



4th Quarter 2018 Earnings Conference Call

January 29, 2019

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 Item 1A of the Company's Form 10-K, and Item 1A of the most recent Quarterly Report on Form 10-Q and also the Company's Earnings Release dated January 28, 2019.

Conference Call Logistics



The release, accompanying slides and replay webcast are available online at www.graco.com/ir

Telephone replay will be available after 2 p.m. ET, January 29, 2019. The replay by telephone will be available through February 2, 2019.

- ▶ 888-203-1112 – Conference ID #5631887
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Financial Results



Statement of Earnings	Fourth Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
\$ in millions except per share amounts						
Sales	\$ 406	\$ 375	8 %	\$ 1,653	\$ 1,475	12 %
Gross Profit	209	201	4 %	883	795	11 %
% of Sales	51.4 %	53.6 %	(2.2) pts	53.4 %	53.9 %	(0.5) pts
Operating Earnings	97	89	8 %	436	379	15 %
% of Sales	23.8 %	23.9 %	(0.1) pts	26.4 %	25.7 %	0.7 pts
Net Earnings	\$ 74	\$ 36	103 %	\$ 341	\$ 252	35 %
% of Sales	18.1 %	9.7 %	8.4 pts	20.6 %	17.1 %	3.5 pts
Diluted Earnings Per Share	\$ 0.43	\$ 0.21	105 %	\$ 1.97	\$ 1.45	36 %
<i>Diluted Shares in Millions</i>	<i>170.9</i>	<i>175.7</i>		<i>173.2</i>	<i>174.3</i>	
<i>Net Earnings, Adjusted (1)</i>	<i>\$ 73</i>	<i>\$ 59</i>	<i>24 %</i>	<i>\$ 326</i>	<i>\$ 249</i>	<i>31 %</i>
<i>Diluted Earnings Per Share, Adjusted (1)</i>	<i>\$ 0.43</i>	<i>\$ 0.34</i>	<i>26 %</i>	<i>\$ 1.88</i>	<i>\$ 1.43</i>	<i>31 %</i>

(1) Net earnings and diluted earnings per share for 2018 and 2017 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 18 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Financial Results



Components of Net Sales Change

Fourth Quarter December 2018

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	7 %	15 %	4 %	6 %	8 %	12 %	8 %
Acquisitions	4 %	0 %	0 %	0 %	6 %	4 %	2 %
Currency	(2)%	(1)%	(1)%	0 %	(3)%	(3)%	(2)%
Total	9 %	14 %	3 %	6 %	11 %	13 %	8 %

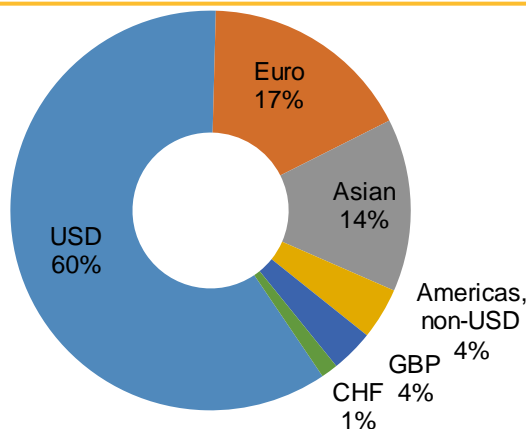
Year-to-Date December 2018

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	6 %	13 %	8 %	8 %	4 %	13 %	8 %
Acquisitions	5 %	1 %	1 %	1 %	7 %	4 %	3 %
Currency	2 %	1 %	0 %	0 %	4 %	2 %	1 %
Total	13 %	15 %	9 %	9 %	15 %	19 %	12 %

2018 Sales by Currency

Asian currencies include:
AUD, CNY, KRW, JPY

Americas currencies include:
BRL, CAD, MXN



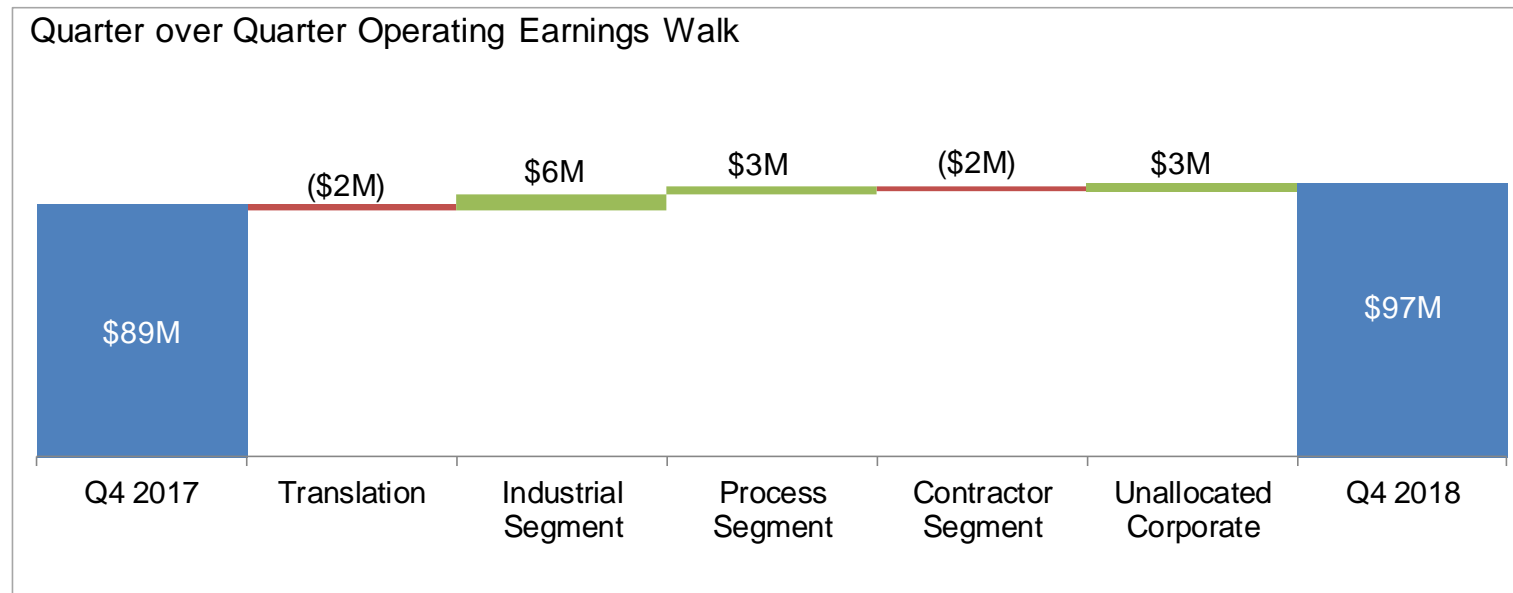
Operating Earnings



Change in Operating Earnings

	Fourth Quarter		Year-to-Date	
2017 Operating Earnings (\$M and % of sales)	\$ 89	24 %	\$ 379	26 %
Translation effect	(2)	(1)	9	0
Volume, product and channel mix, price and cost	8	(2)	65	0
Effect of acquired business operations and acquisition costs, net	2	0	6	0
Unallocated corporate expenses	3	1	0	0
Increase in sales and earnings-based costs	(2)	0	(8)	(1)
Volume effect on expense leverage	(1)	2	(15)	1
2018 Operating Earnings (\$M and % of sales)	<u>\$ 97</u>	<u>24 %</u>	<u>\$ 436</u>	<u>26 %</u>

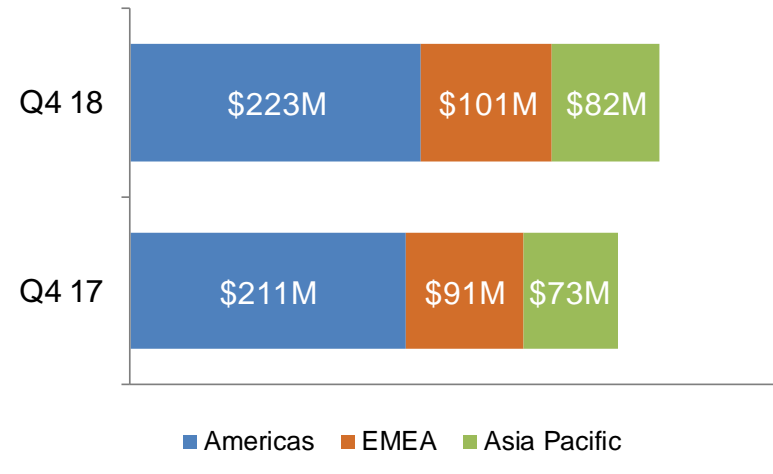
Quarter over Quarter Operating Earnings Walk



Fourth Quarter 2018 Results

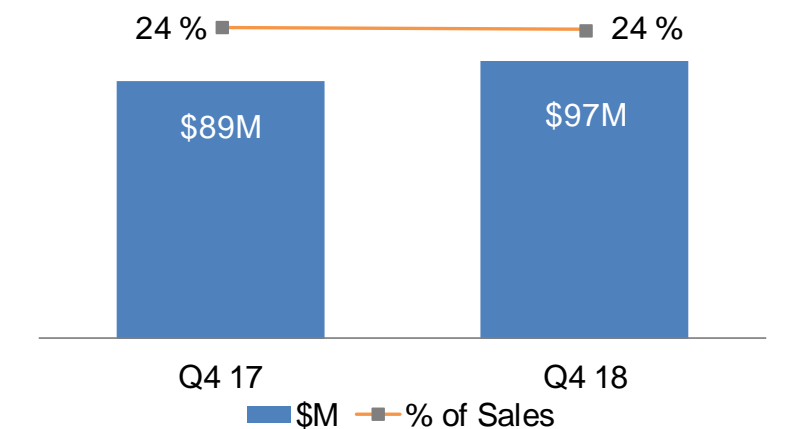


Sales

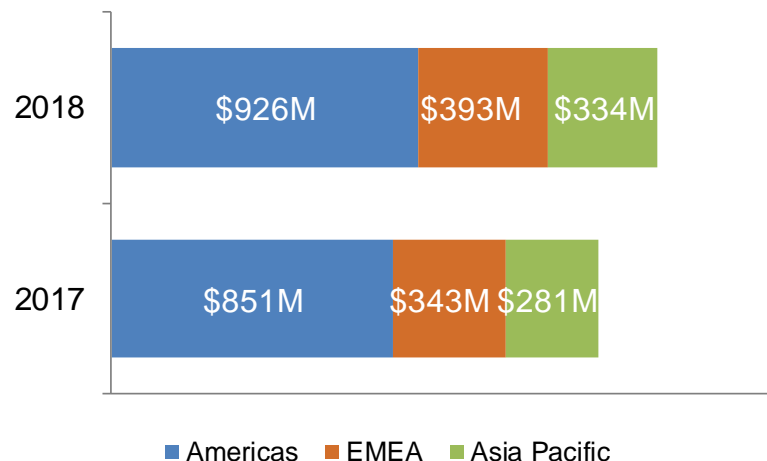


- ▶ Sales increase of 8% (at consistent currency translation rates up 10%)
 - Acquired businesses sales of \$9 million account for 2 percentage points of growth
- ▶ Gross margin rate down 2.2 percentage points from fourth quarter 2017
 - Unfavorable product and channel mix, unfavorable effect of currency translation, higher costs including tariffs and higher material costs and factory spending plus lower average gross margin rates of acquired operations more than offset realized pricing
- ▶ Operating earnings are up \$7 million, or 8%, from fourth quarter 2017
 - Higher sales volume and acquisitions driving increase
 - Currency translation rates decreased operating earnings by approximately \$2 million
 - Higher sales and earnings-based costs reduced operating earnings by \$2 million
 - Volume effect on expense leverage increased operating earnings as a percentage of sales by 2 percentage points
- ▶ Other expense, excluding 2017 pension settlement charge of \$12 million, increased \$3 million due primarily to higher market-based pension costs of \$2 million and lower exchange gains on net assets of foreign operations
- ▶ The effective tax rate for the quarter was 18% down 32 percentage points from fourth quarter last year
 - Adjusted to exclude the impacts of excess tax benefits related to stock option exercises, 2017 provisions related to tax reform legislation and benefits from other tax planning activities, the 2017 rate was 31%
 - 2018 rate is lower than the 2017 rate due to the net effects of U.S. federal income tax legislation passed at the end of 2017
 - Excess tax benefits from stock option exercises decreased \$16 million in fourth quarter 2018 compared to prior year

Operating Earnings

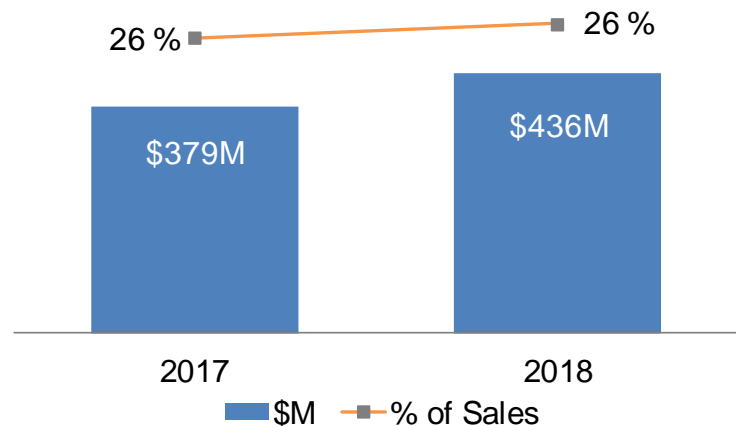


Sales



- ▶ Sales increase of 12% (11% at consistent currency)
 - Acquired businesses sales of \$43 million account for 3 percentage points of growth
- ▶ Gross margin down 0.5 percentage point from 2017
 - Effect of lower average gross margin rates of acquired operations (including purchase accounting related to inventory valuation), unfavorable product and channel mix and higher product costs more than offset realized pricing and the favorable effect of currency translation
- ▶ Operating earnings are up \$57 million, or 15%, from 2017
 - Higher sales volume, positive impact of currency translation, acquired operations and a reduction in acquisition costs drove increase
 - Higher sales and earnings-based costs reduced operating earnings by \$8 million
 - Volume effect on expense leverage increased operating earnings as a percentage of sales by 1 percentage point
- ▶ Other expense, excluding 2017 pension settlement charge of \$12 million, increased \$8 million due primarily to exchange losses on net assets of foreign operations of \$5 million and higher market-based pension costs \$2 million
- ▶ The effective tax rate for 2018 was 17% down 10 percentage points from last year
 - Adjusted to exclude the impacts of excess tax benefits related to stock option exercises, 2017 provisions related to tax reform legislation, the benefit from a \$40 million contribution to a pension plan in 2018 and benefits from other tax planning activities, the 2018 tax rate was 21% and the 2017 rate was 31%
 - 2018 adjusted rate is lower than 2017 due to the net effects of U.S. federal income tax legislation passed at the end of 2017
 - Excess tax benefits from stock option exercises decreased \$26 million in 2018 compared to 2017

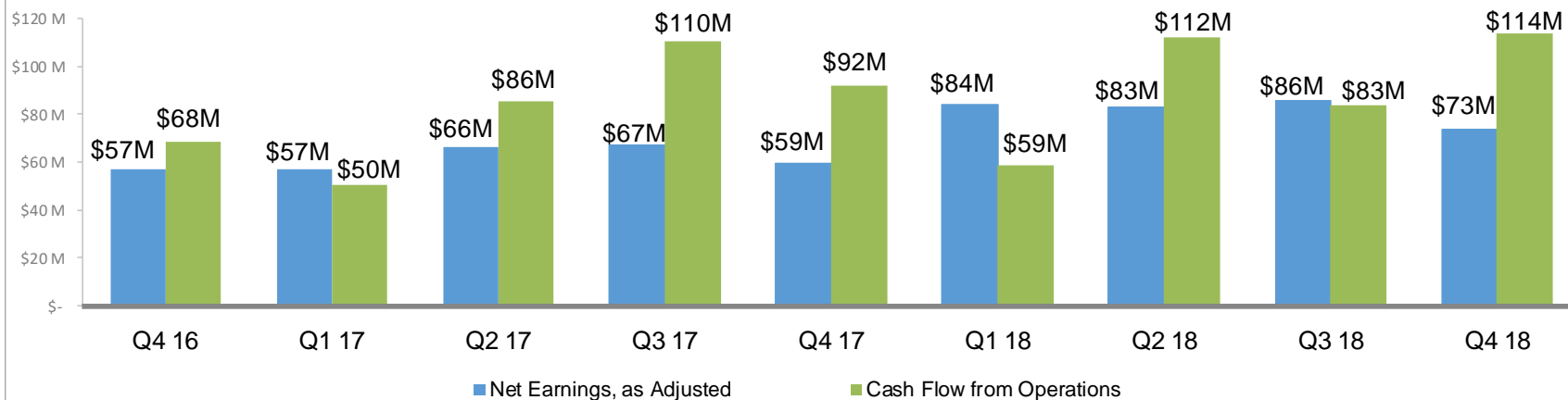
Operating Earnings



Cash Flow and Liquidity

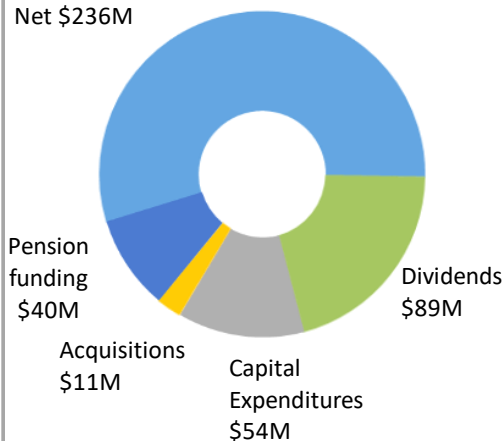


Net Earnings, as Adjusted, and Cash from Operations



2018 Significant Uses of Cash

Share Repurchases, Net \$236M



- ▶ Net cash provided by operating activities was \$368 million in 2018 vs. \$338 million in 2017
- ▶ The Company made a \$40 million voluntary contribution to a U.S. pension plan during third quarter 2018 compared to a \$20 million pension contribution in third quarter 2017
- ▶ Debt, including notes payable, was \$277 million - up \$45 million from December 2017
 - Interest expense down \$1.8 million from 2017
- ▶ 2018 share repurchases, net of shares issued, totaled \$236 million

Other Discussion Items












- ▶ Capital expenditure expectations of approximately \$40 million in 2019, excluding bricks and mortar. Current estimate of 2019 building projects to increase production and distribution capacity is approximately \$100-\$110 million
 - Additional building project investments of approximately \$35 million anticipated in 2020
- ▶ Unallocated corporate expenses in 2019 are expected to be approximately \$30 million
- ▶ During 2018, we repurchased 5.7 million shares of stock and may make opportunistic repurchases going forward
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2018, the unfavorable movement in foreign currencies would be a headwind on 2019 of approximately 1% on sales and 3% on earnings, with the greatest headwind in the first two quarters
 - First quarter 2019 headwind could be as much as 3% on sales and 6% on earnings
- ▶ The effective tax rate for 2019 is expected to be approximately 21%, excluding any impact from excess tax benefits related to stock option exercises or other significant tax projects
- ▶ We expect that pricing in 2019 will offset the dollar value of tariffs and higher material costs. Gross margin rates, as a percentage of sales, could be lower and the effect will vary by segment
 - Incremental tariffs and material costs are expected to be approximately \$25 million in 2019

2019 Environment and Outlook



Constant currency basis and excluding acquisitions completed in the prior 12 months

	Americas	EMEA	Asia Pacific	Total
Current Environment	Sales Growth Q4 2018 6% 2018 8%	Sales Growth Q4 2018 8% 2018 4%	Sales Growth Q4 2018 12% 2018 13%	Sales Growth Q4 2018 8% 2018 8%
Industrial Segment	Unchanged  Sales Growth Q4 2018 4% 2018 5%	Unchanged  Sales Growth Q4 2018 5% 2018 3%	Downgraded  Sales Growth Q4 2018 13% 2018 12%	Sales Growth Q4 2018 7% 2018 6%
Process Segment	Unchanged  Sales Growth Q4 2018 17% 2018 14%	Improved  Sales Growth Q4 2018 5% 2018 1%	Unchanged  Sales Growth Q4 2018 20% 2018 23%	Sales Growth Q4 2018 15% 2018 13%
Contractor Segment	Downgraded  Sales Growth Q4 2018 1% 2018 7%	Unchanged  Sales Growth Q4 2018 17% 2018 9%	Unchanged  Sales Growth Q4 2018 (5%) 2018 4%	Sales Growth Q4 2018 4% 2018 8%
Full Year 2019 Outlook	Outlook Lowered Mid-single-digit	Outlook Unchanged Mid-single-digit	Outlook Lowered Mid-single-digit	Outlook Lowered Mid-single-digit

We are initiating a revenue growth outlook for the full-year 2019 of mid-single-digit on an organic, constant currency basis, with growth expected in every region and reportable segment.

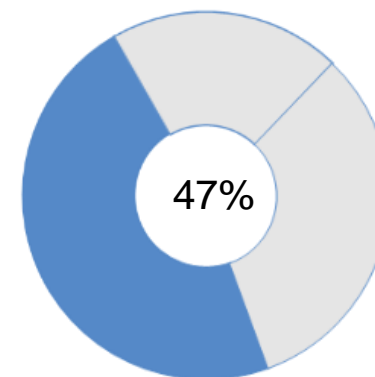
Industrial Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 83	\$ 80	4 %	\$ 315	\$ 300	5 %
EMEA	60	53	12	234	199	18
Asia Pacific	57	49	16	232	193	20
Total	\$ 200	\$ 182	9 %	\$ 781	\$ 692	13 %
Operating Earnings	\$ 65	\$ 61	7 %	\$ 271	\$ 238	14 %
% of sales	32 %	33 %		35 %	34 %	

2018 Industrial Segment Sales as % of Graco



2018 Components of Net Sales Change

2019 Environment

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	4 %	5 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	4 %	5 %
EMEA		
Volume & Price	5 %	3 %
Acquisitions	10 %	11 %
Currency	(3)%	4 %
Total	12 %	18 %
Asia Pacific		
Volume & Price	13 %	12 %
Acquisitions	6 %	6 %
Currency	(3)%	2 %
Total	16 %	20 %
Segment Total		
Volume & Price	7 %	6 %
Acquisitions	4 %	5 %
Currency	(2)%	2 %
Total	9 %	13 %



- Favorable: General industrial
- Stable: Construction, automotive, truck & trailer
- Challenging: South America



- Stable: Western Europe, general industrial, truck & trailer, automotive
- Challenging: Geopolitical, Middle East, developing economies



- Favorable: General industrial, alternative energy
- Stable: Automotive, construction
- Challenging: Marine
- Spotty: Project activity



Industrial Segment Results



Change in % of sales

Fourth Quarter

Year-to-Date

2017 Operating Earnings (% of sales)

33 %

34 %

Translation effect

0

1

Product and channel mix, volume, price

(2)

0

Effect of acquired business operations

(1)

(1)

Expense leverage

2

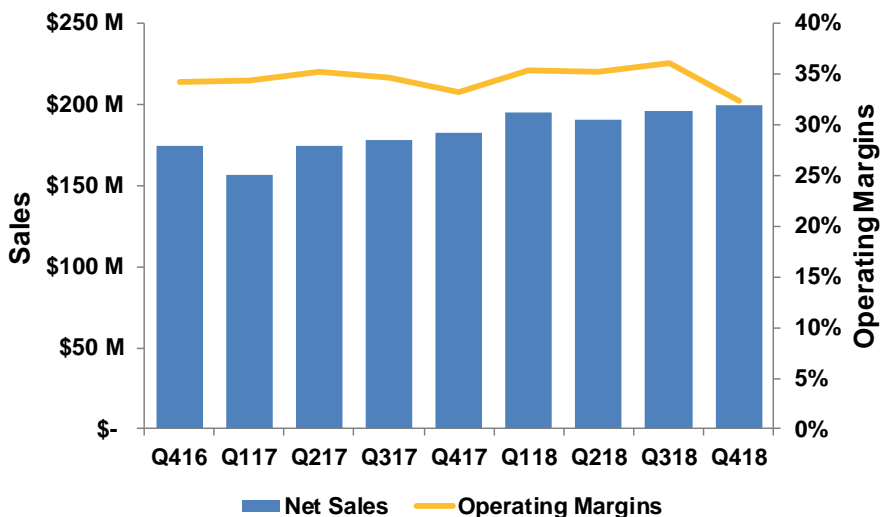
1

2018 Operating Earnings (% of sales)

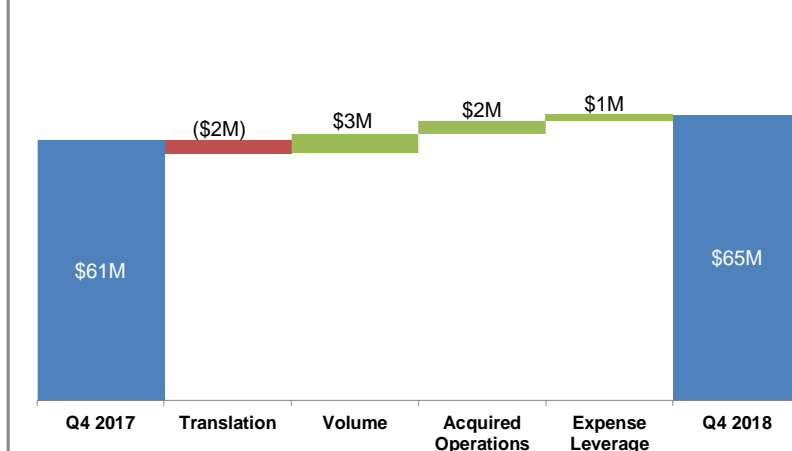
32 %

35 %

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



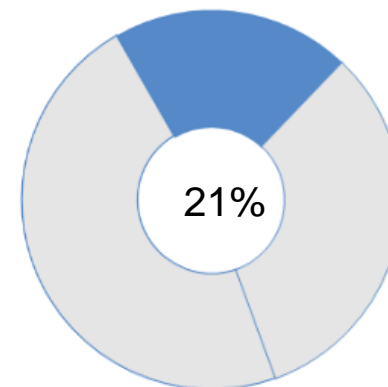
Process Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 56	\$ 49	16 %	\$ 216	\$ 188	15 %
EMEA	15	15	3	58	56	4
Asia Pacific	17	14	16	64	51	25
Total	\$ 88	\$ 78	14 %	\$ 338	\$ 295	15 %
Operating Earnings	\$ 16	\$ 13	20 %	\$ 69	\$ 52	31 %
% of sales	18 %	17 %		20 %	18 %	

2018 Process Segment Sales as % of Graco



2018 Components of Net Sales Change

2019 Environment

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	17 %	14 %
Acquisitions	0 %	1 %
Currency	(1)%	0 %
Total	16 %	15 %
EMEA		
Volume & Price	5 %	1 %
Acquisitions	0 %	0 %
Currency	(2)%	3 %
Total	3 %	4 %
Asia Pacific		
Volume & Price	19 %	23 %
Acquisitions	0 %	1 %
Currency	(3)%	1 %
Total	16 %	25 %
Segment Total		
Volume & Price	15 %	13 %
Acquisitions	0 %	1 %
Currency	(1)%	1 %
Total	14 %	15 %



- Favorable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications
- Stable: Chemical
- Improving: Onshore oil & natural gas



- Favorable: Technology, sanitary, environmental
- Stable: Western Europe, chemical
- Challenging: Offshore oil & natural gas, geopolitical



- Favorable: Technology
- Stable: Process applications, mining

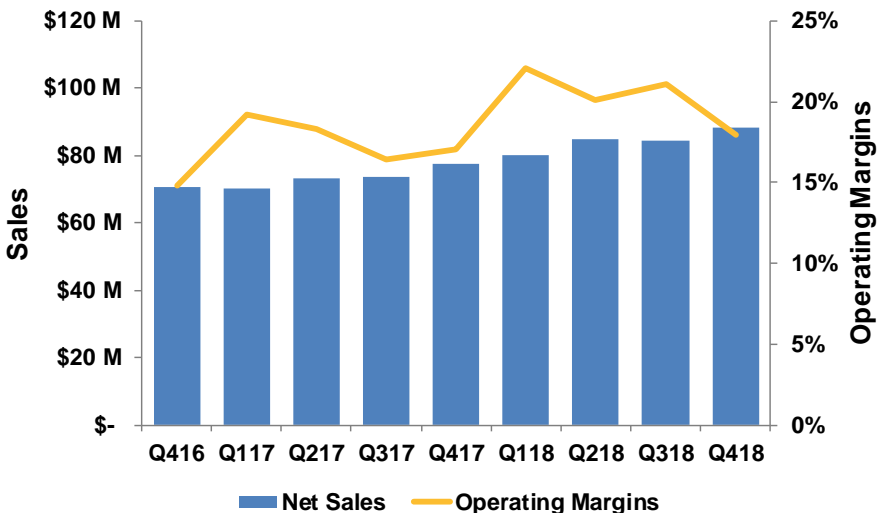


Process Segment Results

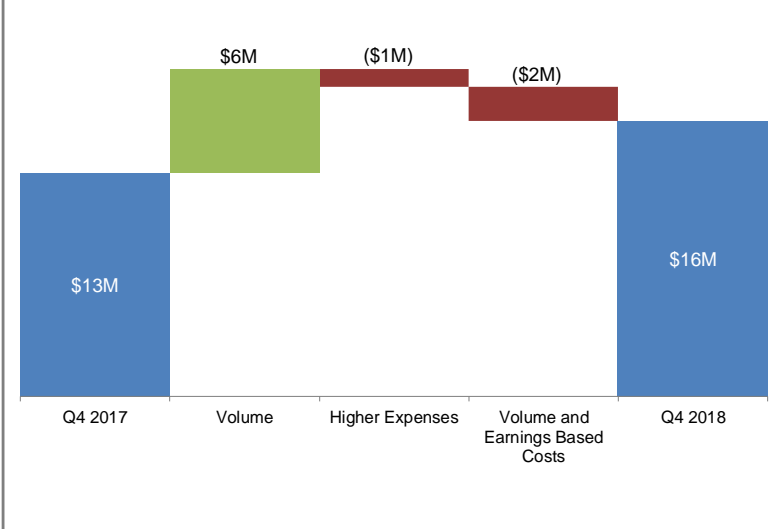


Change in % of sales	Fourth Quarter	Year-to-Date
2017 Operating Earnings (% of sales)	17 %	18 %
Translation effect	0	0
Channel and product mix, price and cost	(1)	0
Increase in volume and earnings-based costs	(2)	(1)
Expense leverage	4	3
2018 Operating Earnings (% of sales)	<u>18 %</u>	<u>20 %</u>

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



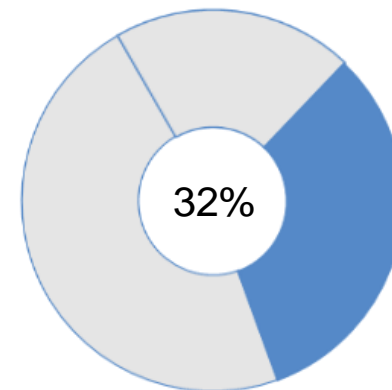
Contractor Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 84	\$ 83	1 %	\$ 396	\$ 363	9 %
EMEA	26	23	15	100	88	14
Asia Pacific	9	9	(8)	38	37	5
Total	\$ 119	\$ 115	3 %	\$ 534	\$ 488	9 %
Operating Earnings	\$ 18	\$ 21	(11)%	\$ 121	\$ 114	6 %
% of sales	15 %	18 %		23 %	23 %	

2018 Contractor Segment Sales as % of Graco



2018 Components of Net Sales Change vs 2019 Environment

	Fourth Quarter	Year-to-Date	
Americas			<ul style="list-style-type: none"> • Stable: Residential and commercial construction • Focus Sectors: Pro paint, general construction, DIY
Volume & Price	1 %	8 %	
Acquisitions	0 %	1 %	
Currency	0 %	0 %	
Total	1 %	9 %	
EMEA			<ul style="list-style-type: none"> • Stable: Western Europe, DIY • Challenging: Geopolitical, 2018 comparables
Volume & Price	18 %	10 %	
Acquisitions	0 %	0 %	
Currency	(3)%	4 %	
Total	15 %	14 %	
Asia Pacific			<ul style="list-style-type: none"> • Stable: Australia, SE Asia, pavement products • Challenging: General construction, equipment adoption rates, local competition
Volume & Price	(5)%	4 %	
Acquisitions	0 %	0 %	
Currency	(3)%	1 %	
Total	(8)%	5 %	
Segment Total			
Volume & Price	4 %	8 %	
Acquisitions	0 %	1 %	
Currency	(1)%	0 %	
Total	3 %	9 %	



Contractor Segment Results



Change in % of sales

2017 Operating Earnings (% of sales)

Translation effect

Product and channel mix, volume, product cost

Expense leverage

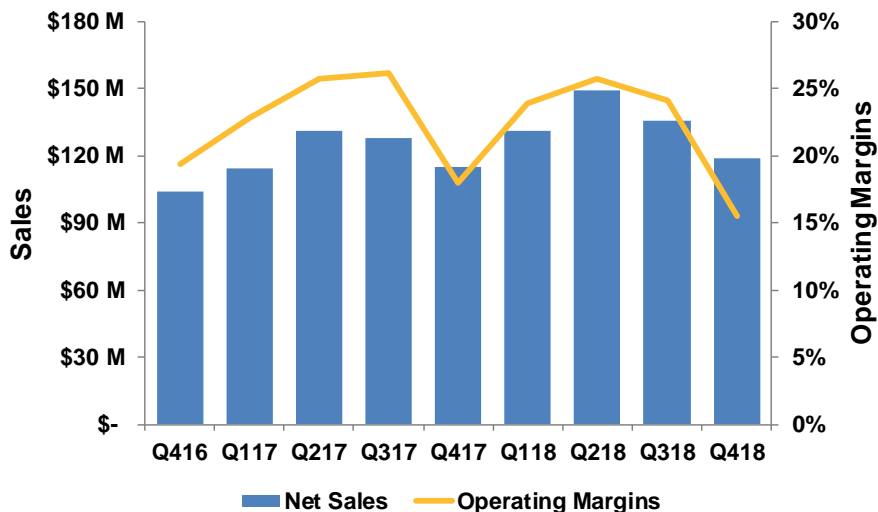
2018 Operating Earnings (% of sales)

Fourth Quarter

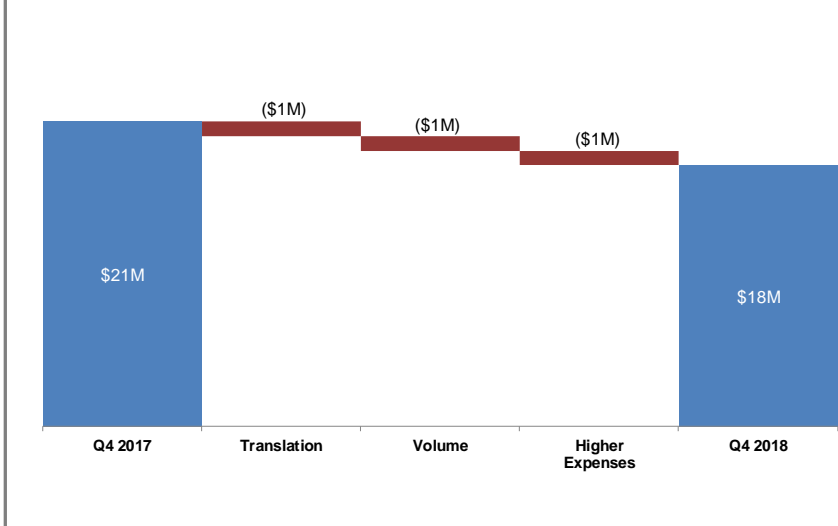
Year-to-Date

18 %	23 %
(1)	1
(3)	(1)
1	0
15 %	23 %

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD



Financial Results Adjusted for Comparability



Certain items have caused fluctuation in the Company's financial results. Excluding the impact of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements follows:

Non-GAAP Reconciliation	Fourth Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
\$ in millions except per share amounts						
Earnings before taxes	\$ 90.0	\$ 73.5	22 %	\$ 410.8	\$ 347.1	18 %
Pension settlement loss	-	12.1		-	12.1	
Earnings before taxes, adjusted	<u>\$ 90.0</u>	<u>\$ 85.6</u>	5 %	<u>\$ 410.8</u>	<u>\$ 359.2</u>	14 %
Income taxes, as reported	\$ 16.3	\$ 37.1	(56)%	\$ 69.7	\$ 94.7	(26)%
Tax effect of pension settlement	-	4.4		-	4.4	
Excess tax benefit from option exercises	0.2	15.8		10.0	36.3	
Income tax reform	-	(35.6)		-	(35.6)	
Other non-recurring tax changes	-	4.5		5.0	10.0	
Income taxes, adjusted	<u>\$ 16.5</u>	<u>\$ 26.2</u>	(37)%	<u>\$ 84.7</u>	<u>\$ 109.8</u>	(23)%
Effective income tax rate						
As reported	18%	51%		17%	27%	
Adjusted	18%	31%		21%	31%	
Net earnings (loss), as reported	\$ 73.7	\$ 36.4	103 %	\$ 341.1	\$ 252.4	35 %
Pension settlement loss, net	-	7.7		-	7.7	
Excess tax benefit from option exercises	(0.2)	(15.8)		(10.0)	(36.3)	
Income tax reform	-	35.6		-	35.6	
Other non-recurring tax changes	-	(4.5)		(5.0)	(10.0)	
Net earnings, adjusted	<u>\$ 73.5</u>	<u>\$ 59.4</u>	24 %	<u>\$ 326.1</u>	<u>\$ 249.4</u>	31 %
Weighted Average Diluted Shares, in millions	170.9	175.7		173.2	174.3	
Diluted Earnings per Share						
As reported	\$ 0.43	\$ 0.21	105 %	\$ 1.97	\$ 1.45	36 %
Adjusted	\$ 0.43	\$ 0.34	26 %	\$ 1.88	\$ 1.43	31 %



move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

www.graco.com