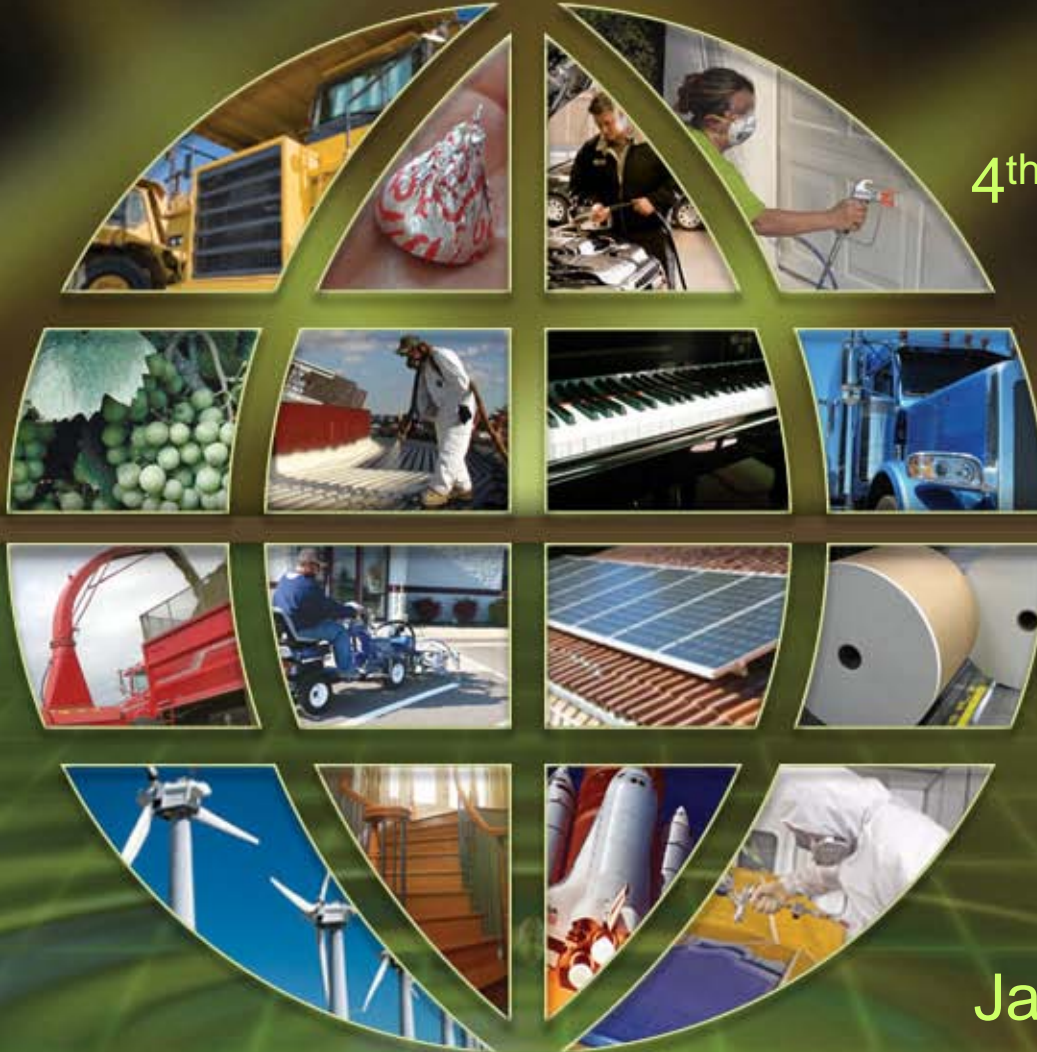


GRACO INC.

4th Quarter 2009
Earnings
Conference
Call



Tuesday,
January 26, 2010
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 (click on “Investors”)

Telephone replay available after 2 p.m. ET, January 26, 2010

- 800-406-7325 – conference ID #4200188
- 303-590-3030 – conference ID # 4200188, for International participants

2009 Financial Results

\$ millions except EPS	Fourth Quarter			Year		
	2009	2008	Change	2009	2008	Change
Sales	\$ 146	\$ 167	(12)%	\$ 579	\$ 817	(29)%
Gross Profit	77	81	(5)%	293	432	(32)%
Rate	53 %	49 %		51 %	53 %	
Operating Expenses	54	66	(19)%	218	245	(11)%
Operating Earnings	24	15	54 %	74	187	(60)%
Interest & Other Expenses	1	3		6	9	
Earnings Before Income Taxes	23	13	78 %	69	179	(62)%
Income Taxes	5	3		20	58	
Net Earnings	\$ 17	\$ 10	72 %	\$ 49	\$ 121	(59)%
Diluted Earnings Per Share	\$ 0.28	\$ 0.17	65 %	\$ 0.81	\$ 1.99	(59)%

Q4 Summary

- Net earnings of \$17 million on sales of \$146 million
 - Favorable currency translation effect of \$5 million on sales, \$3 million on net earnings
 - Sales were steady compared to the third quarter of 2009
- Sales by geography compared to the fourth quarter of 2008
 - Americas declined by 20 percent
 - Europe declined by 14 percent (21 percent at consistent exchange rates)
 - Asia Pacific increased by 15 percent
- Gross profit margin as a percentage of sales of 53 percent
 - Consistent with the third quarter of 2009
 - Increased from gross profit margin of 49 percent in the fourth quarter of 2008
 - Currency translation
 - 2008 fourth quarter work force reduction costs
 - Favorable effects of pricing, product mix, lower material costs and other cost reduction activities have helped to offset low production volumes and increased pension costs

Q4 Summary

- Operating expenses were down 19 percent as compared to the fourth quarter of 2008
 - Product development spending consistent with the third quarter of 2009
 - Reflects the effects of spending reductions (including lower workforce reduction costs) and lower volume-related expenses, partially offset by higher pension expenses
- Tax rate of 24 percent
 - Benefit upon filing of prior year tax returns
- 2009 cash flow from operations of \$36 million

Full-Year 2009 Summary

- Net earnings of \$49 million on sales of \$579 million
 - Unfavorable currency translation effect of \$10 million on sales, \$4 million on net earnings

- Sales by geography compared to 2008
 - Americas declined by 28 percent
 - Europe declined by 39 percent (35 percent at consistent exchange rates)
 - Asia Pacific decreased by 17 percent

- Gross profit margin as a percentage of sales of 51 percent
 - Down from 53 percent last year
 - Lower production volumes accounted for approximately 4 percentage points of the reduction
 - Increased pension costs accounted for approximately 1 percentage point of the reduction
 - Favorable effects of pricing, product mix, lower material costs and other cost reduction activities partially offset low production volumes and increased pension costs

Full-Year 2009 Summary

- Operating expenses were down 11 percent
 - Reflects the effects of spending reductions (including lower workforce reduction costs) and lower volume-related expenses, partially offset by higher pension expenses
 - Product development spending slightly higher than the prior year
- Effective tax rate of 29 percent in 2009 as compared to 32 percent in 2008
 - Effect of federal business credits and the domestic production deduction was greater in 2009 as a percentage of pre-tax earnings as compared to the prior year
- 2009 cash flow from operations of \$147 million

Cash Flow and Liquidity

- 2009 cash flow from operations of \$147 million; \$162 million in 2008
 - Cash uses in 2009
 - Capital expenditures \$11 M
 - Dividends \$45 M
 - Repayment of debt \$100 M
 - Pension contribution \$15 M
- Managing working capital
 - Reduction of inventories \$33 M
 - Reduction of accounts receivable \$28 M
- Adequate availability of credit
 - Long-term debt of \$86 M
 - Available unused credit lines of \$175 M

Other Discussion Items

- Continued focus on strategic growth initiatives
 - Maintain investment in product development – range of \$40 million annual spend
- Volume-related items expected to re-adjust going forward
 - Incentives and bonus planned to add approximately \$10 million to expense
 - Trade marketing items
- Pension expense expected to be \$4 million less than 2009
- Maintain commitment to manage working capital
 - 2010 capital expenditure plan \$15 M
 - Accounts receivable and inventory will vary with sales trends
 - Service levels a priority
- No cash contribution to the funded pension plan will be required for 2010, though may decide to make a cash contribution
- May have limited and opportunistic share repurchases

Industrial Equipment

\$ millions	<u>Fourth Quarter</u>			<u>Year</u>		
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Sales						
Americas	\$ 40	\$ 51	(20)%	\$ 149	\$ 220	(32)%
Europe	23	26	(12)%	89	148	(40)%
Asia Pacific	<u>23</u>	<u>21</u>	6 %	<u>76</u>	<u>95</u>	(28)%
Total	\$ 86	\$ 98	(12)%	\$ 313	\$ 463	(32)%
Operating Earnings	\$ 23	\$ 20	13 %	\$ 68	\$ 138	(51)%
% of sales	27%	21%		22%	30%	

<u>Change in % of sales</u>	<u>Fourth Quarter</u>	<u>Year</u>
2008 Operating Earnings (percentage of sales)	21 %	30 %
Exchange effect	2 %	(1)%
Product cost / mix / price	4 %	4 %
Unabsorbed manufacturing costs	(2)%	(4)%
Workforce reduction costs	3 %	—
Product development	(1)%	(2)%
Volume effect on expense leverage	—	(5)%
2009 Operating Earnings (percentage of sales)	<u>27 %</u>	<u>22 %</u>

Contractor Equipment

\$ millions	<u>Fourth Quarter</u>			<u>Year</u>		
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Sales						
Americas	\$ 24	\$ 30	(18)%	\$ 133	\$ 165	(19)%
Europe	13	15	(16)%	50	77	(35)%
Asia Pacific	8	6	43 %	25	25	1 %
Total	\$ 45	\$ 51	(11)%	\$ 209	\$ 267	(22)%
Operating Earnings	\$ 5	\$ (3)		\$ 29	\$ 47	(39)%
% of sales	10%	-5%		14%	18%	

<u>Change in % of sales</u>	<u>Fourth Quarter</u>	<u>Year</u>
2008 Operating Earnings (percent of sales)	(5)%	18 %
Exchange effect	3 %	(1)%
Product cost / mix / price	2 %	2 %
Unabsorbed manufacturing costs	—	(2)%
Workforce reduction costs	3 %	—
Product development	—	(1)%
Entry-level introduction costs	6 %	1 %
Volume effect on expense leverage	1 %	(3)%
2009 Operating Earnings (percent of sales)	<u>10 %</u>	<u>14 %</u>

Lubrication Equipment

\$ millions	<u>Fourth Quarter</u>			<u>Year</u>		
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Sales						
Americas	\$ 11	\$ 15	(23)%	\$ 47	\$ 71	(34)%
Europe	1	2	(29)%	4	7	(45)%
Asia Pacific	2	2	39 %	7	9	(26)%
Total	\$ 15	\$ 18	(17)%	\$ 58	\$ 88	(34)%
Operating Earnings	\$ 0	\$ 0		\$ (3)	\$ 12	
% of sales	3%	1%		(5)%	14%	

<u>Change in % of sales</u>	<u>Fourth Quarter</u>	<u>Year</u>
2008 Operating Earnings (percentage of sales)	1 %	14 %
Exchange effect	2 %	—
Product cost / mix / price	7 %	1 %
Unabsorbed manufacturing costs	(7)%	(9)%
Workforce reduction costs	3 %	(1)%
Product development	(1)%	(2)%
Volume effect on expense leverage	(2)%	(8)%
2009 Operating Earnings (percentage of sales)	<u>3 %</u>	<u>(5)%</u>

Pat McHale - CEO



Proven Quality. Leading Technology.

