



**2<sup>nd</sup> Quarter 2020  
Earnings Conference Call**

July 23, 2020

# Safe Harbor



Today's presentation includes forward-looking statements that reflect management's current expectations about the Company's future business and financial performance.

These statements are subject to certain risks and uncertainties that could cause actual results to differ from anticipated results.

Factors that could cause actual results to differ from anticipated results are identified in 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 22, 2020.

# Conference Call Logistics

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

Telephone replay will be available after 2 p.m. ET, July 23, 2020. The replay by telephone will be available through 2 p.m. ET, July 27, 2020.

- ▶ 888-203-1112 – Conference ID #3676995
- ▶ 719-457-0820 – with the same conference ID #, for international participants

# Financial Results

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## Statement of Earnings

\$ in millions except per share amounts

### Sales

Second Quarter			June Year-to-Date		
2020	2019	Change	2020	2019	Change
\$ 366.9	\$ 428.3	(14)%	\$ 740.5	\$ 833.2	(11)%

### Gross Profit

% of Sales

182.5	227.0	(20)%	381.2	443.0	(14)%
49.8%	53.0%	(3.2) pts	51.5%	53.2%	(1.7) pts

### Operating Earnings

% of Sales

44.8	112.4	(60)%	134.6	216.9	(38)%
12%	26%	(14) pts	18%	26%	(8) pts

### Net Earnings

% of Sales

\$ 28.8	\$ 88.1	(67)%	\$ 101.7	\$ 174.9	(42)%
8%	21%	(13) pts	14%	21%	(7) pts

### Diluted Earnings Per Share

Diluted Shares in Millions

\$ 0.17	\$ 0.51	(67)%	\$ 0.59	\$ 1.02	(42)%
170.5	172.0	(1)%	171.6	171.5	0 %

*Operating Earnings, Adjusted (1)*

*Net Earnings, Adjusted (1)*

*Diluted Earnings Per Share, Adjusted (1)*

\$ 79.8	\$ 112.4	(29)%	\$ 169.6	\$ 216.9	(22)%
\$ 62.3	\$ 85.9	(27)%	\$ 127.5	\$ 166.0	(23)%
\$ 0.37	\$ 0.50	(26)%	\$ 0.74	\$ 0.97	(24)%

(1) Operating earnings, net earnings and diluted earnings per share for 2020 and 2019 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 5 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

# Financial Results Adjusted for Comparability

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

Non-GAAP Reconciliation	Second Quarter			June Year-to-Date		
	2020	2019	Change	2020	2019	Change
\$ in millions except per share amounts						
<b>Operating Earnings, as reported</b>	\$ 44.8	\$ 112.4	(60)%	\$ 134.6	\$ 216.9	(38)%
Impairment	35.0	-		35.0	-	
<b>Operating Earnings, adjusted</b>	<b>\$ 79.8</b>	<b>\$ 112.4</b>	<b>(29)%</b>	<b>\$ 169.6</b>	<b>\$ 216.9</b>	<b>(22)%</b>
<b>Income taxes, as reported</b>	\$ 13.2	\$ 19.7	(33)%	\$ 22.5	\$ 33.6	(33)%
Impairment Tax Benefit	1.2	-		1.2	-	
Excess tax benefit from option exercises	0.3	2.2		8.0	7.4	
Other non-recurring tax benefit	-	-		-	1.5	
<b>Income taxes, adjusted</b>	<b>\$ 14.7</b>	<b>\$ 21.9</b>	<b>(33)%</b>	<b>\$ 31.7</b>	<b>\$ 42.5</b>	<b>(25)%</b>
Effective income tax rate						
As reported	31%	18%		18%	16%	
Adjusted	19%	20%		20%	20%	
<b>Net earnings, as reported</b>	\$ 28.8	\$ 88.1	(67)%	\$ 101.7	\$ 174.9	(42)%
Impairment, net	33.8	-		33.8	-	
Excess tax benefit from option exercises	(0.3)	(2.2)		(8.0)	(7.4)	
Other non-recurring tax benefit	-	-		-	(1.5)	
<b>Net earnings, adjusted</b>	<b>\$ 62.3</b>	<b>\$ 85.9</b>	<b>(27)%</b>	<b>\$ 127.5</b>	<b>\$ 166.0</b>	<b>(23)%</b>
Weighted Average Diluted Shares, in millions	170.5	172.0		171.6	171.5	
Diluted Earnings per Share						
As reported	\$ 0.17	\$ 0.51	(67)%	\$ 0.59	\$ 1.02	(42)%
Adjusted	\$ 0.37	\$ 0.50	(26)%	\$ 0.74	\$ 0.97	(24)%

# Non-cash Impairment

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- ▶ In the second quarter, the Company entered into negotiations to sell its U.K.-based valve business ("Alco"), which has significant exposure to oil and natural gas markets, and has accumulated operating losses since acquired in 2014. Alco operations contributed \$7 million of sales and \$2 million in operating losses for the year to date and are included within the Company's Process segment
- ▶ Based on the negotiations to sell, the Company revalued its investment in Alco, recording non-cash impairment charges of \$35 million, including \$24 million of previously unrealized foreign currency translation losses recorded in accumulated other comprehensive income. The impact of the impairment on net earnings was \$34 million or \$0.20 per diluted share
- ▶ The sale of Alco was completed in the third quarter

# Sales



## Components of Net Sales Changes

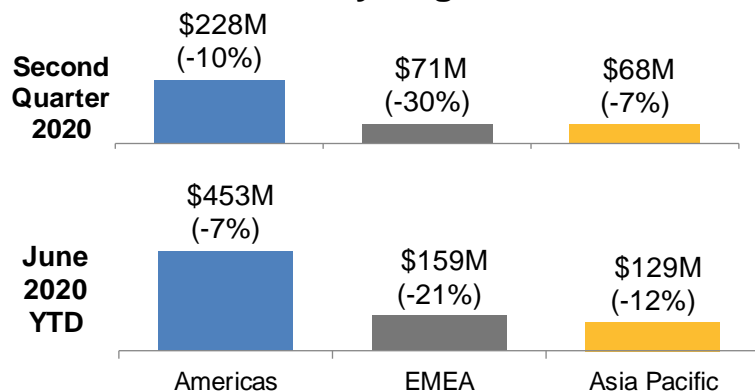
### Second Quarter June 2020

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(28)%	(16)%	1 %	(11)%	(30)%	(9)%	(15)%
Acquisitions	0 %	8 %	0 %	1 %	2 %	4 %	2 %
Currency	(1)%	(1)%	0 %	0 %	(2)%	(2)%	(1)%
<b>Total</b>	<b>(29)%</b>	<b>(9)%</b>	<b>1 %</b>	<b>(10)%</b>	<b>(30)%</b>	<b>(7)%</b>	<b>(14)%</b>

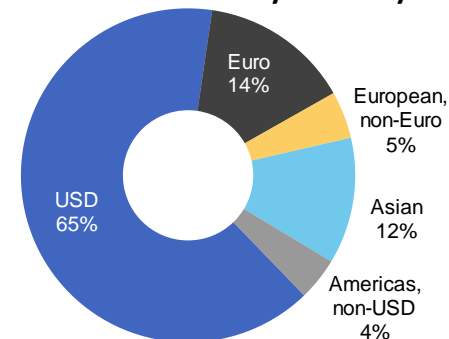
### Year to Date June 2020

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(22)%	(11)%	1 %	(7)%	(21)%	(13)%	(12)%
Acquisitions	0 %	7 %	0 %	0 %	2 %	3 %	2 %
Currency	(1)%	(1)%	(1)%	0 %	(2)%	(2)%	(1)%
<b>Total</b>	<b>(23)%</b>	<b>(5)%</b>	<b>0 %</b>	<b>(7)%</b>	<b>(21)%</b>	<b>(12)%</b>	<b>(11)%</b>

### Sales by Region



### June 2020 YTD Sales by Currency



Asian currencies include: AUD, CNY, JPY, KRW. European, non-euro currencies include: CHF, GBP, RON. Americas, non-USD currencies include: BRL, CAD, MXN

# Operating Earnings

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2019 Operating Earnings (\$M and % of sales)

Translation effect

Volume and product mix

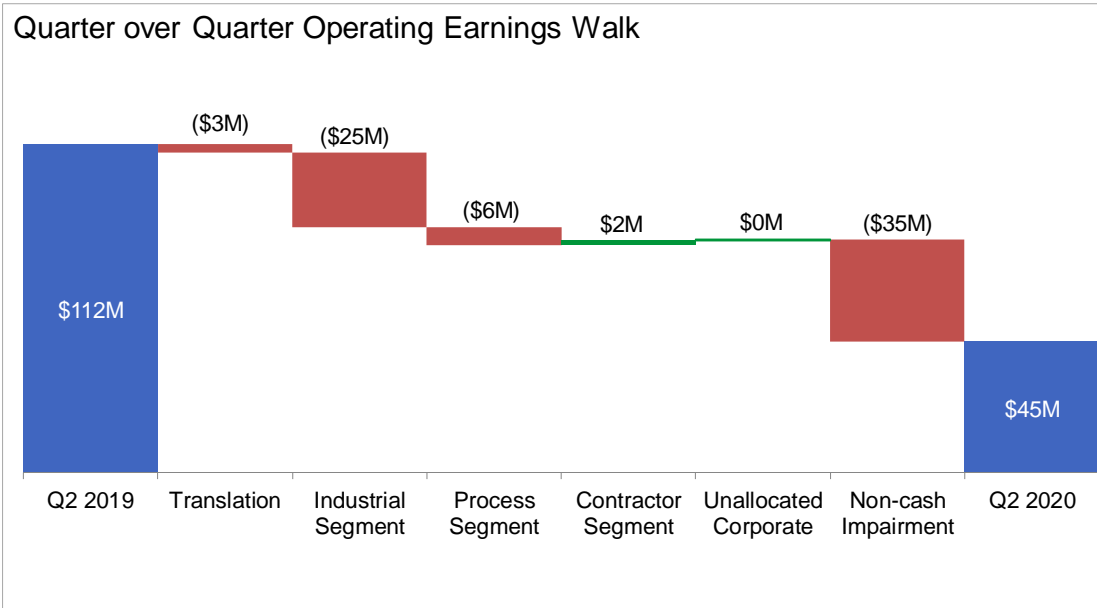
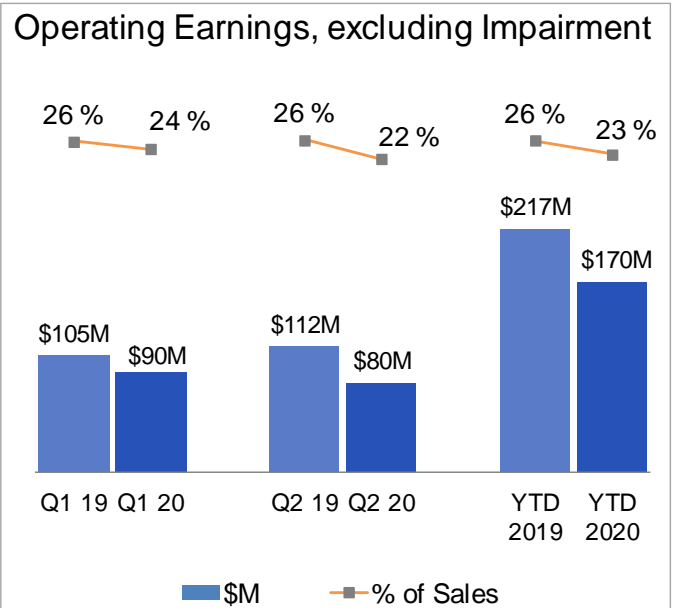
Volume effect on expense leverage

**2020 Operating Earnings, excluding Impairment**

Non-cash impairment

**2020 Operating Earnings, as Reported (\$M and % of sales)**

Second Quarter		June Year to Date	
\$ 112	26 %	\$ 217	26 %
(3)	0	(6)	(1)
(40)	(3)	(54)	(1)
11	(1)	13	(1)
<b>\$ 80</b>	<b>22 %</b>	<b>\$ 170</b>	<b>23 %</b>
(35)	(10)	(35)	(5)
<b>\$ 45</b>	<b>12 %</b>	<b>\$ 135</b>	<b>18 %</b>





# Second Quarter 2020

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<b>Sales</b>	<ul style="list-style-type: none"><li>▶ Down 14 percent from 2019, down 13 percent at consistent exchange rates<ul style="list-style-type: none"><li>▪ Acquired businesses added 2 percentage points</li></ul></li></ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"><li>▶ Rate down 3.2 percentage points from 2019<ul style="list-style-type: none"><li>▪ Unfavorable product and channel mix and lower factory volume driving decrease in gross margin rate. Realized pricing remains strong</li><li>▪ Currency translation rates continue to have an unfavorable impact</li></ul></li></ul>
<b>Operating Earnings</b>	<ul style="list-style-type: none"><li>▶ Operating earnings, excluding non-cash impairment, down \$33M, 29%<ul style="list-style-type: none"><li>▪ Decline in volume driving lower operating earnings, partially offset by lower volume-related expenses</li><li>▪ Unfavorable currency translation decreased operating earnings</li></ul></li><li>▶ Operating earnings, as reported, down \$68M, 60%<ul style="list-style-type: none"><li>▪ Non-cash impairment charge of \$35M</li></ul></li></ul>
<b>Other Expense</b>	<ul style="list-style-type: none"><li>▶ Decreased \$2 million<ul style="list-style-type: none"><li>▪ Driven by market value gains on investments used to fund certain retirement benefits liabilities</li></ul></li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ Effective tax rate for the quarter was 31%, up 13 percentage points from second quarter 2019<ul style="list-style-type: none"><li>▪ Increase due primarily to non-deductible impairment charges</li></ul></li></ul>

# June 2020 Year-to-Date

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<b>Sales</b>	<ul style="list-style-type: none"><li>▶ Down 11 percent from 2019, down 10 percent at consistent exchange rates<ul style="list-style-type: none"><li>▪ Acquired businesses added 2 percentage points</li></ul></li></ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"><li>▶ Rate down 1.7 percentage points from 2019<ul style="list-style-type: none"><li>▪ Strong realized pricing not enough to offset unfavorable product and channel mix and lower factory volume</li><li>▪ Unfavorable currency translation accounts for nearly 25% of the decline</li></ul></li></ul>
<b>Operating Earnings</b>	<ul style="list-style-type: none"><li>▶ Operating earnings, excluding non-cash impairment, down \$47M, 22%<ul style="list-style-type: none"><li>▪ Decline in volume driving lower operating earnings, partially offset by lower volume-related expenses</li><li>▪ Unfavorable currency translation decreased operating earnings</li></ul></li><li>▶ Operating earnings, as reported, down \$82M, 38%<ul style="list-style-type: none"><li>▪ Non-cash impairment charge of \$35M</li></ul></li></ul>
<b>Other Expense</b>	<ul style="list-style-type: none"><li>▶ Increased \$3 million<ul style="list-style-type: none"><li>▪ Primarily driven by market value fluctuation on investments used to fund certain retirement benefits liabilities</li></ul></li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ Effective tax rate for June year to date was 18%, up 2 percentage points from the comparable period in 2019<ul style="list-style-type: none"><li>▪ Increase due primarily to non-deductible impairment charges was partially offset by additional excess tax benefits from stock option exercises</li></ul></li></ul>

# Operational Updates

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## 2020 Organic Sales by Segment- Compared to 2019

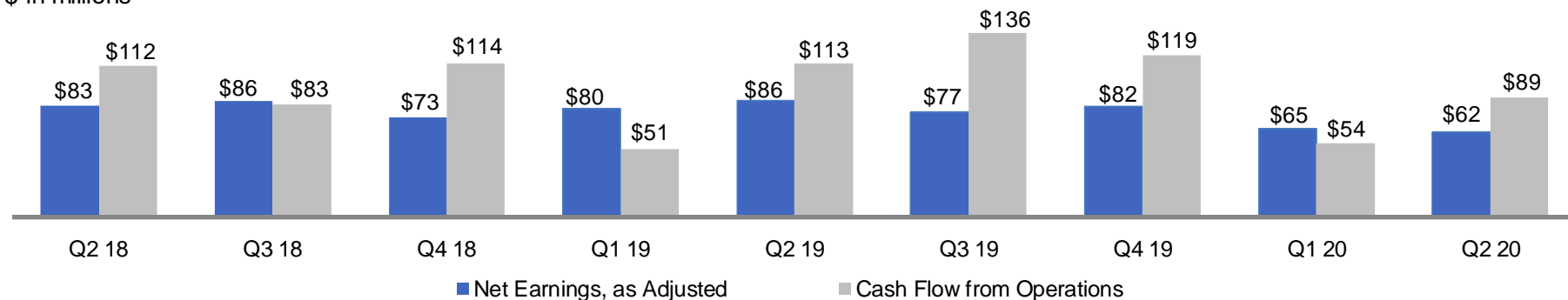
	June	May	April	Bookings 6 Week Avg.
Industrial Segment	(26%)	(27%)	(32%)	(17%)
Process Segment	(12%)	(19%)	(17%)	(9%)
Contractor Segment	26%	1%	(29%)	46%
	(5%)	(15%)	(28%)	7%

- ▶ Our major factories and distribution centers remained fully operational during the second quarter
- ▶ Our global procurement team has been working closely with our supply chain to keep our production lines running throughout the quarter
- ▶ Our commercial teams are active and working with channel partners and customers every day, using a variety communication tools and are beginning to have in-person meetings when allowed

# Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operations  
\$ in millions



## Significant Uses of Cash Through June (\$M)

	2020	2019
Share Repurchases, net of Issued	\$ 62	\$ -
Dividends	58	53
Capital Expenditures	33	70
Net Payments on Debt	-	16
Acquisitions	27	6

- ▶ Net cash provided by operating activities was \$143 million in 2020 vs. \$164 million in 2019
  - Operating cash flows and available liquidity are sufficient to support operations at current order rates
  - Changes in working capital elements are in line with volume
- ▶ Capital expenditures of \$33 million
- ▶ Debt, including notes payable, was \$421 million - up \$249 million from December 2019
  - Interest expense down \$1 million compared to 2019
  - During first quarter, borrowed \$250 million on the revolving credit facility

# Other Discussion Items

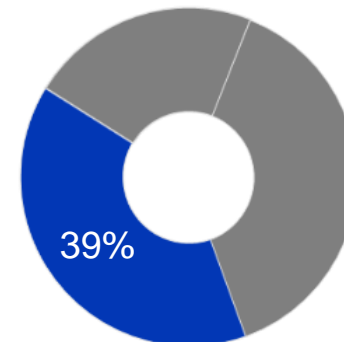
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<b>Cap Ex</b>	<ul style="list-style-type: none"><li>▶ Capital expenditure expectations of approximately \$80 million in 2020, including approximately \$50 million facility expansion</li></ul>
<b>Expenses</b>	<ul style="list-style-type: none"><li>▶ Unallocated corporate expenses in 2020 are expected to be approximately \$30 million</li></ul>
<b>Shares</b>	<ul style="list-style-type: none"><li>▶ Through June 2020, we repurchased 2.3 million shares. We may make opportunistic repurchases going forward</li></ul>
<b>Currency</b>	<ul style="list-style-type: none"><li>▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2019, the unfavorable movement in foreign currencies would have no impact on sales and be a headwind of approximately 1% on earnings in 2020</li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ At our current estimate of results and mix of earnings, we anticipate the effective tax rate for the third quarter and the full year to be between 20% - 21%, excluding any impact from excess tax benefits related to stock option exercises and other one time items. Actual results and mix of earnings may materially impact the expected tax rate for the third quarter and full year</li></ul>

# Industrial Segment Results

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2020 Industrial Segment  
June YTD Sales as % of Graco



\$ in millions

	Second Quarter			June Year-to-date		
	2020	2019	Change	2020	2019	Change
<b>Sales</b>						
Americas	\$ 58	\$ 81	(28)%	\$ 133	\$ 162	(18)%
EMEA	35	59	(41)	81	117	(31)
Asia Pacific	40	49	(18)	78	99	(21)
<b>Total</b>	<b>\$ 133</b>	<b>\$ 189</b>	<b>(29)%</b>	<b>\$ 292</b>	<b>\$ 378</b>	<b>(23)%</b>
<b>Operating Earnings</b>	<b>\$ 37</b>	<b>\$ 64</b>	<b>(43)%</b>	<b>\$ 87</b>	<b>\$ 130</b>	<b>(33)%</b>
% of sales	28 %	34 %		30 %	34 %	



## Components of Net Sales Change

	Q2 2020	June YTD		Q2 2020	June YTD
<b>Americas</b>			<b>Asia Pacific</b>		
Volume & Price	(27)%	(17)%	Volume & Price	(16)%	(19)%
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	(1)%	(1)%	Currency	(2)%	(2)%
<b>Total</b>	<b>(28)%</b>	<b>(18)%</b>	<b>Total</b>	<b>(18)%</b>	<b>(21)%</b>
<b>EMEA</b>			<b>Segment Total</b>		
Volume & Price	(40)%	(29)%	Volume & Price	(28)%	(22)%
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	(1)%	(2)%	Currency	(1)%	(1)%
<b>Total</b>	<b>(41)%</b>	<b>(31)%</b>	<b>Total</b>	<b>(29)%</b>	<b>(23)%</b>

# Industrial Segment Results

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Change in % of sales

## 2019 Operating Earnings (% of sales)

Translation effect

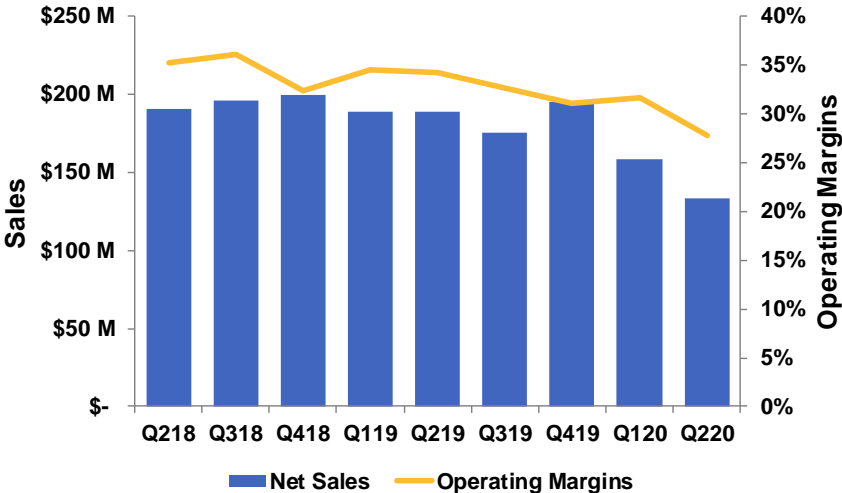
Volume and product mix

Volume effect on expense leverage

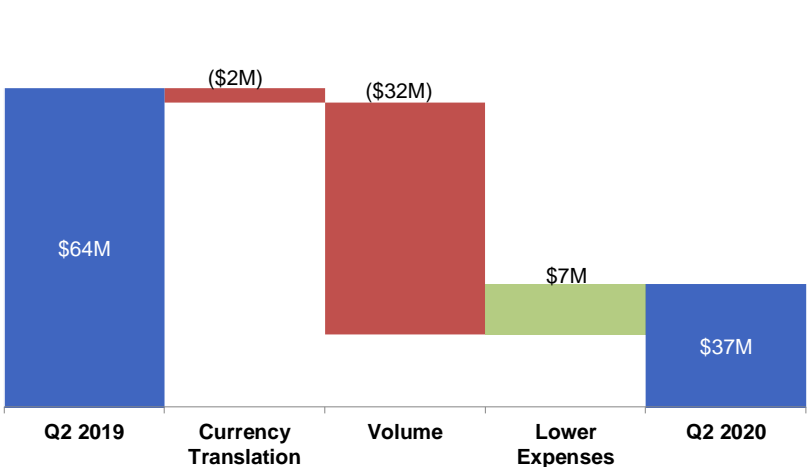
## 2020 Operating Earnings (% of sales)

	Second Quarter	Year-to-Date
	34 %	34 %
Translation effect	0	0
Volume and product mix	(1)	0
Volume effect on expense leverage	(5)	(4)
	<b>28 %</b>	<b>30 %</b>

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



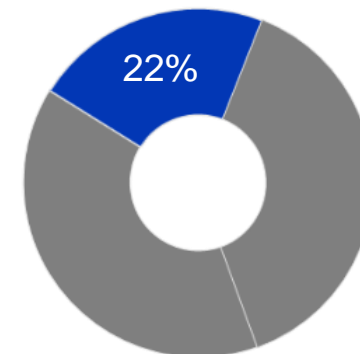
# Process Segment Results

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\$ in millions

	Second Quarter			June Year-to-date		
	2020	2019	Change	2020	2019	Change
<b>Sales</b>						
Americas	\$ 46	\$ 55	(16)%	\$ 101	\$ 112	(10)%
EMEA	13	14	(8)	29	30	(4)
Asia Pacific	19	16	18	34	30	14
<b>Total</b>	<b>\$ 78</b>	<b>\$ 85</b>	<b>(9)%</b>	<b>\$ 164</b>	<b>\$ 172</b>	<b>(5)%</b>
<b>Operating Earnings</b>	<b>\$ 12</b>	<b>\$ 18</b>	<b>(36)%</b>	<b>\$ 30</b>	<b>\$ 38</b>	<b>(22)%</b>
% of sales	15 %	22 %		18 %	22 %	

2020 Process Segment  
June YTD Sales as % of Graco



## Components of Net Sales Change

	Q2 2020	June YTD		Q2 2020	June YTD
<b>Americas</b>			<b>Asia Pacific</b>		
Volume & Price	(20)%	(13)%	Volume & Price	1 %	(1)%
Acquisitions	4 %	3 %	Acquisitions	20 %	18 %
Currency	0 %	0 %	Currency	(3)%	(3)%
<b>Total</b>	<b>(16)%</b>	<b>(10)%</b>	<b>Total</b>	<b>18 %</b>	<b>14 %</b>
<b>EMEA</b>			<b>Segment Total</b>		
Volume & Price	(17)%	(11)%	Volume & Price	(16)%	(11)%
Acquisitions	11 %	9 %	Acquisitions	8 %	7 %
Currency	(2)%	(2)%	Currency	(1)%	(1)%
<b>Total</b>	<b>(8)%</b>	<b>(4)%</b>	<b>Total</b>	<b>(9)%</b>	<b>(5)%</b>



# Process Segment Results

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Change in % of sales

## 2019 Operating Earnings (% of sales)

Translation effect

Volume and product mix

Effect of acquired business operations

Volume effect on expense leverage

## 2020 Operating Earnings (% of sales)

### Second Quarter

### Year-to-Date

22 %

22 %

0

0

(3)

(2)

(2)

(1)

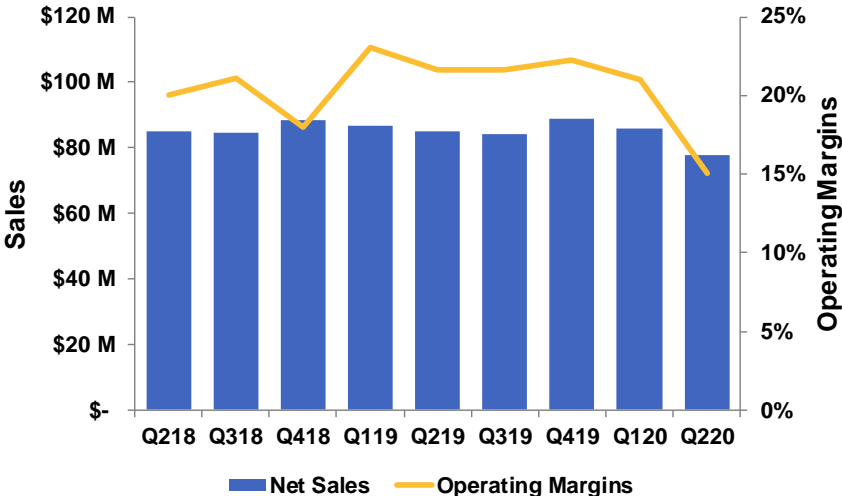
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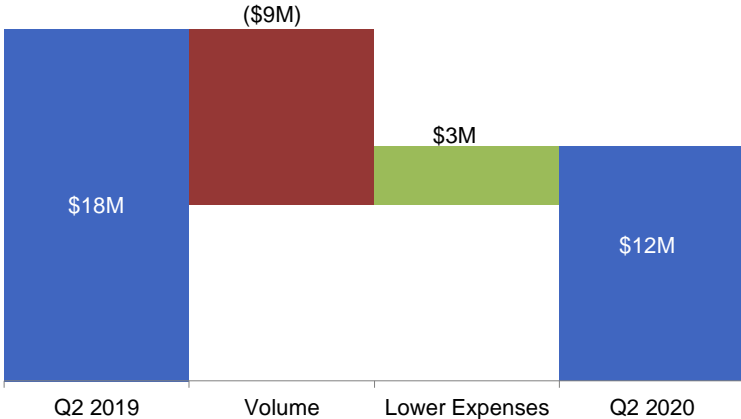
**15 %**

**18 %**

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



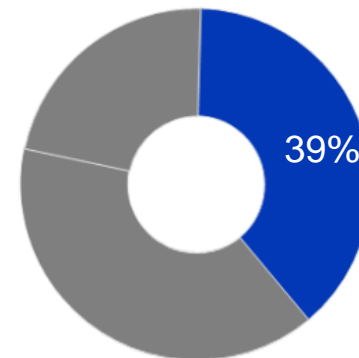
# Contractor Segment Results

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\$ in millions

	Second Quarter			June Year-to-date		
	2020	2019	Change	2020	2019	Change
<b>Sales</b>						
Americas	\$ 123	\$ 118	4%	\$ 219	\$ 212	3%
EMEA	23	28	(17)	49	53	(8)
Asia Pacific	10	9	5	17	19	(9)
<b>Total</b>	<b>\$ 156</b>	<b>\$ 155</b>	<b>1%</b>	<b>\$ 285</b>	<b>\$ 284</b>	<b>0%</b>
<b>Operating Earnings</b>	<b>\$ 41</b>	<b>\$ 40</b>	<b>3%</b>	<b>\$ 70</b>	<b>\$ 67</b>	<b>5%</b>
% of sales	26 %	26 %		24 %	23 %	

2020 Contractor Segment  
June YTD Sales as % of Graco



## Components of Net Sales Change



	Q2 2020	June YTD
<b>Americas</b>		
Volume & Price	5 %	3 %
Acquisitions	0 %	0 %
Currency	(1)%	0 %
<b>Total</b>	<b>4 %</b>	<b>3 %</b>
<b>EMEA</b>		
Volume & Price	(15)%	(6)%
Acquisitions	0 %	0 %
Currency	(2)%	(2)%
<b>Total</b>	<b>(17)%</b>	<b>(8)%</b>

	Q2 2020	June YTD
<b>Asia Pacific</b>		
Volume & Price	9 %	(3)%
Acquisitions	0 %	0 %
Currency	(4)%	(4)%
<b>Total</b>	<b>5 %</b>	<b>(7)%</b>
<b>Segment Total</b>		
Volume & Price	1 %	1 %
Acquisitions	0 %	0 %
Currency	0 %	(1)%
<b>Total</b>	<b>1 %</b>	<b>0 %</b>

# Contractor Segment Results

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Change in % of sales

**2019 Operating Earnings (% of sales)**

Translation effect

Product and channel mix

Volume effect on expense leverage

**2020 Operating Earnings (% of sales)**

**Second Quarter**

**Year-to-Date**

26 %

23 %

(1)

0

(2)

(1)

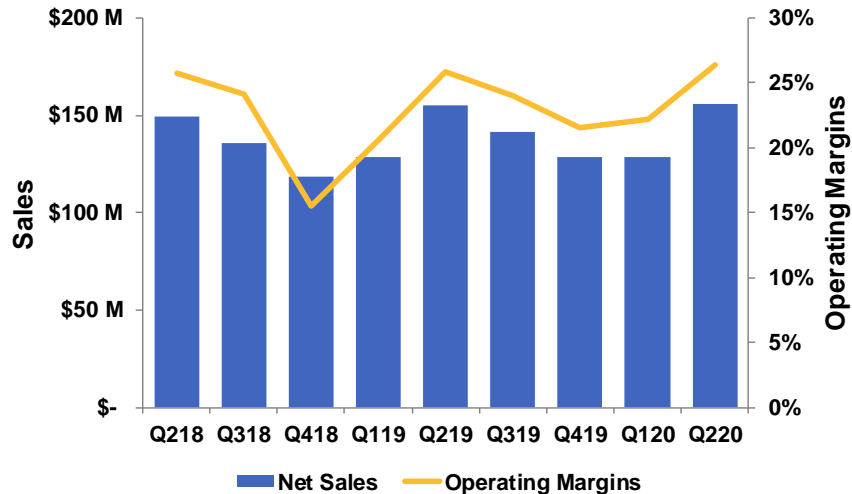
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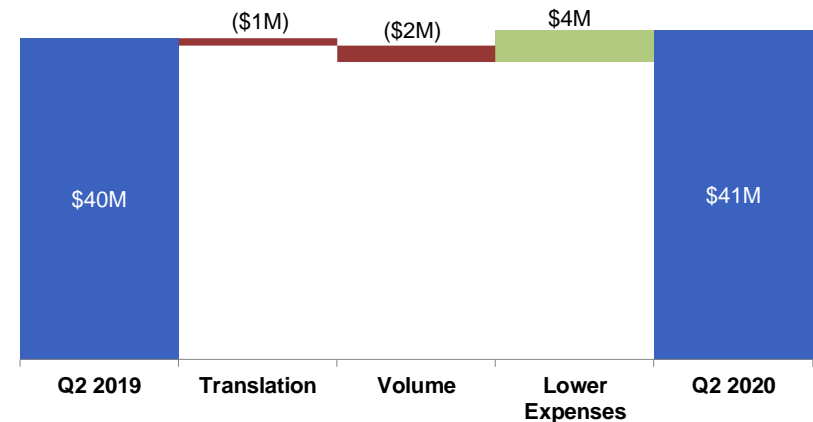
**26 %**

**24 %**

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD





MOVE | MEASURE | MIX | CONTROL | DISPENSE | SPRAY

**WORLDWIDE LEADERS IN FLUID HANDLING**

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