

REFINITIV STREETEVENTS

# EDITED TRANSCRIPT

GGG.N - Q3 2025 Graco Inc Earnings Call

EVENT DATE/TIME: OCTOBER 23, 2025 / 3:00PM GMT

## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Christopher Knutson** *Graco Inc - Vice President, Controller and Chief Accounting Officer*

**Mark Sheahan** *Graco Inc - President, Chief Executive Officer, Director*

**David Lowe** *Graco Inc - Chief Financial Officer, Treasurer*

## CONFERENCE CALL PARTICIPANTS

**Deane Dray** *RBC Capital Markets Inc - Analyst*

**Michael Halloran** *Robert W. Baird & Co Inc - Analyst*

**Saree Boroditsky** *Jefferies LLC - Equity Analyst*

**Bryan Blair** *Oppenheimer & Co Inc - Analyst*

**Andrew Buscaglia** *Exane Bnp Paribas - Equity Analyst*

**Joe Ritchie** *Goldman Sachs Group Inc - Analyst*

**Mitchell Moore** *KeyBanc Capital Markets Inc - Analyst*

**Matt Summerville** *DA Davidson & Co - Analyst*

**Walter Liptak** *Seaport Research Partners - Analyst*

**Brad Hewitt** *Wolfe Research LLC - Equity Analyst*

## PRESENTATION

### Operator

Good morning, and welcome to the third-quarter conference call for Graco Inc. If you wish to access the replay for this call, you may do so by visiting the company website at [www.graco.com](http://www.graco.com). Graco has additional information available in the 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 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 2024 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](http://www.graco.com), and the SEC's website at [www.sec.gov](http://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 Chris Knutson Vice President, Controller and Chief Accounting Officer.

---

### **Christopher Knutson** - *Graco Inc - Vice President, Controller and Chief Accounting Officer*

Good morning, everyone, and thank you for joining our call. I'm here today with Mark Sheahan and David Lowe. I will provide a brief overview of our quarterly results before turning the call over to Mark for more commentary.

Yesterday, Graco reported third quarter sales of \$543 million, an increase of 5% from the same quarter last year. Excluding acquisitions, which contributed 6% growth and currency translation, which contributed another 1% growth, organic sales declined 2% in the quarter. Reported net

earnings increased 13% to \$138 million or \$0.82 per diluted share. During the quarter, we recognized a \$14 million noncash gain from a reduction in the fair value of contingent consideration related to last year's acquisition of COROB. This gain is an unallocated corporate operating expense, excluding the impact of excess tax benefits from stock option exercises and this contingent consideration fair value gain, adjusted non-GAAP net earnings was \$0.73 per diluted share, an increase of 3%.

The gross margin rate was flat compared to the same quarter last year. The effects of our targeted interim pricing actions started to be realized during the quarter, offsetting higher product costs resulting from lower factory volume, unfavorable effects of lower margin rates from acquired operations and incremental tariffs. Tariffs affected product costs by \$5 million in the quarter, resulting in a 100 basis point decline in gross margin rate. Operating expenses decreased \$6 million or 5% in the quarter. The decline was driven primarily by the recognition of the noncash gains related to the fair value contingent consideration reduction.

Excluding this gain, total operating expenses increased \$8 million or 6%, driven by incremental expenses from acquisitions of \$10 million. Excluding expenses of acquired operations, operating expenses declined \$2 million.

Adjusted operating earnings increased \$5 million or 3% during the quarter. Operating earnings as a percent of sales was 28% for the quarter and consistent with the same period last year. The adjusted effective tax rate was 20%, which is consistent with our expected full year tax rate of 19.5% to 20.5% on an as-adjusted basis. Cash provided by operations totaled \$487 million for the year, an increase of \$51 million or 12%.

Improved inventory management from consolidating operations under One Graco and lower sales and earnings-based incentive payments drove the increase. Cash provided by operations as a percentage of adjusted net earnings was 146% for the quarter and 132% for the year-to-date. Significant year-to-date uses of cash include share repurchases of 4.4 million shares, totaling \$361 million, dividends of \$138 million and capital expenditures of \$34 million. These cash uses were offset by share issuances of \$32 million.

A few comments as we look forward to the rest of the year. Based on current exchange rates, assuming the same volumes, mix of products and mix of business by currency, as in 2024, movement in foreign currencies would have a 1% favorable impact on net sales and net earnings for the full year. Finally, projected unallocated corporate expenses and capital expenditures are \$35 million to \$38 million and \$50 million to \$60 million for the full year, respectively.

I will now turn the call over to Mark for further segment and regional commentary.

---

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Thank you, Chris. Good morning, everyone. I'm pleased to report that sales were up 5% this quarter, with acquisitions contributing a strong 6% growth. This more than offset a modest 2% decline in organic revenue.

Our Contractor segment continues to face headwinds from subdued construction activity and cautious consumer sentiment in North America. The Industrial segment delivered a 1% sales increase, supported by acquisitions and favorable exchange rates. While growth occurred in many product categories, overall sales were set back by the timing of Powder Finishing System sales compared to last year. Expansion markets performed well, led by momentum in the semiconductor space. Third quarter order activity increased mid-single digits across all segments, driven by strategic pricing and steady demand.

Last year's third quarter had a nearly \$25 million backlog reduction. Excluding this reduction, organic sales grew 4%, aligning with third quarter order rates. Backlog levels are stable and no significant challenges are expected for the rest of the year. Details on backlog reduction by segment are included in the conference call slide deck.

We announced targeted price increases during the third quarter, and those efforts are gaining traction. These actions are helping to offset the impact of tariffs, which added \$5 million in cost for third quarter and \$9 million year-to-date. While pricing has not fully covered these costs yet, we expect this by the end of the year. Turning to segment performance.

The Contractor segment sales increased 8% for the quarter with acquisitions contributing 11%, more than offsetting a 3% decline in organic sales. Affordability concerns have continued to affect the North American construction market with declines in both the Pro Paint and the Home Center channels. Channel partners are managing inventory tightly in response to current conditions.

On a positive note, Protective Coatings equipment sales had their best performance of the year. And Pavement products saw increased demand supported by infrastructure investments. Incoming orders grew low single digits in the quarter, giving us confidence heading into the fourth quarter.

Industrial segment sales increased 1% in the quarter, with acquisitions and currency offsetting a 2% organic revenue decline. The Americas grew 3% organically, led by good demand in vehicle service and automotive OEM projects, particularly in Liquid Finishing Systems and Sealants and Adhesives. In EMEA, gains in Process Manufacturing were not enough to offset a drop in Vertical Powder Coating Systems due to project timing.

In Asia Pacific, there was solid demand in mining, which was not enough to offset lower solar and EV investments. Despite lower organic sales overall, profitability was extremely strong with incremental margins of 220% year-to-date. Expansion market sales were up 3% with good activity in semiconductor products, partially offset by declines in the Environmental business. While semiconductor has grown this year, we are still below peak revenue and continue to face some challenges in China. Margins have been strong throughout the year, though they may be volatile quarter-to-quarter due to fluctuating volumes.

Moving on to our outlook. Year-to-date sales are up 5%, supported by the 6% increase from acquisitions, which have more than offset a slight organic revenue decline of 1%. Heading into the fourth quarter, order rates are satisfactory and year-over-year comparisons in the Contractor segment are becoming easier. As a result, we're keeping our full year revenue guidance of low single-digit growth on an organic constant currency basis. That concludes our prepared remarks.

Operator, we're ready for questions.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Deane Dray, RBC.

---

### Deane Dray - RBC Capital Markets Inc - Analyst

Maybe we can start with since macro overlay and expectations is so important. Kind of -- can you zip through the end markets and regions. Just the performance of what stands out versus expectations up or down? And then any kind of the forward look, the leading indicators day rates, what you saw the first -- the last six weeks of orders too, please?

---

### Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yes. So I think it's a continuation really, a lot of the themes that we've been talking about all year. I think that in terms of like the Industrial end markets, I wouldn't characterize the demand is robust, but I would also say that people are still ordering products, and there's targeted opportunities in some of the areas that we talked about, like vehicle service and our Process Pump segment, which have been pretty good.

And also, our Liquid Finishing segment is a lot of customers are looking at converting from air operated to electric. That's created some opportunities for us as well. So it's kind of hit-and-miss depending upon the customer type, the end market that we're in.

The North America market has probably been the one where we've unfortunately seen more caution from customers just because the changing landscape with respect to the tariff situation. I think it has created some caution in some of the end markets and some of the customers. We're hopeful that, that kind of cleans up. But if I were to put my hat on from the end of last year, when we were putting our plans together, I think we were more hopeful that we would have a more stable environment in North America than what we've experienced. Our teams are still working really hard.

They're still executing. There's still opportunities out there. But again, the environment is not what I would characterize as robust. China has really actually held up pretty well for us this year, which after a couple of years of declines there, it's been nice to see.

And again, it really depends on the end markets that you're in, the mining industry, in particular, in Asia Pacific and maybe to a lesser extent China, has held up pretty well. And some of the traditional industrial markets, including Adhesives, Sealants and Liquid Finishing and the Powder business have actually held up pretty well in China. So I would say that China has been a positive surprise maybe for us after a couple of years of tough business over there.

And probably the other big surprise is just the uncertainty in some of the end markets with our Industrial business. Contractor, I mean, I know we'll get into it on this call. But the issue there, again, is just affordability. Home affordability issues primarily in North America. Nothing too surprising.

We're hopeful that we get a little bit of a break on that with rates coming down. The environment has been tough. Last year, as you know, we had the lowest level of housing sales in this country since 1995, and this year is even lower than that. So turnover is good for us. Houses need to sell.

When houses sell, they hire contractors to paint and they fix up and they remodel and it's just good for the overall health of our Contractor business. It will get better. We're very well positioned once things firm up on the demand side and we get some volume growth. The P&L is in great shape. Profitability is super high.

Incremental margins look good. Cash flow is extremely strong. So it's really just making sure that we're all set up for what will be better volume days ahead in Contractor.

---

**Deane Dray** - RBC Capital Markets Inc - Analyst

And the leading indicator look, day rates, October, et cetera.

---

**Christopher Knutson** - Graco Inc - Vice President, Controller and Chief Accounting Officer

When we look at the rates and what we see coming out from some of those indicators, pretty flat, I would say, on -- in terms of housing starts, with a 30-year interest rate is now at 6.1%, which is lower than it's been in quite some time. So we're hoping that as those rates start to trend downwards, that will see some improvements come with housing movement, as Mark had previously talked about.

---

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes, still a pretty sluggish environment, Dean, and we're hopeful it's going to get better, but I don't think our results are really all that bad. When you look at how hard this housing and construction industry has been hit. I never -- I don't like the fact that we're down a little bit organically in Contractor. But given the pain that's gone on in that market for a while here, it's been -- a challenge to the team, has dealt with an admirable way.

---

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

Yes, I would just add that a fairly significant portion of that market, as Mark touched on, with resale acting so slow is remodeling activity. That's one of the areas that affects both our Pro Paint side and our -- our Home Center side of our business. That actually, this was the first year that the

group that does forecasting around that Harvard University, projected that category to grow that activity to grow this year that really hasn't happened. So I think that, that holds us back and we hear some of our channel partners talk about the same things, both on the Home Center side and as well as on the Paint Materials side of the business.

---

**Deane Dray** - *RBC Capital Markets Inc - Analyst*

And then just a follow-up. I know it's a rare event for you to do a second price increase in September. But just kind of give us some color about how it was introduced? Are they all sticking and you expect this to fully offset the tariffs? What's the time frame there?

---

**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes. Good question. We did announce price increases in the early third quarter. We'd like to give our channel partners enough time to digest those before we actually implement them. So we didn't actually start to really have those take effect until late in the third quarter.

But I would say sort of low to mid-single-digit kinds of increases across all business units, in all of the regions with the exception of the Pro Paint channel in North America and the Home Center channel in North America, and those are queued up to go in January.

---

**Operator**

Mike Halloran, Baird.

---

**Michael Halloran** - *Robert W. Baird & Co Inc - Analyst*

Can you unpack what you're implying for the fourth quarter here. If I -- is this mainly through the pricing that hasn't come in fully being more ramped in the fourth quarter comp. Is it something you're fundamentally seeing in the demand outlook, like you be a bit more confidence in the fourth quarter. Because the inflection of growth is above normal seasonality. And so I just want to make sure I understand what those puts and takes are, to get you to that positive fourth quarter number that's implied with the guide?

---

**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes. I think we're -- we kept the guide. I think that, obviously, you'll do the math, and you guys can figure out that it looks like we're going to be on the low end of the guide when we get there. We're not likely to get all the way up to the high end of the low single-digit guidance. But despite where we're at year-to-date, we're down about 1%.

We think with our incremental pricing actions that we put in, the order rates have been stable, that somewhat better in the third quarter than what we had seen earlier in the year. Obviously, there's some areas of business that are doing better than others. And then we also have a fairly easy comparison in Q4 with the Contractor business. So you sort of put all that together and our team, our forecasts are rolling up to hitting in somewhere in that low single-digit range.

---

**Michael Halloran** - *Robert W. Baird & Co Inc - Analyst*

So to be clear, it's not like you're assuming there's something fundamentally getting better in the fourth quarter. It's more steady and then you put the other factors in play and then that's how you get to that guide?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Exactly. Yes. I think that's fair.

---

**Michael Halloran** - Robert W. Baird & Co Inc - Analyst

And if you think about kind of the second part of the second question, Dean asked there. When does price cost be positive for you guys? So when does that drag-in? Is it with those price increases that you said were coming in the first quarter. When you hit the fourth quarter here, does that dynamic normalize out?

---

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. I think we'll definitely see it here in Q4. Actually, if you look at Q3 gross margin, if you were to back out the impact of the COROB acquisition, our margins were actually up in Q3. So we are doing okay on the price cost. We'll see that roll through here in Q4 as well.

---

**Operator**

Saree Boroditsky, Jefferies.

---

**Saree Boroditsky** - Jefferies LLC - Equity Analyst

You alluded to this just a second ago on the price, but it looks like Contractor was the only segment to have a large headwind from product cost. I think you mentioned putting in price increases in North America in January. Just maybe talk to your ability to push through price in that segment versus the others?

---

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes, it's good, but we are respectful of the fact that we deal with large channel partners and conversations happen around this time of the year. They start at that level, we intentionally did not try to push price midyear with them, I think is appreciated because some of our competitors did. So we fully expect that we'll be able to realize some pricing starting at the beginning of the year with our larger channel partners. We did raise prices in Contractor in the Spray Foam category and the High-performance Coatings category and in our Line Striping and Texture businesses. So it's not like we didn't raise prices at all in Contractor.

We did hit those categories with the other industrial categories in the September timeframe.

---

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

And you will see in our international locations, the product lines, especially we're talking about the Pro Paint line, which, of course, is largely sold through some of these big channel partners here in North America. Price adjustments will be processed there now, and we'll see some benefit even before the end of the quarter in that category, too.

---

**Saree Boroditsky** - Jefferies LLC - Equity Analyst

Appreciate the color. It looks like you turned a little less negative APAC in expansion. Just maybe some -- an update on what you're seeing there and the key driver of that decision to update that pie chart?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. I think that the Asia Pacific region, as I said earlier, I think overall, the China business has actually held up better than maybe what we thought. The comments that I made during the opening remarks were targeted at the semiconductor space, where despite decent levels of demand, there's still some challenges in getting licenses and getting products into China, which we are hopeful, we'll get cleaned up at some point. That's really, I think, part of the reason why we moved a little bit to a less optimistic view in that region overall. I wouldn't call it a dramatic change, but just kind of a fine-tuning of where we see things at here as we make our way through the year.

**Operator**

Bryan Blair, Oppenheimer.

**Bryan Blair** - Oppenheimer & Co Inc - Analyst

So you're a few quarters in now with the new organizational structure. And obviously, you've been navigating a pretty choppy-sluggish backdrop. To date, how is the more market and customer-centric framework helped your teams to navigate this volatility in better position for recovery? And then on the side of M&A strategy, has there been a noticeable difference in funnel development? Just curious what, quote unquote, proof points you could call out?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Thanks for asking. On the One Graco side of the house, I think that it's still fairly early days. But for sure, we're seeing a lot of margin improvement from some of the cost initiatives that we took last year, just look at the industrial incremental margins, it's probably a good benchmark for you in terms of what we've done there. And we're on track with the targeted number that we had given you last year. Those things are moving forward quite well.

Commercially, the teams are really starting to gel with respect to having distributors be able to carry multiple product lines that they weren't in the past. So we're seeing like upticks in some of the MRO business because those are broad-ranging distributors that carry multiple products, and they're very interested in being able to get access to some things like our lubrication products, for example.

We're also getting, I would say, better penetration in some of the international markets like down in Mexico, where historically maybe we're a little bit more protective in terms of who would get access to products like our Quantum Pumps which are going into a lot of different applications on the process and sanitary side. Well, now we've opened that up a bit, and we're seeing some traction there as well. The teams are working well, but it is still early days. I mean, there's growing pains that happen whenever you put multiple business units together, and then you also put the regions together.

But I'm very happy with what I'm seeing and what I'm hearing from the teams. When I meet with customers, distributors, they're really happy. Because they view this as us taking down a lot of the walls that maybe prevented them from being able to sell different product categories that they walk by applications every day and they weren't able to have access to, let's say, for example, lubrication products.

Well, now they have that. So it's really a matter of getting them trained, making sure that they've got the opportunities. And then if they do and they're trained, we're going to open up those channels for them. So I'm very happy.

On the M&A front, it's kind of a continuation. I like the pipeline. We've got a lot of companies in there. We're talking with them regularly. We're on top of any of the targets that we're interested in.

We've had some success this year. Obviously, with the Color Service acquisition that we announced during the quarter. There's other things in the pipeline that we're also excited about. But it is a -- for sure, it is a secondary or secondary to our organic growth strategy. We want to execute on M&A.

We like these businesses where they're technology based, where we think we can add some value or they're growing or we like the management team where we can add value, and we're continuing to push those types of opportunities pretty aggressively here at Graco. So hopefully, some stuff pops here over the next 6 to 12 months. But I think we're in a good spot.

---

**Bryan Blair** - *Oppenheimer & Co Inc - Analyst*

I appreciate the color. It looks like top line contribution from your acquisitions has been pretty solid, at least in combination. Maybe offer a quick update on COROB and Color Service integration. I know the latter is still quite early stage. Just how they're performing relative to the deal model to-date?

---

**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes. I think that for sure, COROB is coming in right where we thought it would be, which was our expectation was that we wanted to make sure that we retained what we had seen from them previously in the earlier year in terms of the revenue. So we feel really good about where that one's at. No surprises, great business, great management team, super excited on how we can help them collaborate here better in North America, particularly with some of the larger channel partners like the Home Centers and the Pro Paint side where their penetration isn't as good as some of their competition. So very good there.

Color Service, a brand new, it is part of the Gema Powder business. It's being managed by a leadership team that is actually in charge of running our SAT vertical lines business. They're both in Italy. They are closely located to one another. Those teams are really early days, but they've got ideas as well on how to integrate and how to implement some of the best practices that the game organization has shown over the years into the Color Service business model.

So we're excited about that one, too. It's a nice technology business. They're solving customers' problems. They're moving materials that people care about. It fits really well with what we're trying to do.

---

**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Yes. And I would just add on the Color Service side. They take us into some large markets that historically we haven't had a lot of exposure to like the textile market, tire market, and those could be good learnings in addition to, as Mark referred to, their powder technology expertise that our Powder Equipment business is quite excited about.

---

**Operator**

Andrew Buscaglia, BNP Paribas.

---

**Andrew Buscaglia** - *Exane Bnp Paribas - Equity Analyst*

I just want to dig in on one comment you've been making in the last several quarters on Vehicle Service. First of all, how big is that? And then it just seems to be an interesting market that's bucking a lot of trends you're seeing across I guess, general automotive? And what are the dynamics there driving such good growth for you guys?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. We don't break out the revenue on that, but it is a nice business for us. Actually, it was the business that Graco started with back in 1926. So we've been in it for quite a long time. I think that the teams would tell you that probably the biggest driver of the demand here more recently has been our focus on creating Fluid Management Systems that really track the information by vehicle in terms of the amount of fluids that are being dispensed.

So going back to these are materials that people care about. They're expensive, they matter, making sure that every single vehicle gets lubricated appropriately and that they're tracking the inventory of fluids that they need to be able to make sure that, that service is done correctly. And having that tie-in to the back office systems where they can do demand planning, order planning, schedule when the guy needs to come to take out the used oil, all those things. We bring a really nice package together for a lot of the larger fleets and auto dealerships and large users of this type of equipment, and that's really been a nice recurring theme for that group, but it started with the product and the technology.

---

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

And I would just add that motivating these dealers that Mark mentioned, is the fact that along with your used car activity, this is a service -- is a very profitable area for them, and anything they can do to expand the share of wallet of either the customers or the manufacturers during the early years of a new car service period is very interesting to them.

---

**Andrew Buscaglia** - Exane Bnp Paribas - Equity Analyst

Okay. And your free cash flow, it's been delivering really strong conversion lately. You guys probably should do over 100% free cash flow conversion this year. I think that's the second year in a row now, and you're typically historically more like an 80% to 90% converter. Is this kind of the new normal going forward? And what is behind that? And how sustainable is that going forward?

---

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. I don't know that I would -- I don't know if I have a view on whether it's a new normal or not, but I would tell you that it is something that we're focused on. Cash matters. We know that. We are challenging our teams to make sure that we're not overutilizing the balance sheet when it comes to things like inventory and accounts receivable.

I will say that One Graco initiative helped clean some of that stuff up. Where in the past, you've had multiple factories, every division has their own factory. Every division had their own warehouse and operations around that. So being able to put that all under one organization has really driven a lot of improvements.

It's early days for us in terms of what we think we have available to us and improvements, but it is getting a lot of attention and focus on our end because we all know that it is a very important metric, and it is a value creator, for the company. And that's not something that we take lightly and it's not something that we have lost sight of. And I feel like we're in a really good spot to continue to drive improvements going forward. David, I don't know if you have anything else to add?

---

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

No. I think that even on the -- I think an important point is the One Graco point is that the -- we didn't take the steps as a strategy to drive operations. But as we talk to our operating team sort of quarter-by-quarter, they're finding opportunities where they can eliminate duplication activities, have these center of excellence that we've talked about before. And not only can it improve quality, it includes service levels. There's really money to be saved on the factory floor by eliminating those.

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. The only other thing I might add, too, just as I was thinking about it is over the last five years, we've added a lot of production capability here at Graco. We've expanded multiple facilities. We broke ground on a bunch of new ones. We're in really good shape, brick-and-mortar wise.

We did announce earlier in the year that we're going to be consolidating operations out of our Minneapolis factory into currently existing Graco facilities, both here in Minnesota, as well as in South Dakota, and down in Ohio. So being able to do that, those types of things, again, kind of lines up with One Graco. It might have been harder to do that, under the old regime, but now being able to really close a factory here and move all the production into these new state-of-the-art facilities is pretty exciting. Plus all the overhead cost infrastructure, things of keeping a factory up and running will go away.

---

**Operator**

Joe Ritchie, Goldman Sachs.

---

**Joe Ritchie** - Goldman Sachs Group Inc - Analyst

I was curious around the additional disclosure you guys gave this quarter on backlog. Because I historically just never thought of you guys as a backlog company. And so I just wanted to get into better understanding as to what you were trying to, I don't know, signal, not signal by providing that information?

---

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes, we thought it would be helpful, and that's why we put it in there. You're right. We don't normally talk about it. But when you just look at the third quarter in and of itself, last year, we did have a significant amount of backlog that flowed through the top line to the tune of about \$25 million, \$30 million, something like that. Some of that was in our Industrial business, on the Gema Powder side, on some of the Sealants Adhesive Systems that were being sold during that time period. And then part of it too is on the Contractor side as well, where they had some new products that were a little bit late on the launch cycle last year. So they had built up some orders and got those shipped out in Q3.

What I'll say is that right now, our backlog is about where it was at the beginning of the year, and we feel like that is a really good place to be in. We don't have any more headwinds. Our backlog is in the neighborhood of \$225 million, \$230 million. I'm looking at Chris, he's nodding his head. At one time, our backlog was \$500 million at Graco, and that was obviously when the supply chain crisis happened and all those orders come flying in and inflations hit and then everyone's put their orders in ahead of time.

So we've really unwound that now over the last two and a half three years, and we're at a point now where it's really back to a more or less a book-and-ship business with the exception of maybe the Gema Powder business, which is more project-based.

---

**Joe Ritchie** - Goldman Sachs Group Inc - Analyst

That's super helpful. And do appreciate that context. And I know, look, I know that you guys don't give guidance outside of our expectations for growth for the entire year. But as you kind of think about maybe kind of like an early framework for 2026. What's interesting to me is that you look across your different businesses and look outside of expansion, of late, you really hadn't seen a lot of growth across Contract or Industrial, but your margin expansion in Industrial, particularly has been notable.

I'm just trying to get a sense for how to think about maybe segment margins going forward into 2026? And so any kind of qualitative or quantitative comment would be helpful.

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

Well, I think the key -- the key to margins in our business model is going to be the volumes. I think that we believe one of our sort of bedrock way, as we think about our business is in all of our businesses, we have opportunities to improve margins. And I've demonstrated I'm not much of a forecaster in terms of when the business is going to turn. But I do believe with some volume growth, moderate volume growth in Industrial and in Contractor, when that happens, it can carry these margins that aren't bad today, I think, is your point to an even higher level.

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes, I would just say it too, that we're really good operators at Graco. I think we do a great job in terms of getting our teams oriented around making sure that we're not spending resources that we don't need to spend. And as we add into next year, I think that that's going to be the go in mantra that we're really going to keep a close eye on our expenses, manage that well.

We get some tailwind hopefully on some of the pricing actions that we've done. And if we get a little bit of help on the -- half of our business is tied in with commercial construction, housing, those end markets, contractor type markets, if we get any help on that. As David said, the volume will really, really help the equation.

**Operator**

Jeff Hammond, KeyBanc Capital Markets.

**Mitchell Moore** - KeyBanc Capital Markets Inc - Analyst

This is Mitch Moore on for Jeff. Maybe first, I know there's a lot of moving pieces with the macro right now, but how should we be thinking about the magnitude of the price increases for early 2026 in Contractor? And then more broadly for the segments, does the fact that this recent price -- you did this recent pricing action change your view on doing another price increase here in a couple of months?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. So we're not going to comment on the level of the pricing with the Home Centers and the Pro Channel is because those negotiations are happening and our teams are working. I don't want to say anything that is -- we'll put them in a bad spot. So I would expect that we're going to get what we are proposing, which will be reasonable. It will be fact-based.

It will be based on what we're seeing for input costs. We're very transparent. We share all that information with them, and also based on what we view pricing in the market to look like. So we're expecting that those will kick in the January time frame.

As of the rest of it, I think in terms of what else we might do in other business units, I'm going to leave that up to them. Obviously, to the extent that we think that we have the ability to raise prices again in 2026, we'll do that. But I think we are also cognizant of the fact that over the last three to five years, there's been a lot of pricing that's going on in our end markets.

So it's really competitive based and there will likely be some targeted price increases. But we're aware of the fact that the market where because of all the activity on the pricing front, including the stuff that we just did my preference would be to not push quite as hard as what we have.

**Mitchell Moore** - KeyBanc Capital Markets Inc - Analyst

That's helpful. And then just maybe sticking with pricing and competition and tariffs. I was just wondering, particularly with the DIY and Pro Paint channels. Just wondering if there's been any evidence of share shift towards Graco versus some of your foreign competition?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

I don't think that, that's something that we can quantify because it's really difficult. But I will tell you that in the Home Center channel in North America, which is like really the primary channel for those types of products, their business is down pretty significantly. So are we down more than our competition? Are we down the left? It's really hard to know.

I just know that it's down, and their foot traffic is down, their level of business activity is down. It ties back in with this whole turnover, affordability, remodeling those markets have just been pretty flat to down, and I think we're seeing that in that channel. So it's hard to know whether we're doing -- we're not as bad as our competitors, but I don't like the fact that we're down.

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

Yes. Promise is, of course, everybody has a different -- somewhat different manufacturing footprint. And sometimes they go for price and sometimes they have to lump it, and I think that -- that applies really across most of our niche businesses is that we could be talking about Liquid Finishing too, and each of the major manufacturers have very different global footprint. So there's frequently a story behind the story.

But Mark's underlying point is absolutely right-on. In the short term, there are switching costs, which tend to make our relationship sticky. But big picture long-term, products have to be priced as to what the market will bear.

**Operator**

Matt Summerville, D.A. Davidson.

**Matt Summerville** - DA Davidson & Co - Analyst

Just a couple of quick ones. Do you have an early read on what the Contractor kind of new product pipeline looks for 2026 is you think about maybe trying to use innovation to reinvigorate demand if we're going to be in this, I'll just call it, general housing malaise, for longer? Things maybe to help stimulate a replacement cycle? Or is that something maybe you've already done in the recent past?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

I would say the pipeline looks pretty similar to what we have experienced over the last few years. I'd call it more of a normal year. Some additions in the Paint category, some in the Line Striping category, and some of the Texture category. But it's a good pipeline. It should help drive some demand.

Yes. So I'd call it kind of a normal year next year in terms of what we're seeing.

**Matt Summerville** - DA Davidson & Co - Analyst

And then you'd mentioned in Contractor, I think it was in your prepared remarks that you're seeing both Home Center and Pro Paint customers tightly manage inventory. Do you expect inventories to further decline into calendar year end? Or are they running about as lean as you would expect them to run given the environment we're in?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. I think they're pretty smart. And I think that they're -- I sense that they've got a lot of inventory that they got to get rid of or deal with here. I think that they're managing it to the levels of the business that they're seeing.

---

**Operator**

Walter Liptak, Seaport Research.

---

**Walter Liptak** - Seaport Research Partners - Analyst

I wanted to ask kind of similar to what Matt was just asking on 2026. I know you don't get a whole lot of visibility, but I wonder if you could comment a little bit about maybe in Industrial, some of those capital projects, is there a lot of quotes out there? Could they get released? And then when you think about 2026 in the One Graco and kind of the new go-to-market strategies. All things being equal, could you get another percent or so of organic growth just from your own kind of strategic changes?

---

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yes. I think that -- I'll take the second one. That's what we're driving for is -- you don't go through all the work to do this without really expecting that your channel partners are going to get access to more products and sell more and have it easier to do business with. I think it translates into growth for us vis-a-vis what we would have had under the under the old regime. I haven't put a number to it. I don't know if it's a percentage thing, but that is definitely the reason why we did it.

---

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

I'll take a shot on the investment side, your first question. When we look around -- when we sell to so many different markets, it's always hard to generalize. And so we can always find three or four positive stories, a couple of disappointments. What I would say in terms of quotation activity and discussions around projects, which is while we're short cycle, we sometimes have an indication that major customer is working on, say, a new paint line or a new sealant line or something like that.

We have good quotation activity in traditional Graco markets like farm and construction equipment even throughout the, call it, the turbulent times of the last couple of years, automotive as a business, both in the legacy and the EV has been consistent in making investments.

And when I talk about other -- some of the other niche markets that we serve, they get pretty small, so we can have a couple of orders, say from the commercial-aerospace market. There aren't that many manufacturers around the world, but we have heard of investment possibilities that are at least intriguing going into the coming year. But of course, there's markets that have been soft, as we've talked about late both on the construction and on the industrial side, especially those markets that serve the construction industry like window and door, furniture, some of the white goods, people that can swap over into a couple of -- two or three of our different business units.

On the construction side, I would say our premise that you've heard us talk about Walt, over the last five years hasn't changed. We're still under-built. We have a generation of people that if we can see some improvement in affordability, and that does start with mortgage rates. That's why we track them probably as closely as you people do. We really believe that when we have a little bit better dynamics there, there's a lot of housing to be constructed. And as we've already touched on, a lot of remodeling re-paint work that will help us.

**Walter Liptak** - *Seaport Research Partners - Analyst*

Great. I appreciate the kind of thoughts on that macro. Maybe another one that's on 2026. When you think about the One Graco -- is there a profit component over the margin components that you talked about as well as the organic growth component. Which one is easier, which one could you see the most benefits from in 2026? Is it more top line or is it more on the profit improvement?

**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes. I think for sure, if we can get volume on the top line, it's going to really be nice for us. So I'd say that one.

**Operator**

(Operator Instructions) Brad Hewitt, Wolfe Research.

**Brad Hewitt** - *Wolfe Research LLC - Equity Analyst*

So as we think about Contractor margins, it looks like you've done about 28% margins year-to-date, excluding COROB. I guess how do you think about incremental margins for Contractor going forward? And how much volume recovery do you think is necessary to get back to kind of the 29% to 30% zone ex-COROB?

**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes. I don't think a lot of volume is needed. Obviously, the pricing is going to help us offset some of the tariff costs. Volume starts coming back, then you can -- you realize a lot of efficiencies in the factory that we're just not seeing when volumes are flat or even slightly down. So I have no concerns whatsoever in terms of them getting back up to those kinds of margin rates even with a very small amount of volume increase.

**Brad Hewitt** - *Wolfe Research LLC - Equity Analyst*

Great. And then curious if you could provide a little more color on what you're seeing in the White Knight business from a growth perspective this year? And then from a medium-term perspective, is there potentially any change to your thoughts on the growth algorithm for that business? As a result of the proposed sectoral tariffs on semiconductors?

**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes. I don't know that we are going to be able to give you like specifics on revenue for the White Knight business, but it has come back. Obviously, everyone knows that there was about a two-year period there where a lot of those investments were not happening, but it's a cyclical business, and we recognize that.

And things have picked up there, and they are getting orders; and we're happy about that. But I think as I said in the earlier comments, they're not back to the levels that they were at a couple of years ago. The macros still looks pretty favorable. There's still a lot of investment going on. I'm sure that we'll be able to get our fair share of that.

**Operator**

If there are no further questions, I will now turn the conference over to Mark Sheahan.

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Okay. Well, I want to thank everyone for participating today, and I look forward to chatting with you down the road.

**Operator**

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

**DISCLAIMER**

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2025, Refinitiv. All Rights Reserved.