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 **June 28, 2019**

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number: 001-09249

GRACO INC.

(Exact name of registrant as specified in its charter)

Minnesota	41-0285640
(State or other jurisdiction of incorporation or organization)	(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)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.00 per share	GGG	The New York Stock Exchange

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 ☒ 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 ☒ 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 ☒ 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 ☒

166,805,000 shares of the Registrant's Common Stock, $1.00 par value, were outstanding as of July 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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Sales	$ 428,328	$ 424,570	$ 833,198	$ 830,918
Cost of products sold	201,374	194,667	390,202	378,594
Gross Profit	226,954	229,903	442,996	452,324
Product development	17,324	16,112	33,893	31,401
Selling, marketing and distribution	60,441	62,949	121,258	125,471
General and administrative	36,828	37,464	70,957	70,378
Operating Earnings	112,361	113,378	216,888	225,074
Interest expense	3,431	3,891	6,966	7,124
Other expense, net	1,119	4,251	1,388	5,286
Earnings Before Income Taxes	107,811	105,236	208,534	212,664
Income taxes	19,674	16,096	33,648	38,014
Net Earnings	$ 88,137	$ 89,140	$ 174,886	$ 174,650
Net Earnings per Common Share				
Basic	$ 0.53	$ 0.53	$ 1.05	$ 1.04
Diluted	$ 0.51	$ 0.51	$ 1.02	$ 1.00

See notes to consolidated financial statements.

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

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Earnings	$ 88,137	$ 89,140	$ 174,886	$ 174,650
Components of other comprehensive income (loss)				
Cumulative translation adjustment	1,232	(15,112)	2,401	(6,366)
Pension and postretirement medical liability adjustment	1,910	2,705	4,037	4,531
Income taxes - pension and postretirement medical liability adjustment	(423)	(596)	(893)	(997)
Other comprehensive income	2,719	(13,003)	5,545	(2,832)
Comprehensive Income	$ 90,856	$ 76,137	$ 180,431	$ 171,818

See notes to consolidated financial statements.

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

	June 28, 2019	December 28, 2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 180,883	$ 132,118
Accounts receivable, less allowances of $5,200 and $5,300	291,008	274,608
Inventories	297,545	283,982
Other current assets	29,457	32,508
Total current assets	798,893	723,216
Property, Plant and Equipment, net	286,521	229,295
Goodwill	296,273	293,846
Other Intangible Assets, net	163,564	166,310
Operating Lease Assets	32,170	—
Deferred Income Taxes	32,691	32,055
Other Assets	30,435	28,019
Total Assets	$ 1,640,547	$ 1,472,741
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	$ 7,284	$ 11,083
Current portion of long term debt	75,000	—
Trade accounts payable	61,958	56,902
Salaries and incentives	47,109	62,297
Dividends payable	26,716	26,480
Other current liabilities	141,535	143,041
Total current liabilities	359,602	299,803
Long-term Debt	179,081	266,391
Retirement Benefits and Deferred Compensation	135,209	133,388
Operating Lease Liabilities	25,734	—
Deferred Income Taxes	14,963	16,586
Other Non-current Liabilities	—	4,700
Shareholders' Equity		
Common stock	166,792	165,171
Additional paid-in-capital	556,170	510,825
Retained earnings	342,308	220,734
Accumulated other comprehensive income (loss)	(139,312)	(144,857)
Total shareholders' equity	925,958	751,873
Total Liabilities and Shareholders' Equity	$ 1,640,547	$ 1,472,741

See notes to consolidated financial statements.

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

	Six Months Ended	
	June 28, 2019	June 29, 2018
Cash Flows From Operating Activities		
Net Earnings	$ 174,886	$ 174,650
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	24,087	23,755
Deferred income taxes	(3,881)	355
Share-based compensation	17,548	15,832
Change in		
Accounts receivable	(16,051)	(26,100)
Inventories	(13,157)	(17,700)
Trade accounts payable	4,603	2,298
Salaries and incentives	(18,514)	(13,231)
Retirement benefits and deferred compensation	5,780	6,627
Other accrued liabilities	(10,789)	6,493
Other	(690)	(2,202)
Net cash provided by operating activities	163,822	170,777
Cash Flows From Investing Activities		
Property, plant and equipment additions	(70,186)	(27,443)
Acquisition of businesses, net of cash acquired	(6,176)	(10,519)
Other	(828)	(65)
Net cash provided by (used in) investing activities	(77,190)	(38,027)
Cash Flows From Financing Activities		
Borrowings (payments) on short-term lines of credit, net	(3,767)	112
Borrowings on long-term lines of credit	23,944	389,340
Payments on long-term debt and lines of credit	(36,453)	(320,603)
Common stock issued	33,954	20,052
Common stock repurchased	(2,438)	(155,601)
Taxes paid related to net share settlement of equity awards	(1,268)	(16,151)
Cash dividends paid	(53,075)	(44,650)
Net cash provided by (used in) financing activities	(39,103)	(127,501)
Effect of exchange rate changes on cash	1,236	448
Net increase (decrease) in cash and cash equivalents	48,765	5,697
Cash, Cash Equivalents and Restricted Cash		
Beginning of year	132,118	112,904
End of period	$ 180,883	$ 118,601
Reconciliation to Consolidated Balance Sheets		
Cash and cash equivalents	$ 180,883	$ 109,854
Restricted cash included in other current assets	—	8,747
Cash, cash equivalents and restricted cash	$ 180,883	$ 118,601

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
Three Months Ended June 28, 2019					
Balance, March 29, 2019	$ 166,364	$ 539,067	$ 281,038	$ (142,031)	$ 844,438
Shares issued	428	8,678	—	—	9,106
Stock compensation cost	—	8,425	—	—	8,425
Net earnings	—	—	88,137	—	88,137
Dividends declared ($0.1600 per share)	—	—	(26,867)	—	(26,867)
Other comprehensive income (loss)	—	—	—	2,719	2,719
Balance, June 28, 2019	$ 166,792	$ 556,170	$ 342,308	$ (139,312)	$ 925,958
Six Months Ended June 28, 2019					
Balance, December 28, 2018	$ 165,171	$ 510,825	$ 220,734	$ (144,857)	$ 751,873
Shares issued	1,621	31,064	—	—	32,685
Stock compensation cost	—	14,281	—	—	14,281
Net earnings	—	—	174,886	—	174,886
Dividends declared ($0.3200 per share)	—	—	(53,312)	—	(53,312)
Other comprehensive income (loss)	—	—	—	5,545	5,545
Balance, June 28, 2019	$ 166,792	$ 556,170	$ 342,308	$ (139,312)	$ 925,958
Three Months Ended June 29, 2018					
Balance, March 30, 2018	$ 168,033	515,693	176,524	$ (133,071)	$ 727,179
Shares issued	548	(13,963)	—	—	(13,415)
Shares repurchased	(1,451)	(4,285)	(58,352)	—	(64,088)
Stock compensation cost	—	7,897	—	—	7,897
Restricted stock canceled (issued)	—	—	—	—	—
Net earnings	—	—	89,140	—	89,140
Dividends declared ($0.1325 per share)	—	—	(21,905)	—	(21,905)
Other comprehensive income (loss)	—	—	—	(13,003)	(13,003)
Balance, June 29, 2018	$ 167,130	505,342	185,407	$ (146,074)	$ 711,805
Six Months Ended June 29, 2018					
Balance, December 29, 2017	$ 169,319	$ 499,934	$ 181,599	$ (127,789)	$ 723,063
Shares issued	1,313	3,360	—	—	4,673
Shares repurchased	(3,502)	(10,340)	(141,759)	—	(155,601)
Stock compensation cost	—	13,160	—	—	13,160
Restricted stock canceled (issued)	—	(772)	—	—	(772)
Net earnings	—	—	174,650	—	174,650
Dividends declared ($0.2650 per share)	—	—	(44,536)	—	(44,536)
Reclassified to retained earnings from AOCI	—	—	15,453	(15,453)	—
Other comprehensive income (loss)	—	—	—	(2,832)	(2,832)
Balance, June 29, 2018	$ 167,130	$ 505,342	$ 185,407	$ (146,074)	$ 711,805

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 June 28, 2019 and the related statements of earnings, comprehensive income and shareholders' equity for the three and six months ended June 28, 2019 and June 29, 2018, and cash flows for the six months ended June 28, 2019 and June 29, 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 June 28, 2019, and the results of operations and cash flows for all periods presented.

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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Sales				
Industrial	$ 188,507	$ 190,459	$ 377,607	$ 385,655
Process	85,064	85,059	171,958	165,094
Contractor	154,757	149,052	283,633	280,169
Total	$ 428,328	$ 424,570	$ 833,198	$ 830,918
Operating Earnings				
Industrial	$ 64,428	$ 67,030	$ 129,631	$ 136,155
Process	18,378	17,065	38,392	34,767
Contractor	40,054	38,382	66,593	69,793
Unallocated corporate (expense)	(10,499)	(9,099)	(17,728)	(15,641)
Total	$ 112,361	$ 113,378	$ 216,888	$ 225,074

Assets by segment were as follows (in thousands):

	June 28, 2019	December 28, 2018
Industrial	$ 633,813	$ 640,683
Process	364,496	350,306
Contractor	361,832	283,727
Unallocated corporate	280,406	198,025
Total	$ 1,640,547	$ 1,472,741

Table of Contents

Geographic information follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Sales (based on customer location)				
United States	$ 221,565	$ 212,541	$ 424,450	$ 406,323
Other countries	206,763	212,029	408,748	424,595
Total	$ 428,328	$ 424,570	$ 833,198	$ 830,918

	June 28, 2019	December 28, 2018
Long-lived Assets		
United States	$ 229,398	$ 178,331
Other countries	57,123	50,964
Total	$ 286,521	$ 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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net earnings available to common shareholders	$ 88,137	$ 89,140	$ 174,886	$ 174,650
Weighted average shares outstanding for basic earnings per share	166,684	167,260	166,150	168,166
Dilutive effect of stock options computed using the treasury stock method and the average market price	5,363	6,005	5,303	6,291
Weighted average shares outstanding for diluted earnings per share	172,047	173,265	171,453	174,457
Basic earnings per share	$ 0.53	$ 0.53	$ 1.05	$ 1.04
Diluted earnings per share	$ 0.51	$ 0.51	$ 1.02	$ 1.00

Stock options to purchase 1,532,000 and 1,099,000 shares were not included in the June 28, 2019 and June 29, 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	1,285	45.91		
Exercised	(1,241)	15.59		
Canceled	(22)	32.72		
Outstanding, June 28, 2019	12,292	$ 27.79	7,731	$ 22.98

The Company recognized year-to-date share-based compensation of $17.5 million in 2019 and $15.8 million in 2018. As of June 28, 2019, there was $12.4 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.0 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:

	Six Months Ended	
	June 28, 2019	June 29, 2018
Expected life in years	7.5	7.5
Interest rate	2.6%	2.8%
Volatility	24.6%	25.5%
Dividend yield	1.4%	1.2%
Weighted average fair value per share	$ 12.26	$ 12.84

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:

	Six Months Ended	
	June 28, 2019	June 29, 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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Pension Benefits				
Service cost	$ 1,635	$ 1,998	$ 3,644	$ 4,211
Interest cost	3,572	3,411	7,310	6,845
Expected return on assets	(4,216)	(4,632)	(8,575)	(8,718)
Amortization and other	1,838	2,080	3,817	4,175
Net periodic benefit cost	$ 2,829	$ 2,857	$ 6,196	$ 6,513
Postretirement Medical				
Service cost	$ 123	$ 175	$ 273	$ 350
Interest cost	264	265	581	529
Amortization	29	136	137	272
Net periodic benefit cost	$ 416	$ 576	$ 991	$ 1,151

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
Three Months Ended June 28, 2019			
Balance, March 29, 2019	$ (85,232)	$ (56,799)	$ (142,031)
Other comprehensive income (loss) before reclassifications	—	1,232	1,232
Reclassified to pension cost and deferred tax	1,487	—	1,487
Balance, June 28, 2019	$ (83,745)	$ (55,567)	$ (139,312)
Six Months Ended June 28, 2019			
Balance, December 28, 2018	$ (86,889)	$ (57,968)	$ (144,857)
Other comprehensive income (loss) before reclassifications	—	2,401	2,401
Reclassified to pension cost and deferred tax	3,144	—	3,144
Balance, June 28, 2019	$ (83,745)	$ (55,567)	$ (139,312)
Three Months Ended June 29, 2018			
Balance, March 30, 2018	$ (92,458)	$ (40,613)	$ (133,071)
Other comprehensive income (loss) before reclassifications	—	(15,112)	(15,112)
Reclassified to pension cost and deferred tax	2,109	—	2,109
Balance, June 29, 2018	$ (90,349)	$ (55,725)	$ (146,074)
Six Months Ended June 29, 2018			
Balance, December 29, 2017	$ (78,430)	$ (49,359)	$ (127,789)
Other comprehensive income (loss) before reclassifications	—	(6,366)	(6,366)
Reclassified to pension cost and deferred tax	3,534	—	3,534
Reclassified to retained earnings	(15,453)	—	(15,453)
Balance, June 29, 2018	$ (90,349)	$ (55,725)	$ (146,074)

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):

	June 28, 2019	December 28, 2018
Finished products and components	$ 147,159	$ 142,535
Products and components in various stages of completion	87,670	83,768
Raw materials and purchased components	122,318	115,705
Subtotal	357,147	342,008
Reduction to LIFO cost	(59,602)	(58,026)
Total	$ 297,545	$ 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 June 28, 2019					
Cost	$ 182,410	$ 18,913	$ 1,020	$ 60,220	$ 262,563
Accumulated amortization	(73,974)	(9,557)	(545)	—	(84,076)
Foreign currency translation	(10,352)	(861)	(72)	(3,638)	(14,923)
Book value	$ 98,084	$ 8,495	$ 403	$ 56,582	$ 163,564
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 and for the year to date was $7.7 million in 2019 and $8.0 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	$ 15,503	$ 15,289	$ 15,089	$ 15,001	$ 14,088	$ 39,686

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	—	1,575	—	1,575
Foreign currency translation	803	49	—	852
Balance, June 28, 2019	$ 177,927	$ 98,792	$ 19,554	$ 296,273

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):

	June 28, 2019	December 28, 2018
Accrued self-insurance retentions	$ 7,920	$ 7,870
Accrued warranty and service liabilities	11,797	11,056
Accrued trade promotions	7,229	11,449
Payable for employee stock purchases	6,437	11,916
Customer advances and deferred revenue	41,509	39,995
Income taxes payable	9,727	8,515
Right of return refund liability	12,996	12,705
Operating lease liability, current	8,416	—
Other	35,504	39,535
Total	$ 141,535	$ 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	5,001
Margin on parts sales reversed	1,537
Reductions for claims settled	(5,797)
Balance, June 28, 2019	$ 11,797

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 $41.5 million as of June 28, 2019 and $40.0 million as of December 28, 2018. Net sales for the year to date included $29.9 million in 2019 and $20.0 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	June 28, 2019	December 28, 2018
Assets			
Cash surrender value of life insurance	2	$ 16,572	$ 14,320
Forward exchange contracts	2	78	82
Total assets at fair value		$ 16,650	$ 14,402
Liabilities			
Contingent consideration	3	$ 4,700	$ 7,200
Deferred compensation	2	4,373	4,203
Total liabilities at fair value		$ 9,073	$ 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, including $75 million classified as current, and an estimated fair value of $240 million as of June 28, 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 previous conclusions about whether existing 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 June 28, 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 4.1%. For the six months ended June 28, 2019, expense related to operating leases was $5.8 million, operating lease payments included in operating cash flows totaled $5.7 million and non-cash additions to operating lease assets totaled $2.0 million.

As of June 28, 2019, future maturities of operating lease liabilities were as follows (in thousands):

	Operating Leases
2019	$ 4,755
2020	8,581
2021	6,473
2022	5,320
2023	3,947
2024	1,825
Thereafter	7,507
Total lease payments	$ 38,408
Present value adjustment	(4,258)
Operating lease liabilities	$ 34,150

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 expects no significant impact on earnings or financial condition from the adoption of the new standard. The Company is continuing to evaluate the effects of the new standard on 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			Six Months Ended		
	June 28, 2019	June 29, 2018	% Change	June 28, 2019	June 29, 2018	% Change
Net Sales	$ 428.3	$ 424.6	1 %	$ 833.2	$ 830.9	0 %
Operating Earnings	112.4	113.4	(1)%	216.9	225.1	(4)%
Net Earnings	88.1	89.1	(1)%	174.9	174.7	0 %
Net Earnings, adjusted (1)	85.9	82.7	4 %	166.0	166.8	0 %
Diluted Net Earnings per Common Share	$ 0.51	$ 0.51	0 %	$ 1.02	$ 1.00	2 %
Diluted Net Earnings per Common Share, adjusted (1)	$ 0.50	$ 0.48	4 %	$ 0.97	$ 0.96	1 %

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

Sales increases in the Americas and EMEA were offset by decreases in Asia Pacific. Changes in currency translation rates decreased worldwide sales by approximately $9 million (2 percentage points) for the quarter and $20 million for the year to date (3 percentage points). Gross margin rates decreased from the comparable periods last year, and operating expenses decreased both in dollars and as a percentage of sales.

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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Earnings before income taxes	$ 107.8	$ 105.2	$ 208.5	$ 212.7
Income taxes, as reported	$ 19.7	$ 16.1	$ 33.6	$ 38.0
Excess tax benefit from option exercises	2.2	6.4	7.4	7.9
Other non-recurring tax benefit	—	—	1.5	—
Income taxes, adjusted	$ 21.9	$ 22.5	$ 42.5	$ 45.9
Effective income tax rate				
As reported	18.2%	15.3%	16.1%	17.9%
Adjusted	20.3%	21.4%	20.4%	21.6%
Net Earnings, as reported	$ 88.1	$ 89.1	$ 174.9	$ 174.7
Excess tax benefit from option exercises	(2.2)	(6.4)	(7.4)	(7.9)
Other non-recurring tax benefit	—	—	(1.5)	—
Net Earnings, adjusted	$ 85.9	$ 82.7	$ 166.0	$ 166.8
Weighted Average Diluted Shares	172.0	173.3	171.5	174.5
Diluted Earnings per Share				
As reported	$ 0.51	$ 0.51	$ 1.02	$ 1.00
Adjusted	$ 0.50	$ 0.48	$ 0.97	$ 0.96

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

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of products sold	47.0	45.9	46.8	45.6
Gross Profit	53.0	54.1	53.2	54.4
Product development	4.1	3.8	4.1	3.8
Selling, marketing and distribution	14.1	14.8	14.6	15.1
General and administrative	8.6	8.8	8.5	8.4
Operating Earnings	26.2	26.7	26.0	27.1
Interest expense	0.8	0.9	0.8	0.9
Other expense, net	0.2	1.0	0.2	0.6
Earnings Before Income Taxes	25.2	24.8	25.0	25.6
Income taxes	4.6	3.8	4.0	4.6
Net Earnings	20.6%	21.0%	21.0%	21.0%

Net Sales

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

	Three Months Ended		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Americas[(1)]	$ 253.7	$ 245.7	$ 485.7	$ 467.1
EMEA[(2)]	101.1	96.8	200.6	198.2
Asia Pacific	73.5	82.1	146.9	165.6
Consolidated	$ 428.3	$ 424.6	$ 833.2	$ 830.9

(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				Six Months			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	4%	0%	(1)%	3%	4%	0%	0%	4%
EMEA	10%	0%	(6)%	4%	7%	0%	(6)%	1%
Asia Pacific	(6)%	0%	(4)%	(10)%	(7)%	0%	(4)%	(11)%
Consolidated	3%	0%	(2)%	1%	3%	0%	(3)%	0%

Gross Profit

Gross profit margin rates for the quarter and year to date decreased by 1 percentage point from the comparable periods last year. Changes in currency translation rates accounted for approximately half of the decrease. Price changes implemented in the first quarter had a stronger impact on second quarter gross margin rate, largely offsetting the adverse impacts of higher material costs, lower factory volume and product and channel mix.

Operating Expenses

Total operating expenses for the quarter and year to date decreased $2 million (2 percent) and $1 million (1 percent), respectively, compared to last year. Reductions in volume and earnings-based expenses more than offset increases in product development expenses, which increased 8 percent for both the quarter and the year to date.

Income Taxes

The effective income tax rate for the quarter was 18 percent, up 3 percentage points from the comparable period last year. The increase was primarily due to a $4 million decrease in excess tax benefits related to stock option exercises. The effective income tax rate for the year to date was 16 percent, down 2 percentage points from the comparable period last year. The decrease was due to additional net benefits from U.S. tax reform provisions and non-recurring benefits from other tax planning activities.

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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Sales				
Americas	$ 80.7	$ 79.3	$ 161.6	$ 153.5
EMEA	59.1	56.5	117.2	116.7
Asia Pacific	48.7	54.7	98.8	115.5
Total	$ 188.5	$ 190.5	$ 377.6	$ 385.7
Operating earnings as a percentage of net sales	34%	35%	34%	35%

The following table presents the components of net sales change by geographic region for the Industrial segment:

	Three Months				Six Months			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	2%	0%	0%	2%	6%	0%	(1)%	5%
EMEA	10%	0%	(5)%	5%	7%	0%	(7)%	0%
Asia Pacific	(6)%	0%	(5)%	(11)%	(10)%	0%	(4)%	(14)%
Segment Total	2%	0%	(3)%	(1)%	1%	0%	(3)%	(2)%

For both the quarter and the year to date, Industrial segment sales growth in the Americas and EMEA was more than offset by decreases in Asia Pacific, where end markets softened. Operating earnings as a percentage of sales decreased as the favorable effects of pricing and expense leverage were more than offset by the adverse impacts of currency translation, higher material costs, lower factory volume and product and channel mix.

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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Sales				
Americas	$ 55.1	$ 54.8	$ 112.2	$ 106.1
EMEA	14.3	14.4	30.1	29.4
Asia Pacific	15.7	15.9	29.7	29.6
Total	$ 85.1	$ 85.1	$ 172.0	$ 165.1
Operating earnings as a percentage of net sales	22%	20%	22%	21%

The following table presents the components of net sales change by geographic region for the Process segment:

	Three Months				Six Months			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	1%	0%	0%	1%	6%	0%	0%	6%
EMEA	2%	1%	(4)%	(1)%	6%	0%	(4)%	2%
Asia Pacific	3%	0%	(4)%	(1)%	4%	0%	(4)%	0%
Segment Total	1%	0%	(1)%	0%	6%	0%	(2)%	4%

Process segment sales for the year to date increased in all product applications, although the rate of growth slowed in the second quarter. Gross margin rates were consistent with the comparable periods last year at constant currency translation rates. Operating margin rate for the quarter for this segment improved by 2 percentage points, driven by lower volume and earnings-based costs. For the year to date, higher sales volume and expense leverage led to a 1 percentage point increase in operating margin rate.

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		Six Months Ended	
	June 28, 2019	June 29, 2018	June 28, 2019	June 29, 2018
Net Sales				
Americas	$ 118.0	$ 111.6	$ 211.9	$ 207.5
EMEA	27.7	26.0	53.3	52.2
Asia Pacific	9.1	11.5	18.4	20.5
Total	$ 154.8	$ 149.1	$ 283.6	$ 280.2
Operating earnings as a percentage of net sales	26%	26%	23%	25%

The following table presents the components of net sales change by geographic region for the Contractor segment:

	Three Months				Six Months			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	6%	0%	0%	6%	2%	0%	0%	2%
EMEA	12%	0%	(5)%	7%	9%	0%	(7)%	2%
Asia Pacific	(17)%	0%	(4)%	(21)%	(5)%	0%	(5)%	(10)%
Segment Total	5%	0%	(1)%	4%	3%	0%	(2)%	1%

Contractor segment sales at consistent currency translation rates increased by 5 percent, driving year-to-date growth to 3 percent. Operating margin rate for the quarter was consistent with the rate for the comparable quarter last year. Reductions in volume and earnings-based costs offset the adverse impacts of currency translation. Operating margin rate for the year to date was 2 percentage points lower than last year due to changes in currency translation rates, higher material costs, lower factory volume and higher factory spending.

Liquidity and Capital Resources

Net cash provided by operating activities totaled $164 million in the first half of 2019 compared to $171 million in the comparable period of 2018. The decrease reflects increased payments related to various accrued liabilities. Increases in accounts receivable and inventories reflect growth in business activity in the six months ended June 28, 2019. Significant uses of cash in 2019 included dividend payments of $53 million, property, plant and equipment additions of $70 million and net payments on credit lines of $16 million. Proceeds from shares issued in the first half of 2019 totaled $34 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 half of 2019, it may make additional opportunistic purchases going forward.

In 2018, significant uses of cash included share repurchases of $156 million, cash dividends of $45 million, and property, plant and equipment additions of $27 million.

At June 28, 2019, the Company had various lines of credit totaling $594 million, of which $559 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, and acquisitions. Subsequent to the end of the second quarter of 2019, the Company prepaid $75 million of private placement debt that was due in January, 2020.

Outlook

Given the slow start to the year, we lowered our full-year 2019 worldwide outlook to low single-digit organic sales growth on a constant currency basis. While overall economic conditions are challenging, we continue to pursue our growth strategies and manage the business for the long term.

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 second quarter of 2019. As of June 28, 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.)
10.1	Graco Inc. 2019 Stock Incentive Plan. (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 13, 2019.)
10.2	Stock Option Agreement. Form of agreement used for award of non-incentive stock options to nonemployee directors under the Graco Inc. 2019 Stock Incentive Plan in 2019.
10.3	Nonemployee Director Stock and Deferred Stock Program (2019 Restatement).
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 Second Quarter Earnings dated July 24, 2019.
101	Interactive data files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline eXtensible Business Reporting Language).

Table of Contents

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

Graco Inc. Non-Qualified Stock Option Agreement
[Grant Plan Long Name]

Graco Inc., a Minnesota corporation, (the “Company”), pursuant to the terms of the Graco Inc. 2019 Stock Incentive Plan (the “Plan”), wishes to grant this Option (as defined in the Terms and Conditions below) to you (“Nonemployee Director”).

You must carefully read the Terms and Conditions governing this Option, as well as the Prospectus and any other documents provided in connection with the Option grant. Be sure you understand these documents and what your responsibilities and obligations are before acknowledging receipt of the Option. If you are not willing to agree to the Option Terms and Conditions, you must not accept the Option and you should not sign the Option Grant Acknowledgment and Agreement. If you accept the Option, you are accepting all of the Terms and Conditions that are applicable to your receipt of the Option. If you do not accept the Option, you are forfeiting your right to receive any potential benefits from the Option.

Participant: XXXX
Global ID: XXXXXXX
Award Type: XXXXXX
Date of Grant: XXXX
Award Expiration Date: XXXXX
Shares Granted: XXXXXX
Award Price: XX.XXUSD

Note: The statements above are qualified in their entirety by the Terms and Conditions below, and should be read in conjunction with such Terms and Conditions.

TERMS AND CONDITIONS

1. Grant of Option

The Company grants to Nonemployee Director the right and option (the "Option") to purchase all or any part of an aggregate of the Shares Granted of Common Stock of the Company, par value USD 1.00 per share, at the Award Price per share on the terms and conditions set forth below.

2. Duration and Exercisability

A. No portion of this Option may be exercised by Nonemployee Director until the first anniversary of the Date of Grant, and then only in accordance with the Vesting Schedule set forth below. In no event shall this Option or any portion of this Option be exercisable following the tenth anniversary of the Date of Grant.

Vesting Schedule

Vesting Date	Portion of Option Exercisable
First Anniversary of Date of Grant	25%
Second Anniversary of Date of Grant	50%
Third Anniversary of Date of Grant	75%
Fourth Anniversary of Date of Grant	100%

If Nonemployee Director does not purchase in any one year the full number of shares of Common Stock of the Company to which Nonemployee Director is entitled under this Option, Nonemployee Director may, subject to the terms and conditions of Section 3, purchase such shares of Common Stock in any subsequent year during the term of this Option. This Option shall expire as of the close of trading at the national securities exchange on which the Common Stock is traded ("Exchange") on the tenth anniversary of the Date of Grant, or if the Exchange is closed on the anniversary date, or the Common Stock of the Company is not trading on said anniversary date, such earlier business day on which the Common Stock is trading on the Exchange.

B. During the lifetime of Nonemployee Director, the Option shall be exercisable only by Nonemployee Director and shall not be assignable or transferable by Nonemployee Director otherwise than (i) by will or the laws of descent and distribution, or (ii) by designating a beneficiary or beneficiaries (in a manner established by the Management Organization and Compensation Committee of the Board of Directors of the Company (the "Committee")) to exercise the rights of Nonemployee Director and receive any property distributable with respect to the Option upon the death of the Nonemployee Director (any person to whom the Option has been transferred pursuant to this Section 2B, a "Transferee"). The Transferee shall be subject to the provisions of the Agreement, and, as a condition to the transfer of the Option becoming effective, the Transferee shall agree to be bound by the provisions of this Agreement.

C. Under no circumstances may the Option or any portion of the Option granted by this Agreement be exercised after the term of the Option expires.

3. Effect of Termination of Membership on the Board

A. In the event Nonemployee Director ceases being a director of the Company for any reason other than the reasons identified in Section 3B below, Nonemployee Director shall have the right to exercise the Option as follows:

(1) If Nonemployee Director was a member of the Board of Directors of the Company for five (5) or more years, the portion of the Option not yet exercisable shall become immediately exercisable upon the date Nonemployee Director ceases being a director. Nonemployee Director may exercise all or any portion of the Option not yet exercised for a period beginning on the day after the date of Nonemployee Director's ceasing to be a director and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant. If Nonemployee Director dies during the period between the date of Nonemployee Director ceasing to be a director and the expiration of the Option, the executor(s) or administrator(s) of Nonemployee Director's estate or any Transferee may exercise the unexercised portion of the Option at any time during a period beginning the day after the date of Nonemployee Director's death and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant. In no event shall the Option be exercisable following the tenth anniversary of the Date of Grant.

(2) If Nonemployee Director was a member of the Board of Directors of the Company for less than five (5) years, Nonemployee Director may exercise that portion of the Option exercisable upon the date Nonemployee Director ceases being a director at any time within the period beginning on the day after Nonemployee Director ceases being a director and ending at the close of trading on the Exchange ninety (90) days later. If Nonemployee Director dies within the ninety (90) day period and shall not have fully exercised the Option, the executor(s) or administrator(s) of Nonemployee Director's estate or any Transferee may exercise the remaining portion of the Option at any time during a period beginning on the day after the date of Nonemployee Director's death and ending at the close of trading on the Exchange on the anniversary of death one (1) year later.

(3) If Nonemployee Director dies while a member of the Board of Directors of the Company, the Option, to the extent exercisable by Nonemployee Director at the date of death, may be exercised by the executor(s) or administrator(s) of Nonemployee Director's estate or any Transferee at any time during a period beginning on the day after the date of Nonemployee Director's death and ending at the close of trading on the Exchange on the tenth anniversary of the Date of Grant.

(4) In the event the Option is exercised by a Transferee or the executors or administrators of the estate of a deceased Nonemployee Director, the Company shall be under no obligation to issue stock hereunder unless and until the Company is satisfied that the person(s) exercising the Option is the validly designated beneficiary or the duly appointed legal representative of Nonemployee Director's estate or the proper legatee or distributee thereof.

B. If Nonemployee Director ceases being a director of the Company by reason of Nonemployee Director's gross and willful misconduct, including but not limited to (i) fraud or intentional misrepresentation, (ii) embezzlement, misappropriation or conversion of assets or opportunities of the Company or any affiliate of the Company, (iii) breach of fiduciary duty, or (iv) any other gross or willful misconduct, as determined by the Board, in its sole and conclusive discretion, the unexercised portion of the Option granted to such Nonemployee Director shall immediately be forfeited as of the time of the misconduct. If the Board determines subsequent to the time Nonemployee Director ceases being a director of the Company for whatever reason, that Nonemployee Director engaged in conduct while a member of the Board of Directors of the Company that would constitute gross and willful misconduct, the Option shall terminate as of the time of such misconduct. Furthermore, if the Option is exercised in whole or in part and the Board thereafter determines that Nonemployee Director engaged in gross and willful misconduct while a member of the Board of Directors of the Company at any time prior to the date of such exercise, the Option shall be deemed to have terminated as of the time of the misconduct and the Company may elect to rescind the Option exercise.

C. For purposes of this Section 3, if the last day of the relevant period is a day upon which the Exchange is not open for trading or the Common Stock is not trading on that day, the relevant period will expire at the close of trading on such earlier business day on which the Exchange is open and the Common Stock is trading.

4. Manner of Exercise

A. Nonemployee Director or other proper party may exercise the Option only by delivering within the term of the Option written notice to the Company at its principal office in Minneapolis, Minnesota, stating the number of shares as to which the Option is being exercised and, except as provided in Sections 4B(2), 4B(3) and 4B(4), accompanied by payment in full of the Option price for all shares designated in the notice.

B. The Nonemployee Director may, at Nonemployee Director's election, pay the Option price as follows:

(1) by cash or check (bank check, certified check, or personal check);

(2) by delivering to the Company for cancellation, shares of Common Stock of the Company which have a fair market value equal to the Option price;

(3) if the Nonemployee Director is still serving as a director of the Company on the date of exercise, by a reduction in the number of shares of Common Stock to be delivered upon exercise, which number of shares to be withheld shall have an aggregate fair market value on the date of exercise equal to the exercise price; or

(4) by delivering to the Company a properly executed exercise notice, together with irrevocable instructions to a broker to promptly deliver to the Company from sale or loan proceeds the amount required to pay the exercise price.

For purposes of Sections 4B(2) and 4B(3), the fair market value per share of the Company's Common Stock shall be the closing price of the Common Stock on the day immediately preceding the date of exercise on the Exchange. If there is not a quotation available for such day, then the closing price on the next preceding day for which such a quotation exists shall be determinative of fair market value. If the Common Stock is not then traded on the Exchange, then the fair market value shall be determined in such manner as the Company shall deem reasonable.

5. Change of Control

A. Notwithstanding Section 2A hereof, the entire Option shall become immediately and fully exercisable upon a "Change of Control" and shall remain fully exercisable until either exercised or expiring by its terms. A "Change of Control" means:

(1) an acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "1934 Act")), (a "Person"), of beneficial ownership (within the meaning of Rule 13d-3 of the 1934 Act) which, together with other acquisitions by such Person, results in the aggregate beneficial ownership by such Person of 30% or more of either

(a) the then outstanding shares of Common Stock of the Company (the "Outstanding Company Common Stock") or

(b) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities");

provided, however, that the following acquisitions will not result in a Change of Control:

(i) an acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company,

(ii) an acquisition by the Employee or any group that includes the Employee, or

(iii) an acquisition by any entity pursuant to a transaction that complies with clauses (a), (b) and (c) of Section 5A(3) below; or

(2) Individuals who, as of the date hereof, constitute the Board of Directors of the Company (the "Incumbent Board") cease for any reason to constitute at least a majority of said Board; provided, however, that any individual becoming a director subsequent to the date hereof whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board will be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial membership on the Board occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies by or on behalf of a Person other than the Board; or

(3) Consummation of a reorganization, merger or consolidation of the Company with or into another entity or a statutory exchange of Outstanding Company Common Stock or Outstanding Company Voting Securities or sale or other disposition of all or substantially all of the assets of the Company ("Business Combination"); excluding, however, such a Business Combination pursuant to which

(a) all or substantially all of the individuals and entities who were the beneficial owners of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, a majority of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors (or comparable equity interests), as the case may be, of the surviving or acquiring entity resulting from such Business Combination (including, without limitation, an entity that as a result of such transaction beneficially owns 100% of the outstanding shares of common stock and the combined voting power of the then outstanding voting securities (or comparable equity securities) or all or substantially all of the Company's assets either directly or indirectly) in substantially the same proportions (as compared to the other holders of the Company's common stock and voting securities prior to the Business Combination) as their respective ownership, immediately prior to such Business Combination, of the Outstanding Company Common Stock and Outstanding Company Voting Securities,

(b) no Person (excluding (i) any employee benefit plan (or related trust) sponsored or maintained by the Company or such entity resulting from such Business Combination or any entity controlled by the Company or the entity resulting from such Business Combination, (ii) any entity beneficially owning 100% of the outstanding shares of common stock and the combined voting power of the then outstanding voting securities (or comparable equity securities) or all or substantially all of the Company's assets either directly or indirectly and (iii) the Employee and any group that includes the Employee) beneficially owns, directly or indirectly, 30% or more of the then outstanding shares of common stock (or comparable equity interests) of the entity resulting from such Business Combination or the combined voting power of the then outstanding voting securities (or comparable equity interests) of such entity, and

(c) immediately after the Business Combination, a majority of the members of the board of directors (or comparable governors) of the entity resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(4) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company.

6. Adjustments; Fundamental Change

A. If there shall be any change in the number or character of the Common Stock of the Company through merger, consolidation, reorganization, recapitalization, dividend in the form of stock (of whatever amount), stock split or other change in the corporate structure of the Company, and all or any portion of the Option shall then be unexercised and not yet expired, appropriate adjustments in the outstanding Option shall be made by the Company, in order to prevent dilution or enlargement of Employee’s Option rights. Such adjustments shall include, where appropriate, changes in the number of shares of Common Stock and the price per share subject to the outstanding Option.

B. In the event of a proposed (i) dissolution or liquidation of the Company, (ii) a sale of substantially all of the assets of the Company, (iii) a merger or consolidation of the Company with or into any other corporation, regardless of whether the Company is the surviving corporation, or (iv) a statutory share exchange involving the capital stock of the Company (each, a “Fundamental Change”), the Committee may, but shall not be obligated to:

(1) with respect to a Fundamental Change that involves a merger, consolidation or statutory share exchange, make appropriate provision for the protection of the Option by the substitution of options and appropriate voting common stock of the corporation surviving any such merger or consolidation or, if appropriate, the “parent corporation” (as defined in Section 424(e) of the Internal Revenue Code of 1986, as amended from time to time, and any regulations promulgated thereunder, or any successor provision) of the Company or such surviving corporation, in lieu of the Option and shares of Common Stock of the Company, or

(2) with respect to any Fundamental Change, including, without limitation, a merger, consolidation or statutory share exchange, declare, prior to the occurrence of the Fundamental Change, and provide written notice to the holder of the Option of the declaration, that the Option, whether or not then exercisable, shall be canceled at the time of, or immediately prior to the occurrence of, the Fundamental Change in exchange for payment to the holder of the Option, within 20 days after the Fundamental Change, of cash (or, if the Committee so elects in lieu of solely cash, of such form(s) of consideration, including cash and/or property, singly or in such combination as the Committee shall determine, that the holder of the Option would have received as a result of the Fundamental Change if the holder of the Option had exercised the Option immediately prior to the Fundamental Change) equal to, for each share of Common Stock covered by the canceled Option, the amount, if any, by which the Fair Market Value (as defined in this Section 6B) per share of Common Stock exceeds the exercise price per share of Common Stock covered by the Option. At the time of the declaration provided for in the immediately preceding sentence, the Option shall immediately become exercisable in full and the holder of the Option shall have the right, during the period preceding the time of cancellation of the Option, to exercise the Option as to all or any part of the shares of Common Stock covered thereby in whole or in part, as the case may be. In the event of a declaration pursuant to this Section 6B, the Option, to the extent that it shall not have been exercised prior to the Fundamental Change, shall be canceled at the time of, or immediately prior to, the Fundamental Change, as provided in the declaration. Notwithstanding the foregoing, the holder of the Option shall not be entitled to the payment provided for in this Section 6B if such Option shall

have expired or been forfeited. For purposes of this Section 6B only, “Fair Market Value” per share of Common Stock means the fair market value, as determined in good faith by the Committee, of the consideration to be received per share of Common Stock by the shareholders of the Company upon the occurrence of the Fundamental Change, notwithstanding anything to the contrary provided in this Agreement.

7. Miscellaneous

A. This Option is issued pursuant to the Plan and is subject to its terms. The terms of the Plan are available for inspection during business hours at the principal offices of the Company.

B. Neither the Plan nor any action taken hereunder shall be construed as giving Nonemployee Director any right to be retained in the service of the Company.

C. Neither Nonemployee Director, Nonemployee Director’s legal representative, a Transferee, nor the executor(s) or administrator(s) of Nonemployee Director’s estate shall be, or have any of the rights or privileges of, a shareholder of the Company in respect of any shares of Common Stock receivable upon the exercise of this Option, in whole or in part, unless and until such shares shall have been issued upon exercise of this Option.

D. The Company shall at all times during the term of the Option reserve and keep available such number of shares as will be sufficient to satisfy the requirements of this Agreement.

E. The internal law, and not the law of conflicts, of the State of Minnesota, U.S.A., shall govern all questions concerning the validity, construction and effect of this Agreement, the Plan and any rules and regulations relating to the Plan or this Option.

F. Nonemployee Director hereby consents to the transfer to Nonemployee Director’s employer or the Company of information relating to Nonemployee Director’s participation in the Plan, including the personal data set forth in this Agreement, between them or to other related parties in the United States or elsewhere, or to any financial institution or other third party engaged by the Company, but solely for the purpose of administering the Plan and this Option. Nonemployee Director also consents to the storage and processing of such data by such persons for this purpose.

Exhibit 10.3

GRACO INC.
NONEMPLOYEE DIRECTOR
STOCK AND DEFERRED STOCK PROGRAM
(2019 Restatement)

1. Purpose and Background of the Stock and Deferred Stock Program. The purpose of the Graco Inc. Nonemployee Director Stock and Deferred Stock Program ("Program") is to provide an opportunity for nonemployee members of the Board of Directors ("Board") of Graco Inc. ("Graco" or "Company") to increase their ownership of Graco Common Stock ("Common Stock") and thereby align their interest in the long-term success of the Company with that of the other shareholders. Each nonemployee director may elect to receive all or a portion of his or her compensation ("Compensation") (which in the past has included annual cash retainers ("Retainer") and fees payable for attendance at Board or Committee meetings ("Meeting Fees")) in the form of shares of Common Stock or defer the receipt of such shares until a later date pursuant to an election made under the Program.

The Board has amended and restated the plan document for this Program effective as of May 1, 2019.

2. Eligibility. Members of the Board who are not also officers or other employees of the Company or its subsidiaries are eligible to participate in the Program ("Eligible Directors").

3. Administration. The Program will be administered by the Secretary of the Company (the "Administrator"). Because the issuance or crediting of shares of Common Stock pursuant to the Program is based on elections made by Eligible Directors, the Administrator's duties under the Program are those of interpretation and administrative oversight. The Administrator shall make determinations and interpretations as necessary or appropriate and they will be conclusive and binding for all purposes and on all persons. If an Eligible Director disagrees with an interpretation or wishes to make any claim with respect to the Program, the Eligible Director shall submit a written claim to the Administrator and the Administrator will refer the claim to the Governance Committee of the Board. The Governance Committee of the Board shall review the written claim and make a determination on the written claim within ninety (90) days of the date the Governance Committee receives the written claim. If the Eligible Director who submits the claim is a member of the Governance Committee, he or she will not have any authority with respect to the claim and will not be considered for purposes of establishing a quorum or a majority of votes in reviewing or making a determination with respect to the claim. An Eligible Director must exhaust this internal review under the Program prior to commencing any legal action with respect to the Program. A court shall grant deference to the decisions may by the Governance Committee under this internal, conclusive and binding review process. The Administrator and the members of the Governance Committee of the Board will not be liable for any action or determination made in good faith with respect to the Program.

4. Election to Receive Stock and Stock Issuance.

4.1. Compensation Elections.

4.1.1. Annual Compensation Election (Election to Currently Receive or Defer Stock Instead of Receiving Cash). Prior to the start of each calendar year, each Eligible Director may irrevocably elect ("Stock Election") the portion of Compensation: (i) to receive as cash; (ii) to be issued as shares of Common Stock in lieu of Compensation; or (iii) to have credited to an account ("Deferred Stock Account") as deferred shares of Common Stock in lieu of Compensation. The portion of Compensation to be issued as shares of Common Stock or to be credited to a Deferred

Stock Account shall equal to 25%, 50%, 75% or 100% of the Compensation payable to that Eligible Director (the total not to exceed 100%) for services rendered as a director (based on Fair Market Value, as defined in Section 4.3). An Eligible Director who elects to receive shares of Common Stock or to have shares credited under a Deferred Stock Account shall be referred to as a "Participating Director."

4.1.2. Initial Compensation Election (Upon Becoming an Eligible Director). Notwithstanding any other provision of this Section 4.1, if an individual first becomes an Eligible Director during a taxable year the Eligible Director may make a Stock Election by delivering an election form to the Secretary of the Company within thirty (30) calendar days of the date that the individual first becomes an Eligible Director, provided that the individual has not previously been eligible to participate in any deferred compensation plan required to be aggregated with this Program pursuant to regulations issued under section 409A of the Internal Revenue Code, its accompanying regulations and guidance governing deferred compensation (collectively, "Section 409A"). The Stock Election will be applicable only to services performed after the election form is received by the Secretary.

4.1.3. Payment Elections. In addition to the Stock Elections under this Section 4.1, a Participating Director shall have a payment election as provided under Section 5.1.

4.1.4. Default Payment Form. If a director does not make a timely or effective election, the director's Compensation will be paid in cash.

4.2. Issuance of Stock/Application of Credit in Lieu of Cash. If the Stock Election is for the issuance of shares of Common Stock, shares of Common Stock having a Fair Market Value equal to the amount of Compensation so elected shall be issued to each Participating Director when each quarterly installment of Compensation is customarily paid. The Company shall not issue fractional shares, but in lieu thereof shall pay cash of equivalent value using the same Fair Market Value used to determine the number of shares to be issued on the relevant issue date. If the Stock Election is for a credit to a Deferred Stock Account, the number of shares of Common Stock (rounded to the nearest one-hundredth ($1/100^{th}$) of a share) having a Fair Market Value equal to the amount of Compensation so elected shall be credited to the Participating Director's Deferred Stock Account when each quarterly installment of Compensation is customarily paid. In the event that a Participating Director elects to receive less than 100% of each quarterly installment of Compensation in shares of Common Stock, either issued or credited, the Participating Director shall receive the balance of the quarterly installment in cash.

4.3. Fair Market Value. For purposes of converting dollar amounts into shares of Common Stock, the Fair Market Value of each share of Common Stock shall be equal to the closing price of one (1) share of the Company's Common Stock on the New York Stock Exchange-Composite Transactions on the last business day of the calendar quarter for which such shares are issued or credited.

4.4. Termination of Service as a Director. If a Participating Director leaves the Board before the conclusion of any calendar quarter, the Participating Director will be paid the quarterly installment of Compensation entirely in cash, notwithstanding any elections (Stock Election or otherwise) or Program provision to the contrary.

4.5. Dividend Credit. Each time a dividend is paid on the Common Stock, each Participating Director who has a Deferred Stock Account shall receive a credit to his or her Deferred Stock Account equal to that number of shares of Common Stock (rounded to the nearest one-hundredth ($1/100^{th}$)of a share) having a Fair Market Value on the dividend payment date equal to the amount of the dividend payable on the number of shares of Common Stock credited to the Participating Director's Deferred Stock Account on the dividend record date.

5. Payment of Deferred Stock Account. Subject to Section 409A, the following rules apply.

5.1. Payment Election.

5.1.1. Payment Elections - Before 2020. For Compensation earned prior to 2020, at the time of making the Stock Election in which the Participating Director elects to have a Deferred Stock Account credited in accordance with the provisions of Section 4.1, the Participating Director will make a payment election as to the time and form of payment (selecting among the forms in Section 5.2.1) for the amounts to be credited to his or her Deferred Stock Account for the year. A new payment election under this Section 5.1.1 shall not become effective until the commencement of the first full taxable year after the date of receipt of such new payment election by the Company.

5.1.2. Payment Elections - 2020 and Subsequent Years. For Compensation earned in 2020 and subsequent years, a Participating Director who is a director in December of 2019 shall, prior to 2020, make a one-time payment election as to the time and form of payment (selecting among the forms described in Section 5.2.2) for all amounts credited to his or her Deferred Stock Account on and after 2020. If an individual becomes an Eligible Director after 2020, within thirty (30) calendar days of the date that the individual first becomes an Eligible Director, the individual shall make this one-time payment election (no amounts may be credited to a Deferred Stock Account prior to the date the one-time election is received by the Secretary).

5.2. Payment Options for Deferred Stock Accounts.

5.2.1. Payment Options - Contributions Before 2020. For Compensation earned before 2020, a Participating Director may elect the form of payment from his or her Deferred Stock Account in a lump sum or installments. Payments, whether in a lump sum or installments, shall be made in shares of Common Stock plus cash in lieu of any fractional share.

(i) For a lump sum payment, the Company shall pay the Participating Director a single lump sum payment on the January 10 following the Participating Director's Separation from Service (or the first business day following January 10) of the year following the year of the Participating Director's Separation from Service.

(ii) For installment payments, the Company shall pay the Participating Director the first installment payment on the January 10 following the Participating Director's Separation from Service (or the first business day following January 10) of the year following the year of the Participating Director's Separation from Service. Subsequent payments will be made on each subsequent January 10 (or the first business day following January 10). The amount of each installment payment will be computed by multiplying the number of shares credited to the Deferred Stock Account as of the payment date for each year by a fraction, the numerator of which is one (1) and the denominator of which is the total number of installments elected (not to exceed fifteen (15)) minus the number of installments previously paid. Amounts paid prior to the final installment payment will be rounded to the nearest whole number of shares. The final installment payment shall be for the whole number of shares remaining credited to the Deferred Stock Account, plus cash in lieu of any fractional share.

Notwithstanding the foregoing, if a Participating Director has elected a different payment date as part of an election under Section 5.1.1, the first payment (lump sum or first installment payment) will be made on that date (and shall be paid no later than the latest of: (a) the end of the calendar year of this payment date; or (b) the end of the short-term deferral period with respect to the payment).

5.2.2. Payment Options - Contributions On and After 2020. For Compensation earned in 2020 and subsequent years, a Participating Director shall make a one-time election under Section 5.1.2 for amounts credited to his or her Deferred Stock Account on and after 2020 as to the form of payment from his or her Deferred Stock Account in a lump sum or installments. Payments, whether in a lump sum or installments, shall be made in shares of Common Stock plus cash in lieu of any fractional share.

(i) For a lump sum payment, the Company shall pay the Participating Director a single lump sum payment on the January 10 following the Participating Director's Separation from Service (or the first business day following January 10) of the year following the year of the Participating Director's Separation from Service.

(ii) For installment payments, the Company shall pay the Participating Director the first installment payment on the January 10 following the Participating Director's Separation from Service (or the first business day following January 10) of the year following the year of the Participating Director's Separation from Service. Subsequent payments will be made on each subsequent January 10 (or the first business day following January 10). The amount of each installment payment will be computed by multiplying the number of shares credited to the Deferred Stock Account as of the payment date for each year by a fraction, the numerator of which is one (1) and the denominator of which is the total number of installments elected (not to exceed fifteen (15)) minus the number of installments previously paid. Amounts paid prior to the final installment payment will be rounded to the nearest whole number of shares. The final installment payment shall be for the whole number of shares remaining credited to the Deferred Stock Account, plus cash in lieu of any fractional share.

If a Participating Director fails to make this one-time election, the Participating Director is deemed to have elected to receive a single lump sum payment on the January 10 following the Participating Director's Separation from Service (or the first business day following January 10) of the year following the year of the Participating Director's Separation from Service.

5.3. Payment Upon Death. If a Participating Director dies before the Participating Director's Deferred Stock Account has been fully paid, the unpaid amount in the Participating Director's Deferred Stock Account shall be paid to the Participating Director's Beneficiary on the first business day that is two (2) months after the Participating Director's date of death.

5.4. Payment In General. All payments shall be paid no later than the latest of the end of: (a) the calendar year of this payment date; or (b) the short-term deferral period with respect to the payment.

5.5. Compliance with Section 409A. Section 409A governs deferred compensation, including amounts credited under the Deferred Stock Accounts. To the extent this Program (as it relates to the Deferred Stock Accounts) is subject to Section 409A, this Program shall be interpreted in a manner that complies with Section 409A. For example, the term "Separation from Service" shall be interpreted to mean a separation from service under Section 409A. In addition, each payment (including each installment payment) shall be treated as a separate payment for purposes of Section 409A, as allowed under 26 C.F.R. § 1.409A-2(b)(2)(iii).

6. Beneficiary.

6.1. Beneficiary Designation. A Participating Director may designate a Beneficiary who, upon his or her death, shall receive any unpaid amount from the Participating Director's Deferred Stock Account. A "Beneficiary" shall include one or more natural individuals who are alive after the Participating Director dies and a trust designated by the Participating Director. All Beneficiary designations shall be in writing and shall be effective only if and when delivered to the Company during the lifetime of the Participating Director. Unless otherwise indicated by the Participating Director, no amounts shall be paid to a Beneficiary who dies before the Participating Director.

If a Participating Director: (i) fails to designate a Beneficiary, (ii) designates a Beneficiary and thereafter such designation is revoked without another Beneficiary being named, or (iii) designates one (1) or more Beneficiaries and all such Beneficiaries so designated fail to survive the Participating Director, such Participating Director's Deferred Stock Account shall be payable to the first class of the following classes of automatic Beneficiaries with a member surviving the Participating Director and (except in the case of the Participating Director's surviving issue) in equal shares if there is more than one (1) member in such class surviving the Participating Director:

Participating Director's surviving spouse
Participating Director's surviving issue per stirpes and not per capita
Participating Director's surviving parents
Participating Director's surviving brothers and sisters
Representative of the Participating Director's estate.

Unless a Participating Director has otherwise specified in his or her Beneficiary designation, the following rules shall apply:

(a) If there is insufficient evidence that a Beneficiary was living at the time of the death of the Participating Director, the Beneficiary shall be deemed to be not living at the time of the Participating Director's death (*i.e.*, to have died prior to the Participating Director).

(b) The Beneficiary designated by the Participating Director and any automatic Beneficiaries (if a Beneficiary has not been designated) shall become fixed at the time of the Participating Director's death so that, if a Beneficiary survives the Participating Director but dies before the receipt of payment due such Beneficiary hereunder, such payment shall be made to the representatives of such Beneficiary's estate.

(c) If the Participating Director designates as a Beneficiary the person who is the Participating Director's spouse on the date of the designation, either by name or relationship, or both, the dissolution, annulment or other legal termination of the marriage between the Participating Director and such person shall automatically revoke such designation. The foregoing shall not prevent the Participating Director from designating a former spouse as a Beneficiary on a form signed by the Participating Director and received by the Secretary of the Company after the date of the legal termination of the marriage between the Participating Director and such former spouse, provided it is received during the Participating Director's lifetime. Notwithstanding the foregoing, if the Participating Director has elected to have the

Common Stock registered in the name of the Participating Director and another person, and the Participating Director has commenced receiving payment under the Program, the joint owner of the Common Stock may not be changed.

(d) Except as provided under (c), any designation of a Beneficiary by name accompanied by a description of the relationship of the Beneficiary to the Participating Director shall be given effect without regard to whether the relationship to the Participating Director exists either then or at the time of the Participating Director's death.

(e) Any designation of a Beneficiary only by statement of the Beneficiary's relationship to the Participating Director shall be effective only to designate the person or persons standing in that relationship to the Participating Director at the time of the Participating Director's death.

(f) The Administrator, within 30 days of the receipt of a Beneficiary designation, may reject any Beneficiary designation if the Administrator determines the Beneficiary designation is not clear, too complex, or onerously difficult to administer. If the Administrator rejects a Beneficiary designation, then the Program's default Beneficiary designation rules shall apply (and not any prior Beneficiary designation submitted by the Participating Director).

(g) Notwithstanding any other provision of this Program or any election or designation made under the Program, any individual who feloniously and intentionally kills a Participating Director or Beneficiary shall be deemed for all purposes of the Program and all elections and designations made under the Program to have died before such Participating Director or Beneficiary. Prior to a judgment or conviction, the Administrator, in its sole discretion, shall determine whether a killing was felonious and intentional. A final judgment of conviction of felonious and intentional killing is conclusive for the purposes of this determination

6.2. Change of Beneficiary. A Participating Director may from time to time during his or her lifetime change his or her Beneficiary by delivering a new written Beneficiary designation to the Company.

7. Limitation on Rights of Eligible and Participating Directors.

7.1. Service as a Director. Nothing in the Program will interfere with or limit in any way the right of the Company's Board or its shareholders to remove an Eligible or Participating Director from the Board. Neither the Program nor any action taken pursuant to it will constitute or be evidence of any agreement or understanding, express or implied, that the Company's Board or its shareholders have retained or will retain an Eligible or Participating Director for any period of time or at any particular rate of compensation.

7.2. Nonexclusivity of the Program. Nothing contained in the Program is intended to affect, modify or rescind any of the Company's existing compensation programs, plans, or arrangements or to create any limitations on the Board's power or authority to modify or adopt compensation arrangements as the Board may from time to time deem necessary or desirable.

8. Program Amendment, Modification and Termination. The Board may suspend or terminate the Program at any time. The Board may amend the Program from time to time in such respects as the Board may deem advisable in order that the Program will conform to any change in applicable laws or

regulations or in any other respect that the Board may deem to be in the Company's best interests.

9. Participating Directors are General Creditors of the Company. The Participating Directors and Beneficiaries thereof shall be general, unsecured creditors of the Company with respect to any payments to be made pursuant to the Program and shall not have any preferred interest by way of trust, escrow, lien or otherwise in any specific assets of the Company. If the Company shall, in fact, elect to set aside monies or other assets to meet its obligations hereunder (there being no obligation to do so), whether in a grantor's trust or otherwise, the same shall, nevertheless, be regarded as part of the general assets of the Company subject to the claims of its general creditors, and neither any Participating Director nor any Beneficiary thereof shall have a legal, beneficial or security interest therein.

10. Miscellaneous.

10.1. Securities Law and Other Restrictions. Notwithstanding any other provision of the Program or any Stock Election delivered pursuant to the Program, the Company will not be required to issue any shares of Common Stock under the Program and a Participating Director may not sell, assign, transfer or otherwise dispose of shares of Common Stock issued pursuant to the Program, unless:

(a) there is in effect with respect to such shares a registration statement under the Securities Act of 1933, as amended (the "Securities Act") and any applicable state securities laws or an exemption from such registration under the Securities Act and applicable state securities laws, and

(b) there has been obtained any other consent, approval or permit from any other regulatory body that the Administrator, in his or her sole discretion, deems necessary or advisable. The Company may condition such issuance, sale or transfer upon the receipt of any representations or agreements from the parties involved, and the placement of any legends on certificates representing shares of Common Stock, as may be deemed necessary or advisable by the Company, in order to comply with such securities law or other restriction.

10.2. Adjustment to Shares. In the event of any reorganization, merger, consolidation, recapitalization, liquidation, reclassification, stock dividend, stock split, combination of shares, rights offering, divestiture or extraordinary dividend, an appropriate adjustment shall be made in the number and/or kind of securities available for issuance under the Program to prevent the dilution or the enlargement of the rights of the Eligible and Participating Directors.

11. Governing Law and Venue. The validity, construction, interpretation, administration and effect of the Program and any rules, regulations and actions relating to the Program will be governed by and construed exclusively in accordance with the laws of the State of Minnesota, to the extent that federal laws and regulations do not apply. Any legal action brought with respect to this Program shall be brought in federal court located in Minneapolis, Minnesota.

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: July 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: July 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:	July 24, 2019	/s/ Patrick J. McHale
		Patrick J. McHale
		President and Chief Executive Officer
Date:	July 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, July 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 Second Quarter Results
Currency Translation Offsets Underlying Sales Growth

MINNEAPOLIS (July 24, 2019) – Graco Inc. **(NYSE: GGG)** today announced results for the second quarter ended June 28, 2019.

Summary
$ in millions except per share amounts

	Three Months Ended			Six Months Ended		
	Jun 28, 2019	Jun 29, 2018	% Change	Jun 28, 2019	Jun 29, 2018	% Change
Net Sales	$ 428.3	$ 424.6	1 %	$ 833.2	$ 830.9	0 %
Operating Earnings	112.4	113.4	(1) %	216.9	225.1	(4) %
Net Earnings	88.1	89.1	(1) %	174.9	174.7	0 %
Diluted Net Earnings per Common Share	$ 0.51	$ 0.51	0 %	$ 1.02	$ 1.00	2 %
Adjusted (non-GAAP): (1)						
Net Earnings, adjusted	$ 85.9	$ 82.7	4 %	$ 166.0	$ 166.8	(0) %
Diluted Net Earnings per Common Share, adjusted	$ 0.50	$ 0.48	4 %	$ 0.97	$ 0.96	1 %

(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 underlying growth in sales compared to last year. At consistent currency rates, sales for the quarter and year to date increased by 3 percent.
- Gross margin rates for the quarter and year to date decreased by 1 percentage point from the comparable periods last year. Changes in currency translation rates accounted for approximately half of the decrease.
- Total operating expenses decreased in dollars and as a percentage of sales.
- For the quarter, the effective income tax rate increased 3 percentage points mainly due to a decrease in excess tax benefits from option exercises. For the year to date, the effective rate decreased 2 percentage points due to additional net benefits from U.S. tax reform provisions and other non-recurring benefits from tax planning activities.

“Softer underlying demand in end markets, particularly in Asia Pacific, led to modest growth in sales on a constant currency, organic basis this quarter,” said Patrick J. McHale, Graco's President and CEO. “With the exception of the Contractor segment, where new product sales contributed to a rebound in sales and profitability from the first quarter, revenue performance in the quarter was below expectations.”

More . . .

Consolidated Results

Sales for the quarter were up 1 percent from the comparable period last year, with increases of 3 percent in the Americas (4 percent at consistent translation rates) and 4 percent in EMEA (10 percent at consistent translation rates), offset by a decrease of 10 percent in Asia Pacific (6 percent at consistent translation rates). Sales for the year to date were up slightly from the comparable period last year, with increases of 4 percent in the Americas and 1 percent in EMEA (7 percent at consistent translation rates), offset by an 11 percent decrease in Asia Pacific (7 percent at consistent translation rates). Changes in currency translation rates decreased worldwide sales by approximately $9 million (2 percentage points) for the quarter and $20 million for the year to date (3 percentage points).

Gross profit margin rates for the quarter and year to date decreased by 1 percentage point from the comparable periods last year. Changes in currency translation rates accounted for approximately half of the decrease. Price changes implemented in the first quarter had a stronger impact on second quarter gross margin rate, largely offsetting the adverse impacts of higher material costs, lower factory volume and product and channel mix.

Total operating expenses for the quarter and year to date decreased $2 million (2 percent) and $1 million (1 percent), respectively, compared to last year. Reductions in volume and earnings-based expenses more than offset increases in product development expenses, which increased 8 percent for both the quarter and the year to date.

Other expense for the quarter and year to date is $3 million and $4 million lower, respectively, than the comparable periods last year. The decreases were driven by lower exchange losses on net assets of foreign operations and reduced market-based pension costs.

The effective income tax rate for the quarter was 18 percent, up 3 percentage points from the comparable period last year. The increase was primarily due to a $4 million decrease in excess tax benefits related to stock option exercises. The effective income tax rate for the year to date was 16 percent, down 2 percentage points from the comparable period last year. The decrease was due to additional net benefits from U.S. tax reform provisions 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			Six Months		
	Industrial	Process	Contractor	Industrial	Process	Contractor
Net Sales (in millions)	$ 188.5	$ 85.1	$ 154.8	$ 377.6	$ 172.0	$ 283.6
Percentage change from last year						
Sales	(1)%	0%	4%	(2)%	4%	1 %
Operating earnings	(4)%	8%	4%	(5)%	10%	(5)%
Operating earnings as a percentage of sales						
2019	34 %	22%	26%	34 %	22%	23 %
2018	35 %	20%	26%	35 %	21%	25 %

More . . .

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

	Three Months				Six Months			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	2%	0%	0%	2%	6%	0%	(1)%	5%
EMEA	10%	0%	(5)%	5%	7%	0%	(7)%	0%
Asia Pacific	(6)%	0%	(5)%	(11)%	(10)%	0%	(4)%	(14)%
Consolidated	2%	0%	(3)%	(1)%	1%	0%	(3)%	(2)%

For both the quarter and the year to date, Industrial segment sales growth in the Americas and EMEA was more than offset by decreases in Asia Pacific, where end markets softened. Operating earnings as a percentage of sales decreased as the favorable effects of pricing and expense leverage were more than offset by the adverse impacts of currency translation, higher material costs, lower factory volume and product and channel mix.

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

	Three Months				Six Months			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	1%	0%	0%	1%	6%	0%	0%	6%
EMEA	2%	1%	(4)%	(1)%	6%	0%	(4)%	2%
Asia Pacific	3%	0%	(4)%	(1)%	4%	0%	(4)%	0%
Consolidated	1%	0%	(1)%	0%	6%	0%	(2)%	4%

Process segment sales for the year to date increased in all product applications, although the rate of growth slowed in the second quarter. Gross margin rates were consistent with the comparable periods last year at constant currency translation rates. Operating margin rate for the quarter for this segment improved by 2 percentage points, driven by lower volume and earnings-based costs. For the year to date, higher sales volume and expense leverage led to a 1 percentage point increase in operating margin rate.

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

	Three Months				Six Months			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	6%	0%	0%	6%	2%	0%	0%	2%
EMEA	12%	0%	(5)%	7%	9%	0%	(7)%	2%
Asia Pacific	(17)%	0%	(4)%	(21)%	(5)%	0%	(5)%	(10)%
Consolidated	5%	0%	(1)%	4%	3%	0%	(2)%	1%

Contractor segment sales at consistent currency translation rates increased by 5 percent, driving year-to-date growth to 3 percent. Operating margin rate for the quarter was consistent with the rate for the comparable quarter last year. Reductions in volume and earnings-based costs offset the adverse impacts of currency translation. Operating margin rate for the year to date was 2 percentage points lower than last year due to changes in currency translation rates, higher material costs, lower factory volume and higher factory spending.

More . . .

Outlook

“Given the slow start to the year, we are lowering our full-year 2019 worldwide outlook to low single-digit organic sales growth on a constant currency basis,” stated McHale. “While overall economic conditions are challenging, we continue to pursue our growth strategies and manage the business for the long term.”

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 the first quarter of 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		Six Months Ended	
	Jun 28, 2019	Jun 29, 2018	Jun 28, 2019	Jun 29, 2018
Earnings before income taxes	$ 107.8	$ 105.2	$ 208.5	$ 212.7
Income taxes, as reported	$ 19.7	$ 16.1	$ 33.6	$ 38.0
Excess tax benefit from option exercises	2.2	6.4	7.4	7.9
Other non-recurring tax benefit	—	—	1.5	—
Income taxes, adjusted	$ 21.9	$ 22.5	$ 42.5	$ 45.9
Effective income tax rate				
As reported	18.2%	15.3%	16.1%	17.9%
Adjusted	20.3%	21.4%	20.4%	21.6%
Net Earnings, as reported	$ 88.1	$ 89.1	$ 174.9	$ 174.7
Excess tax benefit from option exercises	(2.2)	(6.4)	(7.4)	(7.9)
Other non-recurring tax benefit	—	—	(1.5)	—
Net Earnings, adjusted	$ 85.9	$ 82.7	$ 166.0	$ 166.8
Weighted Average Diluted Shares	172.0	173.3	171.5	174.5
Diluted Earnings per Share				
As reported	$ 0.51	$ 0.51	$ 1.02	$ 1.00
Adjusted	$ 0.50	$ 0.48	$ 0.97	$ 0.96

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

More . . .

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 (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, July 25, 2019, at 11 a.m. ET, 10 a.m. CT, to discuss Graco’s second 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, July 25, 2019, by dialing 888-203-1112, Conference ID #9658513, if calling within the U.S. or Canada. The dial-in number for international participants is 719-457-0820, with the same Conference ID number. The replay by telephone will be available through 2 p.m. ET on Monday, July 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.

More . . .

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

(In thousands except per share amounts)

	Three Months Ended		Six Months Ended	
	Jun 28, 2019	Jun 29, 2018	Jun 28, 2019	Jun 29, 2018
Net Sales	$ 428,328	$ 424,570	$ 833,198	$ 830,918
Cost of products sold	201,374	194,667	390,202	378,594
Gross Profit	226,954	229,903	442,996	452,324
Product development	17,324	16,112	33,893	31,401
Selling, marketing and distribution	60,441	62,949	121,258	125,471
General and administrative	36,828	37,464	70,957	70,378
Operating Earnings	112,361	113,378	216,888	225,074
Interest expense	3,431	3,891	6,966	7,124
Other expense, net	1,119	4,251	1,388	5,286
Earnings Before Income Taxes	107,811	105,236	208,534	212,664
Income taxes	19,674	16,096	33,648	38,014
Net Earnings	$ 88,137	$ 89,140	$ 174,886	$ 174,650
Net Earnings (Loss) per Common Share				
Basic	$ 0.53	$ 0.53	$ 1.05	$ 1.04
Diluted	$ 0.51	$ 0.51	$ 1.02	$ 1.00
Weighted Average Number of Shares				
Basic	166,684	167,260	166,150	168,166
Diluted	172,047	173,265	171,453	174,457

SEGMENT INFORMATION (Unaudited)

(In thousands)

	Three Months Ended		Six Months Ended	
	Jun 28, 2019	Jun 29, 2018	Jun 28, 2019	Jun 29, 2018
Net Sales				
Industrial	$ 188,507	$ 190,459	$ 377,607	$ 385,655
Process	85,064	85,059	171,958	165,094
Contractor	154,757	149,052	283,633	280,169
Total	$ 428,328	$ 424,570	$ 833,198	$ 830,918
Operating Earnings				
Industrial	$ 64,428	$ 67,030	$ 129,631	$ 136,155
Process	18,378	17,065	38,392	34,767
Contractor	40,054	38,382	66,593	69,793
Unallocated corporate (expense)	(10,499)	(9,099)	(17,728)	(15,641)
Total	$ 112,361	$ 113,378	$ 216,888	$ 225,074

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.

# # #