



**2nd Quarter 2016 Earnings**

**Conference Call**

**July 21, 2016**

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 July 20, 2016.

# Conference Call Logistics



The release, accompanying slides and replay web cast are available online at [www.graco.com/ir](http://www.graco.com/ir)

Telephone replay will be available after 2 p.m. ET, July 21, 2016. The replay by telephone will be available through July 25, 2016

- 888-203-1112 – Conference ID #6816490
- 719-457-0820 – with the same conference ID #, for International participants

# Financial Results



\$ millions except EPS	Second Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Sales	\$ 348.1	\$ 335.5	4 %	\$ 653.0	\$ 641.9	2 %
Gross Profit	185.1	180.6	3 %	346.9	342.8	1 %
% of Sales	53.2 %	53.8 %	(0.6) pts	53.1 %	53.4 %	(0.3) pts
Operating Earnings	78.3	83.9	(7)%	139.3	149.1	(7)%
% of Sales	22.5 %	25.0 %	(2.5) pts	21.3 %	23.2 %	(1.9) pts
Held Separate Investment Income, Net	-	158.8		-	188.4	
Net Earnings	\$ 50.9	\$ 172.6	(70)%	\$ 90.5	\$ 241.5	(63)%
% of Sales	14.6 %	51.5 %	(36.9) pts	13.9 %	37.6 %	(23.7) pts
Diluted Earnings Per Share	\$ 0.89	\$ 2.90	(69)%	\$ 1.59	\$ 4.02	(60)%
<i>Diluted Shares in Millions</i>	57.0	59.6		56.9	60.0	

- The Liquid Finishing business assets were sold in the second quarter 2015. Net earnings included net after-tax gain on the sale and other Liquid Finishing investment income of \$110 million (\$1.85 per diluted share) for the quarter and \$139 million (\$2.32 per diluted share) for the year-to-date

See page 5 for reconciliation of the adjusted non-GAAP financial measures to GAAP

	Second Quarter		Year-to-Date	
	2016	2015	2016	2015
Adjusted Net Earnings	\$ 50.9	\$ 62.9	\$ 90.5	\$ 102.0
Diluted EPS as adjusted	\$ 0.89	\$ 1.05	\$ 1.59	\$ 1.70

- Net earnings in 2015 included non-recurring income tax benefits of \$9 million, or \$0.15 per diluted share, for both the quarter and year-to-date

# Non-GAAP Reconciliation



- The Liquid Finishing business assets were sold in the second quarter of 2015. 2015 net earnings included after-tax net gain on the sale and investment income of \$110 million (\$1.85 per diluted share) for the quarter and \$139 million (\$2.32 per diluted share) for the year-to-date
- Results excluding Liquid Finishing investment income and expense provide a more consistent base of comparison of on-going results
- Calculation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

Non-GAAP Reconciliation	Second Quarter		Year-to-Date	
	2016	2015	2016	2015
Net earnings	\$ 50.9	\$ 172.6	\$ 90.5	\$ 241.5
Held separate investment (income), net	-	(158.8)	-	(188.4)
Income tax effect	-	49.1	-	48.9
Adjusted net earnings	<u>\$ 50.9</u>	<u>\$ 62.9</u>	<u>\$ 90.5</u>	<u>\$ 102.0</u>
Diluted EPS as reported	\$ 0.89	\$ 2.90	\$ 1.59	\$ 4.02
Diluted EPS as adjusted	0.89	1.05	1.59	1.70

# Financial Results



## Components of Net Sales Change

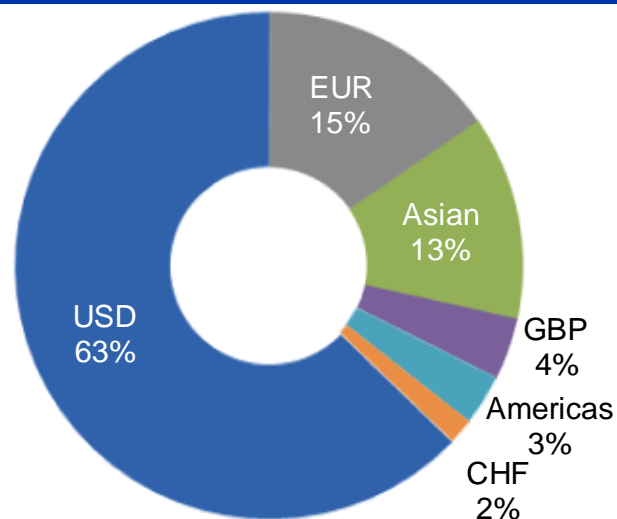
### Second Quarter June 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	(15)%	15 %	4 %	3 %	(1)%	3 %
Acquisitions	—	6 %	—	2 %	3 %	—	1 %
Currency	(1)%	(1)%	—	(1)%	—	(2)%	—
Total	2 %	(10)%	15 %	5 %	6 %	(3)%	4 %

### Year-to-Date June 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	(13)%	8 %	(1)%	6 %	2 %	1 %
Acquisitions	1 %	7 %	—	1 %	3 %	2 %	2 %
Currency	(2)%	(2)%	(1)%	—	(1)%	(3)%	(1)%
Total	2 %	(8)%	7 %	—	8 %	1 %	2 %

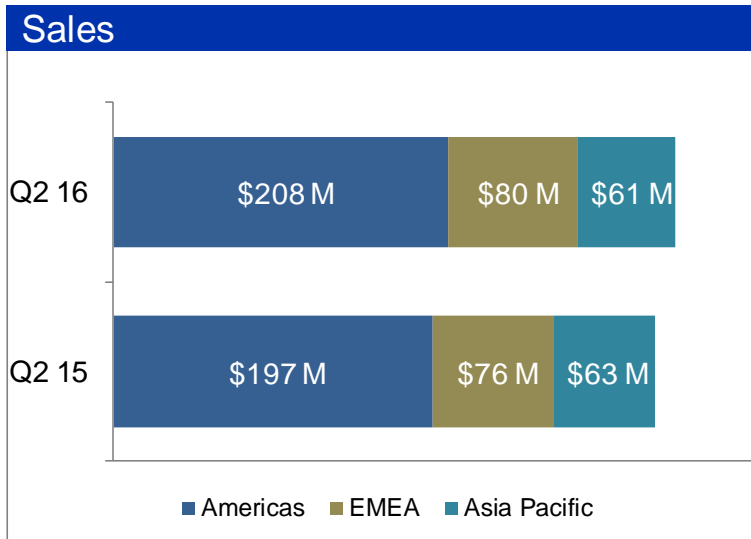
### 2016 YTD Sales by Currency



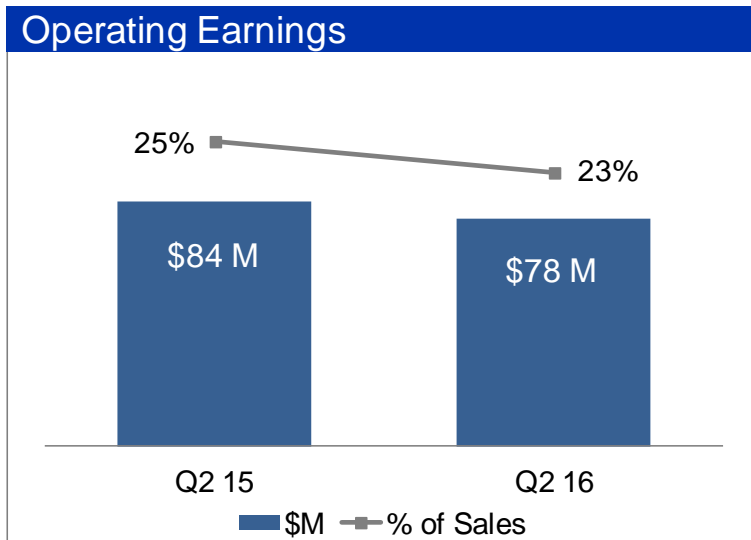
Asian currencies include:  
AUD, CNY/RMB, KRW,  
JPY

Americas currencies  
include:  
CAD, BRL, MXN

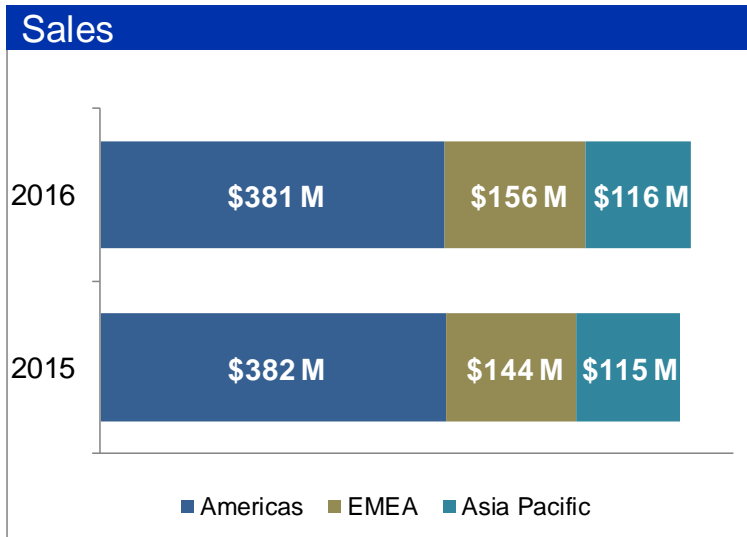
# Second Quarter 2016 Results



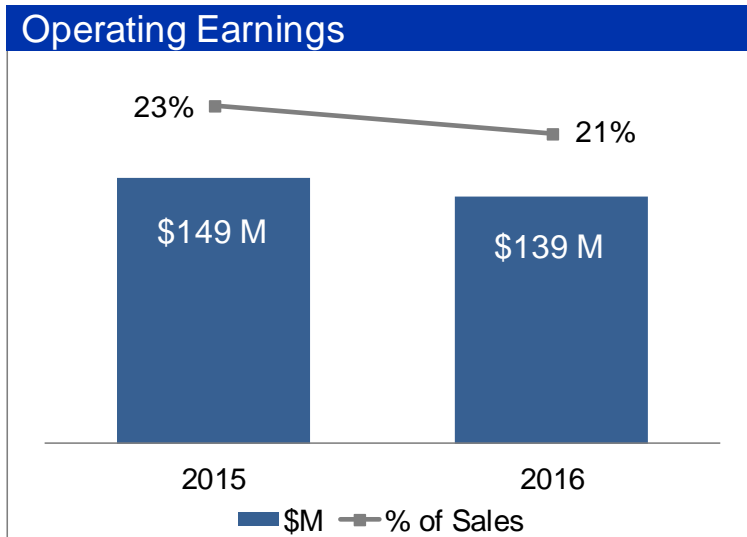
- Sales increase of 4% (the same at consistent currency translation rates)
  - Acquired businesses sales of \$5 million account for 1 percentage point of growth
- Gross margin rate down 0.6 percentage point from second quarter 2015
  - Product and channel mix and lower factory volume more than offset realized pricing
- Operating earnings down \$6 million from second quarter 2015, as a percentage of sales down 2 percentage points
  - Unallocated corporate expenses, primarily pension and stock compensation, decreased operating margin 1 percentage point
- Tax rate was 31% for second quarter 2016 compared to 28% in 2015
  - 2015 rate was impacted by \$9 million of non-recurring tax benefits, post-tax dividend income, and gain on the sale of the Liquid Finishing assets



# June Year-to-Date 2016 Results



- Sales increase of 2% (at consistent currency translation rates sales increase 3%)
  - Acquired businesses sales of \$11 million account for 2 percentage points of growth
  - Effect of currency translation rates negatively impacted sales by \$7 million
- Gross margin rate down 0.3 percentage point from 2015
  - Product and channel mix and lower factory volume offset the favorable effects of reduced acquisition related purchase accounting and realized pricing
- Operating earnings down \$10 million from 2015, \$3 million of decrease due to currency translation; as a percentage of sales, down 2 percentage points
  - Unallocated corporate expenses, primarily pension and stock compensation, decreased operating margin 1 percentage point
- Tax rate was 31% for 2016 compared to 26% in 2015
  - 2015 rate was impacted by \$9 million of non-recurring tax benefits, post-tax dividend income, and gain on the sale of the Liquid Finishing assets

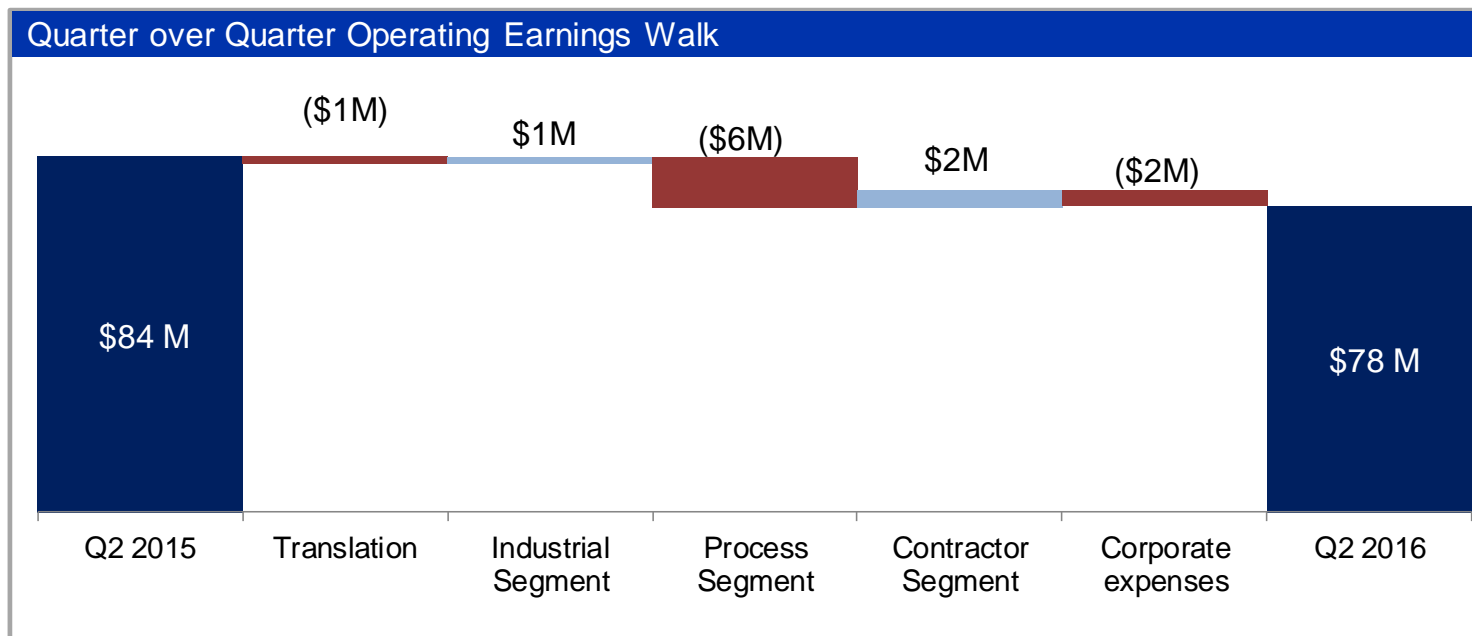




# Operating Earnings



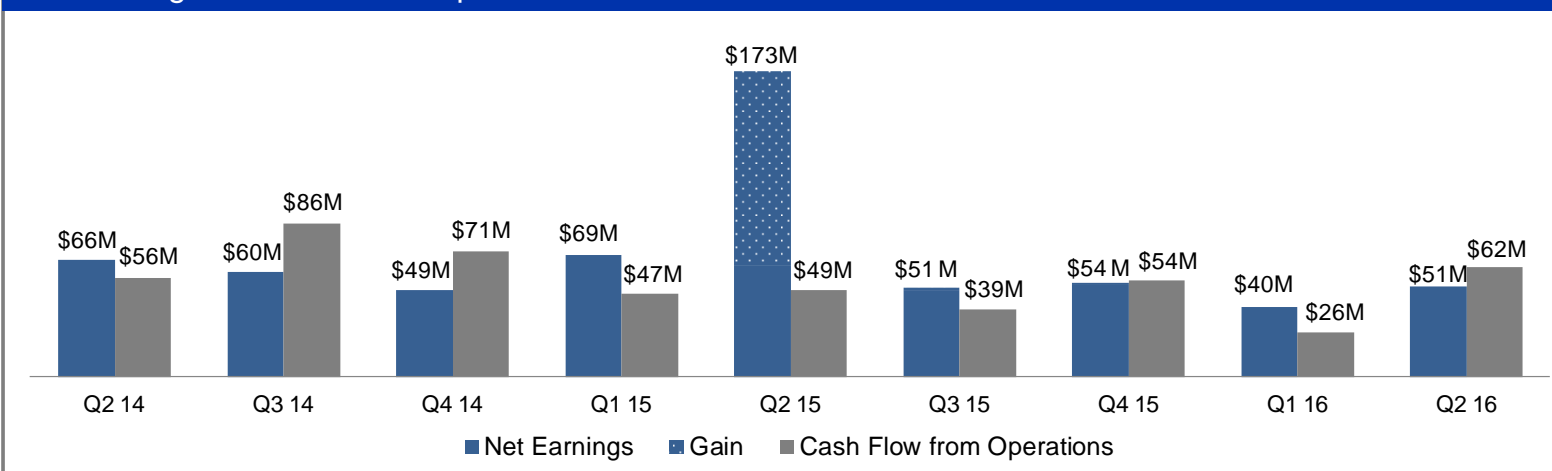
Change in Operating Earnings	Second Quarter		Year-to-Date	
2015 Operating Earnings (\$M and % of sales)	\$ 84	25 %	\$ 149	23 %
Translation effect	(1)	—	(3)	—
Mix, pricing and product cost	6	—	10	—
Incremental investment in growth initiatives and other corporate items	(2)	—	(3)	—
Facility relocation and integration costs for acquired businesses	(1)	—	(1)	—
New product launch	(1)	—	—	—
Unallocated corporate expenses (pension, stock compensation)	(2)	(1)	(3)	(1)
Volume effect on expense leverage	(5)	(1)	(10)	(1)
2016 Operating Earnings (\$M and % of sales)	<u>\$ 78</u>	<u>23 %</u>	<u>\$ 139</u>	<u>21 %</u>



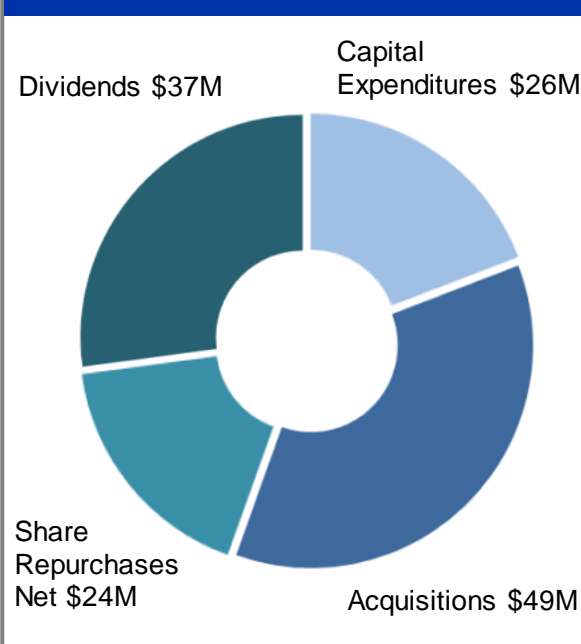
# Cash Flow and Liquidity



## Net Earnings and Cash from Operations



## 2016 Uses of Cash



- Net cash provided by operating activities was \$88 million in 2016 vs. \$97 million in 2015
  - Cash provided by operating activities in 2015 includes a net cash inflow of \$23 million related to the sale of Liquid Finishing business assets in the second quarter:
    - Net earnings adjusted for pretax gain, gross proceeds reflected as investing activity
    - Tax liability related to the gain reflected in change in other accrued liabilities
    - Cash payments for transaction costs and other cash payments related to the sale reflected in other changes
- Repurchased 725,000 shares and issued 875,000 shares, resulting in a net cash outlay of \$24 million
  - Common stock outstanding at the end of the period: 55.7 million shares
- Debt, including notes payable, \$443 million; up \$34 million from year-end
  - Interest expense comparable to 2015

## Other Discussion Items












- Capital expenditures expected to be approximately \$40 million in 2016
  - Building expansion for the Contractor business is not expected until 2017, at the earliest
- Unallocated corporate expenses may vary by quarter; full year 2016 expenses are expected to be approximately \$3 million higher than 2015
- Opportunistic share repurchases may continue via open market transactions and/or short-dated accelerated share repurchase programs
- Changes in currency translation rates decreased year-to-date sales and net earnings by \$7 million and \$2 million respectively. At current rates, we expect currency to have an insignificant effect on the second half of the year
- The tax rate for third quarter and the full year is expected to be approximately 31%

# Current Environment and Outlook



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

	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Growth Q2 2016 4% YTD 2016 (1%)	Sales Growth Q2 2016 3% YTD 2016 6%	Sales Growth Q2 2016 (1%) YTD 2016 2%	Sales Growth Q2 2016 3% YTD 2016 1%
Industrial Segment	 Sales Growth Q2 2016 (3%) YTD 2016 (4%)	 Sales Growth Q2 2016 9% YTD 2016 10%	 Sales Growth Q2 2016 6% YTD 2016 8%	Sales Growth Q2 2016 3% YTD 2016 3%
Contractor Segment	 Sales Growth Q2 2016 19% YTD 2016 7%	 Sales Growth Q2 2016 8% YTD 2016 16%	 Sales Growth Q2 2016 (5%) YTD 2016 1%	Sales Growth Q2 2016 15% YTD 2016 8%
Process Segment	 Sales Growth Q2 2016 (11%) YTD 2016 (11%)	 Sales Growth Q2 2016 (19%) YTD 2016 (16%)	 Sales Growth Q2 2016 (23%) YTD 2016 (16%)	Sales Growth Q2 2016 (15%) YTD 2016 (13%)
Full Year 2016 Outlook	<b>Low Single Digits</b>	<b>Low-to-Mid Single Digits</b>	<b>Low Single Digits</b>	<b>Low Single Digits</b>

The full-year outlook for Graco worldwide was reduced from low-to-mid single digit growth to low single digit growth

- Reduced the Americas region outlook to low single digit growth
- Raised the full year outlook for the EMEA region to low-to-mid single digit growth
- Maintained the Asia Pacific region outlook at low single digits

Headwinds in the Process segment are expected to persist into the second half, keeping us from achieving our goal of growth in every reportable segment for the full year 2016

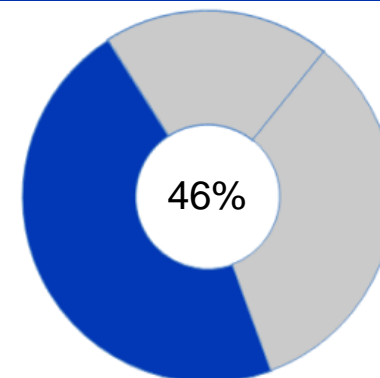
# Industrial Segment Results



## Sales

\$ in millions	Second Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 69	\$ 72	(3)%	\$ 134	\$ 139	(4)%
EMEA	46	41	10	90	83	9
Asia Pacific	42	41	4	80	75	6
<b>Total</b>	<b>\$ 157</b>	<b>\$ 154</b>	<b>2 %</b>	<b>\$ 304</b>	<b>\$ 297</b>	<b>2 %</b>
Operating Earnings	\$ 51	\$ 51	1 %	\$ 97	\$ 94	3 %
% of sales	33 %	33 %		32 %	32 %	

## 2016 Industrial Segment Sales as % of Graco



## 2016 Components of Net Sales Change

## Current Environment



### Second Quarter Year-to-Date

Americas	Second Quarter	Year-to-Date
Volume & Price	(3)%	(4)%
Acquisitions	—	1 %
Currency	—	(1)%
<b>Total</b>	<b>(3)%</b>	<b>(4)%</b>



- Stable: Residential & Non-Residential Construction, General Industry
- Challenging: South & Central America, Heavy Machinery, Aerospace, Agriculture, Truck and Trailer

EMEA	Second Quarter	Year-to-Date
Volume & Price	9 %	10 %
Acquisitions	—	—
Currency	1 %	(1)%
<b>Total</b>	<b>10 %</b>	<b>9 %</b>



- Stable: Western Europe
- Challenging: Currency and Geopolitical
- Easing: Russia comps in 2016

Asia Pacific	Second Quarter	Year-to-Date
Volume & Price	6 %	8 %
Acquisitions	—	1 %
Currency	(2)%	(3)%
<b>Total</b>	<b>4 %</b>	<b>6 %</b>



- Stable: General Industrial, Adhesive Dispense
- Challenging: Marine, Mining, Agriculture, Construction
- Spotty: Project Activity

Segment Total	Second Quarter	Year-to-Date
Volume & Price	3 %	3 %
Acquisitions	—	1 %
Currency	(1)%	(2)%
<b>Total</b>	<b>2 %</b>	<b>2 %</b>

# Industrial Segment Results



## Change in % of sales

2015 Operating Earnings (% of sales)

Translation effect

Expense leverage

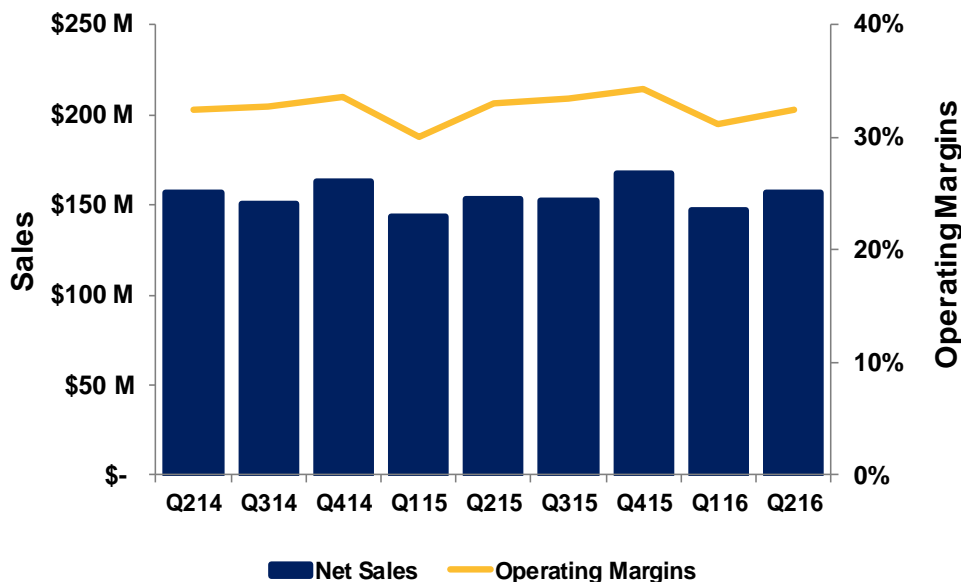
2016 Operating Earnings (% of sales)

Second Quarter

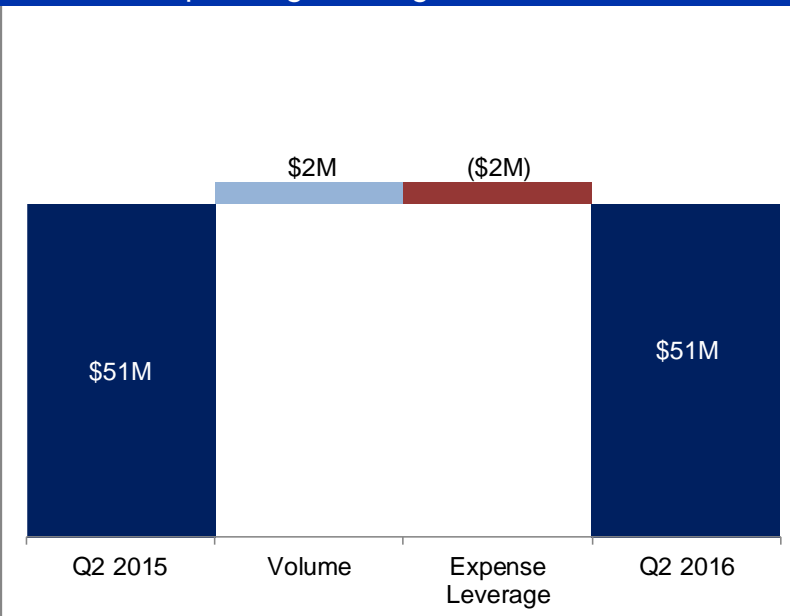
Full Year

33 %	32 %
—	—
—	—
<u>33 %</u>	<u>32 %</u>

## Industrial Segment Sales and Operating Margins



## Industrial Operating Earnings QTD



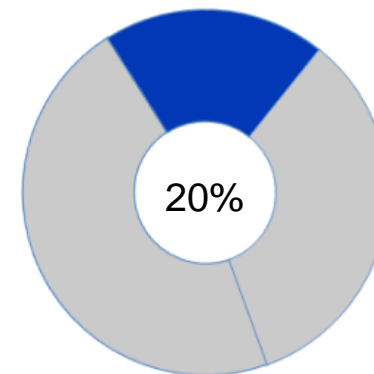
# Process Segment Results



## Sales

\$ in millions	Second Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 41	\$ 44	(7)%	\$ 81	\$ 87	(7)%
EMEA	14	15	(10)	28	29	(5)
Asia Pacific	10	13	(21)	20	24	(14)
<b>Total</b>	<b>\$ 65</b>	<b>\$ 72</b>	<b>(10)%</b>	<b>\$ 129</b>	<b>\$ 140</b>	<b>(8)%</b>
Operating Earnings	\$ 8	\$ 14	(45)%	\$ 15	\$ 24	(39)%
% of sales	12 %	19 %		12 %	18 %	

## 2016 Process Segment Sales as % of Graco



## 2016 Components of Net Sales Change

## Current Environment

### Second Quarter Year-to-Date

Americas	Second Quarter	Year-to-Date
Volume & Price	(11)%	(11)%
Acquisitions	4 %	5 %
Currency	—	(1)%
<b>Total</b>	<b>(7)%</b>	<b>(7)%</b>

EMEA	Second Quarter	Year-to-Date
Volume & Price	(19)%	(16)%
Acquisitions	11 %	13 %
Currency	(2)%	(2)%
<b>Total</b>	<b>(10)%</b>	<b>(5)%</b>

Asia Pacific	Second Quarter	Year-to-Date
Volume & Price	(23)%	(16)%
Acquisitions	4 %	5 %
Currency	(2)%	(3)%
<b>Total</b>	<b>(21)%</b>	<b>(14)%</b>

Segment Total	Second Quarter	Year-to-Date
Volume & Price	(15)%	(13)%
Acquisitions	6 %	7 %
Currency	(1)%	(2)%
<b>Total</b>	<b>(10)%</b>	<b>(8)%</b>



- Favorable: Technology and Environmental Applications
- Challenging: Oil & Natural Gas, Industrial Lubrication
- Spotty: Project Activity



- Stable: Western Europe
- Challenging: Currency, Geopolitical and Oil & Natural Gas



- Stable: Process applications
- Challenging: Mining and Oil & Natural Gas



# Process Segment Results



## Change in % of sales

## Second Quarter

## Full Year

2015 Operating Earnings (% of sales)

Translation effect

Price, cost, mix

Effect of acquisition operations, inventory step-up and acquisition costs, net

Facility relocation and integration costs for acquired businesses

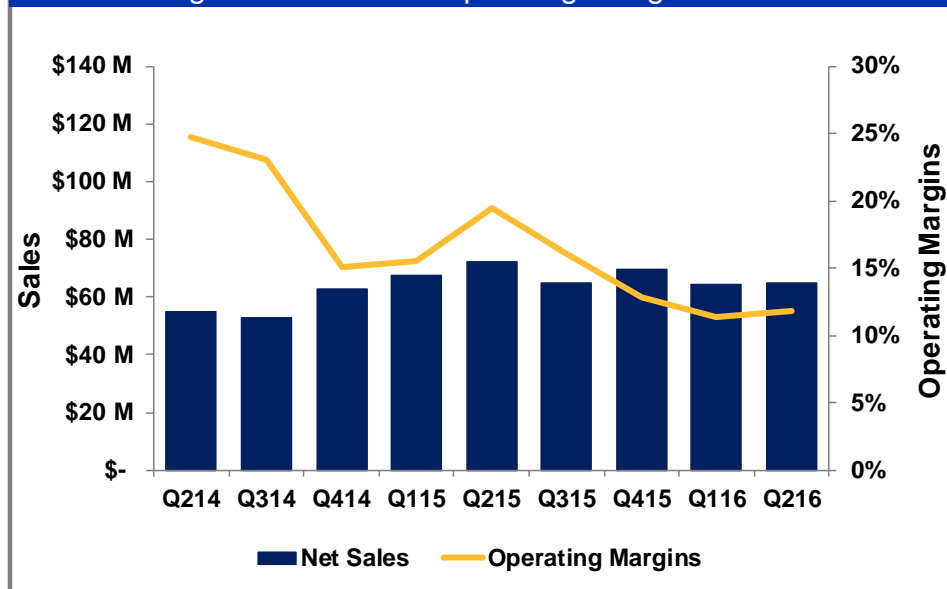
Incremental investment in growth initiatives

Expense leverage

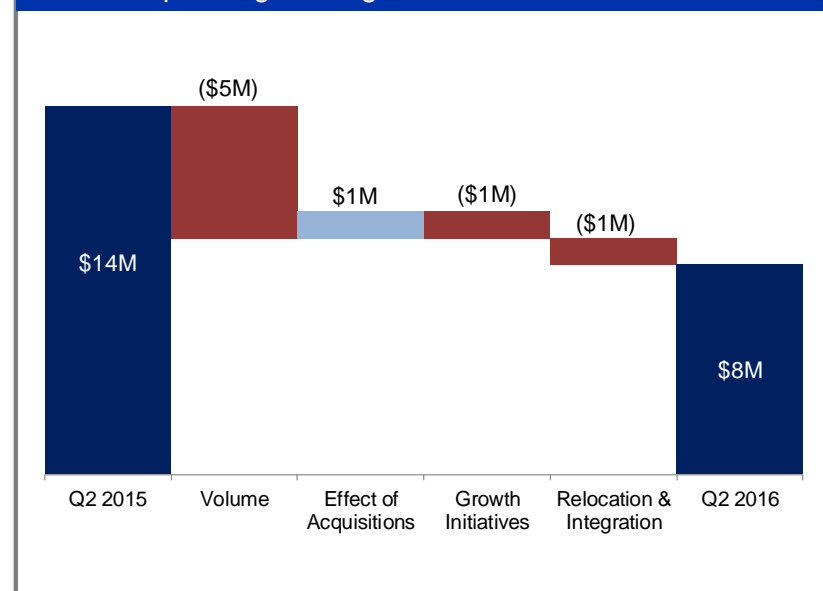
2016 Operating Earnings (% of sales)

19 %	18 %
—	—
1	—
—	1
(1)	(1)
(1)	(1)
(6)	(5)
<u>12 %</u>	<u>12 %</u>

## Process Segment Sales and Operating Margins



## Process Operating Earnings QTD





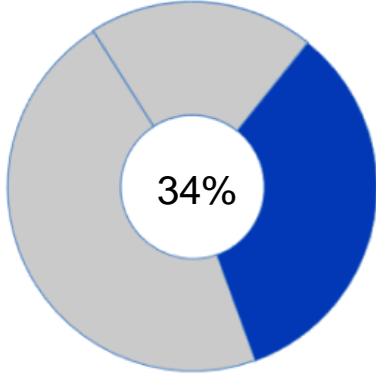
# Contractor Segment Results



## Sales

\$ in millions	Second Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 97	\$ 81	19 %	\$ 165	\$ 156	6 %
EMEA	21	19	9	39	33	16
Asia Pacific	8	10	(9)	16	17	(4)
<b>Total</b>	<b>\$ 126</b>	<b>\$ 110</b>	<b>15 %</b>	<b>\$ 220</b>	<b>\$ 206</b>	<b>7 %</b>
Operating Earnings	\$ 29	\$ 27	9 %	\$ 46	\$ 46	(1)%
% of sales	23 %	25 %		21 %	23 %	

## 2016 Contractor Segment Sales as % of Graco



## 2016 Components of Net Sales Change

## Current Environment



### Second Quarter Year-to-Date

	Second Quarter	Year-to-Date
<b>Americas</b>		
Volume & Price	19 %	7 %
Acquisitions	—	—
Currency	—	(1)%
<b>Total</b>	<b>19 %</b>	<b>6 %</b>
<b>EMEA</b>		
Volume & Price	8 %	16 %
Acquisitions	—	—
Currency	1 %	—
<b>Total</b>	<b>9 %</b>	<b>16 %</b>
<b>Asia Pacific</b>		
Volume & Price	(5)%	1 %
Acquisitions	—	—
Currency	(4)%	(5)%
<b>Total</b>	<b>(9)%</b>	<b>(4)%</b>
<b>Segment Total</b>		
Volume & Price	15 %	8 %
Acquisitions	—	—
Currency	—	(1)%
<b>Total</b>	<b>15 %</b>	<b>7 %</b>



- Long Runway: Residential & Commercial Construction
- Focus Sectors: Pro Paint, General Construction and DIY



- Favorable: Western Europe
- Challenging: Currency and Geopolitical



- Stable: Australia, Southeast Asia and India
- Challenging: Gen Construction, Equipment Adoption Rates

# Contractor Segment Results



## Change in % of sales

## Second Quarter

## Year-to-Date

2015 Operating Earnings (% of sales)

25 %

23 %

Translation effect

—

—

Mix, price, cost

(1)

(1)

New Product Launch

(1)

—

Expense leverage

—

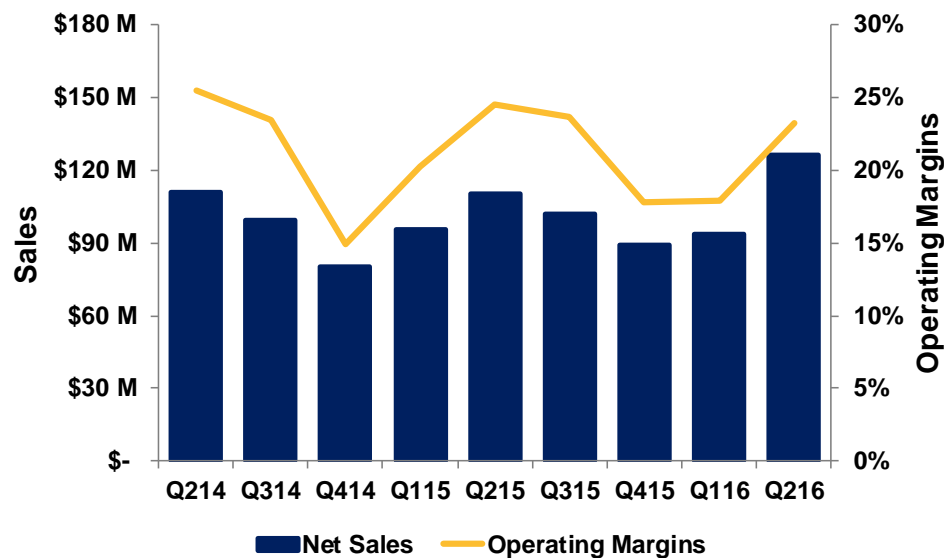
(1)

2016 Operating Earnings (% of sales)

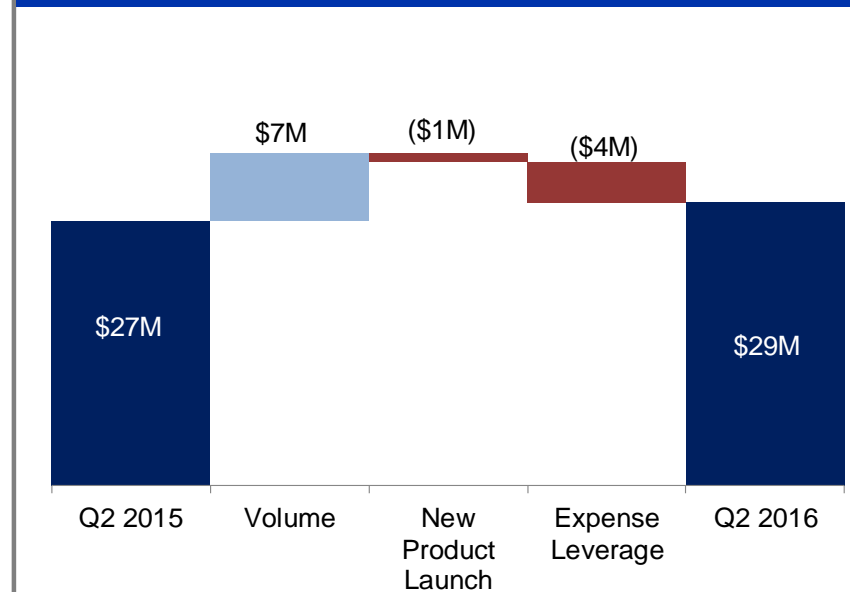
23 %

21 %

## Contractor Segment Sales and Operating Margins



## Contractor Operating Earnings QTD





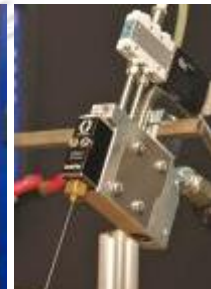
move



measure



mix



control



dispense



spray

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