



3rd Quarter 2017 Earnings Conference Call

October 26, 2017

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 October 25, 2017.

Conference Call Logistics



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

Telephone replay will be available after 2 p.m. ET, October 26, 2017. The replay by telephone will be available through October 30, 2017

- ▶ 888-203-1112 – Conference ID #9177064
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Financial Results



Statement of Earnings	Third Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
\$ in millions except per share amounts						
Sales	\$ 380	\$ 327	16 %	\$ 1,100	\$ 980	12 %
Gross Profit	203	177	15 %	593	524	13 %
% of Sales	53.6 %	54.0 %	(0.4) pts	53.9 %	53.4 %	0.5 pts
Operating Earnings	100	81	22 %	284	221	29 %
% of Sales	26.2 %	24.9 %	1.3 pts	25.8 %	22.5 %	3.3 pts
Net Earnings	\$ 75	\$ 54	39 %	\$ 216	\$ 145	49 %
% of Sales	19.9 %	16.6 %	3.3 pts	19.6 %	14.8 %	4.8 pts
Diluted Earnings Per Share	\$ 1.30	\$ 0.95	37 %	\$ 3.73	\$ 2.55	46 %
<i>Diluted Shares in Millions</i>	58.2	57.0		57.9	56.9	
<i>Net Earnings, Adjusted (1)</i>	\$ 67	\$ 54	23 %	\$ 190	\$ 145	31 %
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 1.15	\$ 0.95	21 %	\$ 3.28	\$ 2.55	29 %

(1) Excludes reduction of income taxes resulting from the adoption of a new accounting standard related to excess tax benefits on stock option exercises, reducing diluted earnings per share \$0.06 for the quarter and \$0.36 for the year to date. Also excludes the effect of tax planning benefits realized in the third quarter of 2017, that will not recur in 2018, reducing diluted earnings per share \$0.09 for the quarter and year to date.

See Financial Results Adjusted for Comparability on page 18 for a reconciliation of the adjusted non-GAAP financial measures to GAAP

The increase in the diluted EPS, as reported and adjusted, includes \$0.02 for the quarter and \$0.04 for year to date from reduced intangible amortization expense resulting from the impairment charge recorded in fourth quarter 2016

Financial Results



Components of Net Sales Change

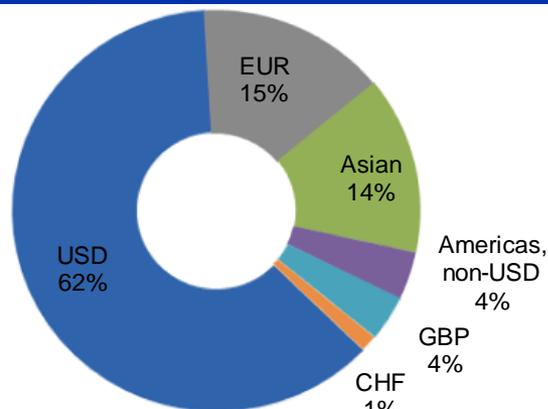
Third Quarter September 2017

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	17 %	9 %	16 %	11 %	14 %	28 %	15 %
Acquisitions	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	1 %	1 %	1 %	1 %	4 %	(1)%	1 %
Total	18 %	10 %	17 %	12 %	18 %	27 %	16 %

Year-to-Date September 2017

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	12 %	12 %	13 %	11 %	12 %	20 %	13 %
Acquisitions	1 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(1)%	(1)%	0 %	0 %	(2)%	(2)%	(1)%
Total	12 %	11 %	13 %	11 %	10 %	18 %	12 %

2017 YTD Sales by Currency



Asian currencies include:
AUD, CNY, KRW, JPY

Americas currencies include:
CAD, BRL, MXN

Operating Earnings



Change in Operating Earnings

2016 Operating Earnings (\$M and % of sales)

Translation effect

Volume, price and cost

Volume and earnings based incentives

Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment

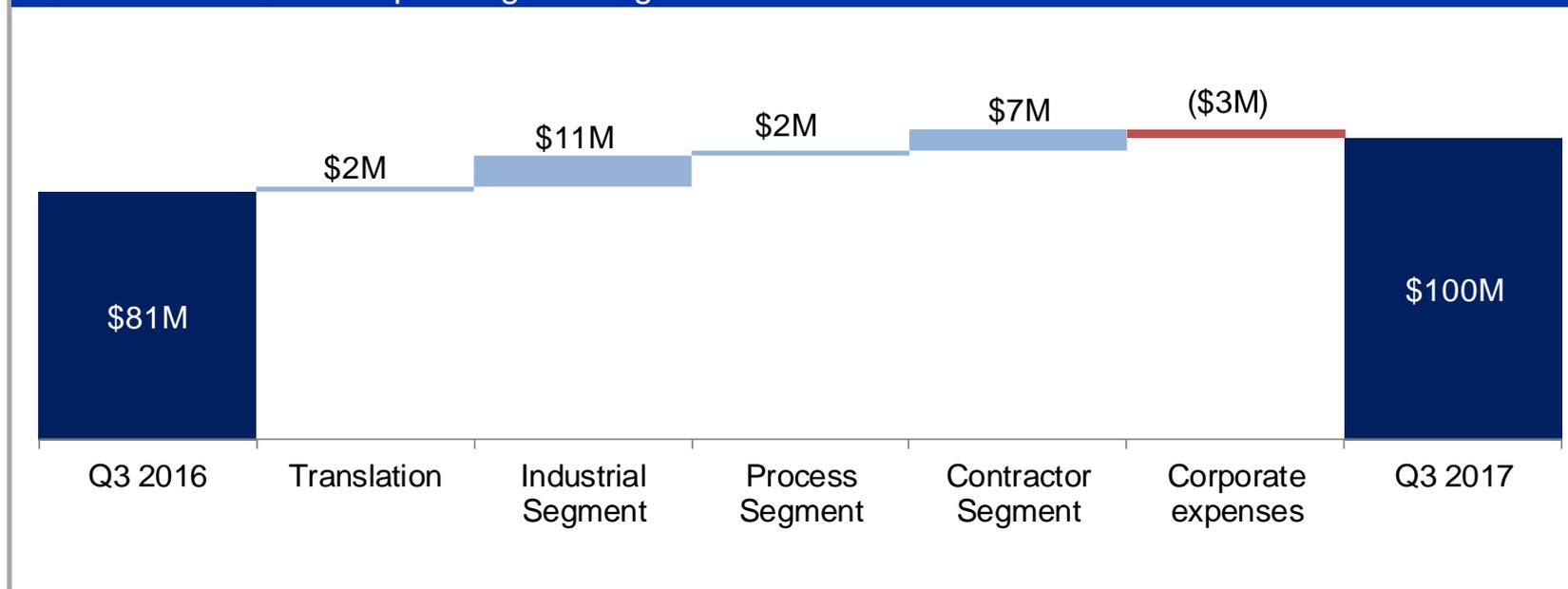
Unallocated corporate expenses (primarily stock compensation)

Volume effect on expense leverage

2017 Operating Earnings (\$M and % of sales)

	Third Quarter		Year-to-Date	
2016 Operating Earnings (\$M and % of sales)	\$ 81	25 %	\$ 221	23 %
Translation effect	2	0	(3)	0
Volume, price and cost	25	0	72	1
Volume and earnings based incentives	(4)	(1)	(8)	(1)
Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment	1	0	3	0
Unallocated corporate expenses (primarily stock compensation)	(3)	(1)	(1)	0
Volume effect on expense leverage	(2)	3	0	3
2017 Operating Earnings (\$M and % of sales)	\$ 100	26 %	\$ 284	26 %

Quarter over Quarter Operating Earnings Walk



Third Quarter 2017 Results

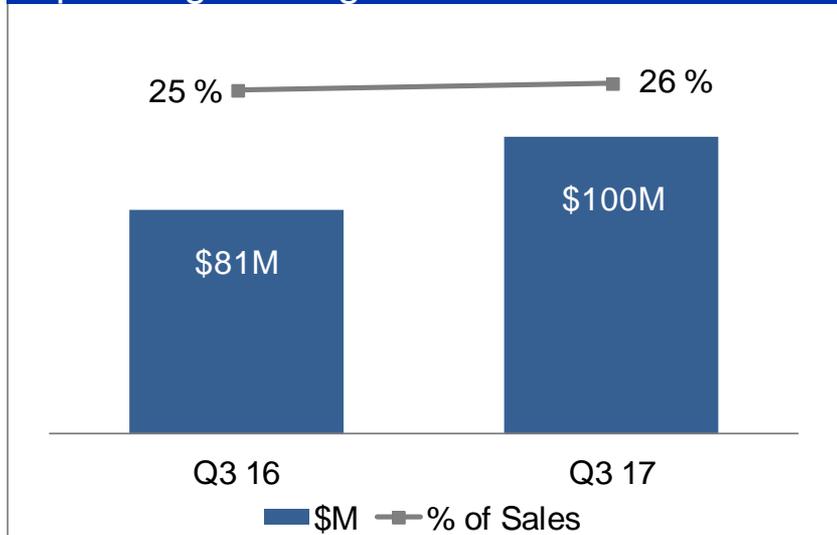


Sales



- ▶ Sales increase of 16%
 - Favorable effect of currency translation rates increased sales by approximately \$3 million, 1 percentage point
 - Acquired businesses had no significant impact on the quarter
- ▶ Gross margin rate down 0.4 percentage point from third quarter 2016
 - Unfavorable impact of product mix more than offsetting realized pricing and favorable effect of higher production volume on manufacturing cost
- ▶ Operating earnings are up \$18 million, or 22%, from third quarter 2016
 - Higher sales volume and expense leverage
 - Higher sales and earnings based incentives, \$4 million
 - Lower intangible amortization related to the 2016 Oil and Natural Gas impairment, \$1 million
 - Higher unallocated corporate expenses, primarily stock compensation and pension, \$3 million
- ▶ Tax rate for the quarter was 22%, down from 29% in the third quarter last year
 - 2017 rate benefited from the first quarter adoption of a new accounting standard for stock compensation. Excess tax benefits reduced the tax provision \$3 million and reduced the effective tax rate by 3 percentage points
 - 2017 rate benefited 4 percentage points from a \$6 million benefit related to tax planning, that will not recur in 2018, and foreign earnings taxed at lower rates than the U.S.

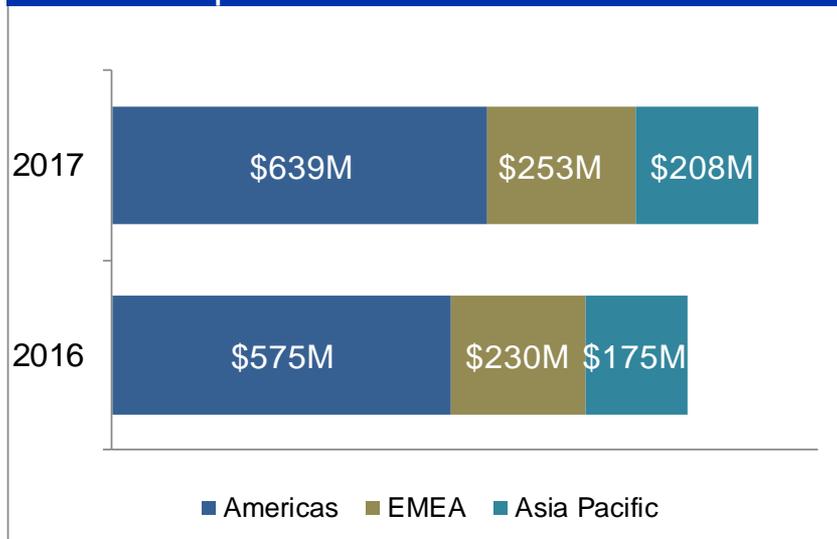
Operating Earnings



September Year-to-Date 2017 Results

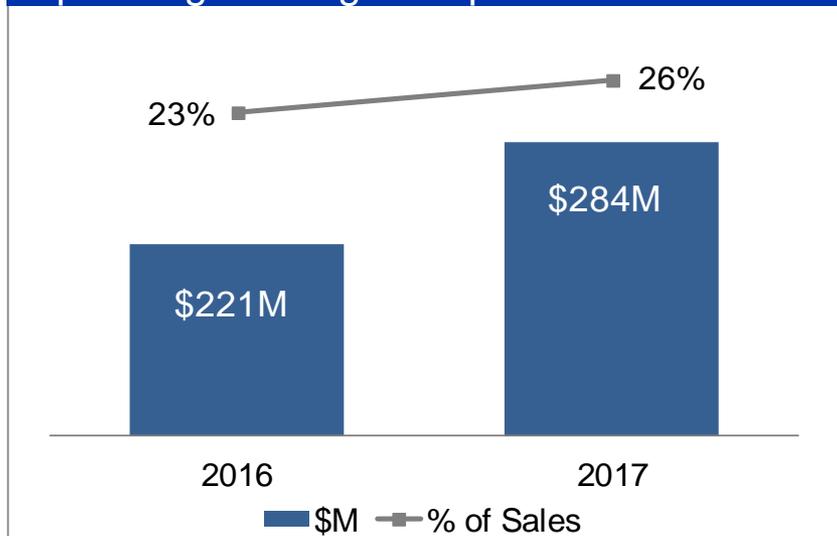


Sales - September YTD



- ▶ Sales increase of 12%
 - Unfavorable effect of currency translation rates decreased sales by approximately \$6 million, 1 percentage point
 - Acquired businesses had no significant impact
- ▶ Gross margin rate up 0.5 percentage point from September 2016
 - Higher production volume, lower manufacturing cost and realized pricing more than offset unfavorable impact of mix
- ▶ Operating earnings are up \$63 million, or 29%, from September 2016
 - Higher sales volume and expense leverage
 - Higher sales and earnings based incentives, \$8 million
 - Lower intangible amortization related to the 2016 Oil and Natural Gas impairment, \$3 million
 - Higher unallocated corporate expenses, primarily stock compensation, \$1 million
- ▶ Tax rate for September year-to-date was 21%, down from 30% year-to-date 2016
 - 2017 rate benefited from the adoption of a new accounting standard for stock compensation. Excess tax benefits reduced the tax provision \$20 million and reduced the effective tax rate by 7 percentage points
 - 2017 rate benefited 2 percentage points from a \$6 million benefit related to tax planning, that will not recur in 2018, and foreign earnings taxed at lower rates than the U.S.

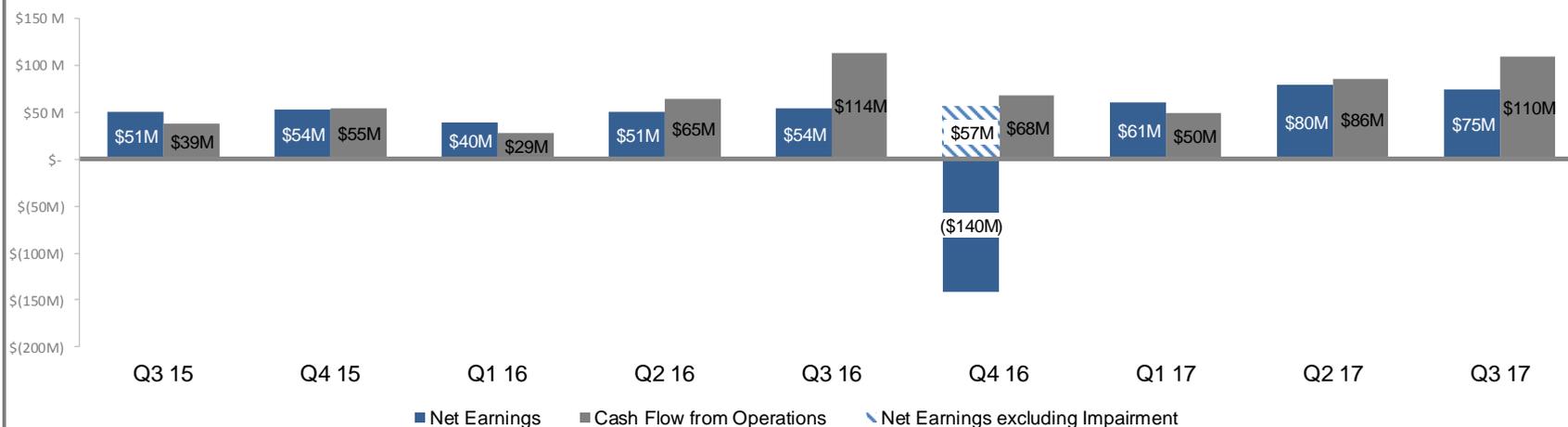
Operating Earnings - September YTD



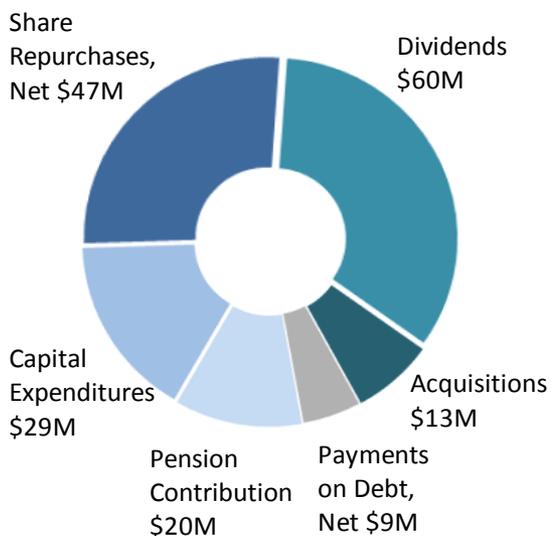
Cash Flow and Liquidity



Net Earnings and Cash from Operations



2017 Significant Uses of Cash



- ▶ Net cash provided by operating activities was \$246 million in 2017 vs. \$208 million in 2016
- ▶ Changes in working capital are in line with volume growth
- ▶ The Company made a \$20 million pension contribution to the U.S. pension plan during third quarter
- ▶ Debt, including notes payable, was \$306 million, down \$8 million from year-end
 - Current portion of long-term debt, \$75 million
 - Interest expense down \$1 million from September 2016
- ▶ Repurchased 880,000 shares of stock and issued 1,165,000 shares, resulting in a net cash outlay of \$47 million
 - Common stock outstanding at the end of the quarter, 56.1 million

- ▶ Capital expenditure expectations of approximately \$40 million in 2017
 - Currently evaluating brick and mortar requirements as Contractor and other regional production and distribution facilities near capacity
- ▶ During the third quarter, the Company notified certain U.S. pension plan participants currently receiving benefits that annuities would be purchased for their future benefit obligations and the liabilities associated with these defined benefit obligations will be transferred to a highly rated insurance company. The Company's U.S. pension liability and assets are expected to be reduced by approximately \$43 million and a pension settlement charge of approximately \$11-13 million is expected to be recognized during fourth quarter
 - The Company made a \$20 million contribution to the U.S. pension plan during the third quarter 2017
- ▶ Unallocated corporate expenses in 2017 are expected to be approximately \$32 million (excluding pension settlement)
- ▶ Impairment of intangible assets in fourth quarter 2016 reduced amortization expense by approximately \$1 million in each of the first three quarters of 2017 compared to 2016
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2016, foreign currency translation would have no impact for the full year 2017, with favorable currency effect continuing in Q4 offsetting the unfavorable effect experienced during the first half
- ▶ The effective tax rate for fourth quarter and the full year is expected to be approximately 28%, including an expected 2 percentage point benefit in fourth quarter related to completion of tax planning activities that will not recur in 2018. The quarter and annual rates exclude any impact from the change in accounting for stock compensation
- ▶ Fourth quarter 2016 included an extra week compared to our normal fiscal calendar

Current Environment and Outlook



Constant currency basis and excluding acquisitions completed in the prior 12 months

	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Growth Q3 2017 11% YTD 2017 11%	Sales Growth Q3 2017 14% YTD 2017 12%	Sales Growth Q3 2017 28% YTD 2017 20%	Sales Growth Q3 2017 15% YTD 2017 13%
Industrial Segment	Environment Unchanged  Sales Growth Q3 2017 11% YTD 2017 9%	Environment Unchanged  Sales Growth Q3 2017 13% YTD 2017 10%	Environment Unchanged  Sales Growth Q3 2017 30% YTD 2017 22%	Sales Growth Q3 2017 17% YTD 2017 12%
Contractor Segment	Environment Unchanged  Sales Growth Q3 2017 12% YTD 2017 12%	Environment Unchanged  Sales Growth Q3 2017 29% YTD 2017 20%	Environment Unchanged  Sales Growth Q3 2017 30% YTD 2017 13%	Sales Growth Q3 2017 16% YTD 2017 13%
Process Segment	Environment Unchanged  Sales Growth Q3 2017 11% YTD 2017 12%	Environment Unchanged  Sales Growth Q3 2017 (3%) YTD 2017 7%	Environment Unchanged  Sales Growth Q3 2017 17% YTD 2017 17%	Sales Growth Q3 2017 9% YTD 2017 12%
Full Year 2017 Outlook	Outlook Raised High Single-digit	Outlook Raised High Single-digit	Outlook Raised Low Double-digit	Outlook Raised High Single-digit to Low Double-digit

Demand levels remained robust and broad based in the third quarter. We expect the positive business environment to continue into 2018, however we do note that our fourth quarter represents our most difficult comparable of the year. In addition to the strong fourth quarter last year, we also had 14 weeks, compared to only 13 weeks in this year's fourth quarter. We anticipate low single-digit organic constant currency growth in the fourth quarter with the possibility to achieve double-digit sales growth for the full year 2017.

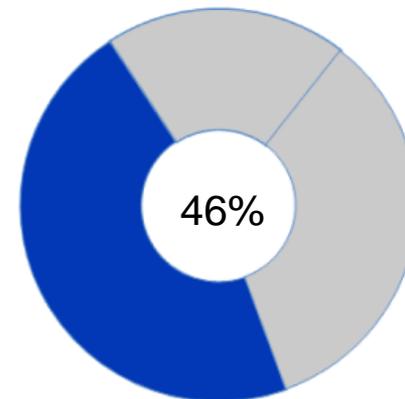
Industrial Segment Results



Sales

\$ in millions	Third Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 75	\$ 67	12 %	\$ 220	\$ 201	9 %
EMEA	52	44	18	146	134	9
Asia Pacific	51	40	30	144	120	20
Total	\$ 178	\$ 151	18 %	\$ 510	\$ 455	12 %
Operating Earnings	\$ 62	\$ 51	22 %	\$ 177	\$ 147	20 %
% of sales	35 %	34 %		35 %	32 %	

2017 YTD Industrial Segment Sales as % of Graco



2017 Components of Net Sales Change

	Third Quarter	Year-to-Date
Americas		
Volume & Price	11 %	9 %
Acquisitions	1 %	0 %
Currency	0 %	0 %
Total	12 %	9 %
EMEA		
Volume & Price	13 %	10 %
Acquisitions	0 %	0 %
Currency	5 %	(1)%
Total	18 %	9 %
Asia Pacific		
Volume & Price	30 %	22 %
Acquisitions	1 %	1 %
Currency	(1)%	(3)%
Total	30 %	20 %
Segment Total		
Volume & Price	17 %	12 %
Acquisitions	0 %	1 %
Currency	1 %	(1)%
Total	18 %	12 %

Current Environment



- Favorable: Construction markets
- Stable: Tier one auto
- Challenging: Protective coatings, heavy machinery, South America



- Favorable: construction markets
- Stable: Western Europe, general industrial, truck & trailer
- Challenging: Geopolitical, Q4 comparables



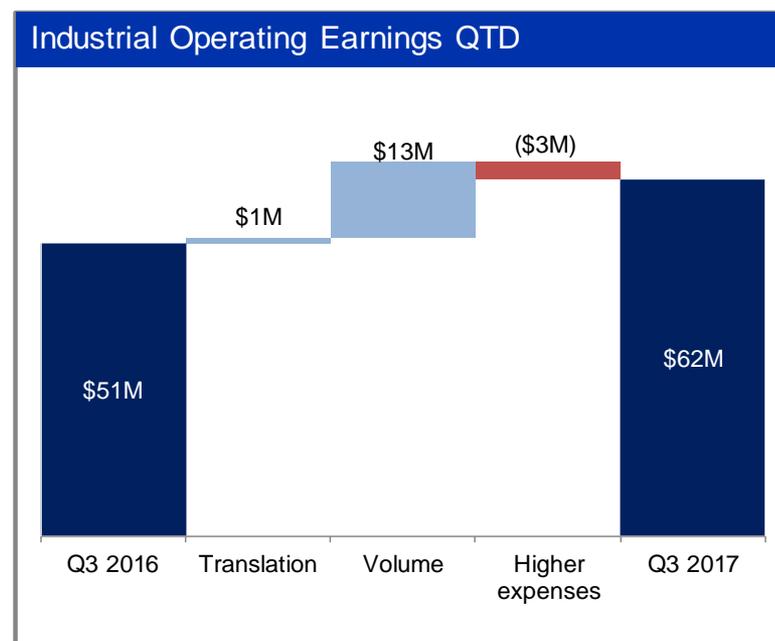
- Stable: General industrial, adhesive dispense
- Challenging: Marine, agriculture, construction
- Spotty: Project activity

Note: Fourth quarter 2016 included an extra week

Industrial Segment Results



Change in % of sales	Third Quarter	Year-to-Date
2016 Operating Earnings (% of sales)	34 %	32 %
Translation effect	0	0
Product and channel mix, net of favorable volume, price	(1)	0
Expense leverage	2	3
2017 Operating Earnings (% of sales)	<u>35 %</u>	<u>35 %</u>



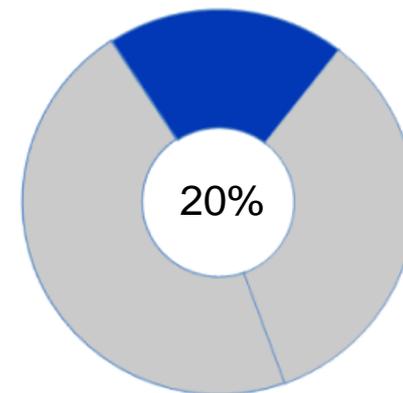
Process Segment Results



Sales

\$ in millions	Third Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 48	\$ 43	11 %	\$ 139	\$ 124	12 %
EMEA	13	13	(2)	41	40	3
Asia Pacific	13	11	17	37	32	16
Total	\$ 74	\$ 67	10 %	\$ 217	\$ 196	11 %
Operating Earnings	\$ 12	\$ 10	16 %	\$ 39	\$ 25	54 %
% of sales	16 %	15 %		18 %	13 %	

2017 YTD Process Segment Sales as % of Graco



2017 Components of Net Sales Change

	Third Quarter	Year-to-Date
Americas		
Volume & Price	11 %	12 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	11 %	12 %
EMEA		
Volume & Price	(3)%	7 %
Acquisitions	0 %	0 %
Currency	1 %	(4)%
Total	(2)%	3 %
Asia Pacific		
Volume & Price	17 %	17 %
Acquisitions	0 %	0 %
Currency	0 %	(1)%
Total	17 %	16 %
Segment Total		
Volume & Price	9 %	12 %
Acquisitions	0 %	0 %
Currency	1 %	(1)%
Total	10 %	11 %

Current Environment

- Americas** (Yellow circle):
 - Favorable: Technology, sanitary
 - Stable: Industrial lubrication, environmental applications
 - Bottom: Oil & natural gas
 - Spotty: Project activity
- EMEA** (Yellow circle):
 - Stable: Western Europe, chemical
 - Challenging: Offshore oil & natural gas, geopolitical
- Asia Pacific** (Yellow circle):
 - Stable: Process applications
 - Bottom: Mining

Note: Fourth quarter 2016 included an extra week

Process Segment Results



Change in % of sales

2016 Operating Earnings (% of sales)

Translation effect

Product and channel mix, volume, cost, net of favorable price

Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment

Expense leverage

2017 Operating Earnings (% of sales)

Third Quarter

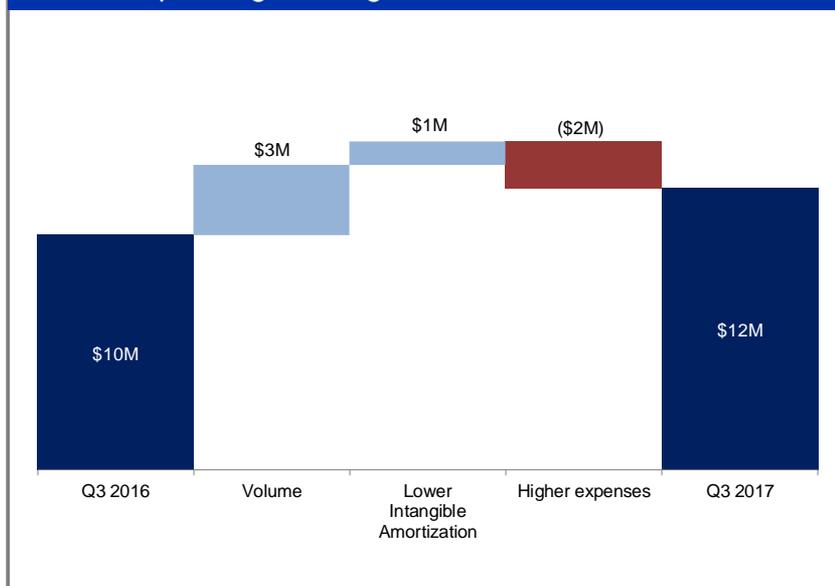
Year-to-Date

15 %	13 %
0	0
(1)	0
2	2
0	3
<u>16 %</u>	<u>18 %</u>

Process Segment Sales and Operating Margins



Process Operating Earnings QTD



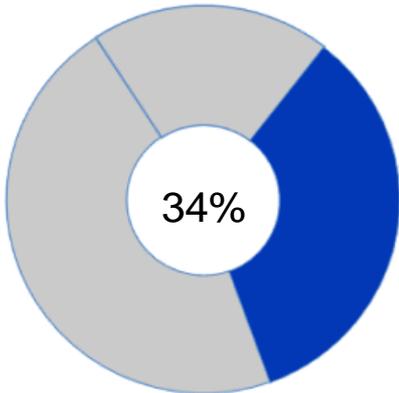
Contractor Segment Results



Sales

\$ in millions	Third Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 95	\$ 85	12 %	\$ 280	\$ 250	12 %
EMEA	22	16	34	66	55	19
Asia Pacific	11	8	31	27	24	13
Total	\$ 128	\$ 109	17 %	\$ 373	\$ 329	13 %
Operating Earnings	\$ 33	\$ 26	31 %	\$ 93	\$ 72	30 %
% of sales	26 %	23 %		25 %	22 %	

2017 YTD Contractor Segment Sales as % of Graco



2017 Components of Net Sales Change

	Third Quarter	Year-to-Date
Americas		
Volume & Price	12 %	12 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	12 %	12 %
EMEA		
Volume & Price	29 %	20 %
Acquisitions	0 %	0 %
Currency	5 %	(1) %
Total	34 %	19 %
Asia Pacific		
Volume & Price	30 %	13 %
Acquisitions	0 %	0 %
Currency	1 %	0 %
Total	31 %	13 %
Segment Total		
Volume & Price	16 %	13 %
Acquisitions	0 %	0 %
Currency	1 %	0 %
Total	17 %	13 %

Current Environment

- Stable: Residential and commercial construction
- Focus Sectors: Pro paint, general construction, DIY
- Challenging: Q4 comparables
- Favorable: Western Europe, emerging markets
- Challenging: Geopolitical, Q4 comparables
- Stable: Pavement products
- Challenging: General construction, equipment adoption rates



Note: Fourth quarter 2016 included an extra week

Contractor Segment Results



Change in % of sales

Third Quarter

Year-to-Date

2016 Operating Earnings (% of sales)

23 %

22 %

Translation effect

0

0

Volume, cost, product and channel mix

1

1

Expense leverage

2

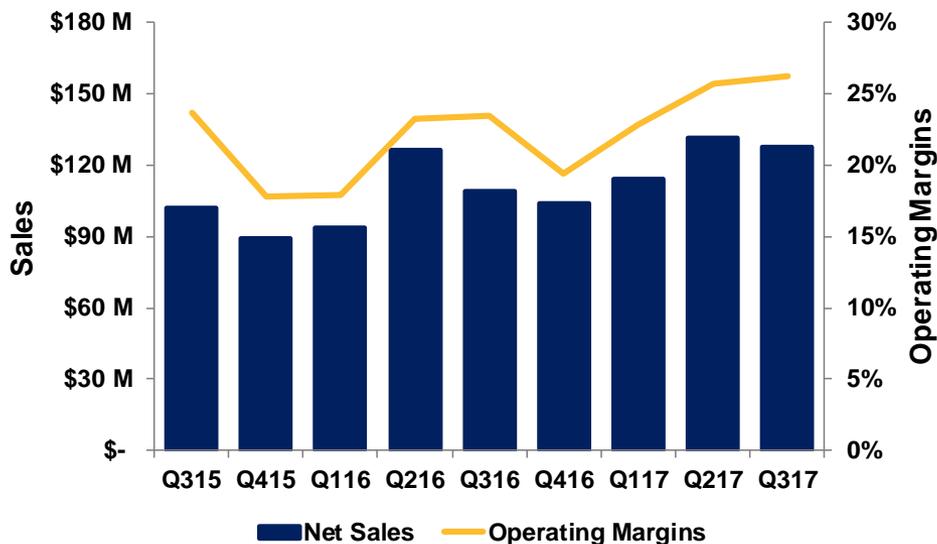
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2017 Operating Earnings (% of sales)

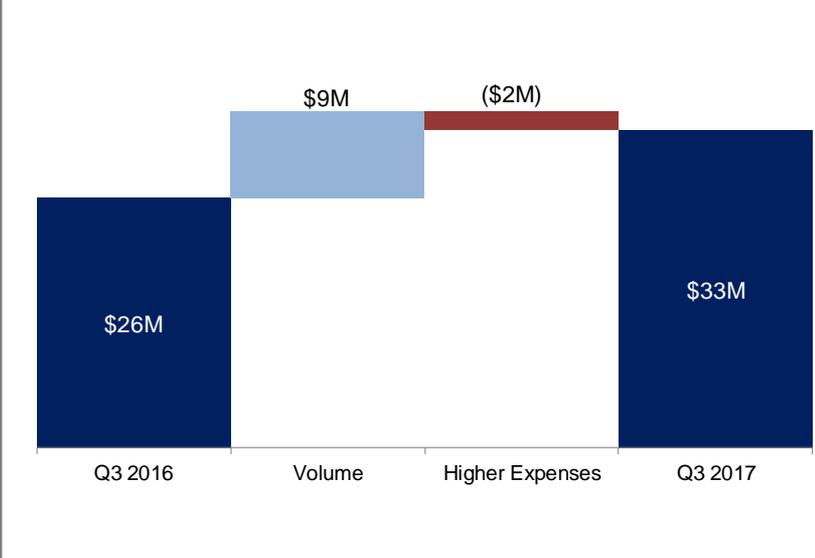
26 %

25 %

Contractor Segment Sales and Operating Margins



Contractor Operating Earnings QTD



Non-GAAP Disclosure Reconciliation



Net income excluding the excess tax benefits on exercised stock options and other tax planning benefits, which will not recur in 2018, presents a more consistent comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, net earnings and diluted earnings per share follows:

Non-GAAP Reconciliation	Third Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
\$ in millions except per share amounts						
Income taxes, as reported	\$ 20.9	\$ 22.2	(6)%	\$ 57.6	\$ 62.7	(8)%
Excess tax benefit from option exercises	3.2	-		20.5	-	
Tax planning benefit	5.5	-		5.5	-	
Income taxes, adjusted	<u>\$ 29.6</u>	<u>\$ 22.2</u>	33 %	<u>\$ 83.6</u>	<u>\$ 62.7</u>	33 %
Effective income tax rate						
As reported	22%	29%		21%	30%	
Adjusted	31%	29%		31%	30%	
Net earnings, as reported	\$ 75.5	\$ 54.4	39 %	\$ 216.0	\$ 144.9	49 %
Excess tax benefit from option exercises	(3.2)	-		(20.5)	-	
Tax planning benefit	(5.5)	-		(5.5)	-	
Net earnings, adjusted	<u>\$ 66.8</u>	<u>\$ 54.4</u>	23 %	<u>\$ 190.0</u>	<u>\$ 144.9</u>	31 %
Weighted Average Diluted Shares, in millions	58.2	57.0		57.9	56.9	
Diluted Earnings per Share						
As reported	\$ 1.30	\$ 0.95	37 %	\$ 3.73	\$ 2.55	46 %
Adjusted	\$ 1.15	\$ 0.95	21 %	\$ 3.28	\$ 2.55	29 %



move

measure

mix

control

dispense

spray

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