

GRACO INC.

3<sup>rd</sup> Quarter 2009  
Earnings  
Conference  
Call



Thursday,  
October 22, 2009  
10 a.m. CT

## Safe Harbor

Today's presentation includes forward-looking statements that reflect management's current expectations about the Company's future business and financial performance.

These statements are subject to certain risks and uncertainties that could cause actual results to differ from anticipated results.

Factors that could cause actual results to differ from anticipated results are identified in Part 1, Item 1A of, and Exhibit 99 to, the Company's 2008 Form 10-K.

## Conference Call Logistics

The release, accompanying slides and replay web cast are available online at [www.Graco.com](http://www.Graco.com) (click on “Investors”)

Telephone replay available after 2 p.m. ET, October 22, 2009

- 800-406-7325 – conference ID #4170310
- 303-590-3030 – conference ID #4170310, for International participants

## 2009 3<sup>rd</sup> Quarter Financial Results

\$ millions except EPS	Third Quarter			Year-to-Date		
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Sales	\$ 147	\$ 207	(29)%	\$ 433	\$ 651	(33)%
Gross Profit	78	110	(29)%	215	351	(39)%
Rate	53 %	53 %		50 %	54 %	
Operating Expenses	52	57	(10)%	164	179	(8)%
Operating Earnings	26	53	(51)%	51	172	(70)%
Interest & Other Expenses	1	3		5	6	
Earnings Before Income Taxes	25	50	(50)%	46	166	(72)%
Income Taxes	8	17		14	55	
Net Earnings	<span style="border: 1px solid black; padding: 2px;">\$ 17</span>	<span style="border: 1px solid black; padding: 2px;">\$ 33</span>	(47)%	<span style="border: 1px solid black; padding: 2px;">\$ 32</span>	<span style="border: 1px solid black; padding: 2px;">\$ 111</span>	(71)%
Diluted Earnings Per Share	<span style="border: 1px solid black; padding: 2px;">\$ 0.29</span>	<span style="border: 1px solid black; padding: 2px;">\$ 0.54</span>	(46)%	<span style="border: 1px solid black; padding: 2px;">\$ 0.53</span>	<span style="border: 1px solid black; padding: 2px;">\$ 1.81</span>	(71)%

# Industrial Equipment

\$ millions	Third Quarter			Year-to-Date		
	2009	2008	Change	2009	2008	Change
<b>Sales</b>						
Americas	\$ 37	\$ 54	(32)%	\$ 108	\$ 169	(36)%
Europe	22	37	(40)%	66	122	(46)%
Asia Pacific	19	27	(29)%	53	74	(28)%
Total	\$ 78	\$ 118	(34)%	\$ 227	\$ 365	(38)%
Operating Earnings	\$ 20	\$ 36	(43)%	\$ 45	\$ 118	(62)%
% of sales	26%	30%		20%	32%	

<u>Change in % of sales</u>	<u>Third Quarter</u>	<u>Year-to-Date</u>
2008 Operating Earnings (percentage of sales)	30 %	32 %
Exchange effect	—	(1)%
Product cost / mix / price	6 %	4 %
Unabsorbed manufacturing costs	(4)%	(4)%
Workforce reduction	—	(1)%
Product development investments	(1)%	(2)%
Volume effect on expense leverage	(5)%	(8)%
2009 Operating Earnings (percentage of sales)	<u>26 %</u>	<u>20 %</u>

# Contractor Equipment

\$ millions	<u>Third Quarter</u>			<u>Year-to-Date</u>		
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>
<b>Sales</b>						
Americas	\$ 36	\$ 42	(13)%	\$ 109	\$ 136	(20)%
Europe	12	19	(35)%	37	61	(39)%
Asia Pacific	7	7	(0)%	17	19	(12)%
<b>Total</b>	<b>\$ 55</b>	<b>\$ 68</b>	<b>(18)%</b>	<b>\$ 163</b>	<b>\$ 216</b>	<b>(24)%</b>
<b>Operating Earnings</b>	<b>\$ 11</b>	<b>\$ 15</b>	<b>(27)%</b>	<b>\$ 24</b>	<b>\$ 50</b>	<b>(51)%</b>
% of sales	20%	22%		15%	23%	

<u>Change in % of sales</u>	<u>Third Quarter</u>	<u>Year-to-Date</u>
2008 Operating Earnings (percent of sales)	22 %	23 %
Exchange effect	—	(1)%
Product cost / mix / price	4 %	3 %
Channel mix	(1)%	(2)%
Unabsorbed manufacturing costs	(2)%	(2)%
Workforce reduction	—	(1)%
Product development	—	(1)%
Volume effect on expense leverage	(3)%	(4)%
2009 Operating Earnings (percent of sales)	<u>20 %</u>	<u>15 %</u>

# Lubrication Equipment

\$ millions	Third Quarter			Year-to-Date		
	2009	2008	Change	2009	2008	Change
<b>Sales</b>						
Americas	\$ 11	\$ 17	(35)%	\$ 35	\$ 56	(37)%
Europe	1	2	(49)%	3	6	(50)%
Asia Pacific	2	3	(39)%	5	8	(41)%
<b>Total</b>	<b>\$ 14</b>	<b>\$ 22</b>	<b>(37)%</b>	<b>\$ 43</b>	<b>\$ 70</b>	<b>(38)%</b>

Operating Earnings	\$ (0)	\$ 3		\$ (3)	\$ 12
% of sales	(1)%	16%		(8)%	18%

<u>Change in % of sales</u>	<u>Third Quarter</u>	<u>Year-to-Date</u>
2008 Operating Earnings (percentage of sales)	16 %	18 %
Exchange effect	—	(1)%
Product cost / mix / price	5 %	2 %
Sale of acquired products not fully integrated	(1)%	(1)%
Unabsorbed manufacturing costs	(12)%	(10)%
Workforce reduction	—	(2)%
Provision and sale of discontinued products	—	(2)%
Product development investments	—	(3)%
Volume effect on expense leverage	(9)%	(9)%
2009 Operating Earnings (percentage of sales)	<u>(1)%</u>	<u>(8)%</u>

# Cash Flow and Liquidity

- Year-to-date 2009 cash flow from operations of \$110.2 million; \$110.7 million in 2008
  - Cash uses in 2009
    - Capital expenditures \$9 M
    - Dividends \$34 M
    - Repayment of long-term debt \$73 M
    - Pension contribution \$15 M
- Managing working capital
  - Reduction of inventories \$31 M
  - Reduction of accounts receivable \$21 M
- Adequate availability of credit
  - Long-term debt of \$107 M
  - Available unused credit lines of \$162 M



# Pat McHale - CEO



Proven Quality. Leading Technology.

