GRACO INC., #4434303
GRACO INC. INVESTOR CALL
April 15, 2011, 08:00 AM CT
Chairperson: Pat McHale (Mgmt.)

Operator: Good morning and welcome to the Investor Conference Call for Graco Inc., covering the Press Release that was issued yesterday April 14, 2011. If you wish to access the replay for this call, you may do so by dialing 1-800-406-7325 within the United States or Canada. The dial-in number for international callers is 303-590-3030. The conference I.D. is 4434303. The replay will be available through April 20, 2011.

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 Litigation Securities Reform Act. Actual results may differ materially from those indicated as a result of various risk factors including those identified in Item 1A of Exhibit 992 and the Company's 2010 Annual Report on Form 10-K. This report is 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 at 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 Pat McHale, President and Chief Executive Officer.

Pat McHale: Good morning. We've got a slide deck out on the web and our comments this morning prior to the Q&A will generally follow that information. I'll give a short overview on transaction and then David Lowe, our Vice President and General Manager of our industrial products division will talk in more detail about the finishing business. Jim will make some financial comments and then we'll turn it open to Q&A.

As you know we entered into a definitive agreement that we announced last night to acquire the finishing business of ITW. They're a global liquid and powder finishing technologies group of businesses that we've purchased. The Pro Forma for 2010 is over a billion dollars. The purchase price was 650 million which was for the assets of the business including the shares and some of the international subsidiaries. Even a multiple act trailing twelve months basis was 10.7 and off of their pre-recession peak it was 8.7.

We're going to fund the transaction through a fully committed revolving credit facility of $450 million dollars which will replace our previous revolver of 250 and we've, of course, announced our previous placement and long-term private debt of $300 million. We anticipate closing June at the earliest and that's really going to be subject to customary closing conditions and regulatory approvals. There is a $20 million termination fee that Graco will pay to ITW if we elect not to close the deal due to FTC.

We believe this acquisition has got a very compelling story behind it. This is the number one strategic acquisition for our Finishing business. It strengthens our highly successful industrial segment particularly the Finishing segment within that with these high quality brands and large install base.

We like a lot of things about this and you'll hear us talk more in detail as David goes through his presentation. But the sales through a distribution channel, very similar to the Graco channel, so we understand the sales process into a very similar and user-base. It gives us scale in rapidly developing economies like China, India, and South America where we've invested a lot from an organic growth standpoint over the last few years. We see opportunities on crop selling, selective, complimentary products that we pick up.

A big deal for Graco, we establish a leadership position in the Powder Finishing business. We've had a good position in wet finishing for a long time and no position in powder and ITW became a business that we pick up is a leader is powder finishing equipment. It also is going to expand our gold manufacturing capacity as well as capabilities.

During the due diligence process I had the opportunity to travel and see a lot of the ITW factories and in addition to having some room for growth, they're very well run factories with an enthusiastic management team and I believe that that's going to provide some opportunities for Graco as we go forward. They've got manufacturing locations in places that we don't have and that we think that there could be some additional synergies there. The deal should be cash accretive in the first year.

I'll turn it over now to David Lowe for some more specific comments on acquired businesses.

David Lowe: Good morning. I'm David Lowe of the Industrial Products Division. What I'd like to cover are some of the details related to the businesses that we'll be acquiring. As Pat mentioned this is a very global group of businesses with established industrial brands that are recognized in factories around the world. And the principal brands are the five you see here including Binks, DeVilbiss, Ransburg, Gema, and BGK finishing systems.

The revenue activity has continued to improve as we've entered into 2011. The trailing twelve months sales activity: 320 million versus 305 at the end of the year. This is a business that most definitely competes at the premium level of the market where Graco also has substantial experience in the industrial arena.

The method to market is through independent distribution and that's also something that is very familiar to Graco. It's a very global business. Sixty percent of the revenue are outside of the Americas. In fact, two thirds of the revenue are outside North America. So as in the case of the Graco Industrial Business this group of businesses has a very strong and growing global footprint especially in the emerging markets. We're very impressed with the technologies and the R&D capabilities that this group of businesses has. Like Graco, they view themselves as a technology leader in a number of important areas and we're very impressed by the intellectual property that these businesses own.

Pat touched on the fact that this organization has a global manufacturing footprint with operations throughout North America, South America, Europe, and also in Japan. And as in the case of most of Graco's industrial businesses, there is a very large, established, and user-base and that end user-base provides for a very good spare parts and accessories business after the sale of the units.

Turning on chart seven to the Industrial Liquid Finishing business, these are some of the products and technologies that we're very familiar with. What you see is a pump, an electrostatic gun, an air spray gun, and a curing system. This is the line of businesses that manufactures and sells paint systems which are applied to a number of substrates and you see some examples here. I think the most important thing to point out is that the users of this equipment represent a very broad group of industrial businesses. There is no one industry that dominates and there's activities in the transportation industry, the off-road vehicle industry, door, window, aerospace, many, many different industries use these paint systems.

A second element to this acquisition that I'm very excited about is the acquisition of powder coating technology. For Graco this represents a big step and gives us the technology heads that we've never had before in this large, growing, global market. We believe the Gema line of business is really a very strong player in powder coating technology. Lots of first-rate investment in technologies, in powder coating driving improved powder utilization, high levels of performance, significantly less down-time than traditional equipment, and also a very large spare parts and accessories oriented business. This business is very global. It's growing very, very well in the developing markets especially and we're very excited that this will be something that we will be involved in going forward.

There is a smaller business in the auto refinish space that we'll be taking on. This is a more specialized market, the automotive after repair business but the DeVilbiss brand has a very good position, a very recognized name in this traditional business in both North America and Europe and we look forward to having a much more meaningful representation in this space than we've had before. These are very good products, very good spray guns, very good accessories, and the DeVilbiss name is a very well known name with experienced body shop painters throughout the world.

On page ten we have a high level product summary and what we are demonstrating here is what we believe to be the very good fit between the Graco product line and the ITW product lines. Like I think the most important points to make are that in the area of powder equipment, we are becoming associated with a leading manufacturer and technology leader in the powder equipment industry.

In the more traditional liquid finishing marketplaces Graco's very strong position in proportioners., their operated piston pumps, manual electrostatic spray guns nicely compliments their strong position in automatic electrostatics and a very large and well established line of conventional spray guns. We see this product line as representing a very good strategic fit through organizations.

With respect to integration strategy, as we've mentioned already these are strong, growing, global businesses. They're very profitable and as Pat indicated they are led by strong managers, they have good operations, and they have good growth plans and initiatives underway in their businesses. So, it is our intention to operate these acquired businesses largely on a stand-alone basis with no plans to integrate facilities, distribution, or sales force.

We're going to be looking for opportunities under the hood. Areas that are especially attractive are strategic sourcing and supply chain synergies which could drive gross margin improvements in the business, selected cross-selling opportunities that we see in the marketplace. We really want to build on these very strong brands that are well-known and respected in the marketplace.

We'll also look, as Graco always does for ROI driven investments. One area that may represent an opportunity for us is to expand the machine capabilities of the acquired businesses. Their operations, impressive as they are tend to be more oriented around assembly where the Graco strategy over many years is both machining and assembly. So that could represent opportunities to improve margins and reduce product costs.

And of course as Pat mentioned, opportunities in the developing markets where we've established a significant position on our own and the ITW group of businesses has grown very substantially.

In summary, what we intend to do is first of all maintain this large and profitable sales base, grow the sales base, and pursue prudent, non-revenue impacting related cost improvements.

So with that, I'll turn it over to Jim.

Jim Graner: Thanks David. I'm on page twelve of the slide. I'd like to give a little color around the financial performance and our financing of this transaction.

As you can see here the trailing twelve months revenue was our 320 million. So that's up from the year-end 2010 of 305. We're seeing the same kind of cyclical rebound in these businesses as we're seeing in Graco's business. Here you can see their peak revenue of 385 million which was in 2008.

Our forecast, our expectations are we'll hit that peak in 2012. You can also see the acquired EBITDA of 61 million for the trailing twelve months versus the peak EBITDA of 75 million. Again, we expect to reach that peak and also I would like to point out that under ITW's leadership, these businesses have completed a significant number of restructuring activities in the 2009/2010 period so that should give us some upside on this peak period.

Our initial Pro Forma and net debt, the trailing EBITDA using again the 61 million that gives us a leverage of 2.9. For those of you that have followed us for a while know that our comfort level is at the two times leverage. So in a couple of slides I'll talk a little bit about how we expect to bring that down to a more reasonable level.

We're projecting that this will be modestly accretive to EPS in 2012 in the neighborhood of $0.05 per share. With that I'd like to give a cautionary statement that we have not yet completed our purchase price allocation. So this estimate is using 40 million for D&A. From the acquired business we think that's very conservative and to the extent that that proves to be true, we will see a positive increase in that $0.05 EPS game.

Initially as Pat mentioned this is an asset transaction for the most part. That gives us cash tax deductions of 20 million a year for fifteen years under U.S. and U.K. regulations, so we think that that's also a very positive for the cash flow of this business. Also for those of you that are doing the cash flow model for the rest of the year, we'd like to point out that you should expect about 35 million in capex.

On page thirteen you can see that we're financing this activity through a new revolving credit facility. We're executed the terms of that with our relationship bank led by U.S. Bank and J.P. Morgan as joint lead arrangers. Of the 450 million we've got commitments for more than that. It's a LIBOR based facility so you can see here our initial rate projected at

2.5%. Trent at 2.9 x, it's 175 over LIBOR plus again some amortizations. That's a five year term.

Next, we previously announced 300 million in private placements. That was done through Prudential Capital. We've already drawn 150 million of that. The second 150 million will be drawn on transaction close or in July. That's a fixed rate instruments with maturities of seven to fifteen years. Again our average rate there is less than 5%.

Our priorities for cash flow going forward, as I mentioned earlier, are going to be to bring the leverage down to our comfort level of two times. We are not intending to make any changes to our organic growth opportunities; those opportunities that which we've described before. Additional sales people in the developing parts of the world and additional product development teams in the Graco business stay in place and we will continue to fund those.

Acquisitions, until we get leverage back to two times, we'll probably only look at those that are the most accretive and most likely will not do any until towards the end of 2012. There will be no change to our dividends strategy or our share repurchases and the cash flows that I'm going to talk about on the next page. Anticipate continuous, modest increases in our dividends and continuing annual share repurchases.

If I can turn your attention to page fourteen, we've done a net debt sensitivity analysis here for you to look at. Again, you can see here we've got some assumptions, again taking us from where we were in January to soon funding in June a peak of over 700 million in borrowings. Slight reduction in borrowings, outstanding under all three scenarios. Again the assumptions are 7% growth, zero growth, and a recession in 2012 that assumes a 35% decline in revenues in 2012.

Again you can see here in January 2012 we're projecting about $700 million EBITDA multiple of 2.6. You can see in 2013 we get down to our two level. So again, we think the very rapid de-leveraging point and if again we get to our 7% growth by January of 2015, our net debt would be about one times our expected EBITDA.

With that I'll turn it back to Pat.

Pat McHale: Alright. You guys have all heard me talk before about our T Growth Strategies investing in the emerging markets and expanding outside the Americas. Our firm commitment to investing in new products and targeting new markets and also making strategic acquisitions.

One of the things, among many that excite me about this acquisition, is this is not going to take our eye off the ball and you know all the good things we've got going on, on the Graco side of the business. We're going to continue to fully fund these and we expect great success with the Graco core business.

We believe this acquisition is going to advance all of these things for us. As David mentioned, the business we're acquiring is a very global business with more than two thirds of its sales from outside North America. That's an excellent fit with where we've been headed. They have high technology products that play at the premium end of the scale and they invest a lot in research and development.

We really like the addition of the market leading powder finishing business and the fact that this business has got some significant size, strong brands. It's got a channel that lines up well with the Graco model, and the manufacturing capabilities that I briefly touched on in both directions in terms of Graco potentially being able to help with capital and receiving investments at the acquired facilities and the acquired facilities giving Graco some opportunity in some of the geographies we don't play today. From a manufacturing perspective, all fit in very well with where we're headed. So, we think it's a great fit.

If you take a look at page sixteen, you'll also see what we believe is a very positive part of this. Our industrial business today at 55% is certainly our most profitable segment. Our industrial [inaudible] business will become 68% of the total pie and it will reduce somewhat our waiting towards the construction markets on a global basis.

In summary, I think we've covered most of these things, but just to reiterate this has got some significance sizing and it was a needle for us and the brands and the product lines are very complimentary to what we have at Graco. It diversified their international scope, it's a large install base with a parts and accessories screen in that 40% range like the Graco business and that is very attractive. We've talked about manufacturing and of course Jim covered the rapid de-leveraging.

So we're excited about the acquisition and we think that it's in our sweet spot and that it's going to do a lot of good things for Graco performance in the years ahead.

With that we'll go ahead and we'll open up the call to a question.

Operator: Thank you. The question and answer session will begin at this time. If you would like to ask a question please press the star, followed by the one on your touchtone phone. You may withdraw your question by pressing the star, followed by the two. And if you are using speaker equipment you'll need to lift the handset before making your selection.

Your question will be taken in the order that they are received. Please stand by for your first question.

And our first question is from the line of Charles Brady with BMO Capital Markets. Please go ahead.

Charles Brady: Okay thanks and morning guys.

Pat McHale: Morning Charles.

Jim Graner: Morning Charlie.

Charles Brady: I just wanted to make sure I heard correctly on the revenue assumption in 2012. Did you say you expect to get back to that peak revenue number in 2012?

Jim Graner: I did, yes.

Charles Brady: Okay, well given that that's about 20% above the trailing twelve months and if you want to look back in December ITW I guess had forecasted 4% to 6% organic growth for this business. Has there been an acceleration in the first half of this year or is there something going on in 2012 that would make that growth rate accelerate beyond you know a kind of a mid-single digit rate?

Jim Graner: But yeah I can't comment on any forecasts that ITW gave, but you know our view of what's happening here with the industrial recovery is more consistent with historical industrial recoveries. We believe that we're seeing that in the Graco industrial segment and in our view of the businesses based upon the due diligence we've done here in the first quarter is that they're probably going to track right along with us. So, nobody can say for sure but, that's our view.

Charles Brady: Alright and just in terms of the margin, you know the trailing twelve months that are about an EBITDA margin of 19or so and peak at 19.5, given a lack of hard synergies. I'm just trying to, can you get a little more granularity on where do you think the margins in this business can get to over, you know, a couple, three years? I mean how much above peak do you think, room there is?

Jim Graner: This is Jim again, Charlie. So you know we're very pleased that this fits into our most profitable segment – the industrial segment. Historically, you know that Graco's industrial business has outperformed comparable businesses by a full 10 percentage points. That's about what we're looking at with respect to this acquisition.

As David mentioned our intentions here are to leave this as a stand-alone business and build on it. So our expectations are over the next five to ten years we would get closer to Graco's kinds of margins mostly through our ability to get ROI on capital equipment and as you know that's a journey not an instantaneous change. So you can see probably in 2012 us ramping up our capex forecast as we identify opportunities. We have not quantified those synergies by year but that's the direction that we'll be heading.

Charles Brady: Do you mean when you say you can get it up to the Graco margins, are you talking about the industrial segment margins or the Graco margins as a whole?

Jim Graner: No, the industrial segment margins.

So Jim it's going to be a journey and I'm not promising that we'll get all the way there because we have a lot more electronics than our product offering, but again a lot of our value add it comes from our manufacturing IB, our ability to machine, dot-mate [ph] processes. So we intend over time to take a lot of things that are bought today [inaudible] in this business and change them into a make. So buy to make is a big part of where we expect synergies to come.

Charles Brady: Okay one more and I'll hop in the queue here. How much of the business is the powder coat business out of the whole business?

Pat McHale: Powder coating represents approximately 30% of the total business.

Charles Brady: Great, thank you.

Operator: Thank you. Our next question is from the line of Chris Wiggins with Oppenheimer and Company. Please go ahead.

Chris Wiggins: Hi, good morning, congratulations.

Pat McHale: Morning thanks Chris.

Jim Graner: Thanks Chris.

Chris Wiggins: I just had a question. See, I think the competitive environment in the industrial segment has been pretty static for you know twenty years or so. So I'm just curious, any thoughts on why the transaction is happening now, why ITW may have wanted to get out of the business now?

Jim Craner: I think that question would probably be better addressed in detail to ITW. I do believe that they've got a stated strategy of growing segments to be platforms to be a billion. And in the essence of ITW buying Graco, I think that was going to be a difficult move for them so I would suspect that that played into their decision-making.

Chris Wiggins: Fair enough. And I'm curious what would your manufacturing breakdown look like U.S. versus rest of world now, with the acquisition tucking in?

Pat McHale: So, our thoughts are it's probably going to, and today, again we're 95% U.S. sourced so we're probably in the 70% to 75%. After this they have some operations in Ohio but they also have significant operations in the U.K. and Switzerland and smaller pieces in the other locations that were mentioned earlier but it does change Graco's business model with respect to the proportion that's U.S. dollar-based production.

Chris Wiggins: Okay great and the last question I had is just on your distributor build out strategy. As you continue I'm trying to understand as you open new distributors now, I mean did you make a decision as to whether it's going to be an ITW distributor versus a Graco distributor or is there any kind of strategy for some type of hybrid distributor as you open up new distribution contacts I guess?

Pay McHale: Well I think in the initial phases our plan is to manage these businesses separately and as we expand our distribution base in the developing markets they'll be prospects, our probably be approached by both companies. I think that, you know, there's certainly reasons why new distributors in developing markets attach their allegiances to one company over another. Sometimes these companies are contacted by the global end users who plant the flag and may have a large Graco installed base in their other operations and they're bringing that technology in. So, sometimes the decision isn't driven by the choices of even the distributor entrepreneur but the end-user.

Chris Wiggins: Great, thank you.

Operator: Thank you. Our next question is from the line of Kevin Mackza with BB&T Capital Markets. Please go ahead.

Kevin Mackza: Thanks, good morning.

Pat McHale: Morning Kevin.

Kevin Mackza: Pat, I want to go back to that question about the manufacturing footprint and I think one of the strengths of the Graco model has been that you've had everything centralized in Minneapolis and can you just talk about some of the opportunities and especially the risks now that you're going to be operating plants all over the world. I know you said you didn't intend to fully integrate this but what kind of risks do you see now that you'll be operating in Mexico and Brazil and Japan and elsewhere?

Pat McHale: My perspective, I see opportunity and I don't really see a great deal of risk from the manufacturing side. You know the Graco business is going to continue to be manufactured just as it's been manufactured in the past with our centralized footprints and our highly dedicated and talented factories that align with the divisions.

The ITW model is different and it does provide some interesting longer-term opportunities for Graco. They've got a very nice well-run factory down in Mexico and so as our business grows in that part of the world that provides opportunities for Graco. They've got a manufacturing operation that appears to be running pretty well in Brazil. To get Graco products into Brazil of course there are tariffs and penalties, so you know we haven't had critical math to think about doing something in Brazil to offset that but certainly now with a group of people down there and a long standing business that provides us some opportunity. See, and I don't really see that things are going to move around and usually in manufacturing when things start moving around that's when you have risk. The people that I met, factory managers in those acquired facilities were enthusiastic, smart, the facilities were well-run, and I think with some Graco capital and our machining process and then some of the things we can pick up from them from a global manufacturing footprint that it's upside not downside. That's the way I view it.

Kevin Mackza: Okay.

Jim Graner: Kevin, one last point on that. You know one of the things that again we haven't quantified is that our industrial factory here is full. We're close to capacity and we're finding that there are square feet available in most of these factories that we visited from these acquired companies. So that's again a synergy that hasn't yet been quantified and we haven't yet put in place all the tactics around that.

Kevin Mackza: Okay, good to know. Shifting to your plans here to grow the top line of this business, are you able to comment? Is this a business that in any way was underinvested by ITW in that it was a small piece of a huge company and arguably not core to them that maybe Graco now can sort of accelerate the top line just simply by ramping, whether it be the R&D or the distribution build out?

Pat McHale: Well from my perspective and that's again we did due diligence and so I've been around to see their major facilities but I'm not going to proclaim to have done a deep dive into them. But certainly from a dollars perspective we put more percentage of revenue back into R&D than they do. Certainly and I'm not making the claim that they underinvested in their business. But I might make the claim that there could be an opportunity for us to ramp up spending on product development to be more consistent with our philosophy. The factories that we saw, their assembly areas were very well organized, a very nice flow, the 80/20 was in full effect and you could see the results of that, and from a machining standpoint they definitely invest less than Graco.

Again it's a different business model and so, you know, I don't look at it as using the word under invest but I would say compared to Graco they invest significantly less in machining capital than we do.

I think the other things that drive the revenue when we went around and visited the operations and me with management, I was quite impressed with the intermediate and longer range growth plans that they had in place, willingness to invest in some new application areas, some new markets, geographic expansion similar to what we've done, and my feeling is that this management team has been very prudently and confidently future focused and they have some good ideas on how to grow the business for quite a while to come.

Kevin Mackza: And Pat, you mentioned 80/20. Is that a departure from Graco's traditional strategy and is that something we'll hear more about in the context of the new Graco as a whole?

Pat McHale: You know I didn't see anything that I would consider a departure from the Graco strategy. You know and I've talked to you guys many times in the past. Our philosophy really on the manufacturing front is to train our people in all the different tools that are available out there and then we let our individual selves implement the tools that they see fit to drive our cost to produce which is really sort of the Graco factory P&L and we've talked about it again in the past so I'm not going to spend a lot of time on it this morning. But the cost to produce for manufacturing is sort of our rally point from Graco. We use lots of different methodologies to get there and you'll see parts of 80/20 within Graco operations as well but again we don't rally around any particular flag and we don't have a standardization process for every cell across every factory.

Kevin Mackza: Okay and finally Pat, you're entering the powder coating market where there are three primary players. You're of course one of them now but, can you just talk about any competitive advantages you may have there? Is there an opportunity to boost share that you see in the work that you've done so far?

Pat McHale: Well, I'll take a shot at that. On a competitive basis, we are very impressed by the investments and technology that Gema has done. They have developed a line of very efficient systems that are used to be very economical with powder consume and also they have definitely led the way, we believe, in color change capabilities which in the powder paint world has been one of the bugaboos of the systems for a long time to come, but change in color on a line tended to slow the line down a lot, and that was pretty inefficient and then frankly kept a lot of manufacturers from converting from traditional liquid systems to powder systems. They've done a good job of developing that technology, and in particular in the case of the last couple of years, Gema has been very aggressive planting its flag in markets like Asia – China in particular where industry has developed and continued to expand.

Even downturn they have a very strong presence, a very strong reputation in the market for quality and for providing complete systems, and have done a great job and we want to obviously continue to support them any way possible because our expectations are that's going to be a big market for a long time to come.

Now from a Graco perspective we then, looking and talking about powder for twenty years and we've never been able to figure out how we break into that space and do it profitably and this acquisition here puts us from a standing start really where we were scratching our heads trying to figure out how we were going to be a player to a leader and so we think that that's a really nice benefit for Graco.

Kevin Mackza: Okay that's all I had. Thank you.

Operator: Thank you. Ladies and gentlemen if there are any additional questions please press the star, followed by the one at this time. As a reminder if you are using speakerphone, please pick up the handset before making your selection.

And our next question is from the line of Matt Summerville with Keybanc. Please go ahead.

Matt Summerville: Morning. A few questions. Jim I think in your prepared remarks you indicated, you know, roughly a nickel in EPS accretion out of this deal in 2012. I guess does that assume the post punitive kind of scenario from an intangible amortization standpoint and I guess you know would you be willing to give a little bit more of a range on what you think the actual accretion could look like and then if we think, you know, a year or two out, what we can expect in that regard?

Jim Graner: Sure. First of all it's probably not the most punitive but it is for sure far out on the extreme and I mentioned the 40 million. If we could see a number like 30 but again we haven't done the work, so my controller is looking at me and telling me not to say anymore. But you know, and I think the thing here that we have to recognize is the significant cash flows that are going to come from this business. We'll have, you know a drop off and, again our expectation is a drop off after the first two to three years on what we would think would be some assets allocated with a declining balance kind of amortization. You know if you take 10 in tax deductions should you get another nickel, you know, before they become 30? Well, that's probably as far out on the limb as I'd like to go, Matt, and for sure by the time we close this deal we'll have the exact numbers for you.

Matt Summerville: And then you know let's talk a little bit cash taxes versus you know the P&L effective tax break. Can you sort of just give a little more color on how that plays out and what determines whether or not—because I think in the slides you say up to 20 million? Well what's sort of the low-end of that range, I guess, and what determines if you get that full 20? Just more detail on the tax aspects because that's an important piece to the cash flow side of this too.

Jim Graner: So it's a pretty narrow range. Again, we've done most of the work and we've agreed to the asset price allocation with the seller with respect to geographies. So it's a narrow range from 18 to 20. So that's a pretty known number. The distinction between cash and book is really what goes into deferred taxes. So as we take these benefits on the tax return that we don't take in the books, we'll be building a deferred tax liability that will stay with us until these businesses are sold. So again the major difference here is with respect to the amount of the purchase price that gets allocated for book accounting to goodwill and since that hasn't yet been determined, I would say probably two thirds of this cash will not be reflected in the current tax provision.

Matt Summerville: Okay. And then just a couple more quick ones. In Q1, I would assume given the level of due diligence here, you'll be booking a pretty good amount of due diligence expenses. You know as we sort of threw up our models, I mean Pat, you've made some what I thought were, you know, some pretty bullish comments on at least the industrial side of the business from the first quarter, you know Jim are you able to give us any sort of thought on you know how those expenses are going to hit the P&L?

Jim Graner: Sure you know again we'll have the transaction cost expense as incurred. For the most part in the first quarter it's mostly around legal and travel expense and my estimate is between 1 million and $1.5 million. We'll have considerably more in the second quarter, probably two times that amount and then, some of course, will happen when the transaction happens. So we're projecting about 20 million in transaction expenses. Ultimately, I would say its either 1.5 but let's say 3.5 in the second quarter and then we'll see the rest coming in the third quarter or when we close the transaction.

Matt Summerville: A couple of the businesses you're buying–the powder business, the auto you know refinish business, you guys either don't have or have very little presence and we'll just say you don't have any. Is there any other liquid finishing businesses? Is there any overlap you guys have from a product line, customer, distribution, you know standpoint. Is there an estimate if it even makes sense to think about it, of cannibalization we'll see here?

Jim Graner: Yes, you know there is when you take a look at that and we try to include a picture of that in the materials and when you take a look at where we have our strengths, our strengths are not in the same spot. So we think that there's a nice compliment from product overlap there. Of course from an end-user perspective, we sell to most industrial end-users around the world. ITW sells to most industrial end-users around the world. So from an end-user perspective whether they're using powder or whether they're using wet, we're going to have a lot of overlap from that perspective. But on a product segment side we think it's more complimentary than overlap.

Matt Summerville: Okay and sticking with the powder you know obviously one of your competitors here has a pretty decent powder business that, you know, has sort of struggled over the years to get above kind of the 20% operating margin number and you know we have a lot of respect for you know how they run those businesses. You know ,you guys are talking today about again over a long period of time you know maybe five years and maybe six or seven you know if powder is 30% of the business then you guys are planning on getting that up to, I would think close to that 30% plus, you know Graco industrial margin. Can you just go into a little more detail on kind of what the roadmap or the initial roadmap looks like for that business just you know given at least some of my historical perspective on the profitability of some of the other folks in the space there?

Jim Graner: Alright well one thing that and I'm not real familiar of course with some of the other, you know, the economics and some of the other players in the business, one thing that is striking is the very global nature first of all of the game of the business. A lot more of their sales activity, lots more of their sales activity come from outside North America than in North America, and so they have what I would consider a very balanced geographic footprint and I have to believe you know from a growth perspective as well as from a profitability perspective, they have the infrastructure in the developing markets to be very active.

The other thing is that this is a profitable piece of the ICW family that we're buying. This business had very, very good margins throughout most of the decade and the profitability of this business did not decline as dramatically as liquid finishing profitability did, quite frankly, either for ICW or for Graco. So this business has proven over time that it is a robust, profit distributor or profit contributor and our expectations are that as the business continues to recover and we get into new sales ground over the next couple of years as we talked about, that returns should be consistent with historical levels.

Matt Summerville: That's a helpful illustration I appreciate that. And then just one more real quick─you've provided us with 2010 revenue and EBITDA or ten and twelve month revenue and EBITDA prior peak revenue and EBITDA. Are you able to give us prior trough revenue and EBITDA for this business?

Jim Graner: Again, it hasn't been prior to what we described but their low point like our low point came in 2009. They had about 260 million in revenue. I don't have their earnings without the onetime costs for the restructuring things that I mentioned before so I'd prefer not to go there.

Matt Summerville: Got it. Thanks a lot guys.

Operator: Thank you. Our next question is from the line of Elana Wood with Bank of America. Please go ahead.

Elana Wood: Yeah, good morning.

Pat McHale: Hi.

Elana Wood: I was wondering did you approach ITW about acquiring their finishing business or did they reach out to you and then roughly how long was this deal in the works?

Pat McHale: So, we've knocked on their doors for years and been rejected.

Elana Wood: Okay.

Pat McHale: There was an opening facilitated by a third party about fourteen months ago.

Elana Wood: Okay.

Pat McHale: And so we've been negotiating and communicating since then.

Elana Wood: Okay, terrific. And then just as a follow-up, are there any other ITW businesses that you may be interested in pursuing at a later date ,maybe once you've finished integrating the finishing business?

Jim Graner: Yeah that would be something we definitely wouldn't talk about.

Elana Wood: Okay, I appreciate it. Thank you.

Jim Graner: Yep.

Operator: Thank you. If there are no further questions I will now turn the conference over to Pat McHale.

Pat McHale: Alright I'll give my long speech at the end. Thanks a lot for your time this morning and have a good weekend.

Operator: This concludes our conference for today. Thank you for participating and have a nice day. All parties may now disconnect.

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