

GRACO INC.

2nd Quarter 2009
Earnings
Conference
Call



Thursday,
July 23, 2009
10 a.m. CT



Safe Harbor

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

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

Factors that could cause actual results to differ from anticipated results are identified in Part 1, Item 1A of, and Exhibit 99 to, the Company's 2008 Form 10-K.

Conference Call Logistics

The release, accompanying slides and replay web cast are available online at www.Graco.com (click on “Investors”)

Telephone replay available after 2 p.m. ET, July 23, 2009

- 800-406-7325 – conference ID #4114013
- 303-590-3030 – conference ID #4114013, for International participants

2009 2nd Quarter Financial Results

\$ millions except EPS	Second Quarter			Year-to-Date		
	<u>2009</u>	<u>2008</u>	<u>Change</u>	<u>2009</u>	<u>2008</u>	<u>Change</u>
Sales	\$ 148	\$ 239	(38)%	\$ 286	\$ 443	(36)%
Gross Profit	73	129	(43)%	137	241	(43)%
Rate	49 %	54 %		48 %	54 %	
Operating Expenses	55	62	(12)%	112	122	(7)%
Operating Earnings	18	67	(72)%	25	119	(79)%
Interest & Other Expenses	1	2		4	3	
Earnings Before Income Taxes	17	65	(74)%	21	116	(82)%
Income Taxes	5	23		7	38	
Net Earnings	\$ 12	\$ 42	(73)%	\$ 14	\$ 78	(82)%
Diluted Earnings Per Share	\$ 0.19	\$ 0.69	(72)%	\$ 0.24	\$ 1.27	(81)%

Industrial Equipment

\$ millions	Second Quarter			Year-to-Date		
	2009	2008	Change	2009	2008	Change
Sales						
Americas	\$ 35	\$ 62	(42)%	\$ 71	\$ 115	(38)%
Europe	20	46	(57)%	44	86	(49)%
Asia Pacific	18	25	(29)%	34	46	(28)%
Total	\$ 73	\$ 133	(45)%	\$ 149	\$ 247	(40)%
Operating Earnings	\$ 13	\$ 44	(70)%	\$ 25	\$ 82	(70)%
% of sales	18%	33%		17%	33%	

Change in % of sales	Second Quarter	Year-to-Date
2008 Operating Earnings (percentage of sales)	33 %	33 %
Exchange effect	(2)%	(2)%
Unabsorbed manufacturing costs	(5)%	(5)%
Workforce reduction	0 %	(2)%
Product development investments	(3)%	(3)%
Volume effect on operating leverage	(5)%	(4)%
2009 Operating Earnings (percentage of sales)	<u>18 %</u>	<u>17 %</u>

Contractor Equipment

\$ millions	Second Quarter			Year-to-Date		
	2009	2008	Change	2009	2008	Change
Sales						
Americas	\$ 41	\$ 51	(20)%	\$ 73	\$ 94	(22)%
Europe	14	24	(42)%	25	42	(41)%
Asia Pacific	5	7	(18)%	10	12	(18)%
Total	\$ 60	\$ 82	(26)%	\$ 108	\$ 148	(27)%
Operating Earnings	\$ 12	\$ 21	(42)%	\$ 13	\$ 34	(61)%
% of sales	20%	25%		12%	23%	

Change in % of sales	Second Quarter	Year-to-Date
2008 Operating Earnings (percent of sales)	25 %	23 %
Exchange effect	(2)%	(2)%
Unabsorbed manufacturing costs	(2)%	(2)%
Workforce reduction	0 %	(1)%
Entry-level introduction costs	2 %	1 %
Channel mix	(2)%	(2)%
Volume effect on operating leverage	(1)%	(5)%
2009 Operating Earnings (percent of sales)	<u>20 %</u>	<u>12 %</u>

Lubrication Equipment

\$ millions	Second Quarter			Year-to-Date		
	2009	2008	Change	2009	2008	Change
Sales						
Americas	\$ 12	\$ 19	(38)%	\$ 24	\$ 39	(37)%
Europe	1	2	(58)%	2	4	(50)%
Asia Pacific	1	3	(56)%	3	5	(41)%
Total	\$ 14	\$ 24	(42)%	\$ 29	\$ 48	(39)%
Operating Earnings	\$ (2)	\$ 5	(138)%	\$ (3)	\$ 9	(136)%
% of sales	(12)%	19%		(11)%	19%	

Change in % of sales	Second Quarter	Year-to-Date
2008 Operating Earnings (percentage of sales)	19 %	19 %
Exchange effect	(1)%	(1)%
Unabsorbed manufacturing costs	(9)%	(9)%
Workforce reduction	(1)%	(3)%
Product development investments	(4)%	(4)%
Provision and sale of discontinued products	(2)%	(3)%
Sale of acquired products not fully integrated	(3)%	(2)%
Volume effect on operating leverage	(11)%	(8)%
2009 Operating Earnings (percentage of sales)	(12)%	(11)%

Cash Flow and Liquidity

- Year-to-date 2009 cash flow from operations of \$69.5 million versus \$55.0 million in 2008
 - Cash uses
 - Capital expenditures \$9 M
 - Dividends \$23 M
 - Repayment of long-term debt \$36 M
- Managing working capital
 - Reduction of inventories \$23 M
 - Reduction of accounts receivable \$15 M
- Adequate availability of credit
 - Long-term debt of \$144 M
 - Available unused credit lines of \$123 M
- Third quarter
 - Expect to make a cash pension contribution

Pat McHale - CEO



Proven Quality. Leading Technology.

