



4th Quarter 2019 Earnings Conference Call

January 28, 2020

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 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 January 27, 2020.

Conference Call Logistics

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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, January 28, 2020. The replay by telephone will be available through 2 p.m. ET, February 1, 2020.

- ▶ 888-203-1112 – Conference ID #8157037
- ▶ 719-457-0820 – with the same conference ID #, for international participants

Financial Results

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Statement of Earnings

\$ in millions except per share amounts

	Fourth Quarter			Full Year		
	2019	2018	Change	2019	2018	Change
Sales	\$ 412	\$ 406	1 %	\$ 1,646	\$ 1,653	0 %
Gross Profit	209	209	0 %	860	883	(3)%
% of Sales	50.8 %	51.4 %	(0.6) pts	52.2 %	53.4 %	(1.2) pts
Operating Earnings	104	97	8 %	424	436	(3)%
% of Sales	25.3 %	23.8 %	1.5 pts	25.8 %	26.4 %	(0.6) pts
Net Earnings	\$ 85	\$ 74	15 %	\$ 344	\$ 341	1 %
% of Sales	20.6 %	18.1 %	2.5 pts	20.9 %	20.6 %	0.3 pts
Diluted Earnings Per Share	\$ 0.49	\$ 0.43	14 %	\$ 2.00	\$ 1.97	2 %
<i>Diluted Shares in Millions</i>	171.8	170.9		171.6	173.2	
<i>Net Earnings, Adjusted (1)</i>	\$ 82	\$ 73	12 %	\$ 325	\$ 326	0 %
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.48	\$ 0.43	12 %	\$ 1.90	\$ 1.88	1 %

(1) Net earnings and diluted earnings per share for 2019 and 2018 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 18 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Sales



Components of Net Sales Change

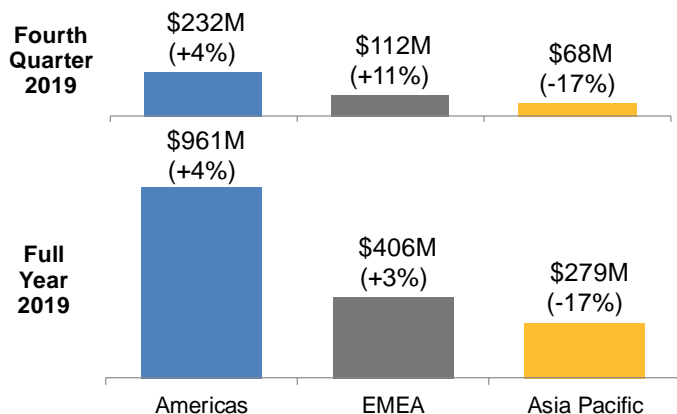
Fourth Quarter December 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(1)%	(4)%	9%	4%	12%	(19)%	1%
Acquisitions	0%	5%	0%	0%	2%	3%	1%
Currency	(1)%	0%	(1)%	0%	(3)%	(1)%	(1)%
Total	(2)%	1%	8%	4%	11%	(17)%	1%

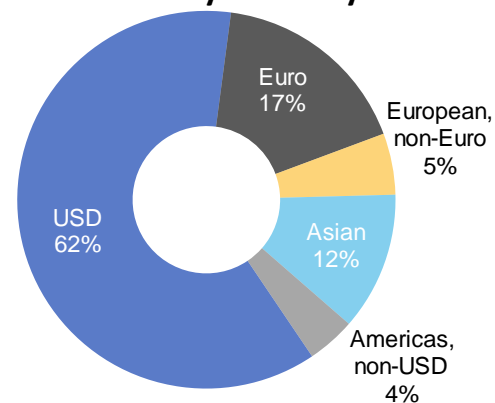
Full Year December 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(2)%	1%	5%	4%	7%	(15)%	1%
Acquisitions	0%	2%	0%	0%	1%	1%	0%
Currency	(2)%	(1)%	(1)%	0%	(5)%	(3)%	(1)%
Total	(4)%	2%	4%	4%	3%	(17)%	0%

Sales by Region



2019 Sales by Currency



Asian currencies include: AUD, CNY, JPY, KRW. European, non-euro currencies include: CHF, GBP, RON. Americas, non-USD currencies include: BRL, CAD, MXN

Operating Earnings

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2018 Operating Earnings (\$M and % of sales)

Translation effect

Price and cost, product and channel mix

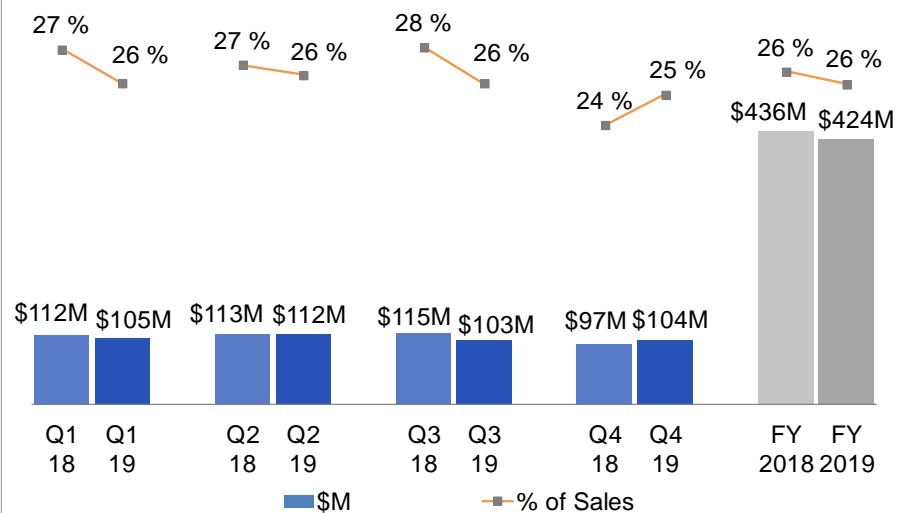
Change in volume and earnings-based costs

Volume effect on expense leverage

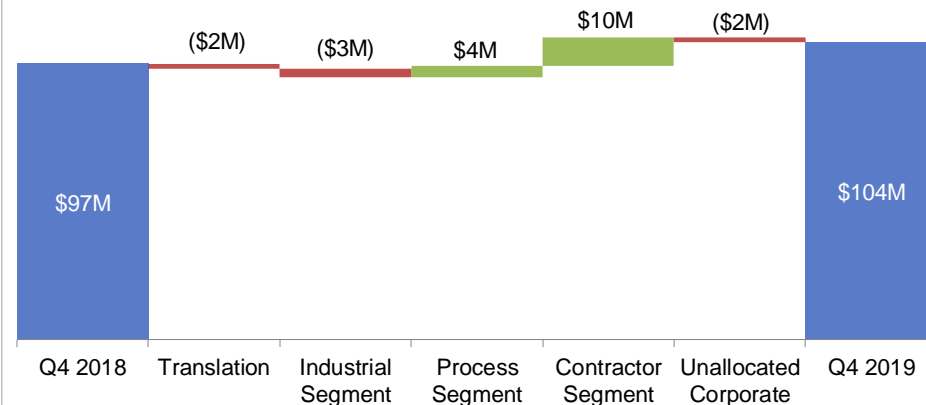
2019 Operating Earnings (\$M and % of sales)

Fourth Quarter		Full Year	
\$ 97	24 %	\$ 436	26 %
(2)	0	(15)	0
3	(1)	0	(1)
10	2	14	1
(4)	0	(11)	0
\$ 104	25 %	\$ 424	26 %

Operating Earnings



Quarter over Quarter Operating Earnings Walk



Fourth Quarter 2019

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<p>Sales</p>	<ul style="list-style-type: none"> ▶ Sales increase of 1% in the quarter, up 2% at consistent currency rates <ul style="list-style-type: none"> ▪ Acquired businesses sales of \$4 million account for 1 percentage point of growth
<p>Gross Margin</p>	<ul style="list-style-type: none"> ▶ Rate down 0.6 percentage point from fourth quarter 2018 <ul style="list-style-type: none"> ▪ Unfavorable factory volume and unfavorable channel and product mix negatively impacting gross margin rate. Realized pricing offset the adverse impact of higher material costs, including tariffs ▪ Unfavorable currency translation rates
<p>Operating Earnings</p>	<ul style="list-style-type: none"> ▶ Increased \$7½ million, or 8%, from fourth quarter 2018 <ul style="list-style-type: none"> ▪ Reductions in volume and earnings-based expenses more than offset increases in product development expenses
<p>Other Expense</p>	<ul style="list-style-type: none"> ▶ Decreased \$2 million from fourth quarter 2018 <ul style="list-style-type: none"> ▪ Gains on investments used to fund certain pension liabilities
<p>Taxes</p>	<ul style="list-style-type: none"> ▶ The effective tax rate for the quarter was 16%, down 2 percentage points from fourth quarter last year <ul style="list-style-type: none"> ▪ Decrease due primarily to higher excess tax benefits related to stock option exercises

Full Year 2019

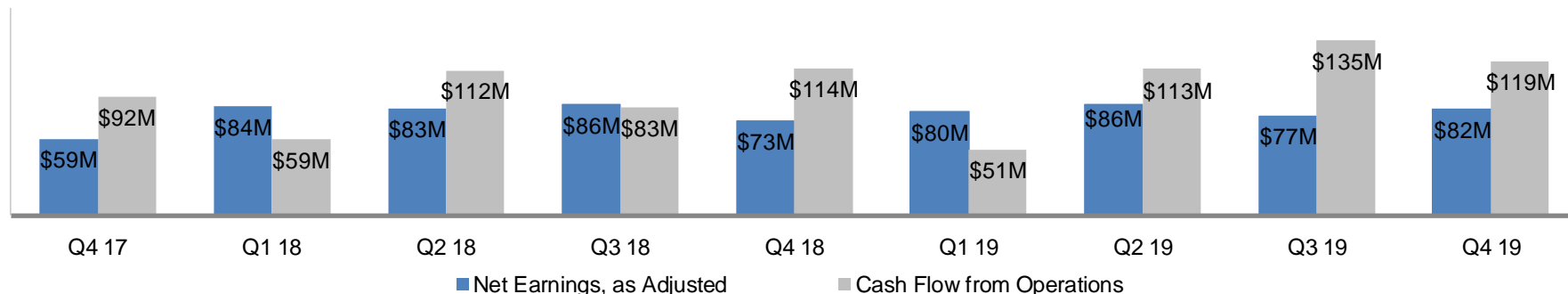
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<p>Sales</p>	<ul style="list-style-type: none"> ▶ Sales decreased slightly from 2018, up 1 percent at consistent currency rates <ul style="list-style-type: none"> ▪ Acquired businesses had no significant impact
<p>Gross Margin</p>	<ul style="list-style-type: none"> ▶ Rate down 1.2 percentage points from 2018 <ul style="list-style-type: none"> ▪ Unfavorable factory volume and unfavorable channel and product mix negatively impacting gross margin rate. Realized pricing offset the adverse impact of higher material costs, including tariffs ▪ Unfavorable effect of currency translation
<p>Operating Earnings</p>	<ul style="list-style-type: none"> ▶ Decreased \$12 million, or 3%, from 2018 <ul style="list-style-type: none"> ▪ Currency translation rates decreased operating earnings by approximately \$15 million ▪ Reductions in volume and earnings-based expenses more than offset increases in operating expenses, primarily product development
<p>Other Expense</p>	<ul style="list-style-type: none"> ▶ Decreased \$6 million <ul style="list-style-type: none"> ▪ Driven by gains on investments used to fund certain pension liabilities and lower exchange losses on net assets of foreign operations
<p>Taxes</p>	<ul style="list-style-type: none"> ▶ The effective tax rate for the year was 15%, down 2 percentage points from last year <ul style="list-style-type: none"> ▪ Decrease due to a tax rate change in a foreign subsidiary and related revaluation of deferred taxes as well as an increase in non-recurring tax benefits from other tax planning activities

Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operations



Significant Uses of Cash

	2019	2018
Net payments on debt	\$ 105	\$ -
Capital expenditures	128	54
Dividends	106	89
Acquisitions	27	11
Share repurchases, net of shares issued	-	236
Pension Funding	-	40

- ▶ Net cash provided by operating activities was \$419 million in 2019 vs. \$368 million in 2018
- ▶ Capital expenditures of \$128 million, including \$97 million related to building expansion projects to increase production and distribution capacity
- ▶ Debt, including notes payable, was \$172 million - down from \$277 million in December 2018
 - During 2019, prepaid \$75 million of private placement debt
 - Interest expense down \$1 million for the quarter and the year to date compared to 2018
- ▶ Shares issued, net of shares repurchased, \$38 million
- ▶ No pension contribution in 2019
 - In 2018, the Company made a \$40 million voluntary contribution to a U.S. pension plan










Other Discussion Items

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Cap Ex	<ul style="list-style-type: none">▶ Capital expenditure expectations of approximately \$70 million in 2020, including approximately \$30 million brick and mortar
Expenses	<ul style="list-style-type: none">▶ Unallocated corporate expenses in 2020 are expected to be approximately \$30 million
Shares	<ul style="list-style-type: none">▶ During 2019, we repurchased approximately 160,000 shares<ul style="list-style-type: none">▪ We may make share repurchases in 2020 via opportunistic open market transactions or short-dated accelerated share repurchase ("ASR") programs
Currency	<ul style="list-style-type: none">▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2019, the movement in foreign currencies would have an immaterial impact on sales and operating earnings in 2020, with a modest unfavorable impact in the first half of the year
Taxes	<ul style="list-style-type: none">▶ Excluding any impact from excess tax benefits related to stock option exercises and any one time items, the effective tax rate is expected to be approximately 20% for 2020

2020 Environment and Outlook

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

	Americas	EMEA	Asia Pacific	Total
Current Environment	Sales Q4 2019 4% Full Year 2019 4%	Sales Q4 2019 12% Full Year 2019 7%	Sales Q4 2019 (19%) Full Year 2019 (15%)	Sales Q4 2019 1% Full Year 2019 1%
Industrial Segment	Environment Unchanged  Sales Q4 2019 3% Full Year 2019 3%	Environment Unchanged  Sales Q4 2019 16% Full Year 2019 7%	Environment Unchanged  Sales Q4 2019 (26%) Full Year 2019 (19%)	Sales Q4 2019 (1%) Full Year 2019 (2%)
Process Segment	Environment Unchanged  Sales Q4 2019 (4%) Full Year 2019 3%	Environment Downgraded  Sales Q4 2019 (4%) Full Year 2019 3%	Environment Unchanged  Sales Q4 2019 (2%) Full Year 2019 (5%)	Sales Q4 2019 (4%) Full Year 2019 1%
Contractor Segment	Environment Unchanged  Sales Q4 2019 10% Full Year 2019 5%	Environment Unchanged  Sales Q4 2019 13% Full Year 2019 9%	Environment Unchanged  Sales Q4 2019 (4%) Full Year 2019 (6%)	Sales Q4 2019 9% Full Year 2019 5%
Full Year 2020 Outlook	Outlook Raised Low single-digit	Outlook Lowered Low single-digit	Outlook Raised Flat	Outlook Raised Low single-digit

Heading into 2020, we expect challenging end market conditions to remain in place for at least the first half of the year in our Industrial and Process segments. Our outlook for the Contractor segment remains positive as favorable conditions continue and demand for our products is solid across major end markets and product categories. Our outlook for 2020 is low single-digit growth on an organic, constant currency basis.

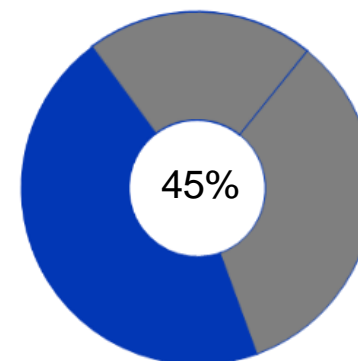
Industrial Segment Results

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\$ in millions

	Fourth Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 85	\$ 83	3 %	\$ 324	\$ 315	3 %
EMEA	68	60	13	240	234	2
Asia Pacific	42	57	(26)	183	232	(21)
Total	\$ 195	\$ 200	(2)%	\$ 747	\$ 781	(4)%
Operating Earnings	\$ 61	\$ 65	(6)%	\$ 247	\$ 271	(9)%
% of sales	31 %	32 %		33 %	35 %	

2019 Industrial Segment Sales as % of Graco



Components of Net Sales Change Environment

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	3 %	3 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	3 %	3 %
EMEA		
Volume & Price	16 %	7 %
Acquisitions	0 %	0 %
Currency	(3)%	(5)%
Total	13 %	2 %
Asia Pacific		
Volume & Price	(26)%	(19)%
Acquisitions	0 %	0 %
Currency	0 %	(2)%
Total	(26)%	(21)%
Segment Total		
Volume & Price	(1)%	(2)%
Acquisitions	0 %	0 %
Currency	(1)%	(2)%
Total	(2)%	(4)%



- Stable: General industrial, truck & trailer, wood
- Challenging: Automotive, agricultural



- Stable: General industrial
- Challenging: Automotive, truck & trailer, developing economies



- Challenging: Macro environment
- Particularly challenging: Automotive, marine, China, project activity



Industrial Segment Results

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Change in % of sales

2018 Operating Earnings (% of sales)

Translation effect

Volume, product cost, channel and product mix

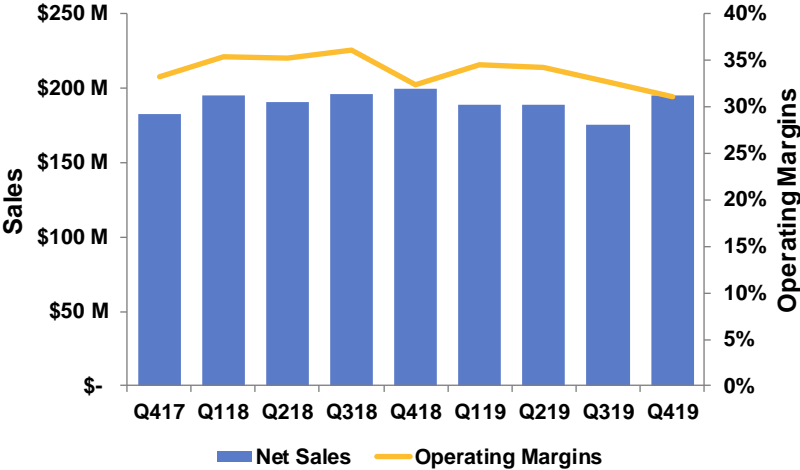
Change in volume and earnings-based costs

Volume effect on expense leverage

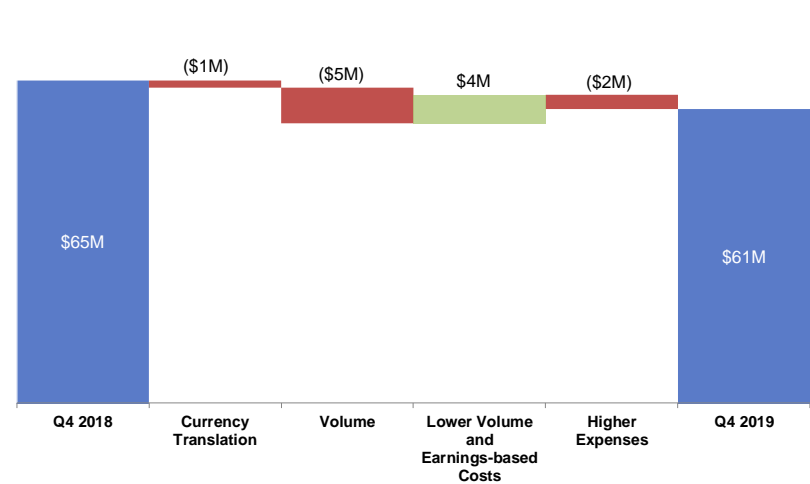
2019 Operating Earnings (% of sales)

	Fourth Quarter	Year-to-Date
2018 Operating Earnings (% of sales)	32 %	35 %
Translation effect	0	(1)
Volume, product cost, channel and product mix	(2)	(1)
Change in volume and earnings-based costs	2	1
Volume effect on expense leverage	(1)	(1)
2019 Operating Earnings (% of sales)	31 %	33 %

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



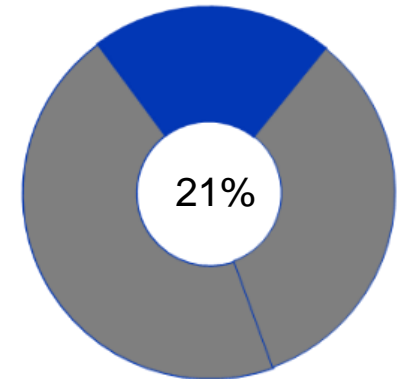
Process Segment Results



\$ in millions

	Fourth Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 55	\$ 56	(3)%	\$ 222	\$ 216	3 %
EMEA	16	15	5	62	58	5
Asia Pacific	18	17	9	61	64	(4)
Total	\$ 89	\$ 88	1 %	\$ 345	\$ 338	2 %
Operating Earnings	\$ 20	\$ 16	25 %	\$ 76	\$ 69	11 %
% of sales	22 %	18 %		22 %	20 %	

2019 Process Segment Sales as % of Graco



Components of Net Sales Change Environment

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	(4)%	3 %
Acquisitions	1 %	0 %
Currency	0 %	0 %
Total	(3)%	3 %
EMEA		
Volume & Price	(4)%	3 %
Acquisitions	10 %	5 %
Currency	(1)%	(3)%
Total	5 %	5 %
Asia Pacific		
Volume & Price	(2)%	(5)%
Acquisitions	12 %	4 %
Currency	(1)%	(3)%
Total	9 %	(4)%
Segment Total		
Volume & Price	(4)%	1 %
Acquisitions	5 %	2 %
Currency	0 %	(1)%
Total	1 %	2 %



- Stable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications, chemical
- Challenging: Energy



- Stable: Western Europe, environmental, chemical, technology, sanitary
- Challenging: Offshore oil & natural gas, vehicle services



- Challenging: Macro environment



Process Segment Results

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Change in % of sales

2018 Operating Earnings (% of sales)

Translation effect

Product cost, channel and product mix

Effect of acquired business operations

Change in volume and earnings-based costs

Volume effect on expense leverage

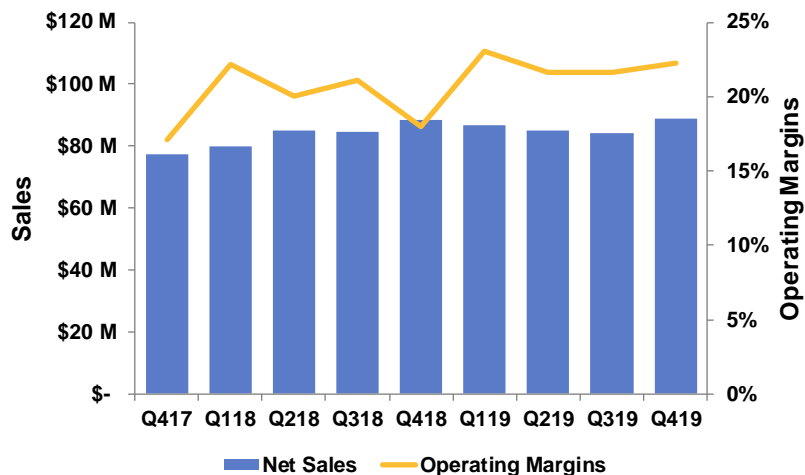
2019 Operating Earnings (% of sales)

Fourth Quarter

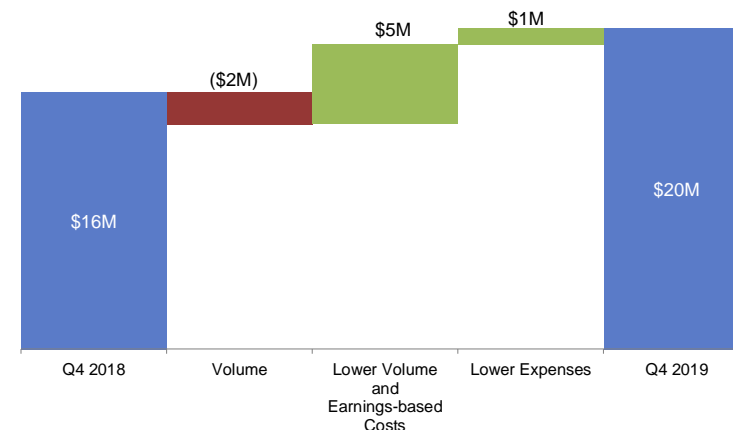
Year-to-Date

18 %	20 %
0	0
(1)	0
(1)	0
6	2
0	0
22 %	22 %

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



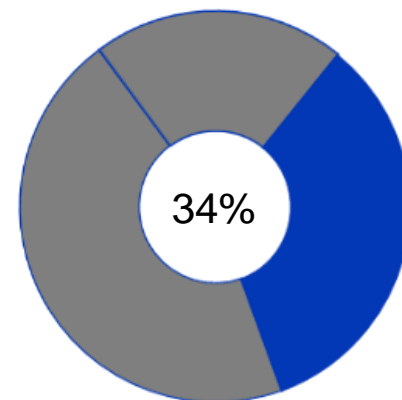
Contractor Segment Results



\$ in millions

	Fourth Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 92	\$ 84	10 %	\$ 414	\$ 396	5 %
EMEA	29	26	10	105	100	4
Asia Pacific	8	9	(6)	35	38	(10)
Total	\$ 129	\$ 119	8 %	\$ 554	\$ 534	4 %
Operating Earnings	\$ 28	\$ 18	51 %	\$ 128	\$ 121	6 %
% of sales	22 %	15 %		23 %	23 %	

2019 Contractor Segment Sales as % of Graco



Components of Net Sales Change Environment

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	10 %	5 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	10 %	5 %
EMEA		
Volume & Price	13 %	9 %
Acquisitions	0 %	0 %
Currency	(3)%	(5)%
Total	10 %	4 %
Asia Pacific		
Volume & Price	(4)%	(6)%
Acquisitions	0 %	0 %
Currency	(2)%	(4)%
Total	(6)%	(10)%
Segment Total		
Volume & Price	9 %	5 %
Acquisitions	0 %	0 %
Currency	(1)%	(1)%
Total	8 %	4 %



- Stable: Residential and commercial construction
- Focus Sectors: Pro paint, general construction, DIY



- Stable: Western Europe, DIY



- Stable: Australia
- Challenging: General construction, equipment adoption rates, local competition

Contractor Segment Results

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Change in % of sales

2018 Operating Earnings (% of sales)

Translation effect

Volume, product cost, channel and product mix

Change in volume and earnings-based costs

Volume effect on expense leverage

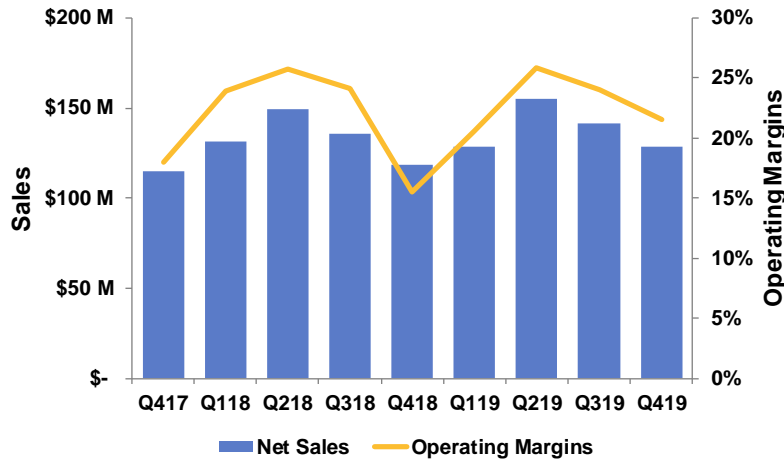
2019 Operating Earnings (% of sales)

Fourth Quarter

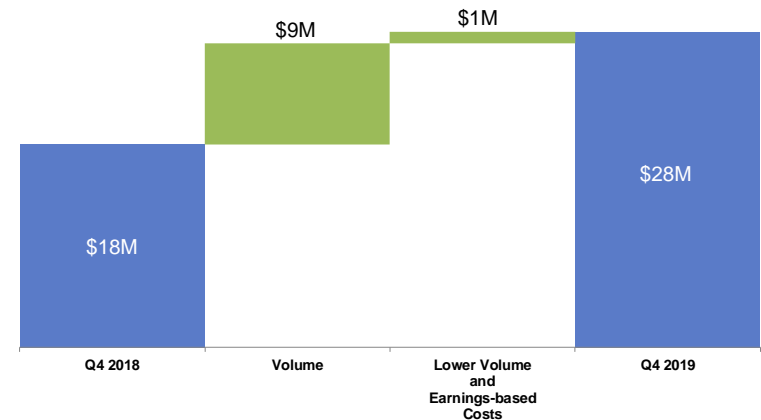
Year-to-Date

15 %	23 %
0	(1)
4	0
1	1
2	0
22 %	23 %

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD



Financial Results Adjusted for Comparability

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Certain items have caused fluctuation in the Company's financial results. Excluding the impacts of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements follows:

\$ in millions except per share amounts	Fourth Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Income taxes, as reported	\$ 15.7	\$ 16.3	(4)%	\$ 62.0	\$ 69.7	(11)%
Excess tax benefit from option exercises	2.3	0.2		10.4	10.0	
Other non-recurring tax benefit	0.5	-		8.1	5.0	
Income taxes, adjusted	<u>\$ 18.5</u>	<u>\$ 16.5</u>	12 %	<u>\$ 80.5</u>	<u>\$ 84.7</u>	(5)%
Effective income tax rate						
As reported	15.6%	18.1%		15.3%	17.0%	
Adjusted	18.5%	18.4%		19.8%	20.6%	
Net earnings, as reported	\$ 84.8	\$ 73.7	15 %	\$ 343.9	\$ 341.1	1 %
Excess tax benefit from option exercises	(2.3)	(0.2)		(10.4)	(10.0)	
Other non-recurring tax benefit	(0.5)	-		(8.1)	(5.0)	
Net earnings, adjusted	<u>\$ 82.0</u>	<u>\$ 73.5</u>	12 %	<u>\$ 325.4</u>	<u>\$ 326.1</u>	0 %
Weighted Average Diluted Shares, in millions	171.8	170.9		171.6	173.2	
Diluted Earnings per Share						
As reported	\$ 0.49	\$ 0.43	14 %	\$ 2.00	\$ 1.97	2 %
Adjusted	\$ 0.48	\$ 0.43	12 %	\$ 1.90	\$ 1.88	1 %



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