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PRESENTATION

Operator

Good morning, and welcome to the Fourth Quarter 2018 Conference Call for Graco Inc.

If you wish to access the replay of this call you may do so by dialing 1 (888) 203-1112 within the United States or Canada. The dial-in number for international caller is (719) 457-0820. The conference ID is 5631887. The replay will be available through February 2, 2019.

Graco has additional information available in the PowerPoint slide presentation, which is available as a part of the webcast player. (Operator Instructions)

During this call, various remarks may be made by management about their expectation, plans and prospect for the future. These remarks constitute forward-looking statement for the purposes of the safe harbor provision of the Private Securities Litigation Reform Act. Actual results may differ materially from those indicated as a result of various risk factor, including those identified in Item A1 (sic) [Item 1A] of the company's 2017 annual report on Form 10-K and in Item 1A of the company's most recent quarterly report on Form 10-Q. These reports are available on the company's website at www.graco.com and the SEC website at www.sec.gov. Forward-looking statement reflects management's current views and speak only as the time they are made. The company undertake no obligations to update these statement in light of the new information or future events. Please add any appropriate comments you have as the teleconference provider.

I will now turn the conference over to Caroline Chambers, Executive Vice President, Corporate Controller and Information Systems.

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

Good morning, everyone. I'm here this morning with Pat McHale and Mark Sheahan. Our conference call slides have been posted on our website and provide additional information that you may find helpful.

We saw sales growth in all segments and regions in the fourth quarter, with an increase of 8% from the prior year, including 2 percentage points of growth from acquisitions. Currency translation was a headwind for the quarter and reduced sales growth by 2 percentage points.

Reported net earnings totaled $74 million in the fourth quarter or $0.43 per diluted share. Unfavorable currency translation reduced net earnings by $2 million. Gross margin rates decreased by 2 percentage points this quarter as compared to last year due to unfavorable currency translation, higher production cost and product mix.

Total operating expenses for the quarter increased by $1 million compared to the fourth quarter last year, as expenses related to acquired operations of $3 million, an increased volume and earnings growth-related expenses were largely offset by the effects of currency translation and lower unallocated corporate expenses.

The effective tax rate for the fourth quarter in 2018 was 18% reflecting the net effects of U.S. federal income tax reform. The 2017 fourth quarter rate included the impacts of excess tax benefits related to stock option exercises, the effective tax reform legislation and other tax planning activities. And the fourth quarter 2017 tax rate excluding these items was 31%. For reference, the reconciliation of non-GAAP adjustments is included on Page 18 of the slide deck.

Cash flows from operations totaled $368 million in 2018 compared to $338 million in the prior year. Cash used for equipment additions and facility expansions totaled $54 million, less than projected earlier as timing and cash payments for several projects shifted slightly.

During the fourth quarter, we made share repurchases of 2.2 million shares at an average price less than $40. Repurchases for the year totaled $245 million and reduced share count by $5.7 million.

Looking forward, I note the unfavorable effect of currency translation at current rates as compared to rates in 2018, and particularly, as compared to the translation rates in the first quarter last year. As noted on Page 10 of our slide deck, we will have a headwind in 2019 of approximately 1% on sales and 3% on earnings for the full year, assuming the same volume, mix of products and mix of business by currency. The effect of unfavorable currency translation at current rates is more pronounced for the first quarter of 2019 when compared to the first quarter of 2018 with an unfavorable effect of as much as 3% on sales and 6% on earnings.

Regarding material cost increases and tariffs, we currently project that they will be an incremental $25 million higher in 2019. This projection includes the increase in tariff rates that could become effective in March. Our purchasing and manufacturing teams have been working hard with our suppliers on a variety of actions to mitigate the effect of tariffs and will continue to pursue cost reduction. 2019 pricing will more than offset the increased material cost and tariffs overall, though the effect on gross margins can vary by segment.

A few other comments concerning our expectations for 2019. Unallocated corporate expense is expected to be approximately $30 million in 2019. And pension costs included in other expense is expected to be approximately the same in 2018 -- as in 2018. Our effective tax rate for 2019 is expected to be approximately 21%, excluding the effect from the excess tax benefits related to stock option exercises or other onetime items.

For 2019, we expect the usual capital expenditures for machinery and equipment to be approximately $40 million and an additional $100 million to $110 million for facility expansion projects.

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

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

Thank you, Carol, and good morning, everyone. All of my comments this morning are on organic constant currency basis. Caroline has covered the details on our fourth quarter and full year earnings adjustments, so any references to profitability will be on an as-adjusted basis.

Q4 was a good finish to another good year, thanks to broad-based market demand and the hard work of our employees, distributor partners and suppliers.

Some color on the segments.

The Industrial segment delivered high single-digit growth for the quarter, finishing 2018 in line with our full year outlook. Overall demand in this segment remains broad based, with automotive and electronics remaining stable and general, industrial and alternative energy markets favorable. The Process segment had a great year delivering 4 consecutive quarters with double-digit growth. We continue to see good returns from our strategic investments in this segment and favorable demand across most of our end markets. Contractor segment delivered mid-single-digit sales growth in Q4 led by strong double-digit growth in EMEA.

North America eked out a slight gain as double-digit sales growth in the propane channel was offset by softness in the home center channel. Both channels had positive-but-slowing out-the-door sales in Q4.

The second quarter in a row that Contractor segment operating margins were challenged, primarily due to a gross margin decline driven by the impact of tariffs and material cost increases in the factory spending. While some of these impacts will be moderated with pricing and other actions in 2019, we expect the impact of the factory expansion to weigh on incremental margins for Contractor in 2019.

The timing of expenses and the extent and timing of labor inefficiencies related to the factory expansion are difficult to predict by quarter, but I'd say negative Contractor incremental margins are more likely in the first half of 2019. As always, the business will make prudent decisions on expense management and our current view is that operating earnings, as a percentage of sales for the Contractor segment, are likely to finish 2019 close to 2018 actual results.

Our top line outlook for Contractor is positive for 2019. We believe the overall construction market will be favorable for continued growth and we have a strong new product launch lineup that we're excited about.

Now I'll make some comments on overall regional performance. The economic conditions in North America remain broadly favorable while South and Central America, although small, are a drag on are results. EMEA delivered high single-digit growth for the quarter and mid-single-digit growth for the year. We saw a lot of variability between product lines and countries in 2018, particularly beginning in May.

For the quarter and the year, Western Europe significantly outperformed the emerging countries. Despite our good results, the recent macro data for EMEA is concerning, and I believe we will need to earn everything we get from the region in 2019.

In Asia Pacific, we delivered double-digit growth for the fourth quarter and for the year. For the year, growth was more broadly based across product lines in countries than we saw in EMEA. Our business in Asia Pacific tends to be more project based than our other regions can give us more quarter-to-quarter variability. We continue to see good opportunities in automotive, battery production, electronics and alternative energy markets as we enter 2019.

Comments on profitability. For the quarter and the year, we produced positive leverage in worldwide operating earnings. Incremental margins for the fourth quarter were below expectations, at 19%, driven by our challenges in Contractor, as I've already commented on, as well as mix and acquisitions. For the year, our incremental margins are approaching 35%, within our expectations.

Moving onto our outlook. Incoming order rates across the segments continue to look good as we head into 2019. Overall, the business is performing well and demand levels worldwide remain solid. As a result, we're initiating a revenue growth outlook for the full year of 2019 of mid-single digits on an organic constant currency basis with growth expected in every region and reportable segment. While we expect to face headwinds from input cost and currency translation, especially in the first quarter, I believe we are well positioned to deliver another year of record sales and earnings in 2019.

In closing, I want to say thank you, again, to our all of our employees, suppliers, distributor partners and end users for another great year.

Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We will take our first question from Charlie Brady from SunTrust Robinson Humphery.

Charles Damien Brady - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Pat, just wondering, in terms of the commentary about pricing offsetting tariffs and increased raw materials, last Q we talked about for the full year, or are you there right now, as we're into Q1?

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

No, we'll have to see how Q1 plays out. Our price increase rolls in through Q1. Of course, there are some projects that we quoted in Q4 that will hold pricing on through Q1. So I'm not so sure about Q1, but we should be in good shape for the year, and I would expect us to be in real good shape going into the second quarter.

Charles Damien Brady - *SunTrust Robinson Humphrey, Inc., Research Division - MD*

Great. That's helpful. And just on the home center sales being a bit softer, I know you said they were up. But have you seen that flip around in the first quarter here?

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

I can't tell you what the run rate has been in the last few weeks.

Operator

We will take our next question from Deane Dray, RBC Capital Markets.

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

Maybe we can start on Contractor and maybe this was an overreaction but there was an expectation that when there was a negative preannouncement in one of the paint suppliers that you all would have fared worse, you did mention some softness in the home center market but didn't seem that material. Can you give us some color there, please?

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

Yes. It's hard to line up our numbers with the paint manufacturers on a quarter-to-quarter basis. In general, what we're hearing from the field is the contractors are busy and they've got jobs lined up and they need equipment. So we think going into 2019 even though you may have seen a little bit of softness in the non-res market that the general construction markets are looking pretty good, contractors are going to be busy, and we're expecting to have growth.

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

Got it. And then just broadly, the impact of tariffs, it just sounds as though you're well positioned on pricing even though you haven't seen the benefit yet. But just can you get any more specific on the impact of tariffs and what it may have had in terms of ripple effects on the supply chain?

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

Yes, Dean, it's Mark here. And when we look at '19 and the pricing actions that we are going to implement, we think that we're going to be able to more than offset the tariff impact based on our calculations. And that means that we will realize some pricing over and above the tariffs, kind of, typical what we've done in the past. Of course, these things you never know how they'll actually play out, but I think that our current estimates are good, and we feel confident that we're going to be able to more than offset the tariff impact.

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

Got it. And just last point or last question. Anything on China in terms of the tone of business? The kind of visibility that you have today, but anything you can share versus how you started the quarter?

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

So I think we're seeing the headlines that you're seeing. But really on the ground over there, we've got a lot of interesting things that we're working on, and we still see good opportunities for 2019. So I would say that we're generally positive on our prospects in China for 2019.

Operator

Our next question is from Jeffrey Hammond from KeyBanc.

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

Just, Pat, back on the Contractor margins, can you just maybe break out what you think -- how much you think is mix versus kind of these tariff headwinds versus the factory disruption? And then along the lines on those 3, how you see those shaking out as you move into the first half and second half of '19?

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

Yes. So it's a number of pieces here in Q4, and I'm going to let Caroline go ahead and weigh in.

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

Regarding Contractor and specifically, it's probably more heavily weighted towards both factory spending and tariffs and material cost increases. That being said, overall, we had product mix affected our overall corporate margins, particularly with a lot of finishing systems being built out this quarter as well as acquired operations. Currency also played a role of nearly 0.5 of a percentage point on the corporate basis and the rest was really factory spending, a lot of which was driven by projects and getting ready to bring in new equipment next year.

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

And so Pat the comment that on, kind of, margins still being under some pressure in the first half, is that mostly the factory disruption or some of these other issues lingering as well?

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

On the Contractor side, I expect that factory is going to be under some disruption for the balance of the year. We're building that facility out in phases and so we're having to move things like our paint line at some point, so we're moving racks around and so there's some disruption there. Again, our outlook is that the top line of Contractor is going to be okay, and then operating earnings as a percentage of sales by the end of the year should look like 2018 did. But we may be less leveraged than we would normally get, particularly in the first half when it's possible that we could even have some negative incremental margins. So again, I am not worried about it for the year. And I don't think we have anything structurally going on here, but it's a big project we've got going on and there will be some impacts.

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

Okay. And then, Pat, you mentioned Europe macro appearing more challenging. You got to push in as hard as you can to earn. But I think you're kind of saying mid-single digits for all the markets. So maybe just bifurcate your comments, with -- still sticking with mid-single digits in EMEA?

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

Yes, I think we can achieve that, but I think we're going to have to make sure that we do a good job with our new product launches and that we're going to have to execute well on the new market initiatives that we've got over there. I just think that there's not going to be any freebies coming to us from Europe in 2019 from what I can see, looking at the macro data.

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

The good part of it is we have the powder business and the acquired business which have really nice orders in-house for 2019. So I think that those parts of the business are probably in a little bit better shape than maybe some of the other more legacy businesses that spread across all other regions.

Operator

Our next question is from Michael Halloran from Baird.

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

So on the -- thanks for the margin cadence there, maybe just a similar question on the revenue side and really applied to all 3 segments. Any reason that normal seasonality isn't kind of what you've embedded in your guidance? Reason I ask is obviously the first quarter comp much more difficult than the rest of the year, trends likely slower in the first quarter just on a year-over-year basis. But I'm guessing the guidance is assuming some level of stability from fourth quarter levels, as you work through the year, but wouldn't mind understanding cadence by the 3 segments for that.

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

I think from a seasonality perspective, I don't anticipate interesting being significantly different in 2019 than in years past. Obviously, we've had stronger and weaker quarters in 2018 that we're comparing against that can through a little noise in the number, including a really big first quarter last year. But again, the order book that's coming in here in January looks pretty good, and so I think we're off to decent start for the year, and I'm not overly concerned about anything at this point.

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

Makes sense. And then on the M&A side, anything in the pipeline that's interesting at this point? How would you characterize it? Is it more opportunity, less opportunity as you see it? And any change in how people are trying to value their own businesses?

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

I'll give you one word and then Mark can weigh in, but my word is expensive.

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

Yes, I would echo that. I think that we haven't seen a change in terms of the influx of things that are coming across our desk. But the things that do come across the desk, the expectations, the value are still quite high. And I would say that we haven't been comfortable moving forward up to those levels. And hopefully, things pull back here a little bit, and we can see ourselves involved with some stuff.

Operator

Our next question is from Brett Kearney from Gabelli & Company.

Brett Kearney - *G. Research, LLC - Research Analyst*

I wanted to ask on some of your emerging markets within the Contractor segments. I know Q3 you commented some mixed activity levels in Middle East, parts of Africa, some of the other, Russia, some of the countries you operate in there. Just wondering on recent trends and outlook for some of those markets in 2019.

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

Yes. So I don't want to get too granular in terms of by business unit and product line by country. But for sure when you look at EMEA, the Middle East has been soft and even emerging markets in the Central East part of Europe have been softer than Western Europe, which, up to a couple of years ago, we wouldn't really expected that. We would've expected with higher growth rates would have come out of the East but at least from a Graco standpoint, we're seeing a lot better activity in the West and we're having to stretch and claw in the East, particularly with the business in the Middle East, which has really been dragging on our overall EMEA results this year.

Operator

Our next question is from Walter Liptak.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

I wanted to ask about the mid-single-digit growth rate. I mean, I think investors, we've been a little bit concerned about some of these macro things going on, international slowing and inflation price cost. But it doesn't seem like it's showing up in that mid-single-digit growth rate. So I wonder if you can just comment on maybe what you're hearing from your customers. I hear that order book, strong, good general, industrial. And maybe is some of this just your own efforts, with the new products and working the channel to grow versus -- and outperform in the market as a result? Just some color because there seems to be a little bit of disconnect between sort of the macro headlines and that mid-single-digit number.

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

So it's always hard to sort out the market from Graco's actual results because obviously we play in so many different regions and so many different end markets. It has seemed to be the case here for at least the last 6 months that we're doing the very best we can to talk ourselves into problems, right? The headlines are negative. All the political back and forth that has been going on has been creating a lot of negativity. In reality, in most of the areas that we're selling, business is good. So there is a bit of disconnect there from my standpoint. I'll let Mark weigh in with his thoughts.

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

Yes, and I think if you look at what we've put up here in the most recent quarter and for the year with organic growth at 8% ex currency and ex acquisitions, I think that really echoes what Pat said about the business tempo being pretty good. We did pull back to the mid-single digit from where we were last year, when I think we moved up in Q1 to mid to high and I think we're really comfortable at this point as we sit here that, that mid-single-digit is a solid number that we can stand behind.

Operator

Our next question is from Joe Ritchie from Goldman Sachs.

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

So Pat, I mean you sound very optimistic on the demand backdrop, which is great to hear. But it is definitely in contrast to a lot of other companies that we're talking to, specifically, in China auto and electronics. And so can you just maybe just provide a little bit more color on what you're seeing in those specific end markets? What you think is really driving your better outlook than maybe some others that we're talking to?

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

Again, it's always hard to sort out what's happening with the general market vis-a-vis how we're performing in our initiatives. But we take a look at the projects that we're involved with and the projects that we have an opportunity to be involved with in 2019, the project activity still looks good. And we like the product portfolio that we have, and we like our new products for 2019. And I think just in general, we don't see a reason at this point to be contributing to the doom and gloom.

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

Okay, then. I mean, that's good to hear. And I guess, either Mark or Caroline, just talking through the mix comments in Industrial, I guess, how long do you expect that to persist? And should we expect the incrementals in that business to stay in kind of like in the 20s for 2019?

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

Yes. Most of the mix in Q4 was driven by a lot of project business, particularly on the powder paint side, which we knew was coming. Good business, we make good money out of it, but it is at a little bit lower margin rate than what they would have normally expected. So it was not a surprise to us. As that mix shifts back to a more normal scenario, I guess, we would expect that the margin rates will come up a bit.

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

Okay. Fair enough. If I can maybe ask one more just on the tariffs. What was the impact that you ultimately saw in 2018? And then for the $25 million incremental tariffs and material cost expectations for 2019, just trying to understand, how much of an uptick in the guide, is that based on material inflation or of your view on tariffs? Because it seems like it's a little bit higher than what we were originally thank you for 2019.

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

I'd say it is pretty much in line with our calculations that we've had. We actually didn't see as much in the second half or in the fourth quarter as we thought that we may earlier on, and I'll attribute a lot of that to the efforts of our purchasing team and our manufacturing folks, as we -- they work closely with their suppliers to delay it or mitigate it through a variety of actions. So what we saw in the fourth quarter was actually, for both material cost change as well as tariffs and I'd put them together because sometimes it's hard to specifically identify them, was about $6 million. And based on the full year estimate, it's closer to then that incremental $25 million for next year.

Operator

(Operator Instructions) Our next question is from Matt Summerville from Davidson.

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

Just to follow up on Contractor, the incremental factory-related expenses, disruption, start-up, what have you. Can you maybe quantify how much you anticipate in '19? And will that continue into 2020 based on the additional bricks-and-mortar that you're contemplating?

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

There's a lot of moving pieces. Again, I would just direct you back to we believe that the outlook for top line in Contractor is pretty decent for 2019, and that at right now, we project that by the end of the year, our operating earnings, as a percentage of sales, would look pretty much like 2018. So you can kind of fiddle around with that however you want, but I think without overly complicating it and trying to estimate things that are going to be hard to estimate, that will be the safest thing for you to do.

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

Then the only other thing, Matt, is the factory in the build and all that should be more or less complete by the end of the year with a little bit carrying over in '20. But I think for purposes of what you're trying get to, all of this disruption or whatever that you want to call it, is really a 2019 event, not a 2020 event.

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

Got it. And then just with respect to pricing, historically, you guys have commented that you typically realize somewhere in the range, I believe, of 150 to 200 basis points, and I clearly understand that you're going to more than offset the $25 million of tariffs, so I can do the math there. I guess, more of what I'm wondering is did you make a step function move in pricing in '19 over '18 i.e. are we talking 200 to 250, 250 to 300, can you give us a little bit more granularity on that?

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

I think you got it right. I think it's a higher price increase just because of the tariff impact and cost pressures that we've got it. But in terms of the realization, I think you got the right numbers.

Operator

Our next question is from Saree Boroditsky from Jefferies.

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

I wanted to dig a little bit more into the performance in APAC Industrials. I noticed you lowered your outlook for autos from favorable to stable, so if you could just talk about what you're seeing in this market. And any difference between project activity versus production?

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

Yes. So on the production side, about 40% of our industrial legacy business is parts and accessories. And so based upon unit volume or other measures of output, we can pretty much figure that we're going to get that business. The other 60% of that business tends to be capital investment or new product lines that they've got coming out or other kind of opportunities. That kind of splits that up for you. In terms of automotive, if you just look at the macro data, I think that's really how we get to the stable on the automotive market. Again, we are seeing project activity and opportunities to bid and quote that we think will materialize in 2019, and we're definitely not negative about it. But I don't think it's got the same sort of growth potential that it had here a couple of years ago, when it was increasing more on a unit volume year-over-year.

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

Makes sense. And then just following up on the M&A question. It's been a few months since you created the new ventures role. So could you provide any color on any new areas of growth that you're interested in expanding into?

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

So actually the person that's going to lead that initiative just came back. His responsibilities in EMEA ended at the end of the year, and so he is only a few weeks into it at this point. And it is a team effort, although, I think he is going to be a strong leader for the initiative. That's just one of the new market opportunities that we're interested in. Obviously, we're pursuing a number of other things that we've talked about in the past. We've got a lot more focus on Electronics, we're doing quite a bit in sanitary, we're pumping cementitious material, we've got a scarifying initiative running in our Contractor business. So there are number of other end markets that we are also working on that are outside the new venture that we believe will provide growth opportunities for Graco in the years to come. The new ventures is just an opportunity to take a talented person who's got good global experience with the company and try to find something else, and that's just getting off the ground.

Operator

We will know take for final question from Bryan Blair from Oppenheimer.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

In terms of process trends, I know that it's difficult to parse out underlying market growth versus share gains but obviously, you're performing very well there. You just mentioned sanitary, I was wondering if you could break out any other applications where you're driving outgrowth in that segment?

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

Our process segment has got a lot of different product lines and markets mixed in it and a number of those are small. And obviously, we need to have good market conditions to be successful, but I do believe that a lot of our success in the Process segment over the last couple or 3 years has been the fact that we've been executing well in trying to turn smaller businesses into larger businesses. We've got exposure to semiconductor, we've got exposure into the industrial lubrication market there, we've got an environmental business that does different kinds of groundwater sampling and remediation. So we've got a lot of different end product lines and end markets there, but they do tend to be small and we've got initiatives to make them bigger. So certainly I think that that's got an impact.

Operator

If there are no further question, I will now turn the conference over to Pat McHale.

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

All right. Well, thank you, everyone, for your time this morning. And for those of you that are feeling the blast, enjoy the freeze. See you next quarter.

Operator

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