



4th Quarter 2014 Earnings Conference Call

January 27, 2015

Safe Harbor



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

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

Factors that could cause actual results to differ from anticipated results are identified in Part 1, Item 1A of the Company's Form 10-K, the current Quarterly Report on Form 10-Q and also the Company's Earnings Release dated January 26, 2015.

Conference Call Logistics



The release, accompanying slides and replay web cast are available online at www.graco.com/ir

Telephone replay will be available after 2 p.m. ET, January 27, 2015. The replay by telephone will be available through January 31, 2015

- 800-203-1112 – Conference ID #2880728
- 719-457-0820 – Conference ID #2880728, for International participants

Financial Results



\$ millions except EPS	Fourth Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
Sales	\$ 306.0	\$ 271.9	13 %	\$ 1,221.1	\$ 1,104.0	11 %
Gross Profit	164.8	147.2	12 %	666.7	607.5	10 %
% of Sales	53.8 %	54.1 %	(0.3) pts	54.6 %	55.0 %	(0.4) pts
Operating Earnings	69.5	63.3	10 %	308.9	279.8	10 %
% of Sales	22.7 %	23.3 %	(0.6) pts	25.3 %	25.3 %	(0.0) pts
Net Earnings	\$ 49.0	\$ 44.7	10 %	\$ 225.6	\$ 210.8	7 %
% of Sales	16.0 %	16.5 %	(0.5) pts	18.5 %	19.1 %	(0.6) pts
Diluted Earnings Per Share	\$ 0.80	\$ 0.71	13 %	\$ 3.65	\$ 3.36	9 %
<i>Diluted Shares in Millions</i>	61.0	62.9		61.7	62.8	

Includes dividends (post-tax) from Liquid Finishing business held separate:

Dividends	\$ 4	\$ 4	\$ 28	\$ 28
EPS Impact	\$ 0.07	\$ 0.06	\$ 0.46	\$ 0.45

Once the Company completes the sale of its investment, there will be no further dividends from Liquid Finishing

Financial Results



Components of Net Sales Change

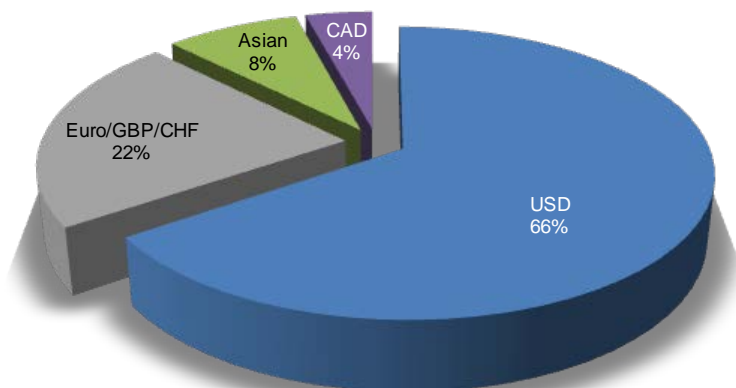
Fourth Quarter 2014

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	8 %	11 %	18 %	13 %	8 %	4 %	11 %
Acquisitions	9 %	—	—	6 %	6 %	4 %	5 %
Currency	(4)%	(2)%	(2)%	(1)%	(6)%	(3)%	(3)%
Total	13 %	9 %	16 %	18 %	8 %	5 %	13 %

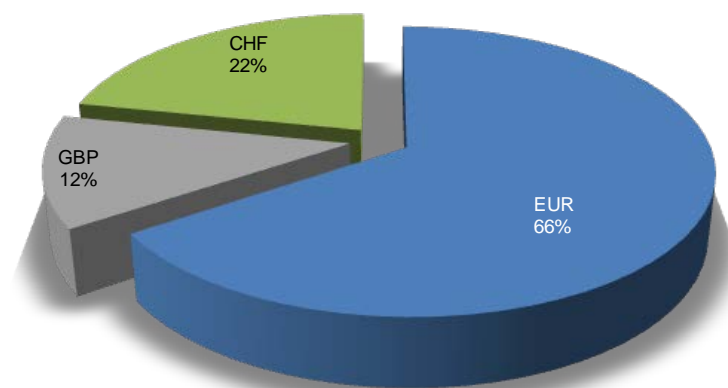
Year-to-Date 2014

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	6 %	10 %	9 %	10 %	5 %	2 %	7 %
Acquisitions	6 %	—	—	6 %	2 %	2 %	4 %
Currency	—	—	(1)%	(1)%	1 %	(1)%	—
Total	12 %	10 %	8 %	15 %	8 %	3 %	11 %

Sales by Currency 2014



Sales in European Currencies 2014

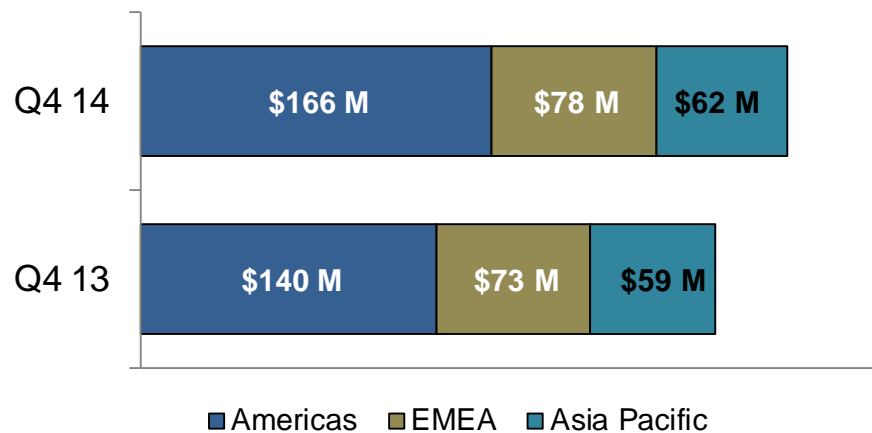


Asian currencies include:
AUD, CNY/RMB, KRW, JPY

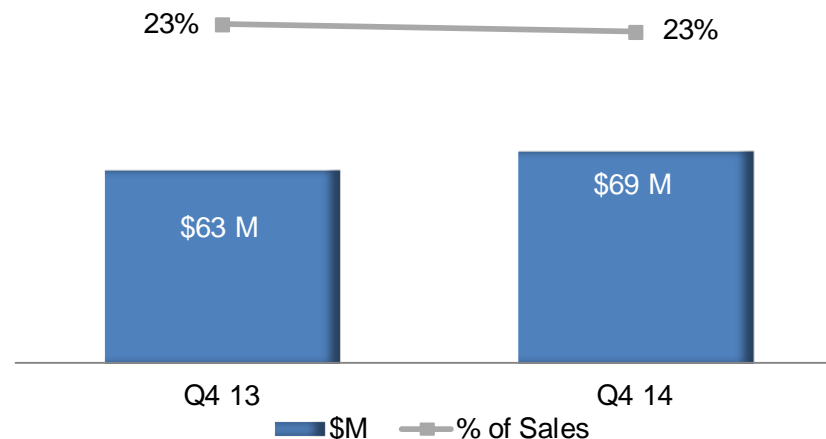
Fourth Quarter 2014 Results



Sales



Operating Earnings



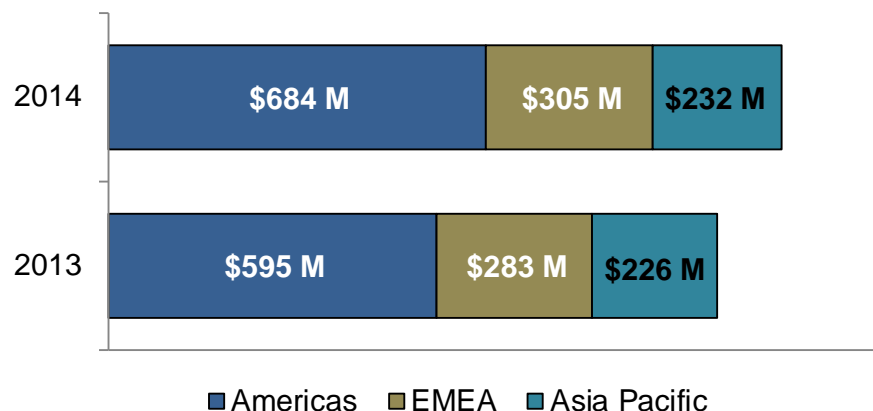
- Sales increase of 13% (16% at consistent exchange rates)
 - Acquired businesses sales of \$15 million account for 5 percentage points of growth
- Gross margin rate down slightly from fourth quarter 2013
 - Acquisitions negatively impacted consolidated margin: purchase accounting .5 percentage point and lower margin in acquired businesses .3 percentage point
- Operating earnings up \$6 million; as a percentage of sales down ½ percentage point from fourth quarter 2013
 - Acquired businesses generated \$1 million operating loss
 - Incremental expense investment in region and product expansion \$2 million
- Acquisition and divestiture costs were \$5 million in the quarter, including \$2 million in inventory step-up costs and \$3 million of acquisition / divestiture transaction costs

- Interest expense \$5 million up from \$4M fourth quarter 2013
- Liquid Finishing dividend \$4 million (post-tax), the same as fourth quarter 2013. Dividend income will cease when the investment is sold
- Tax rate of 27% is lower than fourth quarter 2013 rate of 28½%
 - R&D credit reinstated for 2014 in fourth quarter
 - Full year impact of R&D credit in Q4 partially offset by a reduction in foreign earnings at lower rates

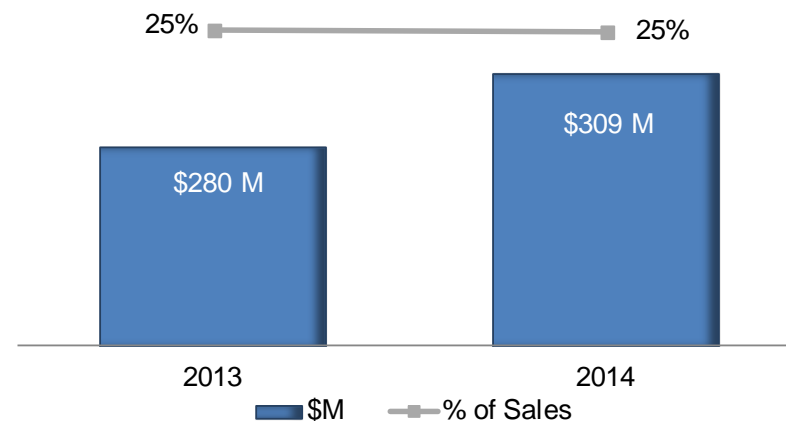
December 2014 Year-to-Date Results



Sales



Operating Earnings



- Sales increase of 11%, no net impact from currency translation

Volume/Price, 7%

Acquisitions, 4%

- Gross margin rate down slightly from 2013
 - Acquisitions negatively impacted consolidated margin: purchase accounting .2 percentage point and lower margin in acquired businesses .3 percentage point
 - Changes in product mix
- Operating earnings up \$29 million; as a percentage of sales is consistent with 2013
 - Acquired businesses contributed \$2 million to operating earnings
 - Operating expenses, as percentage of sales, down ½ percentage point from 2013
 - Incremental expense investment in region and product expansion \$8 million
- Acquisition and divestiture costs were \$8 million in 2014, including \$2½ million in inventory step-up costs and \$6 million of acquisition / divestiture transaction costs

- Interest expense \$19 million up from \$18 million in 2013
- Liquid Finishing dividend \$28 million (post-tax), the same as 2013. Dividend income will cease when the investment is sold
- Tax rate of 28½% is higher than 2013 rate of 27%
 - Lower rate in 2013 reflects two years of R&D credits, compared to one year of credits in 2014

Operating Earnings



Change in Operating Earnings

2013 Operating Earnings (\$M and % of sales)

Translation effect

Volume, mix, cost, price

Effect of acquired businesses on operating earnings leverage

Effect of inventory step-up and acquisition costs

Incremental investment in regional and product expansion

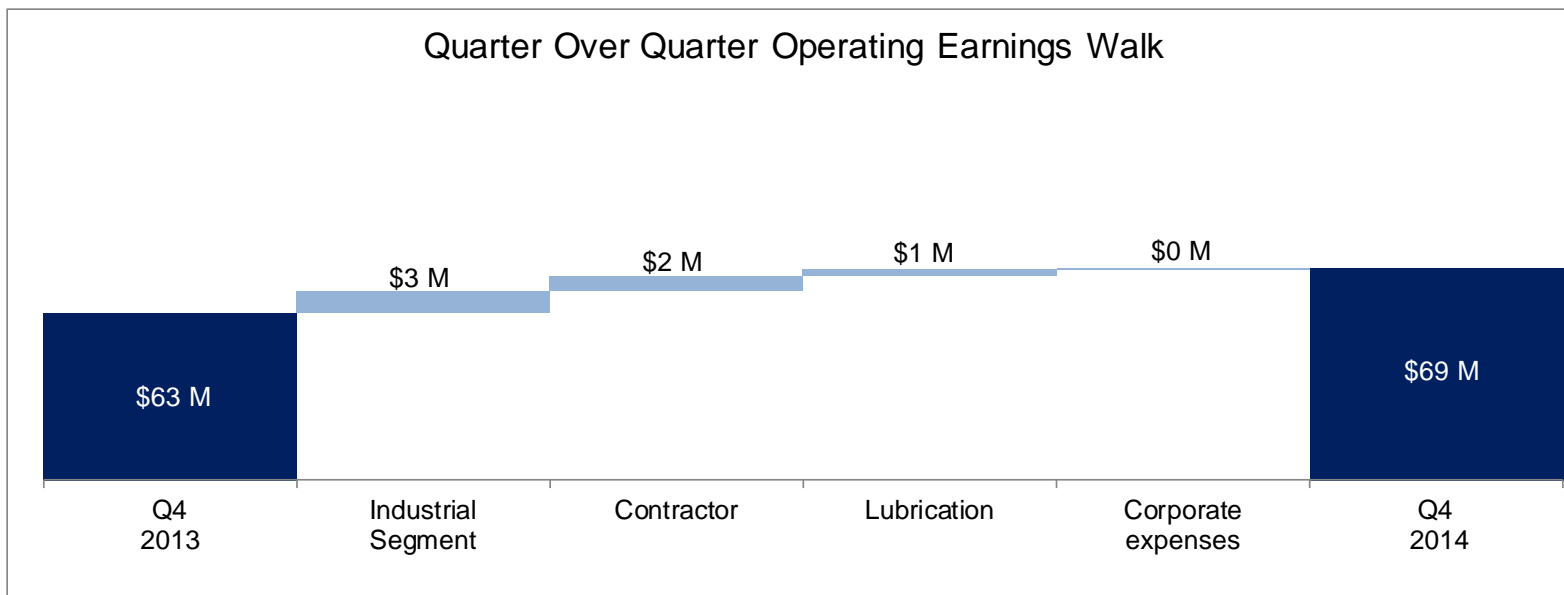
Pension and stock compensation

Expense leverage

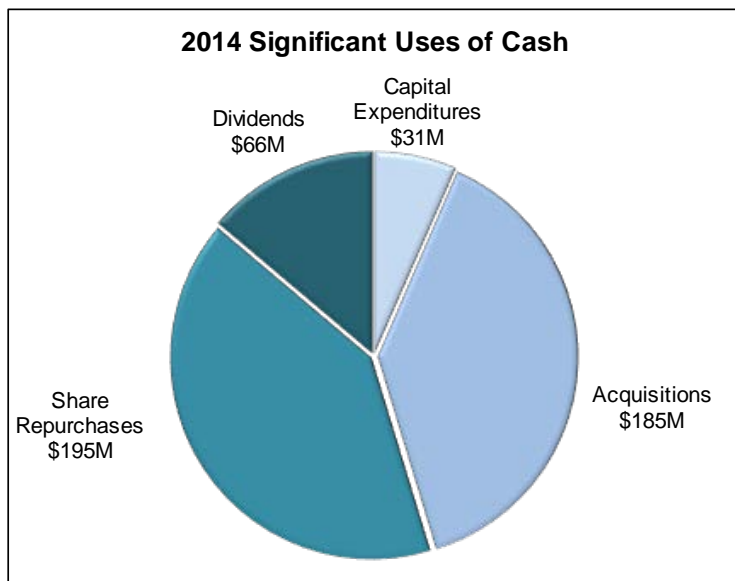
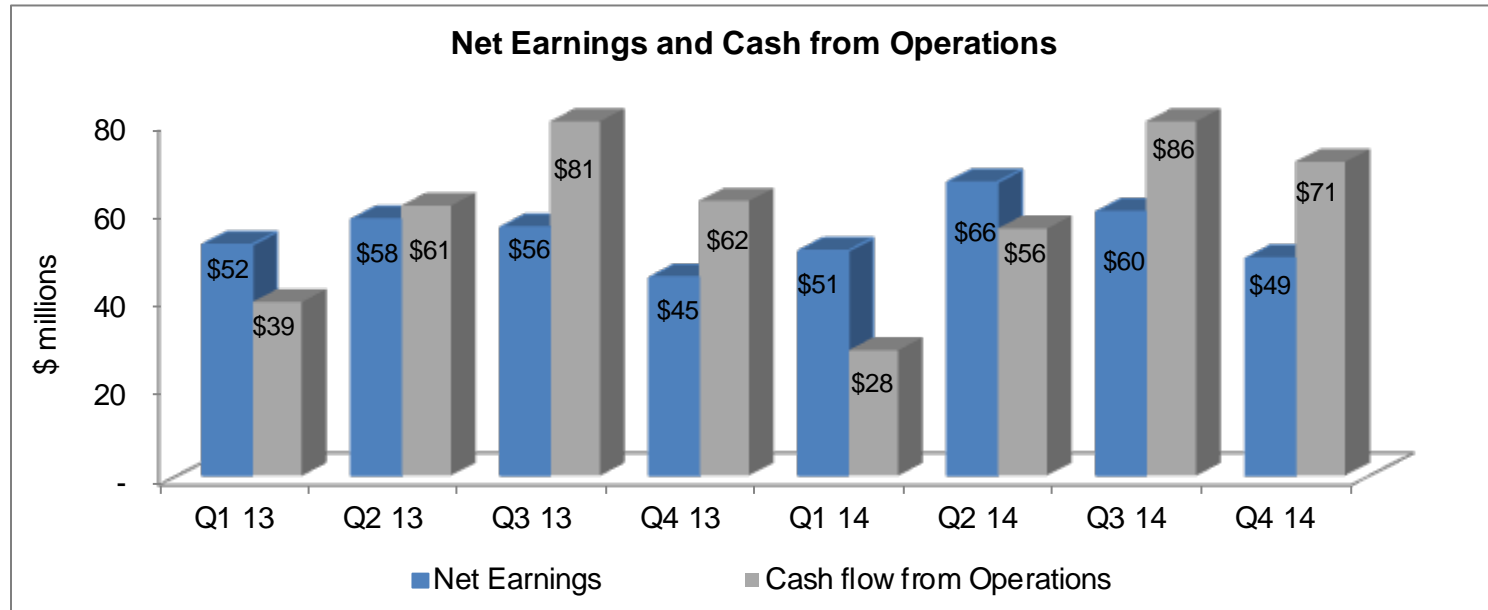
2014 Operating Earnings (\$M and % of sales)

	Fourth Quarter		Year-to-Date	
2013 Operating Earnings (\$M and % of sales)	\$ 63	23 %	\$ 280	25 %
Translation effect	(3)	—	(3)	—
Volume, mix, cost, price	16	1	43	—
Effect of acquired businesses on operating earnings leverage	2	(1)	6	—
Effect of inventory step-up and acquisition costs	(4)	(1)	(5)	(1)
Incremental investment in regional and product expansion	(2)	(1)	(8)	(1)
Pension and stock compensation	3	1	5	1
Expense leverage	(6)	1	(9)	1
2014 Operating Earnings (\$M and % of sales)	<u>\$ 69</u>	<u>23 %</u>	<u>\$ 309</u>	<u>25 %</u>

Quarter Over Quarter Operating Earnings Walk



Cash Flow and Liquidity



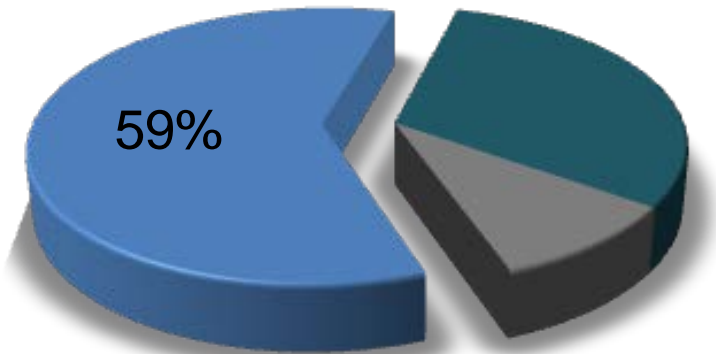
- 2014 year-to-date cash flow from operations \$241 million versus \$243 million in 2013
 - Increase in accounts receivable and inventory higher than 2013, in line with volume growth; days sales outstanding within normal range
- Long-term debt \$615 million, up \$200 million from 2013
 - Interest expense \$19 million, up \$1 million from 2013
- Liquid Finishing dividends (post-tax) \$28 million, the same as 2013
 - Dividend income will cease when the investment is sold

Other Discussion Items



- Capital expenditures expected to be approximately \$35 million in 2015
- 2015 annualized tax rate is projected to be approximately 32-33%
 - The Federal R&D tax credit has not been extended into 2015. If approved, the 2015 annualized tax rate is expected to be approximately 31-32%
 - Assumes no (post-tax) dividends from Liquid Finishing in 2015 and excludes gain on sale
- Share repurchases have continued into 2015; goal of weighted average diluted shares outstanding less than or equal to 60 million shares
- Unallocated corporate expenses, excluding acquisition and divestiture costs, are expected to be approximately \$10 million higher in 2015, due primarily to increased pension expenses
- At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2014, the unfavorable movement in foreign currencies would be a headwind of approximately 4% on sales and 10% on earnings
- Acquired four businesses in December 2014 and January 2015 with a combined purchase price of \$185 million. When combined with the acquisition of Alco Valves in October 2014, excluding transaction costs and charges related to inventory step-up, these acquisitions are expected to provide approximately 13 to 15 cents of accretion to EPS in 2015

Industrial Equipment Results



2014 Industrial Segment Sales as % of Consolidated



Sales (\$M)	Fourth Quarter			Year-to-Date		
	2014*	2013	Change	2014*	2013	Change
Americas	\$ 87	\$ 71	22 %	\$ 327	\$ 276	18 %
EMEA	60	55	11	224	206	9
Asia Pacific	48	46	3	176	170	3
Total	\$ 195	\$ 172	13 %	\$ 727	\$ 652	12 %
Operating Earnings	\$ 58	\$ 55	5 %	\$ 225	\$ 211	7 %
% of sales	30 %	32 %		31 %	32 %	

* Includes sales from acquired businesses of \$15M QTD and \$41M YTD 11

Industrial Equipment Results



Change in % of sales

2013 Operating Earnings (percentage of sales)

Translation effect

Mix, product cost and pricing

Effect of acquired businesses on operating earnings leverage

Effect of inventory step-up and acquisition costs

Incremental investment in regional and product expansion

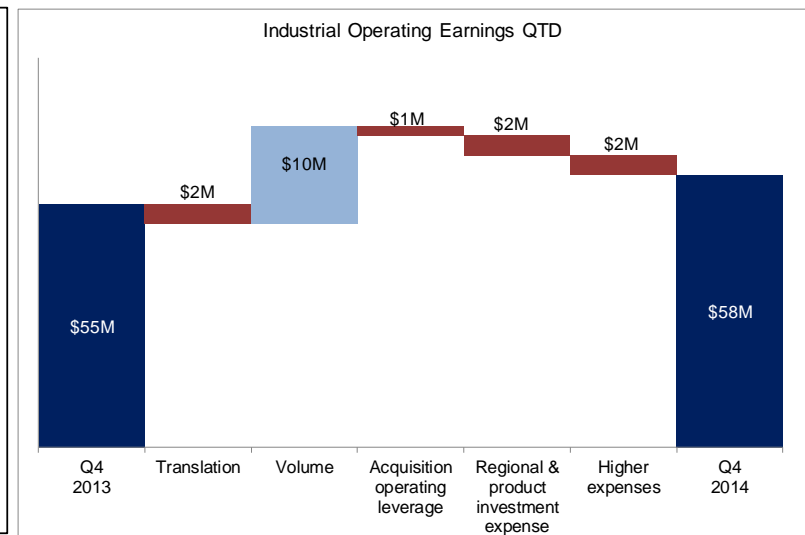
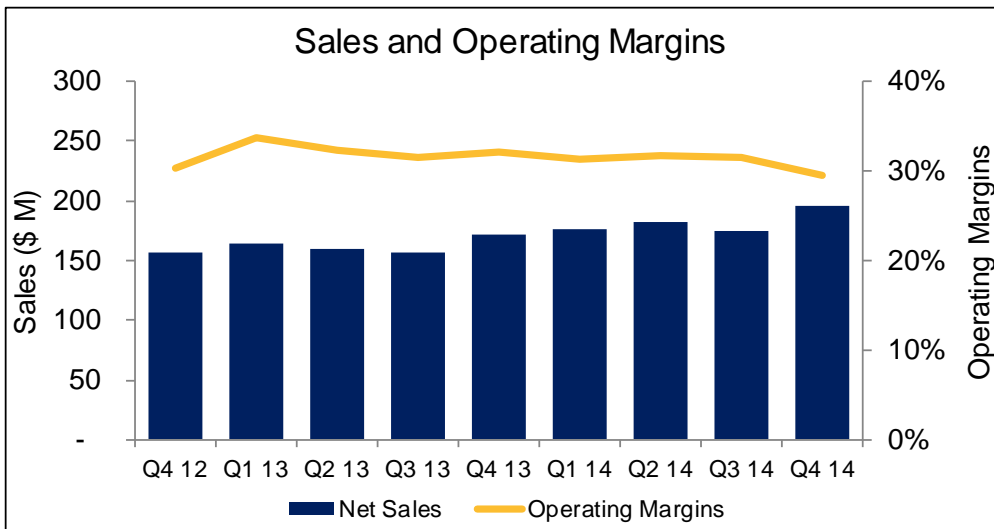
Expense leverage

2014 Operating Earnings (percentage of sales)

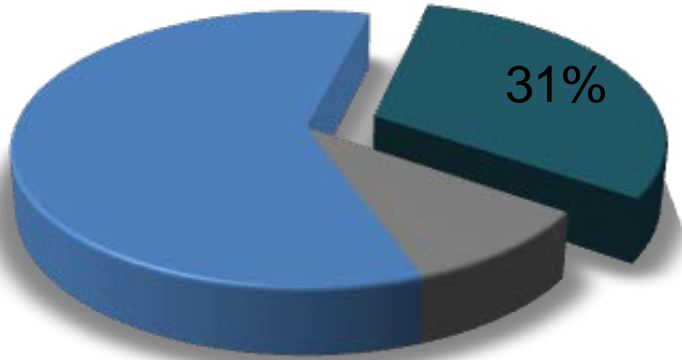
Fourth Quarter

Year-to-Date

32 %	32 %
—	—
1	—
(2)	(1)
(2)	—
(1)	(1)
2	1
30 %	31 %



Contractor Equipment Results



2014 Contractor Sales as % of Consolidated



Sales (\$ M)	Fourth Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
Americas	\$ 54	\$ 48	12 %	\$ 265	\$ 237	12 %
EMEA	16	16	—	71	67	5
Asia Pacific	10	9	11	40	39	3
Total	\$ 80	\$ 73	9 %	\$ 376	\$ 343	10 %
Operating Earnings	\$ 12	\$ 10	21 %	\$ 82	\$ 72	13 %
% of sales	15 %	13 %		22 %	21 %	

Contractor Equipment Results



Change in % of sales

2013 Operating Earnings (percentage of sales)

Translation effect

Product mix

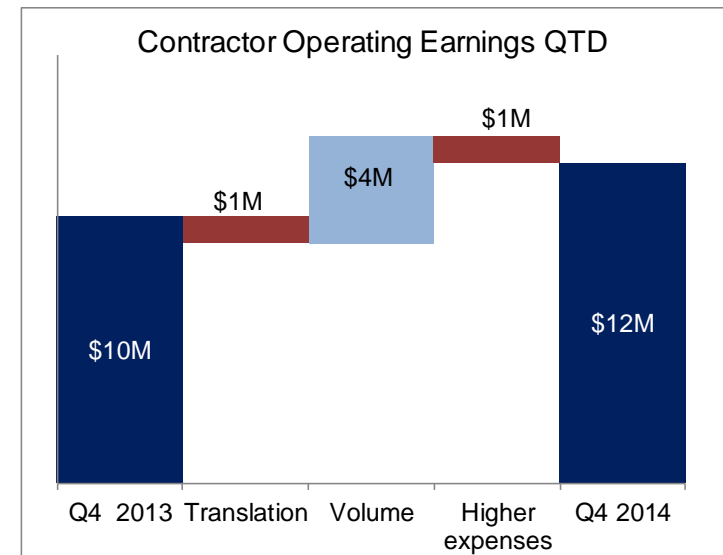
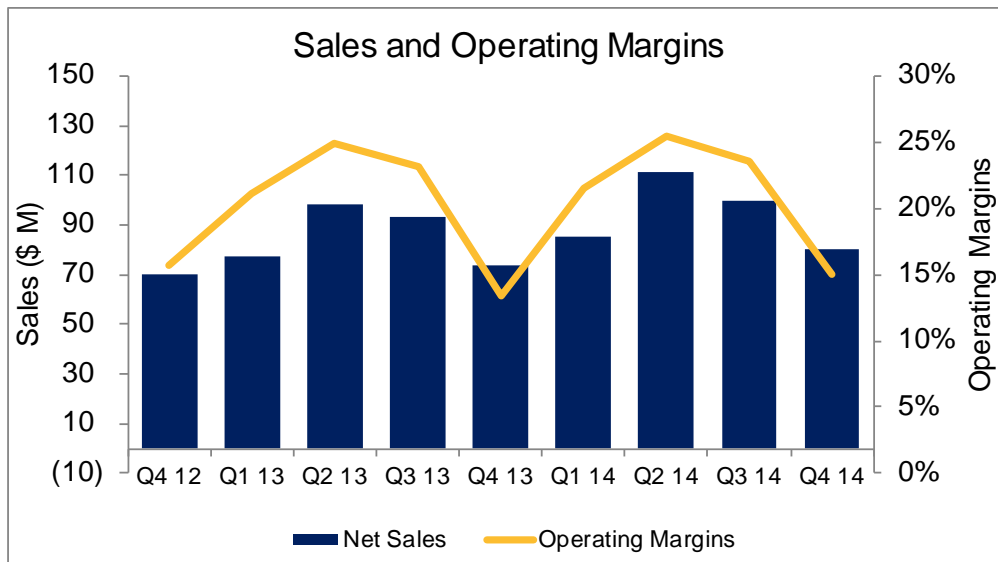
Expense leverage

2014 Operating Earnings (percentage of sales)

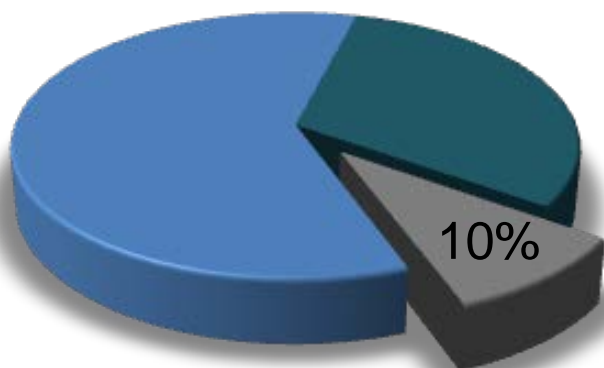
Fourth Quarter

Year-to-Date

13 %	21 %
(1)	—
1	(1)
2	2
<u>15 %</u>	<u>22 %</u>



Lubrication Equipment Results



2014 Lubrication Sales as % of Consolidated

Sales (\$ M)	Fourth Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
Americas	\$ 25	\$ 21	21 %	\$ 92	\$ 82	13 %
EMEA	2	3	(10)	10	10	(1)
Asia Pacific	4	3	9	16	17	(7)
Total	\$ 31	\$ 27	16 %	\$ 118	\$ 109	8 %
Operating Earnings	\$ 7	\$ 5	26 %	\$ 26	\$ 23	17 %
% of sales	21 %	20 %		22 %	21 %	

Lubrication Equipment Results



Change in % of sales

2013 Operating Earnings (percentage of sales)

Translation effect

Pricing, mix and product cost

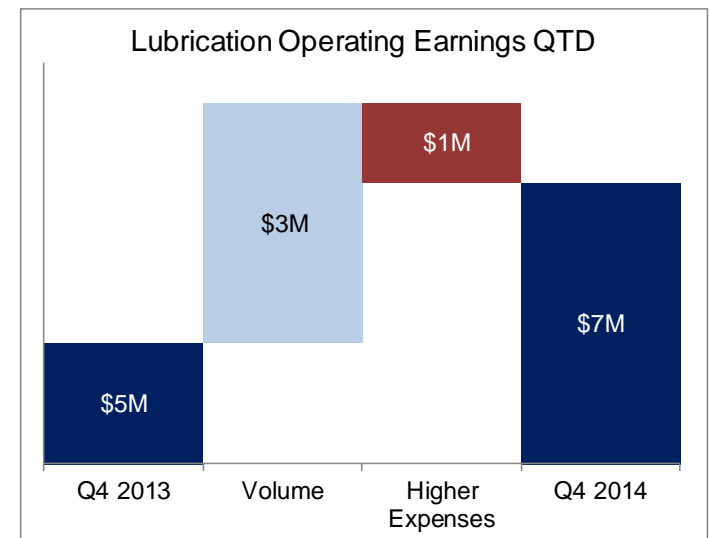
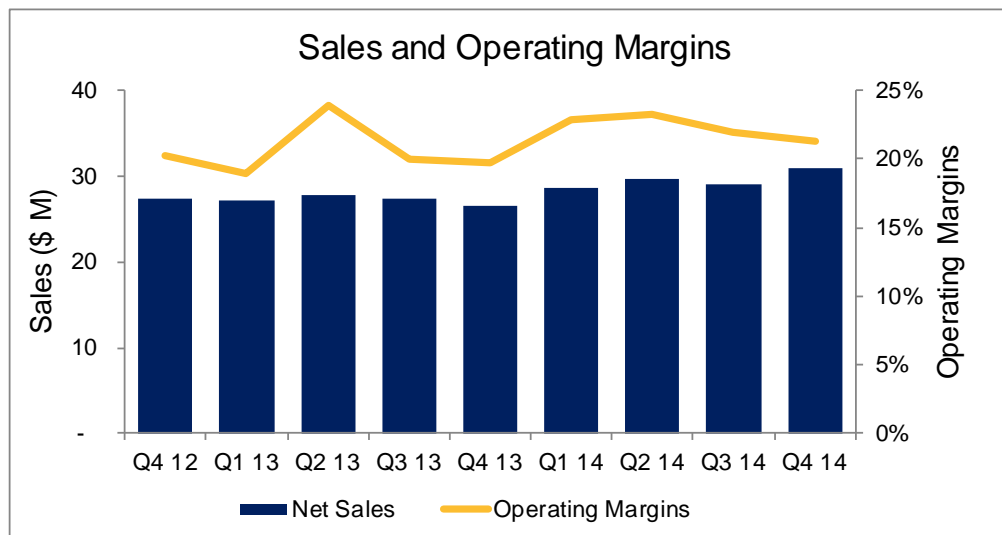
Expense leverage

2014 Operating Earnings (percentage of sales)

Fourth Quarter

Year-to-Date

20 %	21 %
(1)	(1)
—	1
2	1
<u>21 %</u>	<u>22 %</u>



Divestiture of Liquid Finishing Business Assets



- The Federal Trade Commission (FTC) issued its final Decision and Order in October 2014 requiring Graco to complete the sale of the Liquid Finishing business assets that were acquired in a larger transaction from Illinois Tool Works (ITW) in April 2012. The sale process must be completed in no more than 180 days
- Graco will continue to hold the Liquid Finishing business separate from its other businesses and maintain them as viable and competitive until a sale process is complete
 - The Liquid Finishing business assets are currently held as a cost-method investment on Graco's balance sheet and income is recognized based on dividends from current earnings
 - \$28 million (post-tax) dividends have been recognized in 2014. Once Graco completes the sale of the investment, there will be no further dividends from the Liquid Finishing business
- A definitive agreement to sell the Liquid Finishing business assets was announced on October 8, 2014
 - The \$590 million cash transaction is anticipated to close in the first half of 2015 and is subject to regulatory and other customary closing conditions
 - The divestiture is expected to be in compliance with the final Decision and Order issued by the FTC

Net Proceeds From Sale to be Approximately \$570 million



- The all-cash sale price for the Liquid Finishing business assets is \$590 million, subject to normal post-closing adjustments
- Net proceeds from the sale are expected to be approximately \$570 million
 - The difference between the purchase price and the net proceeds is due to:
 - Tax expense related to the expected gain on the sale
 - Cash balances in the held separate businesses
 - May be distributed in form of dividends or purchase price adjustment
 - Dividends may occur in a period different than the period in which the sale closes
 - Transaction costs, including investment banker and legal fees

Acquisition – High Pressure Equipment

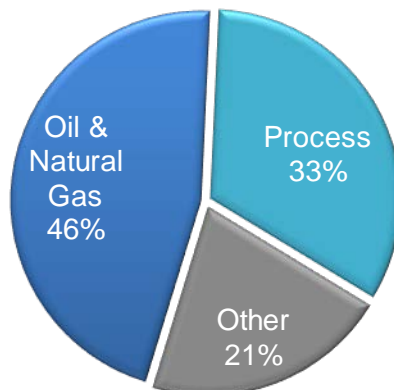


- High Pressure Equipment Company (HiP), an Erie, Pennsylvania based manufacturer of high quality, high pressure valves used in Oil & Natural Gas (O&NG) and other industrial processes was acquired on January 20th, 2015

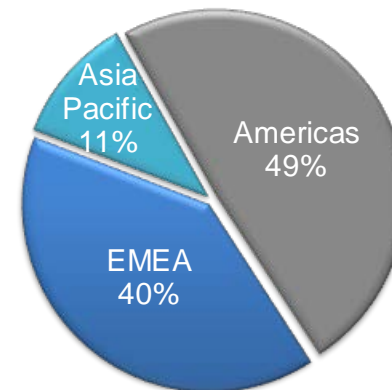


- The acquisition was an all cash transaction which closed for \$160 million and is subject to normal post-closing purchase price adjustments

Sales by Industry*



Geographic Mix*



*Management estimates



move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

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