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GGG - Q2 2019 Graco Inc Earnings Call

EVENT DATE/TIME: JULY 25, 2019 / 3:00PM GMT

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PRESENTATION

Operator

Good morning and welcome to the second quarter conference call for Graco Inc. If you wish to access the replay for this call, you may do so by dialing 1 (888) 203-1112 within the United States or Canada. The dial-in number for international callers is (719) 457-0820. The conference ID number is 9658513. The replay will be available through Monday, July 29, 2019. Graco has additional information available in a PowerPoint slide presentation, which is available as part of the webcast player. (Operator Instructions)

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 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 2018 annual report on Form 10-K and in 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 conference over to Caroline Chambers, Executive Vice President, Corporate Controller and Information Systems.

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems, Corporate Controller & Principal Accounting Officer*

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 may be helpful. Sales totaled $428 million for the second quarter, an increase of 1% from the second quarter last year. At consistent currency translation rates, sales increased by 3%.

Net earnings totaled $88 million for the quarter or $0.51 per diluted share. After adjusting for the impact of excess tax benefits from stock option exercises, net earnings totaled $86 million or $0.50 per diluted share. Gross margin rates decreased by 1 percentage point compared to the second quarter last year. Approximately, half of the decline is due to unfavorable currency translation.

Realized pricing continued to improve in the second quarter and more than offset the effect of higher material cost and tariffs. The incremental effect of tariffs and higher material cost for 2019 is now expected to be approximately $25 million, up from $21 million, as U.S. tariff rates increased to 25% in June and further retaliatory tariffs were implemented for imports into China. We expect for the full year, our 2019 pricing actions will be enough to fully offset tariff and other material cost increases. Unfavorable factory volumes as well as unfavorable channel and product mix also affected gross margin rate. At current production level, unfavorable factory volumes are expected to continue as a slight headwind for us in the second half.

Operating expenses were $2 million lower in the second quarter as compared to a year ago as reductions in volume and earnings-based expenses offset higher product development costs.

The effective tax rate was 18% for the quarter, an increase of 3 percentage points as compared to the second quarter last year, primarily from a $4 million decrease in excess tax benefits from stock option exercises. Adjusted to exclude the effect of stock option exercises, our tax rate was 20%.

Cash flow from operations totaled $113 million in the second quarter, and capital expenditures were $40 million this quarter, including investments and facility expansion. Looking forward, we continue to expect capital expenditures for machinery and equipment of approximately $40 million and investment in facility expansion of approximately $110 million to $115 million for the full year.

Subsequent to the end of the quarter, we prepaid the current portion of $75 million of our long-term debt. At current rates, currency translation will continue to be unfavorable. And the effect for the full year is estimated to be approximately 1.5% on sales and 3% on earnings assuming the same mix of business as the prior year.

Our 2019 full year tax rate is expected to be 20% to 21%, excluding any effects from excess tax benefits related to stock option exercises or other one-time item.

I'll turn the call over to Pat now for further comments.

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

Thank you, Carol, and good morning, everyone. All of my comments this morning are in organic constant currency basis. Organic growth of 3% was lighter than we expected for the quarter. We saw weakness in a number of applications and geographies with the most significant declines coming from Asia Pacific.

I'll make some comments on the individual segments. The Industrial segment delivered low single-digit growth for the quarter and year-to-date. This was below our expectations coming out of the first quarter and was driven primarily by softer business levels across many of our end markets, particularly those in Asia Pacific. As we move forward in the year, we expect aggregate end-market demand will remain sluggish.

The Process segment finished with low single-digit growth for the quarter and mid-single-digit growth year-to-date. Despite a softer top line quarter, we continue to see positive momentum from our incremental investments in new products and new markets in this segment. The electrification of air-operated pumps and some process applications, the adoption of wireless fluid management in our lubrication business and our expansion into new markets like environmental and semiconductor have all contributed to growth. We expect that to continue as we move through the year. The segment had nice profit growth on the modest top line performance and maintained low 20s operating margins as we continue to harvest many of the improvements that were implemented in 2018.

Contractor segment delivered a mid-single-digit revenue growth for the quarter, driving a nice rebound in segment profitability for the year. Despite weaker revenue growth than we expected in Q2, we remain positive about Contractor heading into Q3. The products have been well received and are contributing nicely to top line sales growth. Out-the-door sales improved in both channels versus the previous quarter.

Moving on to a regional perspective. Weakness in Asia Pacific was broad-based with China Industrial having the most significant negative impact on our results. Many of our key customers have seen a decline in factory volumes and are hesitant to pull the trigger on larger CapEx projects. Our outlook has now been updated to reflect the likelihood that we will finish the year down in Asia Pacific.

EMEA has continued to perform well across most applications with the exception of the Middle East, which is down double digits, and Turkey, in particular, which cannot seem to find a bottom.

A comment on profitability. Thanks to good expense management by all segments, we realized leverage for the quarter and improved sequentially from Q1. As we moved through the quarter, price realization has moved favorable and the incremental margins improved sequentially, with Contractor incremental margins near 40% and overall company incremental margins in the mid-40s.

Moving on to our outlook. Given our slow start to the year and the uncertainty to any near-term improvement in Asia Pacific, we're lowering our full year 2019 worldwide outlook to low single digits. We plan to stay the course with our long-term investments, and we will continue to manage expenses prudently.

Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Joe Ritchie of Goldman Sachs Research.

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

So just maybe starting on organic growth and just the change in the outlook, Pat, if you can maybe just provide a little bit more color on just any discernible trends that you saw as the quarter progressed. And if you've had recent conversations with your customers, particularly in Asia, it would be helpful to get any color that you have there as well.

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

Although we did put up 3% organic growth in Q2, we really needed to do better than that coming off of a soft Q1. And we had expected to do better than that based upon the feedback that we were getting from our different business units. Really pretty consistently through the quarter, demand was weaker than we expected in most areas, I guess, really with the exception of EMEA. And while we did have positive things to talk about in terms of the improvement in Contractor and the nice profitability, it really just looks like at this point that there's some uncertainty out there that's causing people to not want to pull the trigger on some of the CapEx projects. And I think it's prudent for us to be looking at a little bit of a pullback in what we think our top line number is going to be for the year.

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

Yes, Pat, that makes sense, I guess, as you kind of think about the impact that tariffs are having on just overall economic activity in Asia Pac, like, how do you think this shakes out? Like, even though it's really hard to get a sense on the timing of things, but like just in terms of the conversations you're having and the -- what's going to get CapEx to reaccelerate again specifically in that region?

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

There's a couple of things that I'd probably point out. It appears, when you look at our customer and our supplier base, that factories particularly in China are definitely negatively impacted by what's going on with the trade war and their business is slowing. And of course, people are generally not doing new CapEx projects when business is soft. So there's a negative there. But it also looks like, and this is more, I'll say, anecdotal from what I read in people I talk to, that the trade war between the U.S. and the China is creating some uncertainty in other markets that is also causing people to, I think, be a little bit cautious on CapEx spending. So while the, I think, economy is generally okay and production volumes and unemployment numbers and some of the other numbers look all right, I think from a CapEx standpoint, the uncertainty is spilling outside of the Asia Pacific, U.S.

or the China, U.S. trade war, and it's just causing people to hesitate. If we could get some resolution to that, I think that there's a good possibility that, that could turn around. But it's really hard to predict based upon what I'm seeing in the news cycle.

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

Okay, and that's fair enough. And I guess maybe kind of shifting gears a little bit and just talking about Contractor. We've been hearing -- there's been a lot of noise this quarter, specifically in the U.S. around weather and potentially the non-res channel slowing a little bit. You know that EMEA was very strong for you guys, but if you could maybe just talk about specifically what you're seeing on the America's Contractor side and whether you're seeing trends kind of continue to remain strong in that region.

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

Yes. I think our outlook for the year is still okay. We need to have a good third quarter. Obviously, second quarter was a little bit lighter than we had hoped, although it was still positive and certainly they did a nice job on profitability. We need third quarter to be good. We're up against a pretty big fourth quarter last year. But we think the overall environment seems to be decent. And I think the earnings releases of some of the other folks in the industry would indicate that there should be some good activity here in the second half. So we're going to try to capitalize on that.

Operator

We will take our next question from Saree Boroditsky of Jefferies LLC.

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

Focusing on the growth trends and Industrial APAC specifically, could you provide more color on what you saw in China auto in the quarter? And I believe around 40% of your auto business is parts. So maybe you can talk about the impact from the lower build versus project activity and any update on the order trends there.

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

Yes. There's not a one for one from a quarterly timing perspective on what's happening with volumes and what's happening with our 40% parts and accessories business. And that was really accentuated during the last slowdown, where we had a little bit of a slowdown, and parts and accessories got hit fairly hard, fairly quickly as distributors and end-users reset their inventory levels. I'm not seeing that when I looked at our overall parts and accessories business for the company for the quarter. It seemed to be pretty consistent with where we've been in the past. But certainly lower production volumes over time are not good for us as is the lower project activity that we're seeing in China in particular and in China automotive as well.

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

And then margin in Industrial was weaker in the quarter, and you highlighted the negative impact from product and channel mix in the slide deck. Can you just provide some more color on what drove the unfavorable mix there?

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems, Corporate Controller & Principal Accounting Officer*

Within the Industrial segment in particular?

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

Yes.

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems, Corporate Controller & Principal Accounting Officer*

There I would really say, again, that's a nice profitable business. And when we do see though a little bit of lagging in the volumes, that does affect our factories, though part of that was indeed the factory volume, particularly in Industrial.

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

I'd also just say that a lot of the growth in that segment came from our -- more of our powder business, which I think we've said in the past is a very nice profitable business, but maybe not quite as much as some of the other legacy businesses within Industrial on the mix side.

Operator

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

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Like to stay in the same line as Saree's questions. And maybe if you could just help us and make it a bit more tangible when you talk about the Industrial weakness in Asia Pacific, which, if you kind of did a pareto chart of the product areas that were the weakest, you just mentioned auto, but what were the most weakest products that you would identify just from a perspective of rank ordering?

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

So yes, we don't breakout our sales by product category, and there is good reasons for that from a competitive standpoint. So I really don't want to go there. But I would tell you, Deane, that the weakness that we saw in China and really to a greater extent in AP, not only for the quarter, year-to-date has been fairly broad-based. There are a few exceptions in there, but generally speaking, it looks to be a slowing across the industries and not a particular industry that is causing all of our pain.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

So just to be clear, I wasn't asking you to rank order revenue contributions by product. I was asking where, what end markets were particularly weak that drove most of that core revenue decline. I think that's a fair question.

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

Yes. It wasn't any particular end market. Maybe I didn't do a good job in communicating that, but weakness is fairly broad-based.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Okay. And do you find it interesting that, and maybe it's more of a geographic comment, where the Chinese customers are being affected more by the trade friction and they are cutting CapEx and doing pushouts. You all are holding fast to your CapEx plans for the year. Is that more of a geographic sensitivity? What else were in other regions' CapEx commitments by customers? Anything, any color there?

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

We'll talk about what we do internally here. The CapEx that we spend on machinery and new product development projects is ROI-based. And so when people come in for a new machine or they come in for a new product, when they come in for approval on that, generally, the outlook that they have reflects the current environment. And if the investment is still a good investment, given the current volumes or the current end-market demand, we go ahead with that.

And so most of the CapEx projects and requests for capital that have come in internally here to Graco have continued to have nice ROIs, even given a little bit softer top line environment. Then of course, we get a lot of spending that's going on, on buildings. And those are long term, right. When a building gets full and when you need to do building, we're taking a look at where we have a multi-year view and not what's happening in the short term. So from a Graco standpoint, yes, you're right, it's been pretty much business as usual.

We don't necessarily see that on some of the internal factory projects at are customers. For example, if they want to implement a new paint line or they want to upgrade some equipment, if they have some concerns about the volume, we tend to see a little bit more caution there. I think it's probably true that we have a longer-term view on capital than a lot of companies, and particularly the acquisitions that we've done have seem to have a shorter payback cycle than we had.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Yes. We'd expect nothing less from you guys. And just last question from me. On the contract or new product launch, you had some comments that it was well received with good out-the-door sales. Any other color in terms of take rates? And should we expect to see further track? Did you see the full benefit in the quarter? And what might the third quarter look like in terms of new product contribution?

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

So Europe, the Pro channel in Europe, they really did well with the new product launches. And I think that they probably, in the second quarter, got a big chunk of the benefit. I think there's still some remaining benefit for us to get going into the third quarter. With the Contractor launch, they didn't all happen on day 1 of the first quarter, and plus it takes time to get the product seeded out in the market and go through all the shows. So again, I think we feel okay about the third quarter in Contractor. And if we're going to have a good quarter, the new products are definitely going to have to hit the mark because many of them replaced existing products. So if the customers don't buy them, they're not buying anything.

Operator

There are no further questions. I will now turn the conference over to Pat McHale.

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

That was a very light Q&A. Are we sure there's no more questions?

Operator

We do have a question from Jeffrey Hammond of KeyBanc Capital Markets.

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

I thought I'd queued in.

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

It seemed pretty light.

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

Just on North America and Europe, can you just -- I mean, we're hearing about some weakening in North America and Europe was of particular surprise how resilient it is given some of the auto weakness in German export. Just what are you seeing there? Or where are you seeing some cracks? Where might you be worried respectively on those markets that near term seem more resilient than the Asia slowing?

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

So I read the Wall Street Journal this morning. And if you had a chance to look at that yet, then of course, that can make you quite nervous on what's happening over in Europe. We didn't see it during the quarter. Part of that may have been masked by a good launch in Contractor. But in general, business seemed to be holding up pretty well for us in EMEA in the second quarter. But the article I just read did not have any real positive comments about factories in Europe. So we'll have to see how that plays out. Nobody really knows. We go out there and we do what we do and I think predicting the future gets to be pretty hard. North America first quarter on the Industrial side was soft and second quarter was a little bit better, but certainly not great. And it's a little bit of a mixed bag between applications and end markets. But in general, it just seems a little bit weak.

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

Okay. And then I don't know if I missed this. Did you mention where you were on price versus cost in the second quarter? And how you're thinking about it for second half?

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

I think we might have talked about it in the slides, but basically, we're -- we feel like we're in really good shape when it comes to price cost both on a year-to-date basis and for the rest of the year as our pricing increases really took hold in Q2. We're realizing some slight benefits there, of course, a little bit offset by the new tariffs that kicked in. But when we look at the full year basis, we feel good that our pricing actions are taking effect and having the effect that we expected them to have.

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

Okay. And then I know you guys tend to invest through downturns, but as we -- if this weakness broadens or persists, any thoughts around proactive restructuring actions or cost initiatives to kind of hold the line on decrementals?

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

So our strategy really is, if it's CapEx and it's ROI-based, then the environment should reflect in the ROI model. And if the ROI model is still good, we invest the capital. So you generally won't see us purposely pulling back horns on CapEx during a down period because it will either happen naturally, because the projects won't justify under the current environment, or the projects are good anyway and we ought to go ahead and do them. Buildings, once you start a building, you're going to finish it. And to not do a building when you need it, doesn't position you very well for when things turn around again. And most of the time when things hit a soft patch, in 18 months, it's cooking again and it takes longer than that to get a building gone. So I really don't see in either of those scenarios that we're going to be doing anything.

In terms of discretionary spending, of course, we're asking people to watch discretionary in spending. Our incentive programs also would encourage people to do that. So I think in addition to the message from the top, we've got our incentive programs aligned so that people are making prudent long-term decisions. No expectation at this point of looking at any kind of restructuring. Generally, we're doing, I'll say, our restructuring and factory consolidation actions on an ongoing basis and not waiting for a fire. So I don't think you should expect that. And I think consistent with what you've seeing from Graco in the past, if we get some top line, you're going to see earnings leverage. And if we don't get top line, we're going to be in a

(technical difficulty)

Operator

We'll take our next question from Matt Summerville of D.A. Davidson.

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

Sorry, I thought I was in queue as well. Wanted to just talk about Asia for a second again, Pat. Can you talk, as the quarter went on, whether or not things got progressively worse? And whether you feel the current run rate of business is still heading lower or has sort of stabilized maybe at a lower level?

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

No. It jumps around a bit. If you look at just our legacy business over there, I would say that it's not getting worse, but it really needed to get better. When you take a look at where we finished Q1 and what we had forecasted to do for the year, we needed to see Q2 be better, and we didn't see it better. So I guess I'm not feeling like the thing is going to collapse on us yet at this point here, but our team was -- we were over there in February and incoming order rate looked a little bit weak and our team was really positive. And we were skeptical, and we went through our normal operating reviews. And it's good to have a team that's excited and thinks they're going to go out there and get things done. But as we progressed from February, we didn't really see any strengthening in the incoming order rate. So I think that our switch to say that, look, we think we may finish down low single digits in AP as consistent with our forecast and what we're seeing on the order front. And I certainly wish it was better because that's painful for us, but that seems to be the reality right now.

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

And then with respect to Contractor, couple of things. First, pretty big when you look on a sequential basis margin ramp in that business. If I look at the sequential incrementals, they were closer to 50% year-over-year. They were kind of in the mid- to high 30s. Can you help me understand kind of bridge that from quarter-to-quarter? And then maybe give a little bit more granularity on what you saw with out-the-door sales in home center and propane here?

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

Sure. I could give it in, like, real simple terms like first quarter [stonk] so it looks better than second quarter. But if you recall, we had a lot of expenses in the first quarter that related to the products that didn't launch. So that's a double whammy, right? You've got the expense and you don't have the revenue. And I think we talked about that at the end of Q1. Well, in Q2, of course, now we have some revenue, and we didn't have all the product launch expenses. So you'd expect to see, from a sequential standpoint, things flip around there. I think the team up there is aware of what the profit goals are for the year. And if they can get a little bit of help on the top line, I think going through the second half, they're going to be okay.

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

And then the question on sort of out-the-door and home center propane, maybe, where you were selling versus sell-through in the quarter in those channels?

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

I know out-the-door was a little bit better than it was in the first quarter. I'm trying to remember selling versus sell-through. It's not coming to me out the top of my head. I don't know, Mark or Caroline?

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

I think they're pretty consistent.

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

So not as bad.

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

Not a big gap.

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

Nothing I can remember.

Operator

(Operator Instructions) We'll take our next question from Mike Halloran of Robert W. Baird.

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

I also thought I was in queue. So a couple of questions. First, just on the contractor side again, could you talk about how the facility build-out is going? If you've any different change to how you're thinking about the margin profile and the impact of the margin profile there?

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

The facility build-out is going great as we expected, Mike. I think that by the end of this year, we'll be pretty much done with the production part of the facility. And we will have leftover in next year just some of the build-out of the office space and the nice customer experience center that we're putting up there. So on track both in terms of dollars and in timing there. Profitability, I think what we had said is for the year, we weren't really looking for any incremental margins for Contractor. They would come in somewhere around that 23% operating margin and year-to-date, that's right where we're sitting. So I think we're also in reasonable shape there.

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

And then what would it take to change your mind on the Contractor environment? Pat, obviously, been pretty steadfast from the healthy outlook and it's been showing up, at least, on an underlying basis through your results for the most part. But what are you looking at to change your mind there? And what are some of the indicators you look at?

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

Yes. So if you've been reading the published numbers out there, they are jumping around a little bit with differences between permits and new home sales and existing home sales. And so I think there's a little bit of uncertainty out there. And I've always been of the belief that we're headed back towards 1.5 million housing starts. And with the data that you've seen going through here the last couple of months could cause you to question whether that's really going to happen or not. Now personally just looking at the number of folks we have out there and what we did on the underbuild, coming out of the 2007 recession, I guess I'm still banking on headed back towards 1.5 million. But if we would fall out in that 1.2 million, 1.3 million range, it's -- for me that would cause some level of concern. If we go in to next year and we're moving back past that 1.3 million number and moving towards the 1.5 million, then I'll feel good about it. Such kind of one of things that I look at. Of course, it's lots of other data points too. Non-res is important to us and we see that profiting a bit, although it's still a decent growth number. So those are the data points we look at, and I don't think we have anything magic that we can see that everybody else can't see, to be honest with you.

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

No, makes sense. And then capital side of things, any change to how you're looking at the M&A environment, use of cash for buybacks, anything like that? And some comments on what you're seeing on the M&A side.

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

M&A is expensive. It remains expensive, especially stuff that has got size and then it's got some nice levels of profitability. And so we're trying to remain disciplined there. I'll let Mark just give you an update on what we're thinking in terms of share repurchases.

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

Yes. I think we're still going to stay the course here. I mean we've been opportunistic in the past. That's worked out well for us. We don't have any, like, programmatic things in place that will automatically cause us to do things here and there that we talk about publicly. Of course, we run our own valuations on the company, and we get more of us aggressive depending on where the stock is trading. So we've got a balance sheet. We'd like to put it to work. But I think the message is, we'll -- we're going to continue to just take a look at things and be opportunistic.

Operator

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

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

I actually punched in another question just to keep the call going. I was ready to ask you about what you thought about the Twin's prospects. But I do have a couple of follow-ups. For Jeff's questions, just to follow up there, on -- if we do get into a recession, and it is a run-of-the-mill recession, however you wanted to find it, you have a softer top line, like 5% or so. What's the playbook that you run for managing decrementals? And just ballpark, what's the typical playbook? Do you manage to the decrementals, the fixed versus variable dynamics within the businesses? But any kind of color there might be helpful.

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

So if things go negative on us, one of the things that happens, of course, is that we get some significant expense reductions from incentive programs, distributor rebates and other kinds of spending that are tied directly to our overall volume performance. Of course, we put out caution to the organization and we look at, I'll say, discretionary spending pretty closely. Typically, you're not going to see us go and start hacking the organization and laying off a bunch of people to try to manage decrementals. We've been through tough times before. I think if you look at what we did back during the last recession, we actually spent more money on new product development, and I think we actually added sales people.

At the time, it put extra pressure on us, but coming out of the recession, we've had pretty darn good run for the last decade. We tend to try to take a longer-term view of the business and not be knee-jerk, takes long time to get people trained and up to speed. And we like folks that are going to be here and help us on the team for the long term. So things would have to get pretty bad before we would be going out and doing anything that we wouldn't do because we didn't think it was consistent with what our long-term goals are. And so if we get a negative top line, we're going to take a little bit of a spanking in. Our shareholders probably know that and should be ready for that.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

That's all good to hear. Appreciate it. And then last question on -- could you share with us what the cadence in the quarter was by months on organic sales? And just the expectation is we've seen most companies with shorter cycle, Industrial saying, June was actually the strongest month of the quarter. But how did that play out for you?

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

So I looked at June and June was slightly better than our year-to-date run rate, but it was not impressive.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

And how did it look for April, May -- versus April and May?

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

I didn't look at April and May.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - Analyst*

Caroline or Mark, you got that number?

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

We don't usually give out the monthly numbers, Deane. But I think the cadence, as Pat described it, it might have gotten a little better in the June. But then you can imply that April and May weren't quite so good.

Operator

If there are no further questions, I'd like to turn the conference over to Pat McHale.

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

All right. Thank you, everyone, for your participation. We'll get back to work and see if we can make something happen in the second half. Thanks.

Operator

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