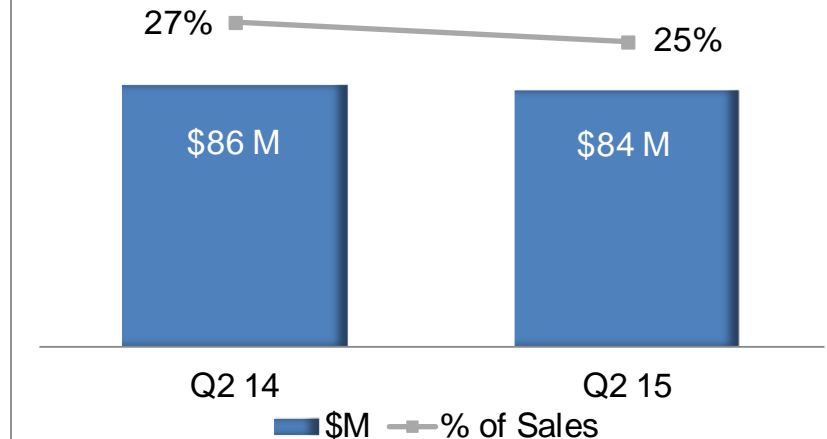


Sales



- Sales increase of 4% (9% at consistent currency translation rates)
 - Acquired businesses sales of \$19 million account for 6 percentage points of growth
- Gross margin rate down 1 percentage point from second quarter 2014
 - Currency translation (1) percentage point and the effect of acquired businesses (½) percentage point more than offset legacy business realized pricing and mix

Operating Earnings

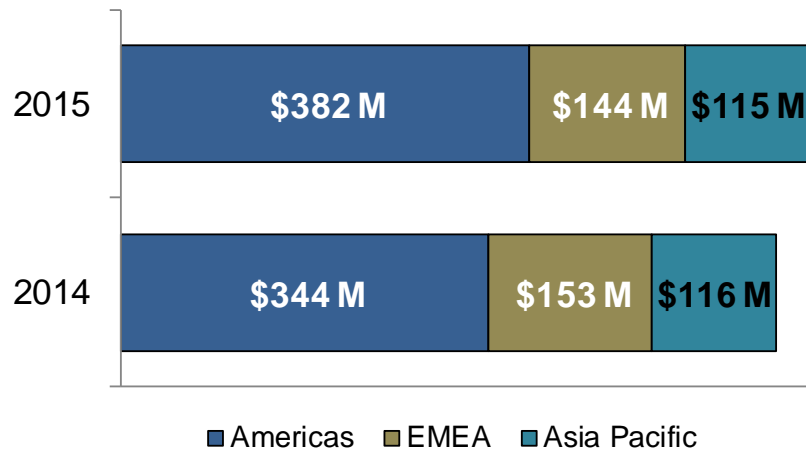


- Operating earnings down \$2 million, 2 percentage points lower than second quarter 2014
 - Currency headwinds, 2 percentage points
 - Acquired operations reduced margin 1 percentage point
 - Unallocated corporate expenses, mostly pension, stock compensation, and the new central distribution warehouse reduced operating margin 1 percentage point
 - Realized pricing, mix and expense leverage increased operating margin 2 percentage points
- Tax rate of 28% is comparable to second quarter 2014
 - Tax rate decreases from the assertion to indefinitely reinvest earnings of foreign subsidiaries (\$7 million, non-recurring), post-tax Held Separate dividends and a non-recurring tax benefit of \$2 million offset the effects of the gain on the sale

June 2015 Year-to-Date Results

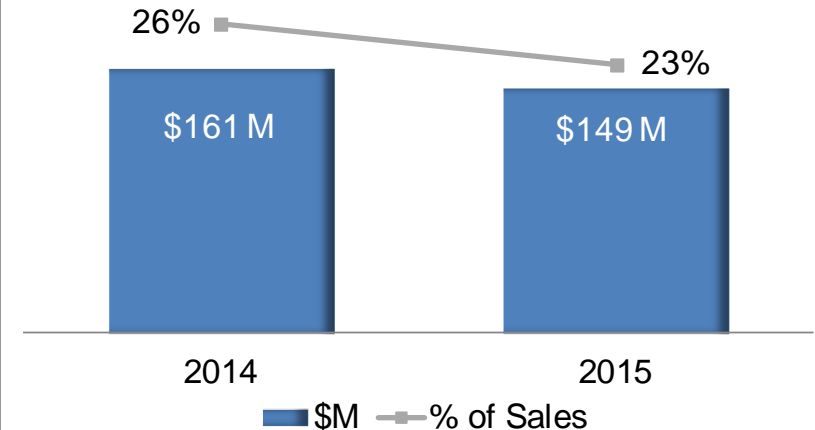


Sales



- Sales increase of 5% (10% at consistent currency translation rates)
 - Acquired businesses sales of \$34 million account for 6 percentage points of growth
- Gross margin rate down 1½ percentage points from 2014
 - Currency translation reduced gross margin 1 percentage point
 - Year-over-year purchase accounting impacted consolidated margin by ½ percentage point

Operating Earnings



- Operating earnings down \$11 million, 3 percentage points lower than 2014
 - Currency headwinds 1 percentage point
 - Acquired operations reduced margin 1 percentage point
 - Unallocated corporate expenses, mostly pension, stock compensation, and the new central distribution warehouse, reduced operating margin 1 percentage point
- Tax rate of 26% is lower than 2014 rate of 29%
 - 2015 rate lower than 2014 due to higher post-tax dividend income and additional non-recurring tax benefit of \$2 million. Tax rate decreases from the assertion to indefinitely reinvest earnings of foreign subsidiaries (\$7 million, non-recurring) offset the effects of the gain on the sale

Operating Earnings



Change in Operating Earnings

2014 Q2 Operating Earnings (\$M and % of sales)

Translation effect

Mix, pricing and product cost

Effect of acquired businesses on operating earnings leverage

Effect of inventory step-up, net, and acquisition costs for acquired businesses

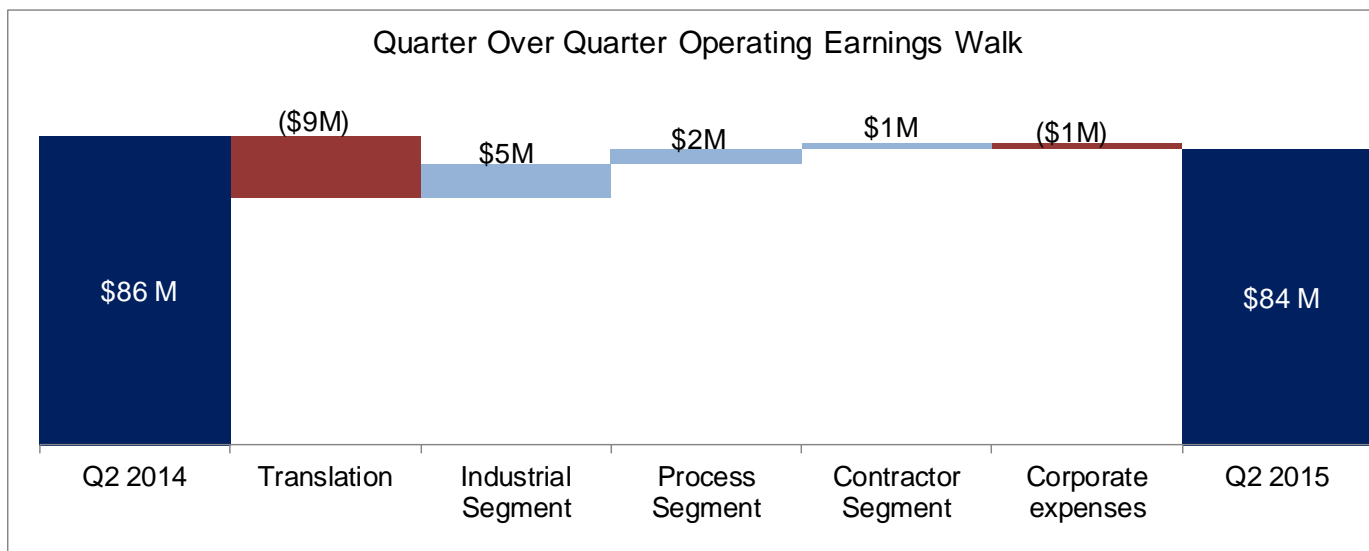
Incremental investment in regional and product growth initiatives

Increased unallocated corporate expenses (pension, stock compensation)

Volume effect on expense leverage

2015 Q2 Operating Earnings (\$M and % of sales)

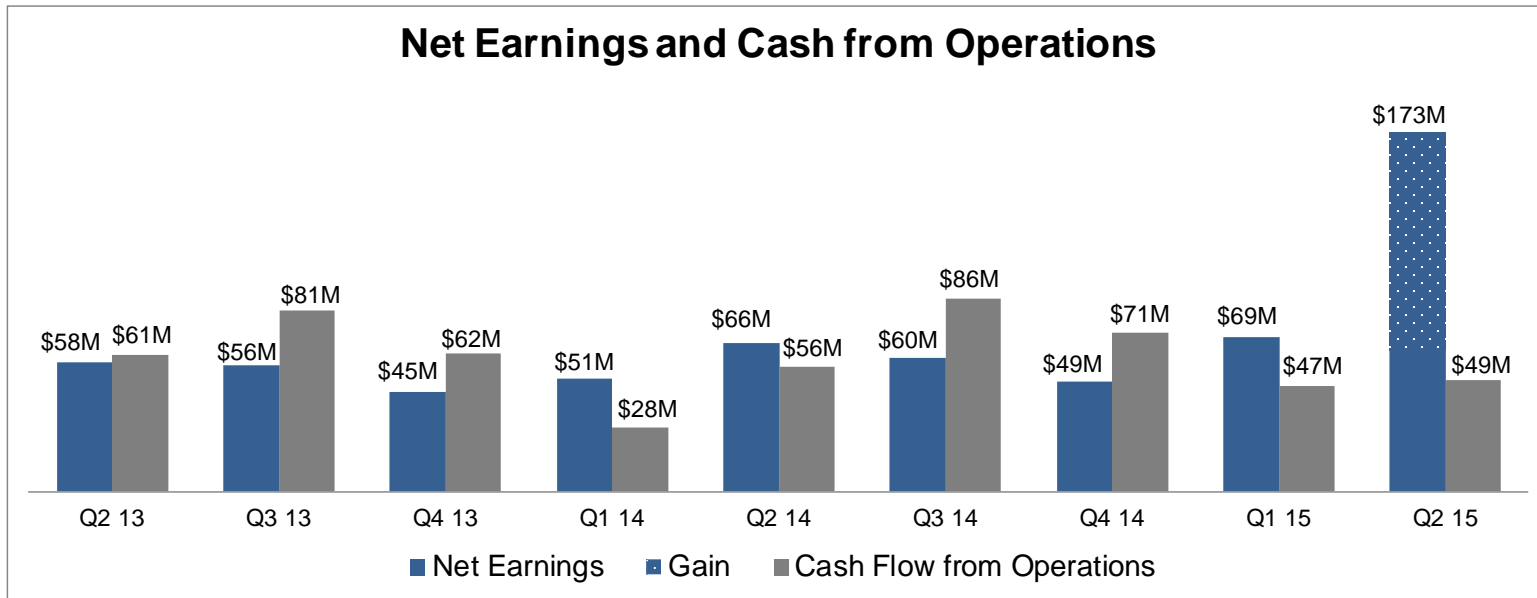
	Second Quarter		Year-to-Date	
2014 Q2 Operating Earnings (\$M and % of sales)	\$ 86	27 %	\$ 161	26 %
Translation effect	(9)	(2)	(16)	(1)
Mix, pricing and product cost	7	1	14	—
Effect of acquired businesses on operating earnings leverage	2	(1)	4	(1)
Effect of inventory step-up, net, and acquisition costs for acquired businesses	—	—	(3)	—
Incremental investment in regional and product growth initiatives	(1)	—	(3)	—
Increased unallocated corporate expenses (pension, stock compensation)	(1)	(1)	(3)	(1)
Volume effect on expense leverage	—	1	(5)	—
2015 Q2 Operating Earnings (\$M and % of sales)	<u>\$ 84</u>	<u>25 %</u>	<u>\$ 149</u>	<u>23 %</u>



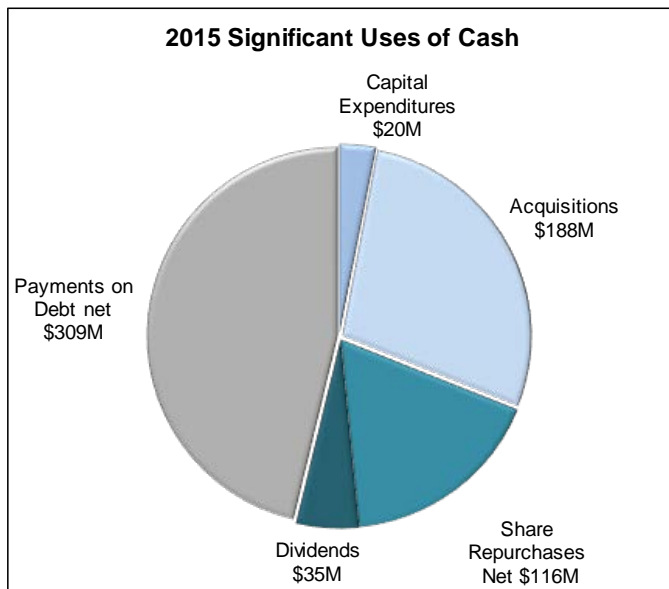
Cash Flow and Liquidity



Net Earnings and Cash from Operations



2015 Significant Uses of Cash



- 2015 net earnings include after-tax net gain on sale of Held Separate business assets and dividend income of \$139 million, 2014 net earnings includes dividend income of \$15 million
- 2015 cash flows from operations \$97 million versus \$84 million in 2014
 - Sale of Held Separate business assets has the following impact on the reconciliation of net earnings to cash flows from operations:
 - Pre-tax gain on sale adjusted out of net earnings, gross proceeds reflected as investing activity
 - Tax liability related to the gain reflected in change in other accrued liabilities
 - Cash payments for transaction costs and other cash payments related to the sale reflected in other changes
- Other items related to the sale of Held Separate business assets not yet realized in cash, such as working capital adjustment to be received, will be reflected in cash flow in future quarters as they are realized
- Debt, including notes payable, \$311 million; down \$309 million from 2014
 - Interest expense \$9 million comparable to prior year

Other Discussion Items

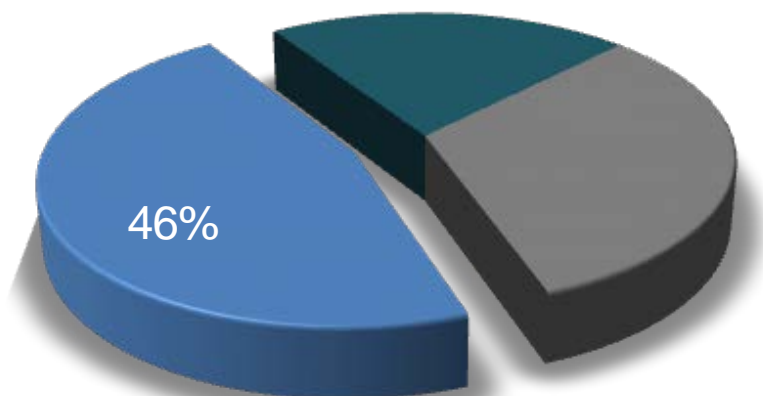


- Capital expenditures expected to be approximately \$40 million in 2015
- During the quarter, we met our goal of less than 60 million diluted shares outstanding. Share repurchases will continue via open market transactions and/or short-dated accelerated share repurchase programs
- With the realization on the gain on the sale of the Held Separate business assets, the Company contributed \$7 million to the Company's charitable foundation. The Company does not plan significant future contributions to the foundation

Industrial Segment Results



Sales (\$M)	Second Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Americas	\$ 72	\$ 69	3 %	\$ 139	\$ 135	3 %
EMEA	41	50	(16)	83	97	(15)
Asia Pacific	41	38	7	75	77	(2)
Total	\$ 154	\$ 157	(2)%	\$ 297	\$ 309	(4)%
Operating Earnings	\$ 51	\$ 51	(0)%	\$ 94	\$ 100	(6)%
% of sales	33 %	33 %		32 %	32 %	



**June 2015 YTD Industrial Segment Sales
as % of Consolidated Sales**

Components of Net Sales Change Second Quarter June 2015

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	2 %	(2)%	10 %	3 %
Acquisitions	2 %	—	2 %	1 %
Currency	(1)%	(14)%	(5)%	(6)%
Total	3 %	(16)%	7 %	(2)%

Year-to-Date June 2015

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	3 %	(1)%	1 %	1 %
Acquisitions	1 %	—	1 %	1 %
Currency	(1)%	(14)%	(4)%	(6)%
Total	3 %	(15)%	(2)%	(4)%

Industrial Segment Results



Change in % of sales

2014 Q2 Operating Earnings (percentage of sales)

Translation effect

Mix, price, cost

Effect of acquired businesses on operating leverage

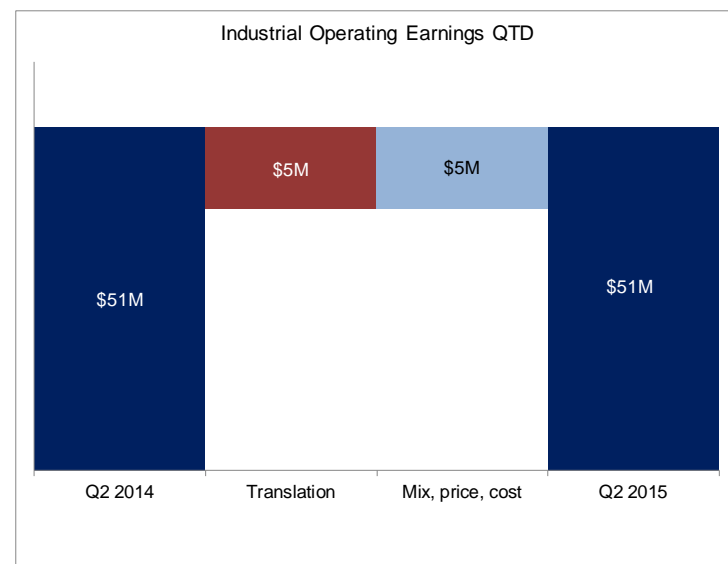
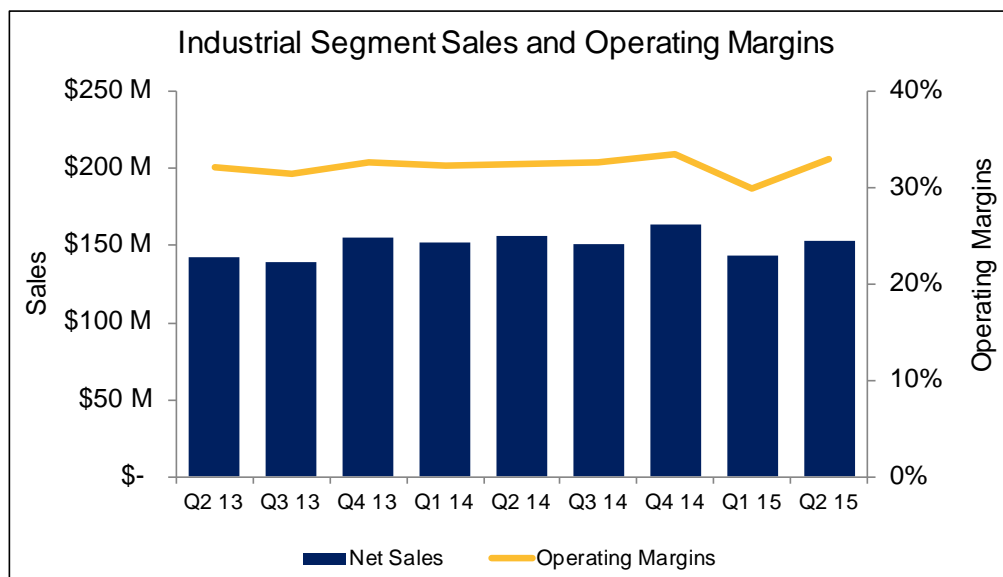
Expense leverage

2015 Q2 Operating Earnings (percentage of sales)

Second Quarter

Year-to-Date

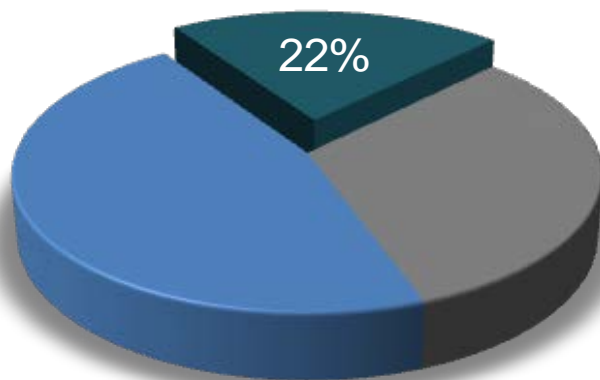
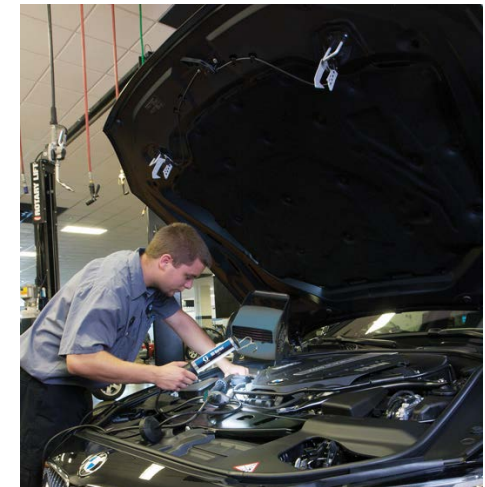
33 %	32 %
(1)	(1)
1	1
(1)	—
1	—
<u>33 %</u>	<u>32 %</u>



Process Segment Results



Sales (\$M)	Second Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Americas	\$ 44	\$ 36	22 %	\$ 87	\$ 71	23 %
EMEA	15	9	65	29	18	56
Asia Pacific	13	10	33	24	19	26
Total	\$ 72	\$ 55	31 %	\$ 140	\$ 108	29 %
Operating Earnings	\$ 14	\$ 14	3 %	\$ 24	\$ 26	(7)%
% of sales	19 %	25 %		18 %	24 %	



June 2015 YTD Process Segment Sales as % of Consolidated Sales

Components of Net Sales Change Second Quarter June 2015

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	4 %	9 %	(2)%	4 %
Acquisitions	19 %	76 %	43 %	32 %
Currency	(1)%	(20)%	(8)%	(5)%
Total	22 %	65 %	33 %	31 %

Year-to-Date June 2015

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	5 %	8 %	(2)%	4 %
Acquisitions	19 %	66 %	35 %	30 %
Currency	(1)%	(18)%	(7)%	(5)%
Total	23 %	56 %	26 %	29 %

Process Segment Results



Change in % of sales

2014 Q2 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

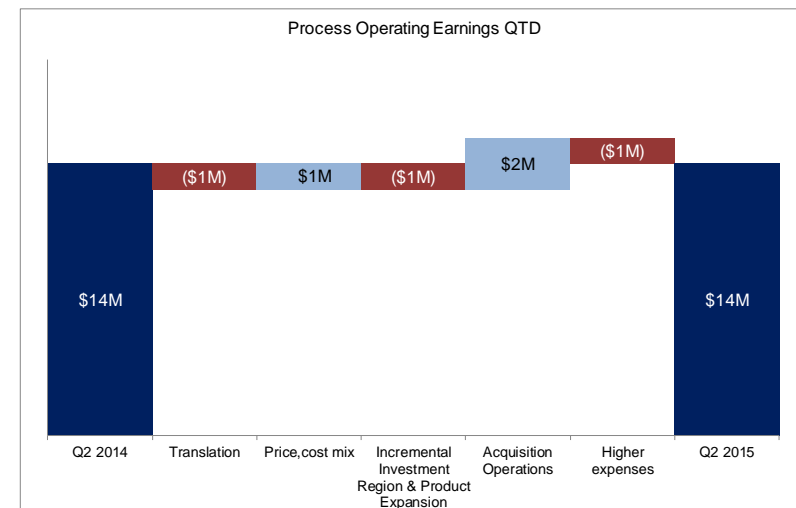
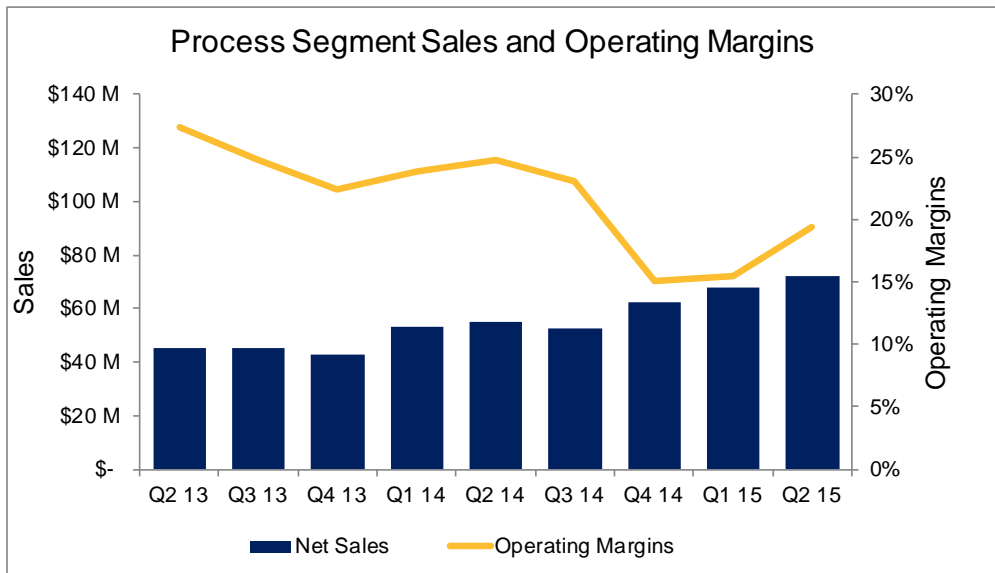
Incremental investment in regional and product growth initiatives

Expense/volume leverage

2015 Q2 Operating Earnings (percentage of sales)

Second Quarter Year-to-Date

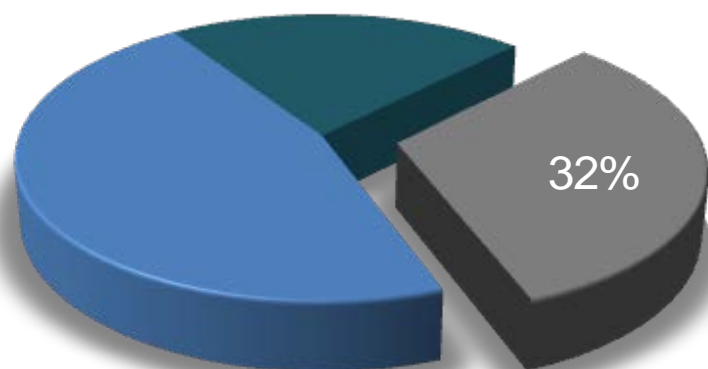
25 %	24 %
(1)	(1)
(2)	(1)
—	(2)
(2)	(3)
(1)	1
<u>19 %</u>	<u>18 %</u>



Contractor Segment Results



Sales (\$M)	Second Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Americas	\$ 81	\$ 79	3 %	\$ 156	\$ 138	13 %
EMEA	19	21	(9)	33	38	(12)
Asia Pacific	10	11	(12)	17	20	(18)
Total	\$ 110	\$ 111	(1)%	\$ 206	\$ 196	5 %
Operating Earnings	\$ 27	\$ 28	(4)%	\$ 46	\$ 47	(0)%
% of sales	25 %	25 %		23 %	24 %	



**June 2015 YTD Contractor Segment Sales
as % of Consolidated Sales**

Components of Net Sales Change

Second Quarter June 2015

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	3 %	5 %	(7)%	3 %
Acquisitions	—	—	—	—
Currency	(1)%	(14)%	(5)%	(4)%
Total	3 %	(9)%	(12)%	(1)%

Year-to-Date June 2015

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	14 %	2 %	(15)%	9 %
Acquisitions	—	—	—	—
Currency	(1)%	(14)%	(3)%	(4)%
Total	13 %	(12)%	(18)%	5 %

Contractor Segment Results



Change in % of sales

2014 Q2 Operating Earnings (percentage of sales)

Translation effect

New product launch

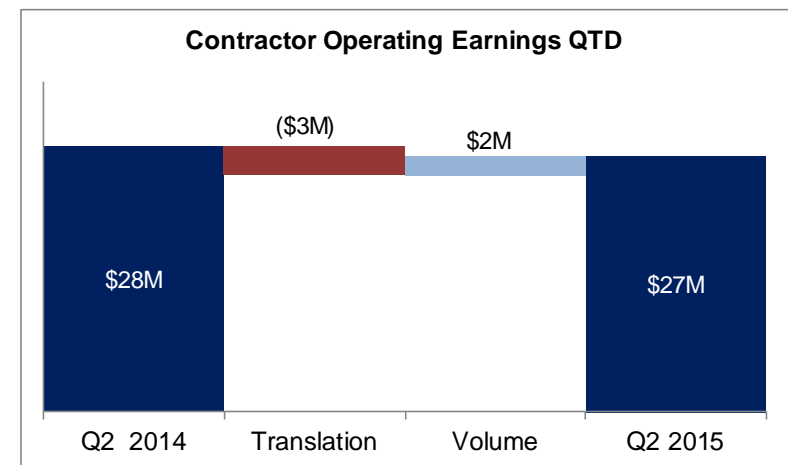
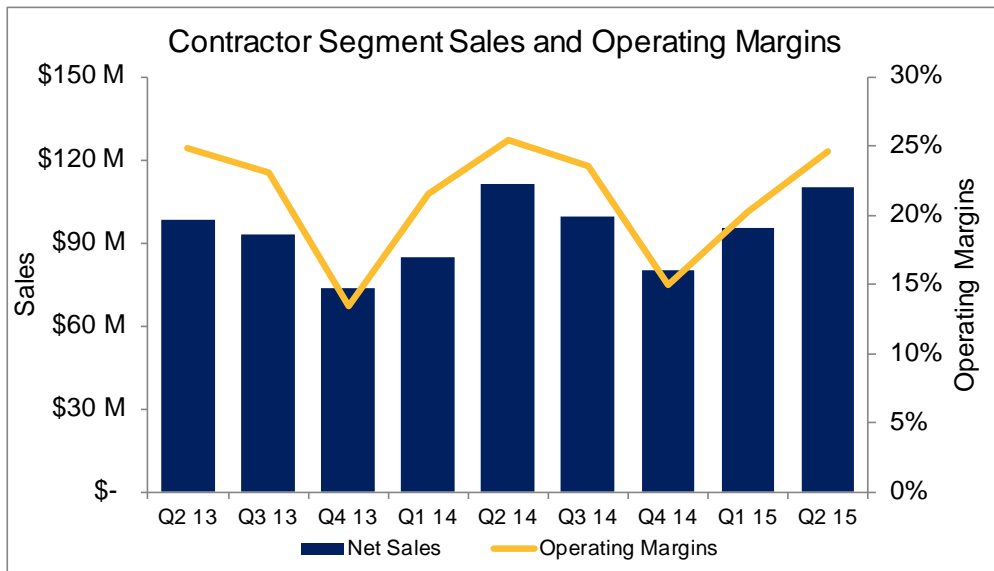
Expense/volume leverage

2015 Q2 Operating Earnings (percentage of sales)

Second Quarter

Year-to-Date

25 %	24 %
(1)	(1)
—	(1)
1	1
<u>25 %</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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