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GGG.N - Q2 2022 Graco Inc Earnings Call

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OVERVIEW:

Co. reported 2Q22 sales of $549m and reported net earnings of $117m, or $0.68 per diluted share.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, and welcome to the second quarter conference call for Graco Inc. If you wish to access the replay for this call, you may do so by visiting the company's website at www.graco.com.

Graco has additional information available in a PowerPoint slide presentation which is available as part of the webcast player. At the request of the company, we will open the conference up for questions and answers after the opening remarks from management.

During this call, various remarks may be made by management about their expectations, plans and prospects for the future. These remarks constitute forward-looking statements for the purposes of the safe harbor provisions of the Private Securities Litigation Reform Act.

Actual results may differ materially from those indicated as a result of various risk factors, including those identified in Item 1A of the company's 2021 annual report on Form 10-K and in Item 1A of the company's most recent quarterly report on Form 10-Q. These reports are available on the company's website at www.graco.com and the SEC's website at www.sec.gov.

Forward-looking statements reflect management's current views and speak only as of the time they are made. The company undertakes no obligation to update these statements in light of new information or future events.

I will now turn the conference over to Kathy Schoenrock, Executive Vice President, Corporate Controller and Information Systems. Please go ahead.

Kathryn L. Schoenrock - *Graco Inc. - Executive VP, Corporate Controller & Information Systems*

Good morning, everyone, and thank you for joining our call.

I'm here today with Mark Sheahan and David Lowe. I will provide a brief overview of our quarterly results before turning the call over to Mark for additional discussion.

Our conference call slides and our second quarter Form 10-Q are on our website and provide additional information on our quarter.

Yesterday, we reported second quarter sales of $549 million, an increase of 8% from the second quarter of last year. Reported net earnings were $117 million for the quarter or $0.68 per diluted share. The effect of currency translation rates was a substantial headwind in the quarter on both sales and earnings, decreasing sales by 4% or $15 million and decreasing net earnings by 8% or $7 million. We expect translation rates to continue to be a challenge for the remainder of the year. At current exchange rates, we expect the full year unfavorable effect of currency translation to decrease sales by 3% and earnings by 7% with the impact in the second half being similar to what was experienced in the second quarter.

The gross margin rate was down 300 basis points from the second quarter of last year and down 250 basis points from the first quarter. During the quarter, material costs accelerated from the already elevated levels of the previous year. Our beginning of the year pricing actions were not enough to offset the impacts of these additional costs on the gross margin rate. Given the cost increases we are experiencing, we are implementing interim price increases across all segments and regions.

These pricing actions will begin to take effect throughout the third quarter. At current costs and volumes, we expect that our 2022 pricing actions will offset the input cost pressures on a dollar basis. Of course, the cost of many commodities remain volatile and will be closely monitored.

Operating expenses decreased $10 million or 7% in the quarter. Sales and volume-based expenses decreased $6 million against the high comparable in the second quarter of last year. Currency translation rates also decreased operating expenses by $3 million.

The adjusted tax rate for the quarter was 20% due to the unfavorable effects of foreign earnings tax at higher rates than the U.S. rate. We anticipate this trend will likely continue and expect our estimated annual tax rate will be 19% to 20%.

Cash flows from operations are $135 million for the year, a decrease of $85 million from last year, mostly driven by annual incentive payments made in the first quarter and increased inventory purchases to meet demand.

For the year-to-date, we have repurchased 1.7 million shares for $120 million, which will more than eliminate dilution in 2022. We also prepaid $75 million of our private placement debt, made capital expenditures of $89 million with $48 million related to facility expansion projects and had dividend payments of $71 million.

Finally, our full year estimate for unallocated corporate expense and capital expenditures can be found in the conference call slide deck on Page 10.

I'll turn the call over to Mark now for further discussion.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Thank you, Kathy, and good morning, everyone.

All of my comments this morning will be on an organic constant currency basis. We had a good second quarter with record sales in all reportable segments. Industrial and Process experienced broad-based double-digit sales growth in all regions. In Contractor, North America remained positive, but EMEA and Asia Pacific saw declines in the quarter. Lost sales to Russia and the extended China shutdown contributed to the modest declines.

Product availability remained challenging in Contractor due to component shortages, and labor constraints at our suppliers.

Our consolidated backlog was $430 million at the end of the quarter, which is $65 million higher than at the end of last year and $190 million higher than the same period a year ago. While we are still experiencing regular supply disruptions, weekly material receipts have increased since the beginning of the year with 9 of our top 10 suppliers either improving their out-the-door performance or remaining consistent.

Electronic components, board assemblies, electric motors, gas engines and certain castings remain bottlenecks. Despite these challenges, factory output was strong resulting in a $15 million decline in backlog from the end of the first quarter.

Since 2018, we have invested $425 million to expand our global manufacturing capacity. This expansion has allowed us to support higher demand with increased output by nearly 30% during the same period. These investments, combined with improving component availability, gives us confidence that we will be able to deliver enough products to reach our 2022 revenue outlook.

One more thing before commenting on our segments. Since commodity prices and component costs have continued to rise, we will be implementing another round of price increases starting this August. While we recognize the cadence is different than what we've done historically, our actions are not isolated given the current operating environment. We anticipate resuming our normal pricing cadence at the beginning of next year.

Now turning to some commentary on our segments. After a very long strong second quarter last year and following several years of record growth, the Contractor segment was up low single digits for the quarter. Ongoing component shortages in this segment have resulted in delayed shipments to customers in all regions. Incoming order rates have slowed in an environment of rising mortgage rates and lower home sales. However, contractors remain busy and forecasts for commercial construction and remodeling activity remain positive.

In addition, we still have an elevated backlog of near $95 million, which is up 10% since the end of last year and is nearly double the same period a year ago. Profitability improved sequentially in the quarter due to lower expenses and earlier pricing actions.

The Industrial segment posted its sixth consecutive quarter of double-digit growth. The segment grew in all reportable regions and achieved second quarter records for sales and operating earnings resulting in strong incremental margins of 62%. Despite the impact of the pandemic-related shutdowns in China, demand remains robust in multiple product categories. Booking rates in Asia Pacific improved toward the end of the quarter when these mobility restrictions were largely lifted.

Backlog is up $30 million compared to the end of last year and $60 million compared to the same time a year ago.

The Process segment grew sales 27% for the quarter, resulting in records for both revenue and operating earnings. We saw strength in worldwide demand for lubrication equipment, process pumps, environmental and semiconductor products. Profitability for the quarter was strong despite some negative impacts from cost pressures on key components.

Moving on to our outlook. Demand in the Americas remains firm in all segments. Our outlook for EMEA remains cautious due to softening economic conditions and geopolitical uncertainty, pandemic-related shutdowns in China also affected incoming order rates. However, once these restrictions were lifted, we saw orders improve significantly.

With our backlog near record levels, plus the effects of our pricing actions, we are confirming our 2022 revenue guidance of high single digits on an organic constant currency basis, with growth expected in every reportable segment.

In closing, I want to thank all of our employees for overcoming the many commercial and operational hurdles we have seen in this difficult operating environment. They make major contributions to our markets and customers every day striving to deliver A-plus customer service.

That concludes our prepared remarks. Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Today's first question will come from Deane Dray with RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

Can we start with the decision to implement intra-year price increase? And I expect that internally, you all made a bigger deal out of this or anguished over it then the way we look at it from the outside because these are just extraordinary circumstances. And I know maybe legacy was keeping you a little bit hesitant on pulling the trigger, but it makes perfect sense. But just what was the deciding factor? And how -- because it was always the sales disruption to your channel partners was the reason you held off. But -- so it makes perfect sense, but how did you reach the decision? And then thank you for clarifying, you'll be back to the cadence and at Europe in January as well.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, Deane, it's Mark. So we did get together as a team and there wasn't a whole lot of debate or drama around it. We do like to make decisions based on facts and simply put a lot of our input costs accelerated since the beginning of the year, and we started to see what we call negative PPV, which is variance between what we planned our cost to be versus what they are actually coming in at. And that started to creep into the P&L, I would say, kind of in the latter half of the March month of the first quarter.

And then as we start to work through the beginning of Q2, it became a little bit more meaningful. So we did meet as a team. We looked at the facts really across the board, we were saying pretty substantial increases in a lot of the major components that we buy as an organization. And we recognize that by sharing that being transparent with our customers, and our distributors that we really had a good case to make to raise prices now versus waiting. And so there wasn't much drama. Everyone participated, all the different business segments and all the different regions are all participating in the pricing actions that we're going to take. And so far, it's been -- nobody likes a price increase, right? But we haven't really had any major pushback from any of our customers or distributors from what we've done.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

Got it. Well, I would suggest distributors don't usually complain that loudly, if at all. All right, but that's really good color. I appreciate it. And then just as a follow-up for David. Can you comment on free cash flow and some of the dynamics there with higher inventory, buffer inventory and so because we're seeing that everywhere. And did you do buybacks in the quarter?

David M. Lowe - *Graco Inc. - CFO & Treasurer*

I'll start with the buyback question. We did most of our buyback activity in the first quarter. But I think in Q2, we bought about 170,000 shares at -- I think we committed approximately $10 million or about $63 a share in purchase price. So the lion's share of the reduction of the share creep had already been done prior to Q2.

And I would add on that -- now on cash flow, we saw improvement in operating cash flow in Q2 versus Q1. And you're right. One of the big investment items was the -- I'd say, the ongoing inventory build that we have been committed to as we work through our current environment in some cases -- in a lot of cases, the inventory levels are elevated because we're waiting for that exotic component that golden screw. And as we receive those chips, as we receive those screws and bolts and O-rings, we would -- in the normal course of business, expect that inventory level to normalize as the year rolls along.

Operator

Our next question will come from the line of Saree Boroditsky with Jefferies.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

So although 49% gross margins are still relatively good. It was the lowest level since, I believe, around 2009 for you guys. So with the new August price increase, how are you thinking about gross margins in the second half and into 2023?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. So we had not only the cost pressures that we've talked about, but also the translation rates, the currency rates really knocked by, I think, about 100 basis points off of the gross margin this quarter. So that piece is obviously hard to manage, and there's not much we can do. And through a long cycle, those things tend to even out. But when we looked at the pricing actions that we're doing, it's similar to what we did last year from the standpoint. We looked at our PPV, which I referenced before, and we made an estimate of what that would look like for the balance of this year and then heading into, I'd say, like the first half next year. And we really set our pricing actions to offset or neutralize that PPV that we were experiencing.

So the wild card is, do costs go up from here? Do they go down from here? Do they stay flat? Obviously, if you're in the camp that thinks that inflation is going to moderate, costs are going to come down a little bit that should be beneficial to our gross margin rate. But if they stay where they're at and they -- even if they go up, that would be sort of neutral to the rate and maybe slightly negative if costs accelerate. So that's probably the best answer that I can give you. Kathy is nodding her head, but if you have anything to add, please do so.

Kathryn L. Schoenrock - *Graco Inc. - Executive VP, Corporate Controller & Information Systems*

No, I think that sums it up really well.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

I think that I would just add that on a dollar cost basis, we have -- we implemented the price increase at the beginning of the year. And on a dollar cost basis, I think you touched on it, Kathy, has kept -- the incremental pricing has offset those costs on a dollar basis. However, as Mark touched on, in Q2, watching where certain costs were certain prices for key components, we concluded that this was the time to make a further adjustment to make certain to increase the probability that we would continue to offset incremental costs with price on a dollar basis.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

And then just a follow-up on the buyback question. Obviously, you did a little bit of buybacks in the quarter, but you still have a net cash position. Given the stock price reductions year-to-date. How are you thinking about and does it make sense to do anything more sizable with that cash?

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Well, I think our -- I'll take a start here. Our strategy over the long haul has been and continues to be opportunistic. I think that we look at the current macroeconomic environment as one where we see opportunities commercially and challenges in the world. As you know, we have a strong capital position and are in the position to move aggressively when we make the decision to do so.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, I think our priority this year was really to eliminate the creep, which we've done. And then as a go forward, we hope to be able to do that again on a regular basis, but David is right. We're opportunistic when it comes to the real strategic large buybacks and we're keeping our powder dry right now. We'll see what happens.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Is there any talk internally about what the optimal balance sheet should look at?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Internally optimal balance sheet. Was that the question?

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Yes. What should it look like?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Well, we don't have any targets or specific things that we try to run the business based off of. But we have a lot of flexibility. We like that. We're obviously in the early stages of trying to deploy an M&A strategy, which hopefully will absorb some of that and also increase our leverage in the process of doing that. That's our goal. That's the objective. And if we aren't successful there, obviously, we can look at share buybacks. But there's no targets or mandates or anything like that, that we're trying shoot for when it comes to balance sheet management.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes, I understand the concept of balance sheet optimization. My own view is that the real test of, I'll call it, a financing strategy is how it performs in alternative real-world scenarios. And there's no doubt about it that we want to have the capacity to be opportunistic when the opportunities in the market come along. As Mark said, we have an M&A program that we will willingly make investments in as we see good business opportunities. And as you've seen over the last couple of years, we're coming -- we are, I should say, in the middle of a major capital expenditure program that has already drawn several hundred million dollars investments, and we're not completed yet.

So central to our evaluation of financial strategies is we don't want to -- certainly would not view it as a positive to interrupt any of our strategic plans in the event that underlying business conditions change in the short term, we would think that's a mistake.

Operator

One moment for our next question. That will come from the line of Andrew Buscaglia with Berenberg Capital Markets.

Andrew Edouard Buscaglia - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

So the other thing this quarter was excellent. Everything looks great on the margin front and your question of price increases. I just wonder things are so good right now, and we're starting to -- there are concerns around Europe and broadly recessionary scenarios. I'm wondering what's your mentality internally?

And maybe you could help us think through the segments most impacted or where are the dynamics affecting your businesses or your segments that will -- so we can kind of sort of get a worst-case scenario if things do deteriorate?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. So again, we try to like to operate on facts. And when you look at what's actually happening, I mean, the orders are still coming in. Business is good. We don't want to jump the gun on what may or may not happen in terms of a slowdown. But certainly, if you look at what's going on over in Europe with the geopolitical stuff that's happening over there and just overall forecast for GDP and industrial production being pulled back. And then when you look at what's happening in the U.S. with rates going up and housing starts probably likely to come in. Sales of existing homes are pulling back a little bit. Those are probably the areas that we're keeping our eye on closest.

But in the meantime, we're not stopping anything from what it is we're trying to do to grow the business here. We're not cutting back on expenses. We are managing the P&L pretty tightly, just making sure that we're making smart decisions. But it's more or less business as usual for us. And if things change, we can adjust pretty quickly here. At Graco, we've got a good team, and we can turn on a dime if we need to. So I feel like as we sit here today, as you said, things are in pretty good shape. We have a huge backlog, and hopefully, we're able to put up the kind of numbers that we're targeting here for the year that everyone has got in their models.

Andrew Edouard Buscaglia - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

And maybe just focusing in on the Industrial segment because the growth is really strong and it's sort of this pent-up demand of years of kind of under investment going on. So I believe Europe is the biggest portion of that business? Or it's pretty impactful. What I guess what are you thinking based on -- or what are you seeing based out of Europe that as it pertains to industrial, how you think that segment will move if Europe does plunge into a recession here?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. I think Europe is probably the biggest chunk of our -- I'm sorry, Industrial is the biggest chunk of our European business, and it's a nice profitable business for us. And if you really were to kind of put it into 2 different buckets. You've got the traditional Graco legacy businesses, which are our sealant and adhesive business and our liquid finishing businesses that typically go through a distribution channel and are sold to integrators and things like that. And then you've got our powder equipment business, which is the Gema business that we've had in our portfolio for 10 years or so now. And that's a little bit more project-based. They have a little bit more visibility on backlog and orders. And looking across those 2 segments, again, not to get too granular, but we factor all of that into our overall equation when we talk about outlook.

So you can maybe have different pockets of different businesses that are either stronger or weaker than others. And then as a part of that, you sort of roll it up and you look at, okay, what do we think is going to happen and the forecast and that's what get us to this high single-digit growth, including what's going on in Europe, Asia, China, Asia Pacific, everywhere. So it's a mixed bag.

Personally, I do think that there's still plenty of project business going on over in Europe, speaking with the team over there, they're optimistic. They're they feel like they've got good activities going on in a lot of our end markets. And we really don't see that changing here in the near term. And I guess we'll see what happens.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

No, I just was going to say, I think Mark gave a comprehensive answer the way I just would summarize, especially on the Industrial side, the breadth of demand for the business, for the segment, the segment continues to impress me, both geographically and served markets. I guess the margin capability, incremental margin strength of the business has been very solid, and it seems to have a good foundation, including the realized pricing that we've seen that series of businesses generate. And the quality of the backlog around the world, especially in that space and not to get too granular, is very good and very broad. And the mix of products, the mix of geographies is, I think, very solid.

Operator

One moment for our next question, that will come from the line of Thomas Johnson with Morgan Stanley.

Thomas Claes Johnson - *Morgan Stanley, Research Division - Research Associate*

This is actually Thomas on for Connor. Sorry for the mix up there. Maybe just helpful for us to go back to the Contractor business. Could you just kind of frame up maybe end market demand there and how we should think about, I realize maybe rough buckets here, but demand from remodeling versus new home builds versus commercial construction, if you're able to just kind of help us think through where the risks would be and the magnitude of those potential risks here?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. So we really don't break out the different groups in terms of do-it-yourself versus pro paint. But what I will say is that we feel pretty good about where the pro contractor is right now today. Generally speaking, they have a good backlog of business that they're working through. They're busy, and they're working on all kinds of different projects, including commercial projects residential projects, remodeling projects.

So we don't have great visibility into like exactly where our sprayers are used on a daily basis, but a good professional painting contractor really serves a fairly broad base of customers. And I would characterize the market right now is pretty healthy for those people. And of course, the pro part of our product line is more profitable than the DIY part of line. The DIY side is the area where I think that people are probably more concerned about from the consumer standpoint. Is the consumer going to hang in there? Are they going to pull back? What's going on with inflation? You look at like at the home centers, foot traffic is down. You guys probably know that, but that's probably the one area in North America that I would be wanting to keep my eye on.

And over in the regions, again, it's more of a professional product mix. There is some home center in Europe, but for the most part, again, similar dynamics. They're busy. They got backlog. They're working. Labor is another factor that you should think about because labor is tight. And so by using power equipment to do a job versus throwing manual labor to job, you're more efficient, number one, but you also have to worry about finding labor in a tight market. So I think we're in pretty good shape. We'll see what happens, still bullish on that market long term. We're still way under built in terms of houses here in North America. I think something like 4.5 million or 5 million units. That ultimately will get caught up, and we think we're in a good spot.

Operator

One moment for our next question and that will come from the line of Matt Summerville with D.A. Davidson.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

Mark, David, is there any way to quantify the impact to the component shortages had on sales this quarter? And do you feel like that impact in Q2 was greater or lesser versus what you would have experienced in Q1? And then I have a follow-up.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, I'll start with kind of current state. I think it's better. We were able to knock about $15 million off of the backlog here in the quarter. It feels to me like our throughput from suppliers was better today than it was even 3 months ago. We're definitely not out of the woods yet, but things are in better shape. It's hard to know exactly how much higher the revenue could have been if we had gotten everything in that we wanted on time, but for sure, it would have been higher. If you look at just what's happened here since the end of the year, it's about $65 million of additional backlog, and we were at high levels when we started the year off.

So for sure, we were held back. I can't give you a number as to how big that would be. But hopefully, as throughput gets better, factories are up and running. We've made a lot of investments. We've got a lot of new machine tools, new equipment coming in, our throughput will be better, and we hope to really make a dent in that backlog here throughout the rest of the year.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

And then as a follow-up, is there any way -- I know in a typical, more typical year, you would typically go out and look for 150 to maybe 200 basis points of price. As we think about the price increase earlier this year, which is obviously, I'm sure considerably higher than that. And then we fold in what you're putting through in Q3. How would you help us try and understand the magnitude of what the 2 of those might add up to be? Should we be thinking high single digits, low double digits? Is there a way you can help us out with that?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. The best we can do is give you the outlook. And the outlook is high single-digit organic constant currency for the year. And beyond that, I really can't help you.

Operator

(Operator Instructions)

One moment for our next question. And that will come from the line of Walter Liptak with Seaport Global Securities.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

I just wanted to do a couple of follow-ups. So I think what you were saying about contractors that pro painters are still doing great. They've got a lot of work to do. But the home centers you are seeing lower throughput, lower sell-through at the home centers. Is that right?

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Well, I think that the sort of the data that we hear from our own team and some of the other stuff that's published is foot traffic in home centers is reported as being lower. And that, I think, has been evident for some months. On the pro paint side, just to underline a couple of Mark's points, when we talk to our own team as recently as earlier in the week, the professional -- contractors they check in with. They're very interested not just in labor savings, which we alluded to, but also they're very much even today hiring painters when they can recruit additional painters to help them. And it suggests a level of activity in that arena is going to be pretty good, I think, for the foreseeable future.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. And Walt, I think my comments were more -- I think the question I was asked was, what are you keeping an eye on what might you want to look at? Where are some areas where there could be some weakness, and I referenced the fact that the DIY, the low end, the consumer home center traffic, those things are things for us to keep an eye on.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. And just to refresh us, how much is sales is home centers? I think it's fairly small.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, we don't break that out. We do not break that out.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

And maybe in a similar way contractor -- well, maybe this one. In Europe, you guys do EMEA, but how much is Europe of total Graco sales?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

I mean, David, do you have the number?

Kathryn L. Schoenrock - *Graco Inc. - Executive VP, Corporate Controller & Information Systems*

It's around 20%, 25%.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Of the total.

Kathryn L. Schoenrock - *Graco Inc. - Executive VP, Corporate Controller & Information Systems*

Yes, total.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. Great. And then within contractors, is there much contractor in Europe?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, yes, it's a nice sizable business.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

It's the single largest segment in Europe. And it is, I would say, are largely a pro paint as well as protective coatings market, which gives it some level of presence in Eastern Europe, including markets like Russia and the Middle East.

Operator

I'm showing no further questions in the queue at this time. I would now like to turn the conference back over to Mr. Mark Sheahan for any closing remarks.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Okay. Well, thank you for participating in today's call. Before we conclude, I'd like to especially thank our manufacturing and purchasing teams here at Graco for delivering more products this quarter than any other quarter in our company's history. Manufacturing is definitely one of our strongest competencies, and it's been rewarding to me to see the teams rise to the challenge during the last 2 years, where we've had to battle some really ridiculous cost pressures and supply chain constraints.

I'd also like to just give a quick shout-out to the people in China for their professionalism and dedication during the lockdown. It was initially supposed to the last 5 days, I think it went more than 2 months. And once the restrictions were lifted, the team got back into business, we got orders, and they started to get product out the door and they really responded very quickly, which I'm very happy about.

Finally, I'd like to acknowledge the efforts of our team in Europe. Nobody predicted the force majeure events that have transpired in the last 6 months. The organization continues to impress us with their dedication and commitment to Graco. It's been an extremely challenging time for them and for everyone over there. That concludes today's call. Thanks for listening, and I hope you have a great day.

Operator

Ladies and gentlemen, thank you for dialing in on conference. You may now disconnect, and have a wonderful day.
