

1st Quarter 2013 Earnings Conference Call

Thursday April 25, 2013 – 10 am CT



MANUFACTURING
EXCELLENCE

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 Form 10-K, and Item 1A of the current Quarterly Report on Form 10-Q.

Conference Call Logistics



The release, accompanying slides and replay web cast are available online at investors.graco.com

Telephone replay will be available after 2 p.m. ET, April 25, 2013. The replay by telephone will be available through April 28, 2013

- 800-406-7325 – Conference ID #4612085
- 303-590-3030 – Conference ID #4612085, for International participants

Consolidated Financial Results



\$ millions except EPS

	First Quarter		
	2013	2012	Change
Sales	\$ 269.0	\$ 234.1	15 %
Gross Profit	\$ 150.6	132.2	14 %
% of Sales	56.0 %	56.5 %	(0.5) pts
Operating Earnings	\$ 71.5	58.0	23 %
% of Sales	26.6 %	24.8 %	1.8 pts
Net Earnings	\$ 52.1	\$ 35.4	47 %
% of Sales	19.4 %	15.1 %	4.3 pts
Diluted Earnings Per Share	\$ 0.84	\$ 0.58	45 %

Consolidated Impact of Acquisition/Divestiture Items



\$ millions except EPS

First Quarter	2013	2012	Change	Acquisition/Divestiture Related Items
Sales	\$ 269.0	\$ 234.1	15 %	\$32 M Powder Finishing, 14 percentage points (pts)
Gross Profit	\$ 150.6	132.2	14 %	Powder lower gross margin percentage reduced consolidated results
% of Sales	56.0 %	56.5 %	(0.5) pts	
Operating Earnings	\$ 71.5	58.0	23 %	Acquisition/divestiture cost a decrease of \$4M from prior year
% of Sales	26.6 %	24.8 %	1.8 pts	
Net Earnings	\$ 52.1	\$ 35.4	47 %	Liquid Finishing dividend (post-tax) \$4 million; \$1M after tax increase in interest expense
% of Sales	19.4 %	15.1 %	4.3 pts	
Diluted Earnings Per Share	\$ 0.84	\$ 0.58	45 %	

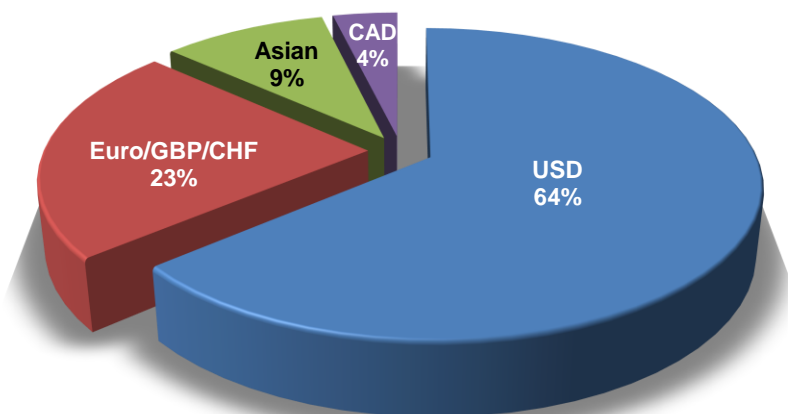
Consolidated Financial Results – Net Sales



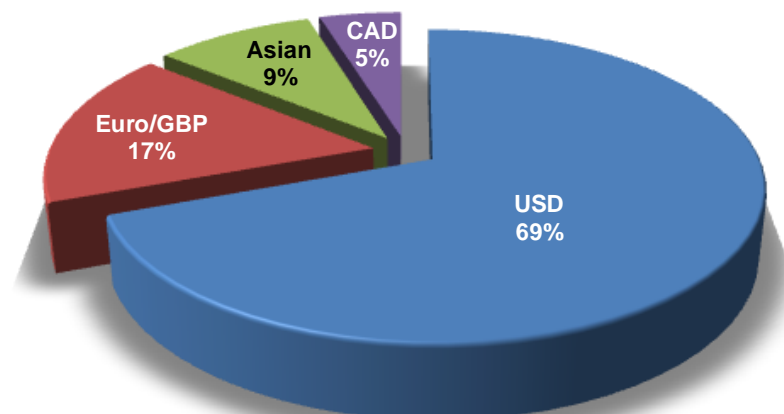
First Quarter 2013

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	(1)%	8 %	(3)%	4 %	(4)%	1 %	1 %
Acquisitions	24 %	0 %	0 %	6 %	30 %	17 %	14 %
Currency	(1)%	0 %	0 %	0 %	0 %	(2)%	0 %
Total	22 %	8 %	(3)%	10 %	26 %	16 %	15 %

Sales by Currency YTD March 2013

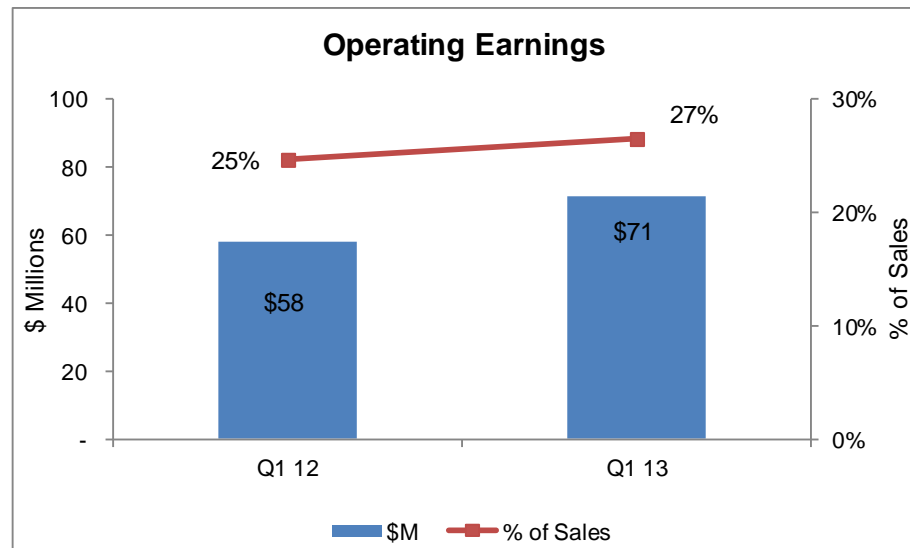
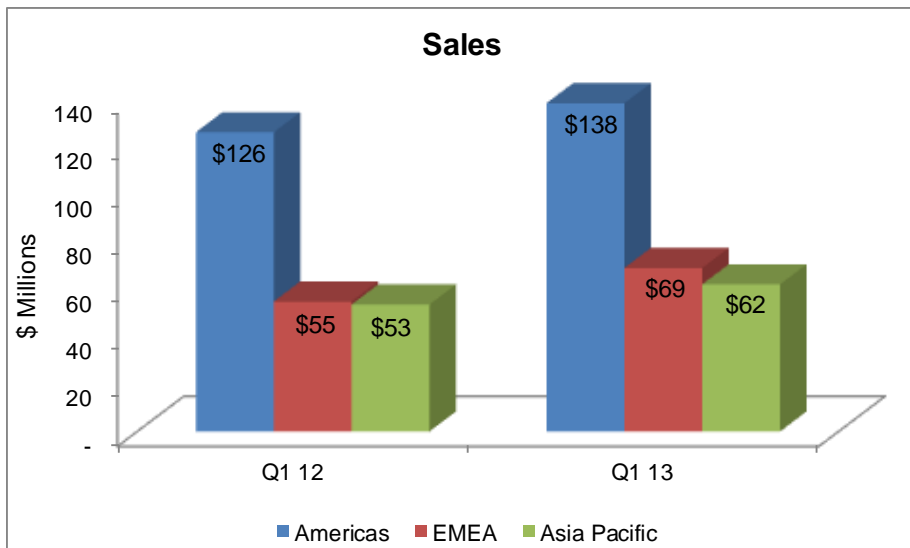


Sales by Currency YTD March 2012



Asian currencies include:
AUD, CNY/RMB, KRW, JPY

Consolidated First Quarter 2013 Results



- Sales increase of 15% (no impact from currency translation)
 - Powder Finishing sales of \$32 million account for 14 percentage points of growth
- Gross margin rate down ½ percentage point from prior year
 - Realized pricing plus manufacturing cost improvements
 - Powder Finishing lower margin

- Operating expenses are up \$5 million
 - \$9 million Powder Finishing operations
 - \$4 million decrease in acquisition/divestiture expenses
- Interest expense \$5 million, up \$1 million from Q1 2012
- Liquid Finishing dividend \$4 million, post tax
- Tax rate of 27% is lower than first quarter 2012 rate of 34%
 - 2013 reduced by effect of investment income (post-tax) from Liquid Finishing
 - R&D tax credit reinstated; full year 2012 (\$3 million) and Q1 2013 credit recognized in Q1 2013

Consolidated Results



Change in Operating Earnings

2012 Operating Earnings (\$M and % of sales)

Translation effect

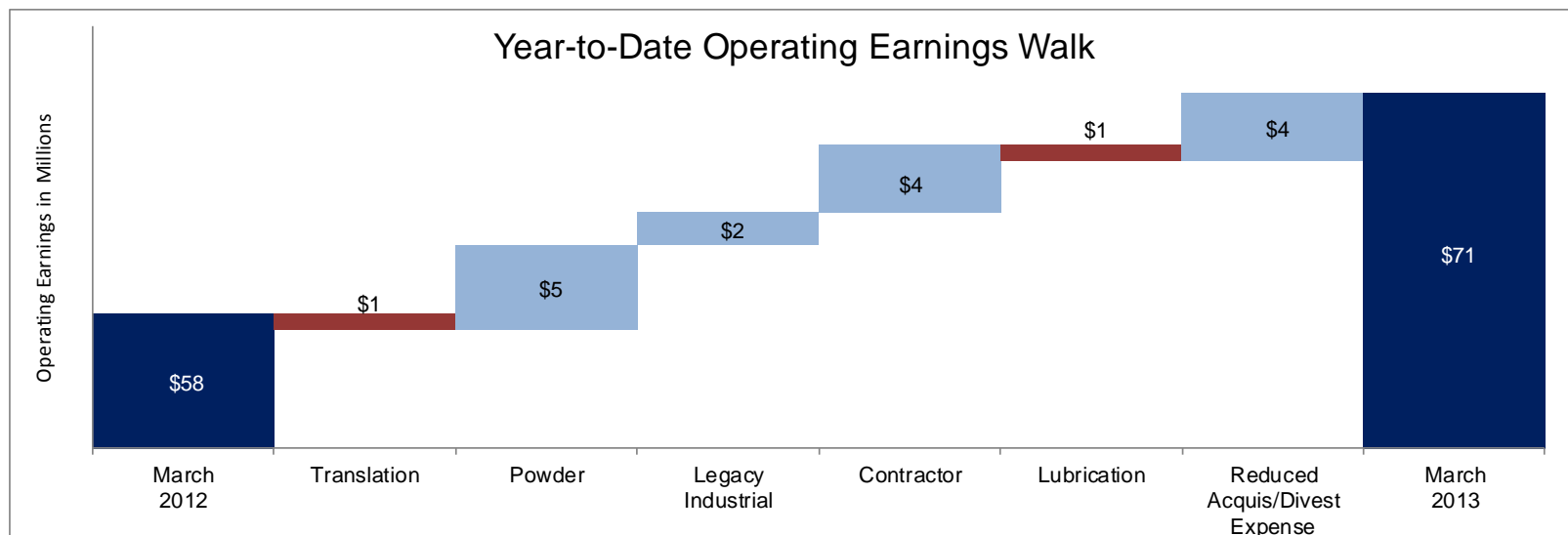
Pricing, product cost and mix

Powder Finishing operating earnings leverage

Acquisition/divestiture costs reduction

2013 Operating Earnings (\$M and % of sales)

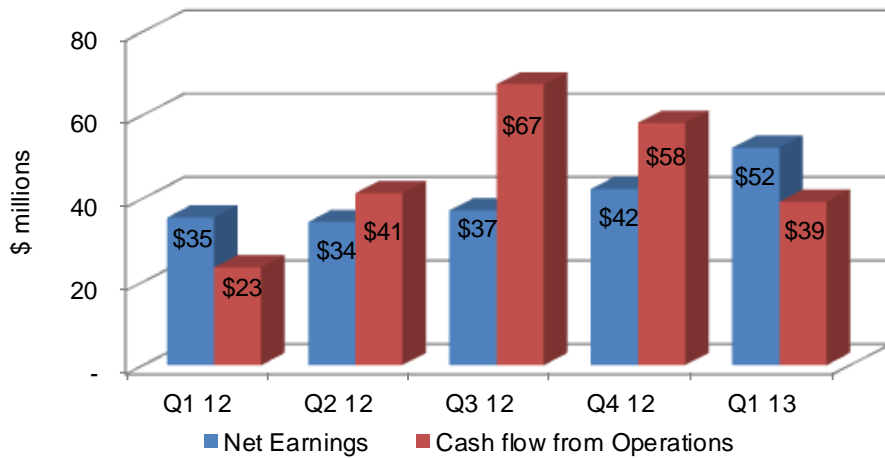
First Quarter	
\$ 58	25 %
(1)	—
5	1
5	(1)
4	2
\$ 71	27 %



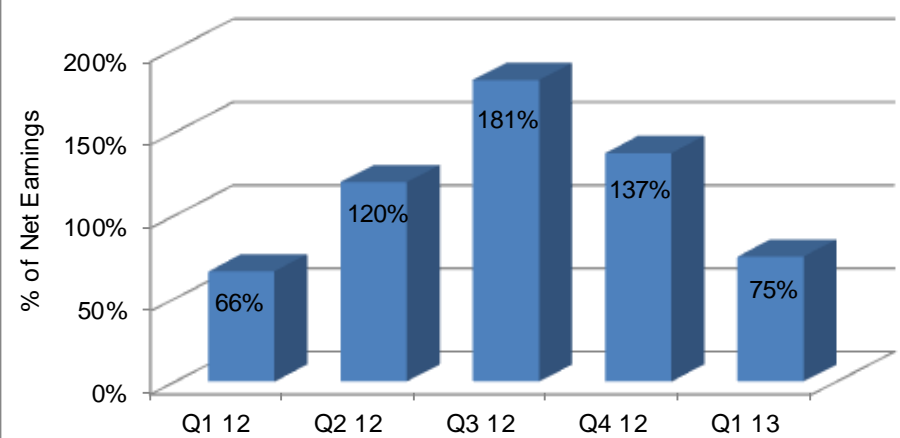
Cash Flow and Liquidity



Net Earnings and Cash from Operations



Cash from Operations as % of Net Income



2013 cash flow from operations \$39 million versus \$23 million in 2012

- Cash uses
 - Net payments on long-term line of credit \$35 million
 - Capital expenditures \$3 million
 - Dividends paid \$15 million
- Working capital
 - Increase in accounts receivable \$14 million
 - Increase in inventories \$9 million, build-up for CED spring promotion

Long-term debt \$521 million down \$35 million from year-end

- Interest expense \$5 million

Liquid Finishing dividend (post-tax) \$4 million

Acquisition of Finishing Businesses



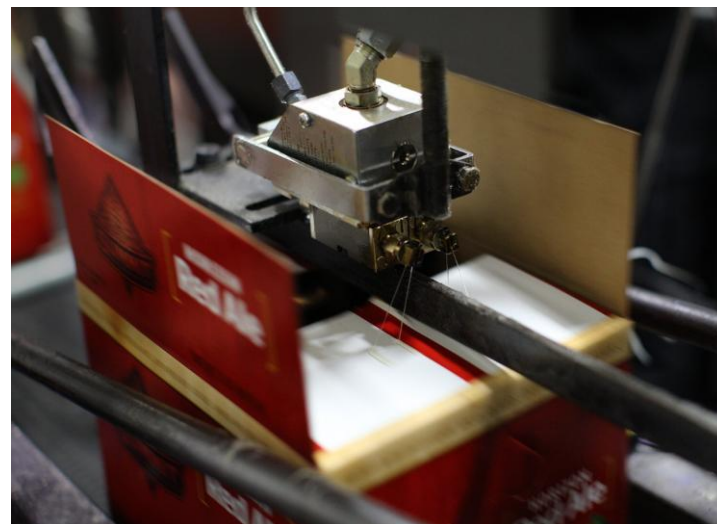
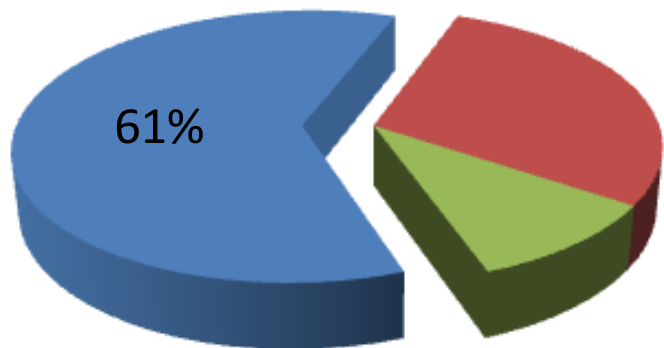
- In April 2012, the purchase of the finishing businesses of Illinois Tool Works Inc. was completed and included Powder Finishing and Liquid Finishing equipment operations, technologies and brands. Results of the Powder Finishing business have been included in the Industrial segment since the acquisition
- The Federal Trade Commission (FTC) issued a Hold Separate Order for Graco to hold the Liquid Finishing assets separate and these businesses are reflected as a cost-method investment, and its financial results have not been consolidated with those of the Company
 - Income is recognized based on dividends from current earnings, \$4 million (post-tax) in Q1 2013
- The FTC issued a proposed decision and order (the “Decision and Order”) in May 2012, which requires Graco to sell the Liquid Finishing business assets, no later than 180 days from the date the order becomes final. The FTC has not yet issued its final Decision and Order
- Graco has retained an investment bank to help market the Liquid Finishing businesses and identify potential buyers

Other Discussion Items



- Total future costs of the divestiture expected to be approximately \$10 million, though the timing and final amount may be affected by the sales and regulatory review processes
- Tax rate for second quarter expected to be approximately 30-31%, for the year approximately 29-30%
 - Assumes quarterly \$4 million (post-tax) in dividends from the Liquid Finishing business
- Evaluating possible dividend of approximately \$10-15 million from Liquid Finishing business in the second quarter to reduce cash and undistributed earnings. Anticipate returning to usual rate of \$4 million dividends after the second quarter
- Capital expenditures expected to be in the range of \$20 million for 2013

Industrial Equipment Results



YTD Industrial Segment Sales as % of Consolidated

Sales (\$M)	First Quarter		
	2013*	2012	Change
Americas	\$ 66	\$ 59	12 %
EMEA	50	37	36
Asia Pacific	48	38	26
Total	\$ 164	\$ 134	22 %
Operating Earnings	\$ 55	\$ 48	14 %
% of sales	34 %	36 %	

*Includes Powder Finishing sales of \$32M

Industrial Equipment Results

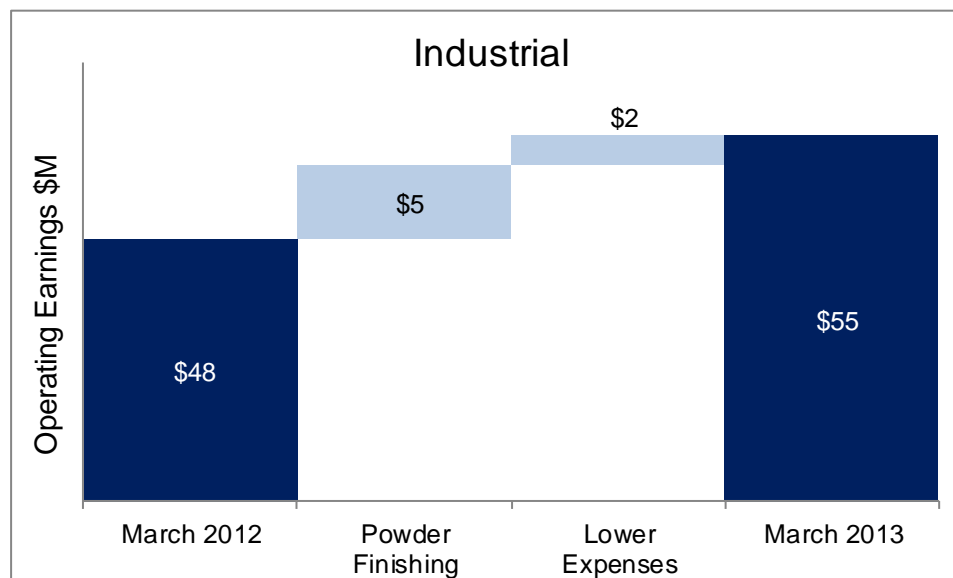


Change in Operating Earnings as % of Sales

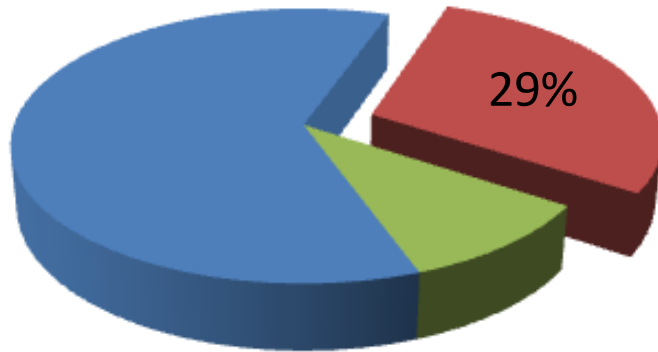
2012 Operating Earnings (percentage of sales)	
Translation effect	
Powder Finishing operating earnings leverage	
Pricing, product cost and mix	
Volume effect on expense leverage	
2013 Operating Earnings (percentage of sales)	

First Quarter

36 %
—
(4)
1
1
<u>34 %</u>



Contractor Equipment Results



YTD Contractor Sales as % of Consolidated



Sales (\$ M)	First Quarter		Change
	2013	2012	
Americas	\$ 52	\$ 46	11 %
EMEA	16	16	1
Asia Pacific	10	10	2
Total	\$ 78	\$ 72	8 %
Operating Earnings	\$ 16	\$ 13	31 %
% of sales	21 %	17 %	

Contractor Equipment Results



Change in Operating Earnings as % of Sales

2012 Operating Earnings (percentage of sales)

Translation effect

Volume, pricing, product cost

Expense/volume leverage

2013 Operating Earnings (percentage of sales)

First Quarter

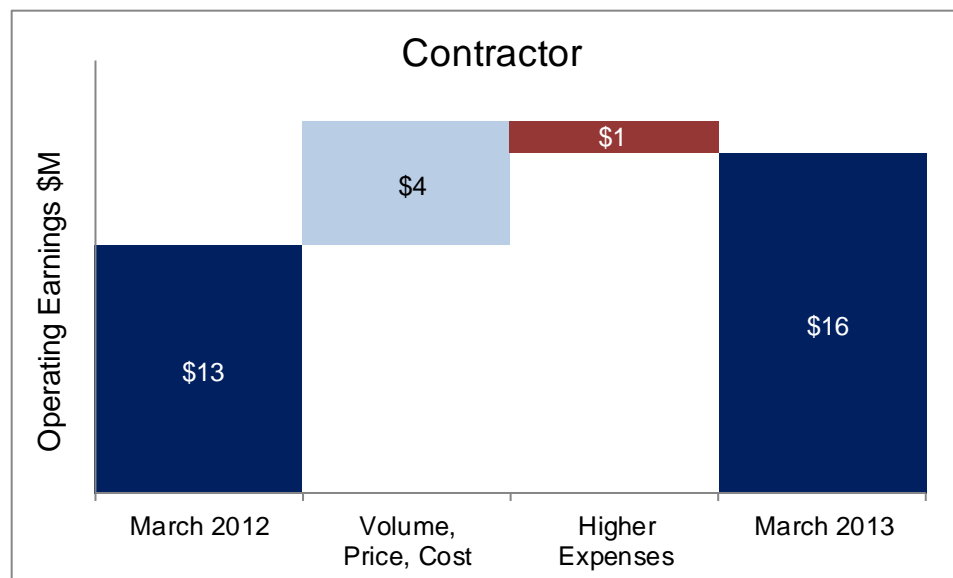
17 %

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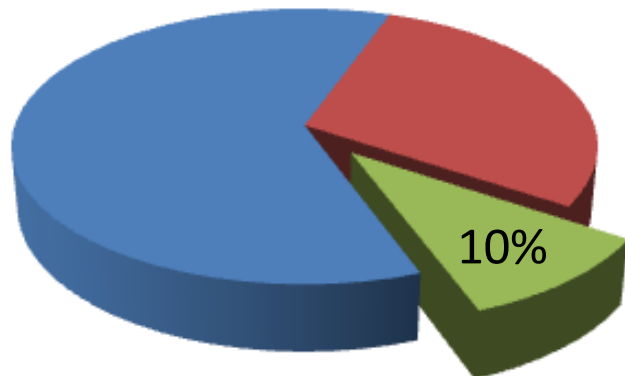
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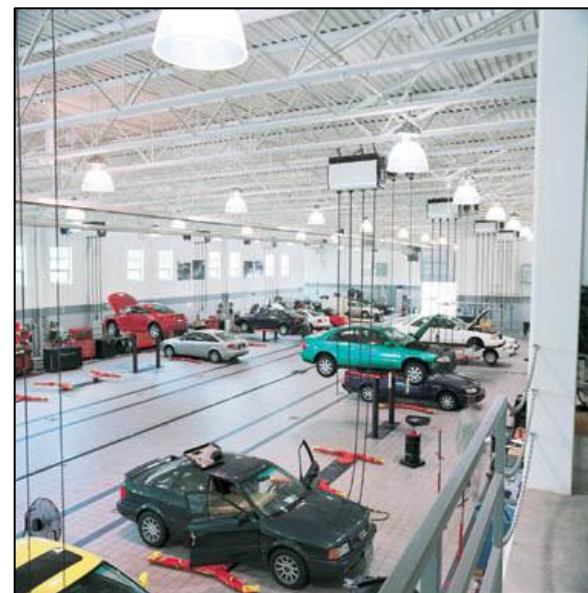
21 %



Lubrication Equipment Results



YTD Lubrication Sales as % of Consolidated



Sales (\$ M)	First Quarter		Change
	2013	2012	
Americas	\$ 21	\$ 20	1 %
EMEA	2	2	30
Asia Pacific	4	6	(27)
Total	\$ 27	\$ 28	(3) %
Operating Earnings	\$ 5	\$ 6	(16)%
% of sales	19 %	22 %	

Lubrication Equipment Results



Change in Operating Earnings as % of Sales

2012 Operating Earnings (percentage of sales)

Translation effect

Volume, price, product cost, mix

Investment in product development

Volume effect on expense leverage

2013 Operating Earnings (percentage of sales)

First Quarter

22 %

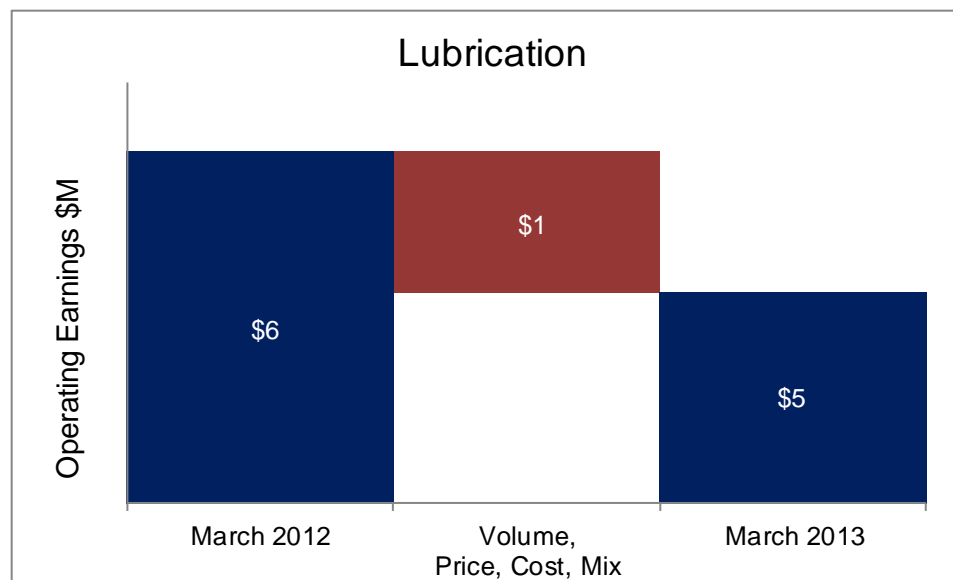
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(1)

(1)

(1)

19 %



INNOVATION IN FLUID HANDLING



move

measure

mix

control

dispense

spray

MANUFACTURING EXCELLENCE