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GGG.N - Q1 2021 Graco Inc Earnings Call

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OVERVIEW:

Co. reported 1Q21 sales of \$454m and reported net earnings of \$105.7m, or \$0.61 per diluted share.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good morning, and Welcome to the First Quarter Conference Call for Graco Inc. If you wish to access the replay for this call, you may do so by dialing (855) 859-2056 within the United States or Canada.

The dial-in number for international callers is (404) 537-3406. The conference ID number is 6165727. The replay will be available through 2:00 p.m. Eastern Time, Thursday, April 29. 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 purpose of the safe harbor provisions of the Private Securities Litigation Reform Act. Actual results may differ materially from those indicated as a result of various risk factors including those identified in Item 1A of the company's 2020 annual report on Form 10-K and an Item 1A of the company's most recent quarterly report on Form 10-Q.

These reports are 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 as of 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 call over to Kathryn Schoenrock, Executive Vice President, Corporate Controller.

Kathryn L. Schoenrock - Graco Inc. - Executive VP, Corporate Controller & Principal Accounting Officer

Thank you, Josh. Good morning, everyone. I'm here this morning with Pat McHale and Mark Sheahan. Our conference call slides have been posted on our website and provide additional information that you may find helpful.

Sales were \$454 million in the quarter, an increase of 22% from the first quarter of last year, and an increase of 18% at consistent translation rates. The effect of currency translation added 4 percentage points of growth or approximately \$11 million in the first quarter.

Reported net earnings totaled \$105.7 million for the quarter or \$0.61 per diluted share. After adjusting for the impact of excess tax benefits from stock option exercises, net earnings totaled \$101.6 million or \$0.58 per diluted share.

Gross margin rates were strong in the quarter, up 120 basis points from the first quarter of last year as the favorable effects from currency translation, realized pricing and factory volumes were partially offset by the unfavorable impact of material costs and mix related to the significant growth in the lower margin contractor segment.

We saw material costs increase throughout the quarter, which negatively impacted our gross margin rate. At current factory volumes, we expect that pricing and strong factory operating performance will continue to offset higher material costs for the remainder of the year.

We also experienced supply chain disruptions in the quarter with regards to logistics capacity and component availability, across most of our factories. The purchasing and manufacturing teams are working to address these disruptions, and we are not currently losing orders or have had any of our manufacturing lines shutdown.

We expect these challenges to continue in the second quarter. Operating expenses increased \$10 million in the quarter, including \$2 million related to currency translation, \$5 million of increases in sales and earnings based expenses and \$2.5 million in new product development as we continue to invest in our growth initiatives.

Other nonoperating expenses decreased \$5 million due to an improvement in the market valuation of investments held to fund certain retirement benefit liabilities.

The effective tax rate was 16% for the quarter, which is 5 percentage points higher than the first quarter of last year due to a decrease in excess tax benefits related to stock option exercises. Cash flows from operations totaled \$102 million compared to \$54 million in the first quarter of last year.

The majority of this increase is due to an increase in earnings in the quarter.

Capital expenditures were \$21 million, and dividends paid were \$31.6 million. A few comments as we look forward to the rest of the year. Based on current exchange rates, the effect of currency translation will continue to be a tailwind for us, with the full year effect estimated to be 2% on sales and 5% on earnings, with the most significant impact occurring in the first half of the year. We expect unallocated corporate expense to be approximately \$30 million and can vary by quarter.

Our 2021 full year tax rate is expected to be approximately 18% to 19% excluding any effect from excess tax benefits related to stock option exercises.

Capital expenditures are estimated to be \$140 million, including \$90 million for facility expansion projects. Finally, 2021 will be a 53-week year with the extra week occurring in the fourth quarter.

I'll turn the call over to Pat now for further segment and regional discussion.

Patrick J. McHale - Graco Inc. - President, CEO & Director

Thank you, Kathy, and good morning, everyone. All of my comments this morning will be on an organic constant currency basis.

Q1 was a solid quarter as we delivered growth in every segment and every region with the exception of process in EMEA, which was down low single digits. In addition to good performance by our commercial teams, I want to specifically recognize our manufacturing, purchasing, warehousing and logistics folks who are successfully dealing with both external supply chain issues and rising material prices.

Contractor continued its strong performance with record Q1 sales and earnings as revenue growth in all regions exceeded 30% for the quarter. Residential construction activity remains solid, and the home improvement market is robust.

Contractor in North America continues to see strong out the door sales in both pro paint and home center, and we're working hard to keep up with the demand. Favorable volume and continued discretionary expense management drove solid operating earnings during the quarter.

The outlook for the contractor business remains positive for the year. However, comparisons do get much tougher in the second half. The industrial segment grew low teens during the quarter, with improvement in all regions. Order rates were strong throughout the quarter, with growth in all major product categories.

Overall demand in this segment remains broad-based with many of our key end markets improving as customer facilities begin to reopen to outside vendors. Process segment sales grew in Q1 with improving end market conditions, particularly in the Americas and Asia Pacific.

All major product categories were up with the exception of oil and gas and incoming order rates accelerated throughout the quarter. Similar to industrial end market growth was broad-based and benefited from improved factory access.

A couple of comments on our outlook as we head into the second quarter. Incoming orders remain solid, and last year's second quarter was our trough, so we expect a good Q2. Second half comparisons will get significantly more difficult as our business accelerated in Q3 and Q4.

Although the second half economic environment is uncertain, we will continue to aggressively pursue our key long-term growth strategies and investments.

In closing, I want to thank all of our employees, suppliers and distributor partners who continue to work hard to meet customer demands.

Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The question-and-answer session will begin at this time. (Operator Instructions)

Our first question comes from Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie - Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst

Good morning, everybody. Pat, great quarter. I was just curious, one of the things that we've been talking to investors a lot about has been just supply chain and inflation. It didn't seem to really impact your quarter based on the drop-through we saw in margins. Just -- maybe just talk about what you're seeing across your different businesses along both those -- the supply chain side and also on the inflation side?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes. Obviously, margins would have been better without it. I think we did a good job with pricing and factory performance to offset the impacts of that.

So you're not really seeing it, but obviously, it's still there. On the supply chain side, you have to have if you got 300 parts in a piece of equipment, you got to have all 300 there, you can't be missing one. And so the team here has been scrambling hard to find substitutions or to expedite or to switch over to models, while they're waiting for parts to come in.

They've done that successfully throughout the quarter. And at this point, I'm not anticipating a big problem as we go forward, but I am anticipating that it's going to be a big effort to try to keep things going. So it's been okay. We're surviving, but it's certainly been challenging.

Joseph Alfred Ritchie - Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst

Okay. Fair enough. And then I guess, if you take a look at the acceleration and the improvement that you're seeing throughout the industrial business, is there any other color you can kind of provide on end markets where you're seeing particular strength versus others or you really haven't seen much of a pickup yet? Just any color around that would be helpful.

Patrick J. McHale - Graco Inc. - President, CEO & Director

No. I think probably the only market that we really are calling out is still being softer as oil and gas. I think generally, the improvement has been pretty broad-based. And I feel optimistic based upon what I'm seeing and hearing that, that's going to continue.

Joseph Alfred Ritchie - Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst

Okay. Great. Maybe one last one. A lot less that we're hearing across the space. I mean, this has been a big year for both M&A and also for divestitures across the space.

I'm just curious if you're kind of thinking about your own portfolio are there -- like what are you seeing from an M&A perspective on maybe building out adjacencies across your different businesses?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Well, I'll just say that it's expensive, and I'll let Mark weigh in with any thoughts that he has.

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. I think that we're still committed to returning capital to our shareholders and doing the best job there that we can. But obviously, M&A should play a big part of that going forward.

Pricing is high, I think that we're going to continue to shake the bushes and see what's out there.

I think Graco does bring a lot to the party when it comes to potential companies that would be interesting in partnering with us. We got world class manufacturing. We've got a great brand. We have channel. We got sales. We have representation around the world.

So it's a matter of being able to leverage those things in the deals that we see are good and strategic, and we'll do our best to try to bring some things home here.

Operator

Our next question comes from Matt Summerville with D.A. Davidson.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

Just a quick one on auto. Have the sporadic shutdowns in that industry hurt your business at all or maybe even helped it in the sense that maybe folks are looking to catch up on capital projects that have gotten deferred.

So could you maybe speak a little -- in a little more detail around auto specifically?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. I think we're better when the plants are running. About 40% of that business is parts and accessories and that's based upon volume. And I think sporadic shutdowns aren't as good as planned shutdowns.

So I'm sure that there's we're getting a little bit of a ding there. But again, overall, the kind of that whole industrial implant market is improving and I think automotive will come along with that.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

And then just as a follow-up, in terms of price realization, given the input cost environment and the increases we've seen in things like steel and aluminum, did you guys end up taking more price in '21 than what Graco would normally realize? And how favorable do you expect that price/cost spread to be as you move throughout the year?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. No, we didn't jack prices up anywhere kind of beyond the normal range. And we typically don't tie our pricing directly to what's happening in the material market. It's one of the many factors that we consider when we take a look at pricing on an annual basis.

So I think you could expect that, that price realization would be similar to past years, and I'll let Mark weigh in as well.

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

Yes. No, I think it's in that 1.5% to 2% range. That's what we do expect, Matt.

Operator

Our next question comes from Jeff Hammond with KeyBanc.

Jeffrey David Hammond - KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst

Best of luck to you, Pat, here as you move on. Just on as your folks are getting into plants, can you give us a sense of what they're seeing in terms of kind of pent-up demand and stuff that hasn't been done? And how that kind of frames your view going forward?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes. That's a little hard to get our hands around. I'd say it's more anecdotal than anything else. But really throughout the pandemic, what we were hearing from our people was that projects weren't really being canceled, they were being pushed.

And so we didn't have a lot of things kind of dropping off our pipeline. We had things just moving out and action wasn't happening. And so we're starting to see some of that break loose.

So I think we're going to have to get into the back half of the year to kind of try to sort out what projects have been pushed and that are now coming on to the radar screen and actually turn it into orders and what the actual tempo is on new projects as we go forward. So I'd say the jury is out there.

Jeffrey David Hammond - KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst

Okay. And then just on contractor, I think you said strength in both Pro and DIY. But any kind of signs of moderating demand here as you go forward?

I know some of the thesis is we kind of reopen and people get back to normal and start to do other things besides working on their home, but any signs of that yet?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes, bookings are good, and I think that we'll learn a lot more in the second half.

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. And the housing starts are really strong, as you probably have seen, and I think they're up 37%. They're running about \$1.7 million right now as are the permits, which is really good for that market. Interest rates are still pretty favorable. People are making investments in their home. Prices of homes are going way up.

So I think there's a built-in confidence level with the consumers on putting money into their homes versus maybe some of the other things that they're doing.

And there's a huge I guess, dearth of homes out there, there's about 4 million homes, I think, that was projected as being under what we would expect for this type of activity. So I think that the thing still has some legs and should run for a while.

Jeffrey David Hammond - KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst

Okay. And then just last one. I know there's been a lot of talk about like foam shortages and the Texas freeze. Does that impact any of your spray foam business in the short term? Or what are you seeing there?

Patrick J. McHale - Graco Inc. - President, CEO & Director

So for sure, we have contractors and blenders that have been scrambling to get raw material. I have heard about that on a number of occasions.

I think in general, at this point, it's not a big deal in terms of our direct sales.

Operator

Our next question comes from Saree Boroditsky with Jefferies.

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

Congratulations on your upcoming retirement. I think I read that you have a bucket list of adventure. So I hope you have a really great time on that, and we appreciate working with you the past few years.

Patrick J. McHale - Graco Inc. - President, CEO & Director

All right. Well, I appreciate everybody's support, and I plan to have a good time, and I'm going to be listening to Mark every quarter and making sure that he's still kicking butt.

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

I'm sure he will. I guess, building on the M&A question, I know we've talked about capital deployment in the past, both cash effectively earning negative rates.

Does this change how you're thinking about your balance sheet? And would you think about increasing leverage for share buybacks or M&A?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes, I think I'll let Mark weigh in here. Go ahead, Mark.

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. So I think that for sure, we built some cash on the balance sheet. We don't really feel like it's at a point yet where we have to take action we're a \$12 billion market cap company. We got \$400 million of cash on the balance sheet.

So it's not at a critical stage. We'd like to deploy it. I think we can hopefully deploy some of it through M&A. Obviously, we'll do some through share repurchases as well. But our overall objective is to try to get double-digit rates of return on our investment dollars.

That's what we do every time we put a new machine tool into the factory, and that's what we do when we take a look at the product development investments that we're making.

So given the current valuation levels that we see, both in terms of the equity markets as well as the M&A market that makes it a little more challenging for us.

But you can probably rest assured that over time, we aren't just going to pile up a big mountain of cash where our job is to deploy it, do it smartly. And that's what we've done historically. That's what I think we'll continue to do in the future.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Great. And then just on industrials, growth picked up in Americas underperformed EMEA and APAC. Is there a difference in end market exposures there that's driving this?

And maybe just a little bit of commentary on the benefit you're seeing as customer factories open up.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So I think that the time frame that we're talking about and the nature of that business is that it's too soon to tell. Those businesses can move around based upon projects I think our view is that the recovery on the industrial side is broad-based and that we should benefit from that in all the regions.

But I think trying to decide region to region over a 13-week period that there's some trend that's worth noting is not a good move for us.

Operator

Our next question comes from Deane Dray with RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

Thank you. Good morning, everyone. You're getting away from giving that 6-week update or the most recent 6 weeks, just given the comp issue. But can you talk about what the cadence has been in April? Any color by region? Also like the size of orders, things like that, just to kind of parse out what demand looks like.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. We're not going to get too granular here, but we try to give you a view of that, really letting you know that bookings the last few weeks have been running consistent with what we saw happening in March. So I think the overall tempo is good.

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

Yes. And we haven't really seen any big deviations, Deane, in terms of businesses and in terms of regions, I think it's been fairly broad based, kind of like what you saw in Q1.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

Good. And then just in terms of pricing power. And one of the things -- the lessons I learned from Graco back when 2018 when our biggest worry was about tariffs, if you remember that.

The -- that you all have your own cadence on price increases, it seemed like everyone in multi-industry was putting through that particular quarter, and you guys said, no, that's not the way we do it at Graco, and so I appreciate that.

So when you talk about 1.5% to 2% price increases, is -- how much of that has already been put through? And what might the cadence of price increases during the balance of the year be?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. But just to be clear, that 1.5% to 2% is realized. So you may see price increases on a list to list basis, higher in different product categories out in the marketplace or you may hear from our channel partners that the numbers are higher, but we run promotions and we do discounts, and there's lots of other factors that involve it what the net realized pricing is going to be, and it's probably going to be consistent in that 1.5% to 2% range.

We typically run that through in the first quarter. Sometimes there's a December impact, sometimes there's a January impact kind of dependent upon what the channel might be doing to try to get ahead of the price increase. But this year, the timing was very consistent with what you've seen in the past couple of years at and had we realized it all?

No, we probably haven't realized at all yet. We typically don't in the first quarter, orders that are in house, for example, on a project we're not going to go and we're not going to typically change pricing on those new orders coming in, we'll have new pricing, and there are various factors that will push our realized pricing out into the second and third quarters, but we saw some of it in Q1.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

Great. Just last question for me is on -- what's the expectation on new product introductions for the year? What's the pipeline look like? And what kind of contribution might you'd expect?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

I think it looks pretty typical. Our investment in new product development has been stable to slightly increasing. And so we're happy across the businesses with the projects that we've got in the pipeline and how they're going to contribute this year.

I don't think it would be anything that's going to be dramatically better or worse than prior years.

Operator

Our next question comes from Mike Halloran with Robert W. Baird.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

Best of luck Pat, I've enjoyed working with you over the last decade or whatever it's been, and wish you all the best.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Thanks, Mike. Yes, I think once in a decade, you put a buy on me, so I appreciate that that's been in more recent years. Otherwise, I'd be thinking poorly of you into retirement.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

I wanted to make sure I sent you out on a high note, man. I'd like to be delusion enough to pretend that this is one of those bucket list items that sends you into retirement, but I don't think that's the case. But I do know you're going to be -- yes, right. I do know you're going to be...Yes, right? I do know you're going to be...

Patrick J. McHale - Graco Inc. - President, CEO & Director

I could remind you what our compound annual growth rate has been for the last 45 years, but I won't.

Michael Patrick Halloran - Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst

I can find that out. It's pretty straightforward. But since I know you're going to be listening, I hope you make sure you pass on the tradition to Mark of these very tidy but informative conference calls. It's very appreciated.

Patrick J. McHale - Graco Inc. - President, CEO & Director

I have no doubt that he will keep the tradition alive and well.

Michael Patrick Halloran - Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst

All right. Good stuff. So a couple here. First, when you think about the underlying business, is there anything in there that concerns you in terms of a little excess -- I don't mean in terms of growth rate, I mean, in terms of absolute levels, right?

I mean, you're going to face the tough comps in the back half of the year in the contractor piece but when you look at the 3 segments, is there anything that you think is unsustainable from an absolute demand perspective?

Patrick J. McHale - Graco Inc. - President, CEO & Director

So I think Mark did a really nice job laying out the end market environment on the pro paint side. I think the industrial businesses again, given the kind of the broad-based recovery that we're seeing are not at least today, a cause of concern for me.

I still have questions on how the work-from-home impacted the home center side of the contractor business, and which really exploded in the second half of last year.

And so I think right now, sitting here today, my biggest question, Mark, regarding an end market is, is that a dislocation? Is that a pull ahead? Is that the pie got bigger because more people are doing projects?

And I think there's no way to know that until we get into the second half, but really all the rest of the Graco business segments. I think sitting here today, we're feeling pretty good about it.

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. I'd agree with that. And the only other thing I might add to the whole housing question in terms of rent flags or things we're keeping an eye on would be that building costs seem like they're going up and that could slow things down a little bit as well as interest rates may be coming up at some point as well. But for now, it looks pretty good.

Michael Patrick Halloran - Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst

Makes sense. The contractor Asia, I know that's always been an area where you've highlighted, you had a little more work to do than maybe some of the other geographic or product segments. But certainly seems like performance has been pretty strong. I mean, how would you characterize it? You feel like you've got that kind of humming to where you want it to be or more change necessary?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

No. I think we're happy with the work that the group over there is doing today, but that business is way smaller than it should be. And I think that all of us here have a view that, that business has got the opportunity to be a lot bigger than it is.

We saw a great run for many, many years, which even continues to this day in terms of the actual size of our contractor business in EMEA. And that's starting to become a real sizable business now.

And we really expect that, at some point in time, that's going to happen to our business in Asia Pacific as well. So while we like to see the growth rates, and we're feeling good about what the team is working on. That's a small business and it needs to be bigger.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

Yes. Last one, then obviously, CapEx a little extended this year versus normal just because of all the facility expansions. Maybe just some thoughts on how you think about your capacity across the divisions as it sits here today, constraints and when you see those kind of using where they exist?

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

Yes. I think we're in decent shape. Obviously, we're building a new factory here in Minnesota, which will really help out our process and a part of our industrial business.

So that will help from a brick-and-mortar capacity standpoint. I think it put us in pretty good shape here for a while.

I can't predict the future, but I would say, maybe 5 years or so, at least before we'd have to think about doing something else. On the equipment side, you probably noticed that our overall spend ticked up on the non brick-and-mortar stuff here in Q1, and that's really just the result of, I think, the business picking up. You can obviously justify more capital, new cash volume and then also the fact that the divisions at this point are just seeing good opportunities to bring capital in. We're seeing everything from some more vertical integration to just volume-based to just retiring old tired equipment that is ready to go out the door.

So overall, I feel like we're in great shape. Obviously, we've got capital to deploy. That's a really good factor for our employees, our engineers, our manufacturing people, they know that they've got things that need to be fixed or upgraded that we're going to fund it. So I feel good about where we're at.

Operator

Our next question comes from Andrew Buscaglia with Berenberg.

Andrew Edouard Buscaglia - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Sorry about that earlier. So I wanted to just dig in a little bit in a couple of areas that I thought was interesting process. I thought that would continue to be weak, and that's kind of picked up pretty nicely.

And then same with industrial, a nice -- it's better than what I was expecting. I'm wondering how much maybe oil has influenced this?

Just -- I know maybe not directly, but are any of your conversations with distributors suggesting that maybe there's some increasing confidence spending with oil really improving a lot in the last 3 to 6 months?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes. I would say that we're seeing positives on the pricing. So the price of oil, which is should trickle through. But from a Graco standpoint, I would say that our numbers in Q1 were not helped by what's going on in oil. We didn't see it.

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. No, we saw the pretty broad-based improvements in our liquid finishing business, our powder coating business, our semiconductor business, our lubrication business, our environmental business. So those are the things that really drove the growth.

Andrew Edouard Buscaglia - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Okay. So pretty much broad-based, not any one area you could really point to?

Patrick J. McHale - Graco Inc. - President, CEO & Director

And not driven by the price of oil.

Andrew Edouard Buscaglia - Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

Yes. Okay. And then just lastly on M&A. I know you've talked about I know valuations are high. But what other areas are proactively looking to add some bolt-ons where if you get the right valuation, you'll move? Or is it more like whatever comes up opportunistically, you'll take a look at it. I guess, how are you thinking about going about it?

Patrick J. McHale - Graco Inc. - President, CEO & Director

No. We've got an actual process here in place that we use to be proactive in terms of targeting the markets and product lines and the other things that we're interested in doing. And so that's active.

We'll also look at things on an opportunistic basis if they are not in maybe right in our targeted area, but we think that they're close enough.

So we've got a process going on. I think what you should expect over time, given the nature of the markets is, is that our deals that we do will more likely to be in the industrial and process segments and less likely to be in the contractor segment. And I'm going to let Mark weigh in here too, if he'd like.

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes, I think we definitely continue to look for good opportunities in our existing businesses. I think that the business units that currently we operate, they all have teams that are talking with companies, and I feel pretty good about the pipeline there.

And going forward, I think that we'll also consider adjacencies, but those have got to be tied in with our competencies somewhere where Graco adds value to the equation.

And as I said before, I think we bring a lot to the table. So hopefully, we're successful there as well.

Operator

Our next question comes from Bryan Blair with Oppenheimer.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

And congrats, Pat and Mark on the pending transition. Most of my questions have been answered, but I can follow-up a couple of quick clarifications.

In terms of improving facility access and the impact to industrial and process operations, is there a meaningful difference by geography?

I'm specifically thinking of some of the restrictions still in place in Europe and how that may still be restricting growth there?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. China has been pretty good for a while other than sporadic, very localized kind of restrictions.

And my view is that we're well ahead of Europe in terms of our vaccine rollout here and kind of the direction of the restrictions that we've got in place. So based upon what I see, I think Europe is likely to be last.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Makes sense. And you mentioned the strong growth in contractor EMEA, multiyear trajectory that you've had there and the opportunity in Asia Pacific on an industry level, do you have numbers on sprayer penetration in EMEA versus what I assume is a much lower number in APAC?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes, I don't have exact numbers, and it does vary dramatically by country. Australia doesn't look anything at all like India, of course. But one of the things you can take a look at is you can look at gallons of paint that data is out there and is available.

And if you look at the amount of equipment that's sold per gallon of paint in the U.S. or places like Australia, it's very high. And Europe, I would say, and particularly in the West, it's medium. And then when you look into the emerging markets is low.

And what we really need to continue to see is we need to continue to see increases in wage rates in those geographies.

People are making choices between labor and capital. And as the labor cost goes up, you see it in plant in Asia now, and a lot of that is driven by quality, but also aided by higher labor rates as you're seeing automation.

And so to the extent that labor rates get high enough that we start to see more demand for automation and equipment in the markets that are really underpenetrated right now, we think that, that should help us. And eventually, it's going to happen. It's just a question of when.

Operator

Our next question comes from Walter Liptak with Seaport.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

I want to say good luck to you in your retirement, too. We've enjoyed doing these conference calls with you and watching you do your work.

But I wanted to ask on industrial, and you touched a little bit on the channel. And I wondered, are you starting to see an inventory refresh? Or is there such a thing with Graco products?

Patrick J. McHale - Graco Inc. - President, CEO & Director

I think generally, no, on the industrial side. It's not -- this isn't a stocking, destocking kind of a thing.

Our manufacturing operations and warehousing operations are set up here to ship fast. We ship thousands and thousands of products same day.

Distributors are generally selling off of a pretty thick catalog and to have them stock all the things that they might be selling on a daily basis is not very practical.

So they typically will stock, I'll call it, the bread and butter items, repair parts, standard products that they know they're going to sell. And then everything else, they place an order and we ship it.

So in good times and in bad, there's -- I'm sure that there's some impact of distributors trying to cut their inventory down or boost it back up. But I think that, that's muted.

Walter Scott Liptak - Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst

Okay. All right. Great. And then also, we talked a little bit about vaccines and things getting back to normal. I wonder, are your salespeople back out on the street? Or are they still doing zoom meetings to put together projects for industrial or on the process side?

Patrick J. McHale - Graco Inc. - President, CEO & Director

So really, ever since this started, that at least here in the U.S. that's been driven by the customer. So our salespeople have never went into hiding. Our salespeople have always been out and willing to meet with customers that we're willing to meet.

But frankly, the number of customers willing to meet has varied pretty dramatically over the course of the last year. And when you go back to spring or when there was the big spike in November, December here.

It wasn't going to happen that you weren't going to -- you just weren't going to get into most facilities. But yes, it's never been really a Graco issue, it's really more been based upon whatever customers want to do.

So we're still doing both. And I anticipate that, that's going to continue, although hopefully, as when more people get vaccinated, we'll have less Webex and Zoom and more in person.

Of course, I'm a dinosaur, I like in person. They are probably going to be younger folks out there that are going to think that there are some benefits to Zoom, they can get to more customers in a day, and my guess is it's probably going to be part of our future.

Walter Scott Liptak - Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst

Okay. All right. Great. And I think, Mark, you mentioned the Lube business is picking up. I think those tend to be -- or can be larger CapEx rollouts. What are you seeing from the project funnel or the order funnel from some of your larger customers?

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes, it's definitely better than it was last year. So the pickup is really compared to what we saw, which was a pretty steep decline in 2020. I'd say it's more across the board.

It's not any -- not driven by any significant large projects, it's just a general pickup across multiple product categories.

Operator

Thank you. As there are no further questions, I will now turn the call over to Pat McHale.

Patrick J. McHale - Graco Inc. - President, CEO & Director

All right. Thanks, everybody, for their time this morning. And is my last call, I'm sure Mark will look forward to talking to you at the end of July and probably talking about good numbers. That's what I'm hoping. All right. Thank you, everyone.

Operator

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

This call has ended.

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