



4th Quarter 2017 Earnings Conference Call

January 30, 2018

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 29, 2018.

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, January 30, 2018. The replay by telephone will be available through February 3, 2018

- ▶ 888-203-1112 – Conference ID #1103021
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Key 2017 Fourth Quarter Items



- ▶ 3 for 1 stock split completed on December 27, 2017
- ▶ Notes payable of \$75 million were repaid during the fourth quarter
- ▶ As discussed in the third quarter, the Company has restructured its U.S. pension plan, with the purchase of annuities for certain plan participants. The Company's U.S. pension liabilities and assets were reduced by \$42 million and a pension settlement charge of \$12 million (\$0.04 per diluted share) was recorded in general and administrative expenses during the fourth quarter
- ▶ U.S. federal income tax reform legislation passed at the end of 2017 (Tax Reform) required a revaluation of the net deferred tax assets of approximately \$29 million and instituted a toll charge on repatriated foreign earnings of approximately \$7 million that increased the tax provision by a total of \$36 million (\$0.20 per diluted share)
- ▶ Adoption of a new accounting standard, requiring excess tax benefits related to stock option exercises to be credited to the income tax provision (formerly credited to equity), reduced the tax provision by \$16 million (\$0.09 per diluted share) for the fourth quarter and \$36 million (\$0.21 per diluted share) for the year

Financial Results



Statement of Earnings	Fourth Quarter			Year		
	2017	2016	Change	2017	2016	Change
\$ in millions except per share amounts	13 Weeks	14 Weeks		52 Weeks	53 Weeks	
Sales	\$ 375	\$ 349	7 %	\$ 1,475	\$ 1,329	11 %
Gross Profit	200	185	8 %	793	708	12 %
% of Sales	53.5 %	52.9 %	0.6 pts	53.8 %	53.3 %	0.5 pts
Operating Earnings (Loss)	76	(107)	171 %	360	114	217 %
% of Sales	20.3 %	(30.6)%	50.9 pts	24.4 %	8.6 %	15.8 pts
Net Earnings (Loss)	\$ 36	\$ (104)	135 %	\$ 252	\$ 41	521 %
% of Sales	9.7 %	(29.8)%	39.5 pts	17.1 %	3.1 %	14.0 pts
Diluted Earnings (Loss) Per Share	\$ 0.21	\$ (0.61)	134 %	\$ 1.45	\$ 0.24	504 %
<i>Diluted Shares in Millions</i>	175.7	171.3		174.3	170.9	
<i>Net Earnings, Adjusted (1)</i>	\$ 59	\$ 57	4 %	\$ 249	\$ 202	23 %
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.34	\$ 0.33	3 %	\$ 1.43	\$ 1.18	21 %

(1) Net earnings and diluted earnings per share for 2017 and 2016 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 6 for a reconciliation of the adjusted non-GAAP measures to GAAP

Non-GAAP Disclosure Reconciliation



There were multiple events in the last two years that caused significant fluctuations in financial results, including impairment charges recorded in 2016 and changes in accounting for tax benefits related to stock compensation, federal income tax reform and pension plan restructuring in 2017. Excluding the impacts of these events presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted operating earnings, income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

Non-GAAP Reconciliation	Fourth Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
\$ in millions except per share amounts						
Operating earnings (loss), as reported	\$ 76.2	\$(106.9)	171 %	\$ 360.4	\$ 113.9	217 %
Pension settlement loss	12.1	-		12.1		
Impairment	-	192.0		-	192.0	
Operating earnings, adjusted	<u>\$ 88.3</u>	<u>\$ 85.1</u>	4 %	<u>\$ 372.5</u>	<u>\$ 305.9</u>	22 %
Income taxes, as reported	\$ 37.1	\$ (6.8)	646 %	\$ 94.7	\$ 56.0	69 %
Excess tax benefit from option exercises	15.8	-		36.3	-	
Income tax reform	(35.6)	-		(35.6)	-	
Other non-recurring tax changes	4.5	-		10.0	-	
Tax effects of adjustments	4.4	30.6		4.4	30.6	
Income taxes, adjusted	<u>\$ 26.2</u>	<u>\$ 23.8</u>	10 %	<u>\$ 109.8</u>	<u>\$ 86.6</u>	27 %
Effective income tax rate						
As reported	51%	6%		27%	58%	
Adjusted	31%	29%		31%	30%	
Net earnings (loss), as reported	\$ 36.4	\$(104.2)	135 %	\$ 252.4	\$ 40.7	521 %
Pension settlement loss, net	7.7	-		7.7	-	
Impairment, net	-	161.4		-	161.4	
Excess tax benefit from option exercises	(15.8)	-		(36.3)	-	
Income tax reform	35.6	-		35.6	-	
Other non-recurring tax changes	(4.5)	-		(10.0)	-	
Net earnings, adjusted	<u>\$ 59.4</u>	<u>\$ 57.2</u>	4 %	<u>\$ 249.4</u>	<u>\$ 202.1</u>	23 %
Weighted Average Diluted Shares, in millions	175.7	171.3		174.3	170.9	
Diluted Earnings per Share						
As reported	\$ 0.21	\$ (0.61)	134 %	\$ 1.45	\$ 0.24	504 %
Adjusted	\$ 0.34	\$ 0.33	3 %	\$ 1.43	\$ 1.18	21 %

Financial Results



Components of Net Sales Change

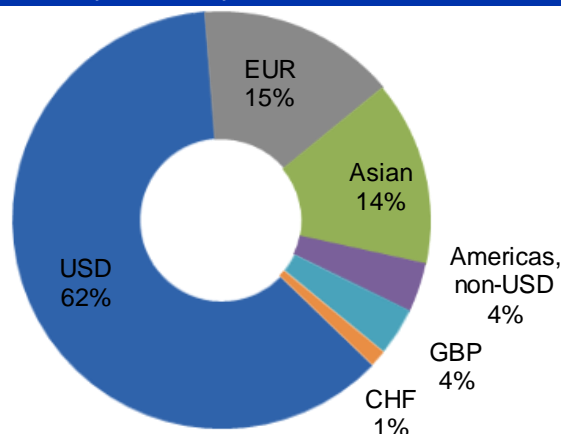
Fourth Quarter December 2017

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	1 %	7 %	9 %	4 %	4 %	9 %	5 %
Acquisitions	1 %	1 %	0 %	1 %	0 %	0 %	0 %
Currency	2 %	2 %	2 %	0 %	7 %	2 %	2 %
Total	4 %	10 %	11 %	5 %	11 %	11 %	7 %

Year-to-Date December 2017

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	9 %	11 %	12 %	9 %	9 %	17 %	11 %
Acquisitions	1 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	0 %	0 %	1 %	0 %	1 %	(1)%	0 %
Total	10 %	11 %	13 %	9 %	10 %	16 %	11 %

2017 YTD Sales by Currency



Asian currencies include:
AUD, CNY, KRW, JPY

Americas currencies include:
CAD, BRL, MXN

- ▶ The effective tax rate for the fourth quarter 2017 was 51% compared to a rate of 29% last year, excluding the impact of the 2016 impairment which decreased the 2016 rate approximately 23 percentage points
 - 2017 Tax Reform increased the rate approximately 48 percentage points; revaluation of deferred taxes (\$29 million) 39 percentage points and repatriation toll charge (\$7 million) 9 percentage points
 - 2017 tax rate benefited approximately 21 percentage points from the adoption of a new accounting standard requiring excess tax benefits related to stock option exercises to be credited to the income tax provision, \$16 million
 - 2017 tax rate benefited approximately 6 percentage points from non-recurring tax benefits net of the tax affect of adjustments

- ▶ The effective tax rate for 2017 was 27% compared to 30% last year, excluding the impact of the 2016 impairment which increased the 2016 rate approximately 28 percentage points
 - 2017 Tax Reform increased the rate approximately 10 percentage points; revaluation of deferred taxes \$29 million, 8 percentage points and repatriation toll charge of \$7 million, 2 percentage points
 - 2017 tax rate benefited 10 percentage points from the adoption of a new accounting standard requiring excess tax benefits related to stock option exercises to be credited to the income tax provision, \$36 million
 - 2017 tax rate benefited approximately 3 percentage points from non-recurring tax benefits net of the tax affect of adjustments

- ▶ Under the Tax Reform legislation, for tax years beginning January 1, 2018, the U.S. corporate tax rate will be 21%. While the Company's future U.S. income will be taxed at the U.S. corporate rate, the Company's international income will be taxed at the applicable rates in the respective countries of domicile. Based on our current income split between the various jurisdictions in which we do business, we anticipate the 2018 tax rate will be approximately 21%- 23%

Operating Earnings



Change in Operating Earnings

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

2016 Oil and Natural Gas impairment of intangible assets

2016 Operating Earnings - excluding impairment

Translation effect

Volume, price and cost

Volume and earnings based incentives

Investment in regional and product growth initiatives

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

Unallocated corporate expenses (primarily stock compensation)

Volume effect on expense leverage

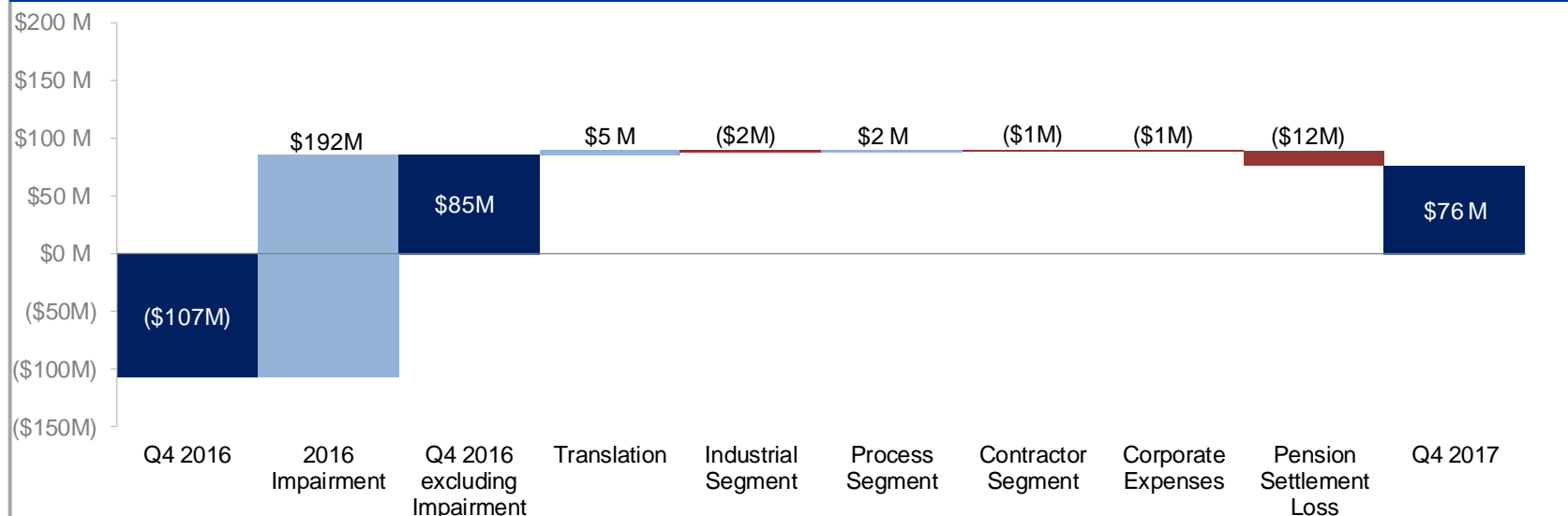
2017 Operating Earnings - Excluding Pension Settlement Loss

Pension settlement loss

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

	Fourth Quarter		Year-to-Date	
2016 Operating Earnings/(Loss) (\$M and % of sales)	(\$107)	(31)%	\$ 114	9 %
2016 Oil and Natural Gas impairment of intangible assets	192	55	192	14
2016 Operating Earnings - excluding impairment	\$ 85	24 %	\$ 306	23 %
Translation effect	5	2	2	0
Volume, price and cost	10	0	86	0
Volume and earnings based incentives	(5)	(1)	(13)	(1)
Investment in regional and product growth initiatives	(1)	0	(3)	0
Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment	0	0	3	0
Unallocated corporate expenses (primarily stock compensation)	(1)	(1)	(3)	0
Volume effect on expense leverage	(5)	0	(6)	3
2017 Operating Earnings - Excluding Pension Settlement Loss	\$ 88	24 %	\$ 372	25 %
Pension settlement loss	(12)	(4)	(12)	(1)
2017 Operating Earnings (\$M and % of sales)	\$ 76	20 %	\$ 360	24 %

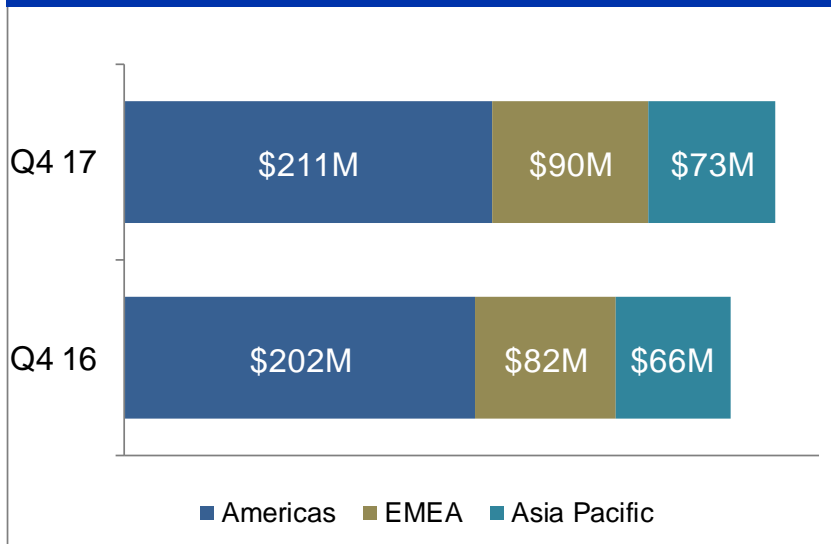
Quarter over Quarter Operating Earnings Walk



Fourth Quarter 2017 Results

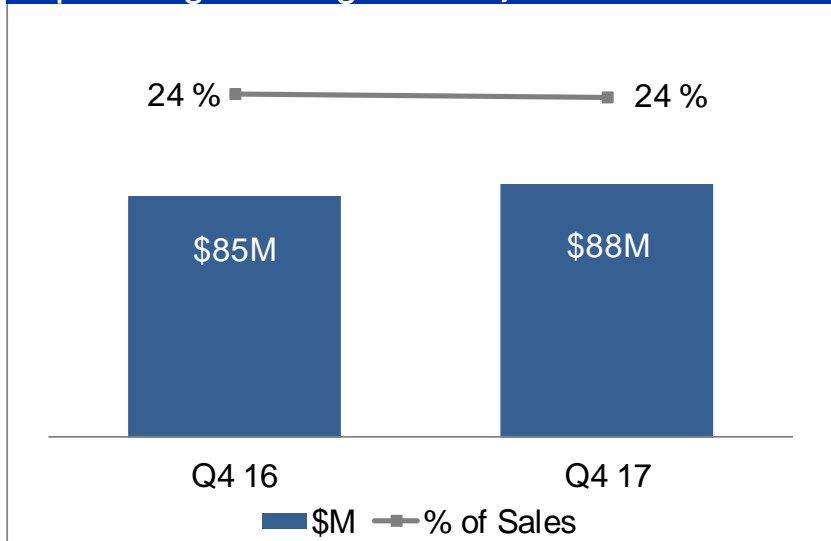


Sales



- ▶ Sales increase of 7%
 - Favorable effect of currency translation rates increased sales by approximately \$7 million, 2 percentage points
 - Acquired businesses had no significant impact on the quarter
 - Fourth quarter 2016 included an extra week compared to our normal fiscal calendar
- ▶ Gross margin rate up 0.6 percentage point from fourth quarter 2016
 - Higher margin rate due to currency translation
 - Favorable price and cost offset by unfavorable product and channel mix
- ▶ Operating earnings, as adjusted, are up \$3 million, or 4%, from fourth quarter 2016, excluding 2017 pension settlement loss and 2016 impairment charge
 - Higher sales volume and positive impact of currency translation
 - Higher volume and earnings based incentives, \$5 million
- ▶ The 2017 tax rate for the quarter, as adjusted, was 31%, up from 29%, as adjusted, in the fourth quarter last year
 - 2016 rate included favorable impact from non-recurring tax planning benefits

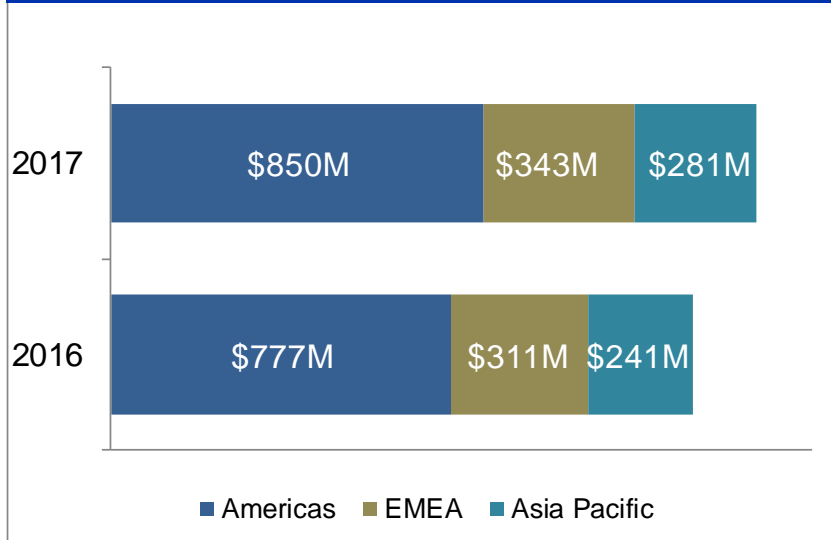
Operating Earnings - as Adjusted



Full Year 2017 Results

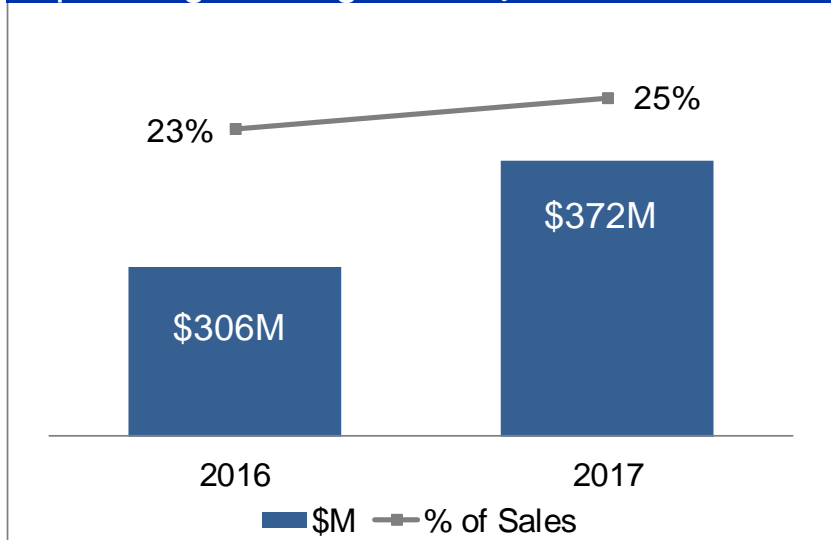


Sales



- ▶ Sales increase of 11%
 - Currency translation rates and acquired businesses had no significant impact on the year
 - Fourth quarter 2016 included an extra week compared to our normal fiscal calendar
- ▶ Gross margin rate up 0.5 percentage point from 2016
 - Higher factory volume and realized pricing partially offset by negative product and channel mix
- ▶ Operating earnings, as adjusted, are up \$67 million, or 22%, from 2016
 - Higher sales volume and expense leverage
 - Higher sales and earnings based incentives, \$13 million
 - Lower intangible amortization related to the 2016 Oil and Natural Gas impairment, \$3 million
- ▶ Tax rate for 2017, as adjusted, was 31%, up from 30% in 2016, as adjusted
 - 2016 rate included favorable impact from non-recurring tax planning benefits

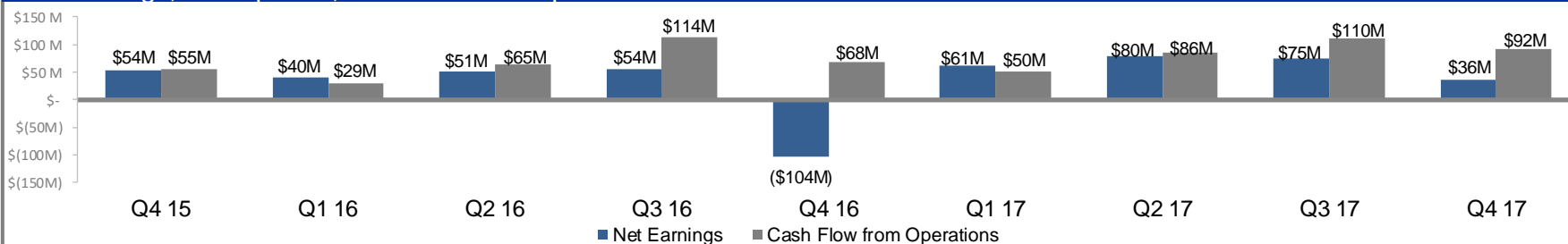
Operating Earnings - as Adjusted



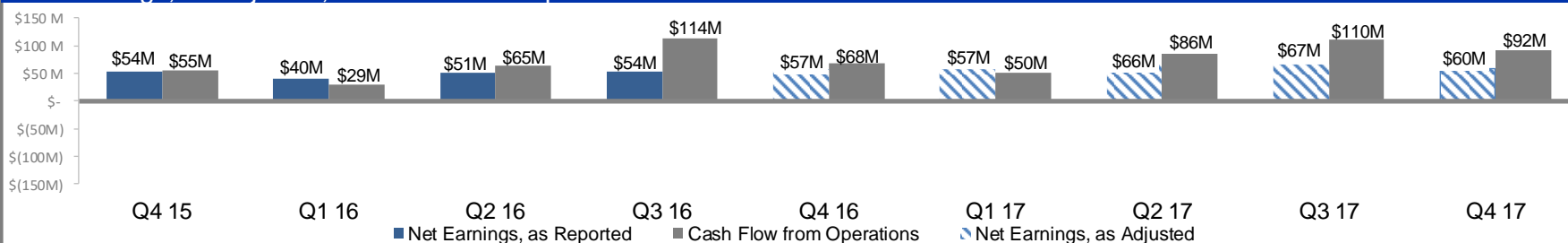
Cash Flow and Liquidity



Net Earnings, as Reported, and Cash from Operations

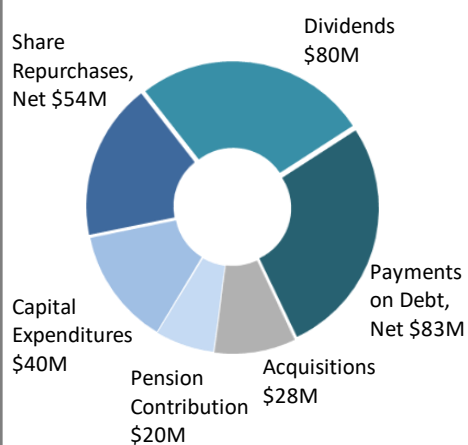


Net Earnings, as Adjusted, and Cash from Operations



See Q4 17 non-GAAP reconciliation on page 6

2017 Significant Uses of Cash












- ▶ Net cash provided by operating activities was \$338 million in 2017 vs. \$276 million in 2016
- ▶ Changes in working capital are in line with volume growth
- ▶ The Company contributed \$20 million to the U.S. pension plan during third quarter
- ▶ Notes payable of \$75 million were repaid during fourth quarter, debt at year end totaled \$233 million
 - Interest expense down \$1.4 million from 2016
- ▶ Share repurchases, net of shares issued, totaled \$54 million in 2017

- ▶ Capital expenditure expectations of approximately \$40 million in 2018, excluding bricks and mortar
 - Planning and design for several production and distribution facilities that are nearing capacity is underway
- ▶ Unallocated corporate expenses in 2018 are expected to be approximately \$32 - \$34 million
- ▶ Interest expense in 2018 is expected to be approximately \$13 - \$14 million
- ▶ The anticipated 2018 tax rate is expected to be approximately 21% - 23%, taking into account the reduced U.S. corporate tax rate, the applicable international rates and our current income split between the various jurisdictions in which we do business
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2017, the favorable movement in foreign currencies would increase sales approximately 3% and increase earnings approximately 7%, with the greatest benefit in the first half

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 Q4 2017 4% Full Year 2017 9%	Sales Growth Q4 2017 4% Full Year 2017 9%	Sales Growth Q4 2017 9% Full Year 2017 17%	Sales Growth Q4 2017 5% Full Year 2017 11%
Industrial Segment	Environment Unchanged  Sales Growth Q4 2017 (1%) Full Year 2017 6%	Environment Unchanged  Sales Growth Q4 2017 (2%) Full Year 2017 6%	Environment Unchanged  Sales Growth Q4 2017 10% Full Year 2017 18%	Sales Growth Q4 2017 1% Full Year 2017 9%
Contractor Segment	Environment Unchanged  Sales Growth Q4 2017 10% Full Year 2017 12%	Environment Unchanged  Sales Growth Q4 2017 11% Full Year 2017 17%	Environment Unchanged  Sales Growth Q4 2017 (2%) Full Year 2017 9%	Sales Growth Q4 2017 9% Full Year 2017 12%
Process Segment	Environment Unchanged  Sales Growth Q4 2017 4% Full Year 2017 10%	Environment Unchanged  Sales Growth Q4 2017 14% Full Year 2017 9%	Environment Unchanged  Sales Growth Q4 2017 15% Full Year 2017 17%	Sales Growth Q4 2017 7% Full Year 2017 11%
Full Year 2018 Outlook	Mid-Single-digit	Mid-Single-digit	Mid-Single-digit	Mid-Single-digit

We are initiating an outlook for the full-year 2018 of mid-single-digit growth on an organic, constant currency basis, with growth expected in every region and reportable segment. Demand levels in the fourth quarter remained solid and provide a foundation for our full-year outlook. While Industrial segment sales growth in the fourth quarter was low, bookings were better than billings and indicative of a capital equipment environment that remains stable-to-improving.

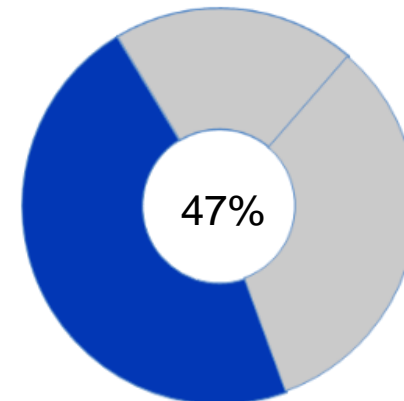
Industrial Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 80	\$ 80	0 %	\$ 300	\$ 281	6 %
EMEA	53	51	6	199	185	8
Asia Pacific	49	44	12	193	164	18
Total	\$ 182	\$ 175	4 %	\$ 692	\$ 630	10 %
Operating Earnings	\$ 61	\$ 60	1 %	\$ 238	\$ 207	15 %
% of sales	33 %	34 %		34 %	33 %	

2017 Industrial Segment Sales as % of Graco



2017 Components of Net Sales Change

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	(1)%	6 %
Acquisitions	0 %	0 %
Currency	1 %	0 %
Total	0 %	6 %
EMEA		
Volume & Price	(2)%	6 %
Acquisitions	0 %	1 %
Currency	8 %	1 %
Total	6 %	8 %
Asia Pacific		
Volume & Price	10 %	18 %
Acquisitions	0 %	1 %
Currency	2 %	(1)%
Total	12 %	18 %
Segment Total		
Volume & Price	1 %	9 %
Acquisitions	1 %	1 %
Currency	2 %	0 %
Total	4 %	10 %

Current Environment

- Americas:**
 - Favorable: Construction markets
 - Stable: Tier one auto
 - Challenging: Protective coatings, heavy machinery, South America
- EMEA:**
 - Favorable: Construction markets, aerospace
 - Stable: Western Europe, general industrial, truck & trailer
 - Challenging: Geopolitical
- Asia Pacific:**
 - Favorable: Tier one auto, containers, adhesive dispense
 - Stable: General industrial
 - Challenging: Marine, agriculture, construction
 - Spotty: Project activity



Industrial Segment Results



Change in % of sales

Fourth Quarter

Year-to-Date

2016 Operating Earnings (% of sales)

Translation effect

Product and channel mix, net of favorable volume, price

Volume and earnings based incentives

Investment in regional and product growth initiatives

Expense leverage

2017 Operating Earnings (% of sales)

34 %

33 %

1

0

0

0

(1)

(1)

(1)

0

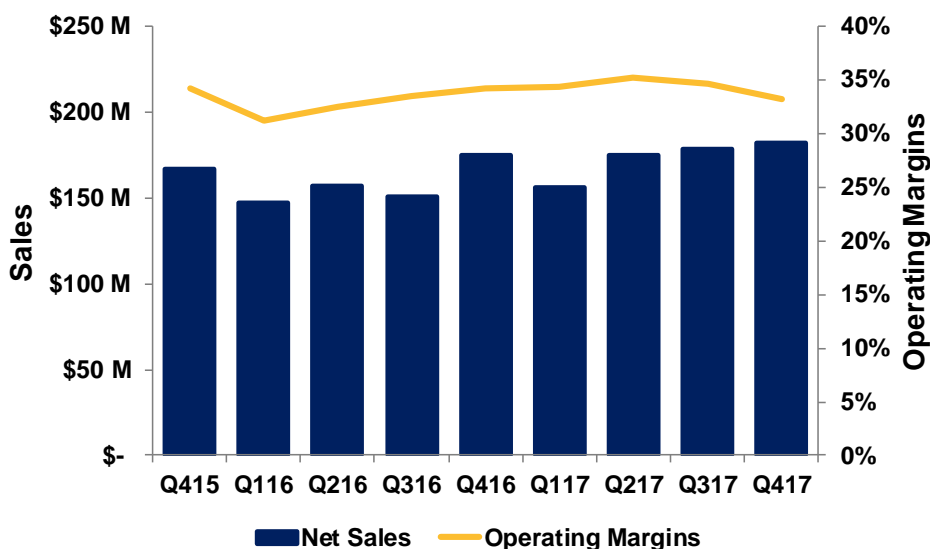
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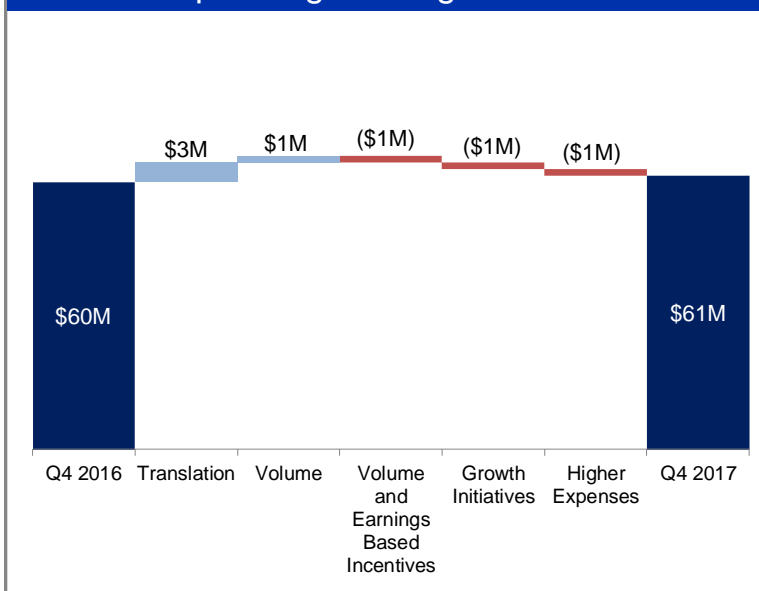
33 %

34 %

Industrial Segment Sales and Operating Margins



Industrial Operating Earnings QTD



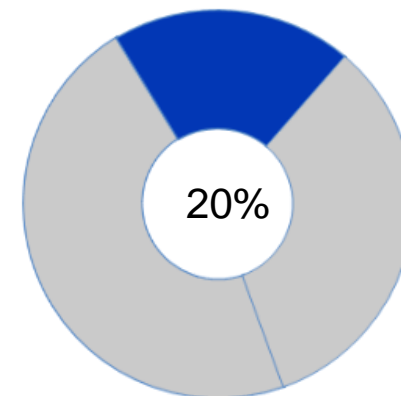
Process Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 49	\$ 46	5 %	\$ 188	\$ 171	10 %
EMEA	15	13	20	56	52	7
Asia Pacific	14	12	18	51	44	16
Total	\$ 78	\$ 71	10 %	\$ 295	\$ 267	11 %
Operating Earnings	\$ 13	\$ 10	27 %	\$ 52	\$ 36	46 %
% of sales	17 %	15 %		18 %	13 %	

2017 Process Segment Sales as % of Graco



2017 Components of Net Sales Change

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	4 %	10 %
Acquisitions	1 %	0 %
Currency	0 %	0 %
Total	5 %	10 %
EMEA		
Volume & Price	14 %	9 %
Acquisitions	1 %	0 %
Currency	5 %	(2) %
Total	20 %	7 %
Asia Pacific		
Volume & Price	15 %	17 %
Acquisitions	1 %	0 %
Currency	2 %	(1) %
Total	18 %	16 %
Segment Total		
Volume & Price	7 %	11 %
Acquisitions	1 %	0 %
Currency	2 %	0 %
Total	10 %	11 %

Current Environment

- Americas** (Yellow circle):
 - Favorable: Technology, sanitary, vehicle services
 - Stable: Industrial lubrication, environmental applications
 - Bottom: Oil & natural gas
- EMEA** (Yellow circle):
 - Favorable: Technology, sanitary
 - Stable: Chemical, environmental
 - Challenging: Offshore oil & natural gas, geopolitical
- Asia Pacific** (Yellow circle):
 - Stable: Process applications
 - Bottom: Mining

Process Segment Results



Change in % of sales

2016 Operating Earnings (% of sales)

Translation effect

Volume, price, cost and mix

Volume and earnings based incentives

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

Expense leverage

2017 Operating Earnings (% of sales)

Fourth Quarter

Year-to-Date

15 %

13 %

0

1

1

1

(1)

(1)

0

1

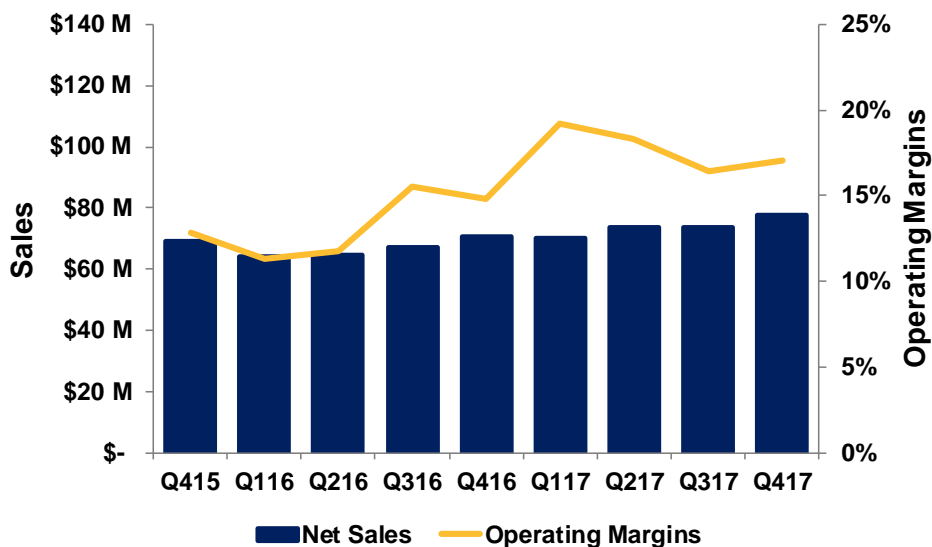
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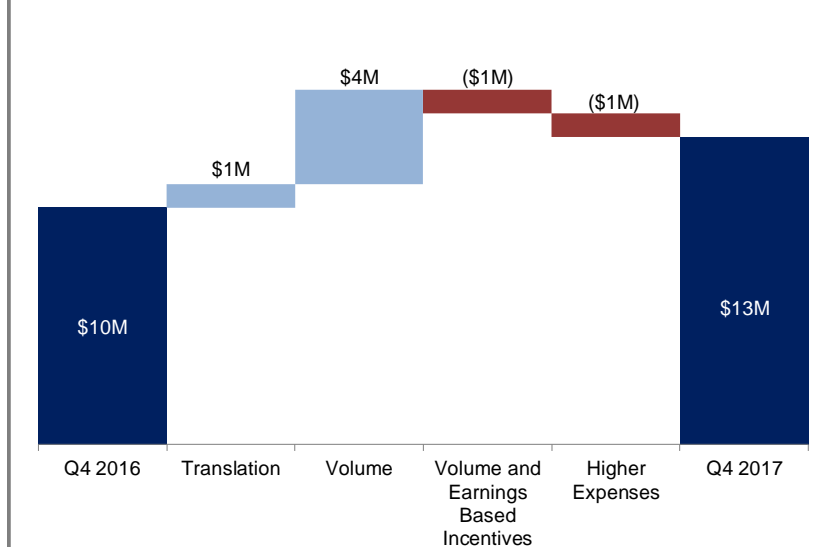
17 %

18 %

Process Segment Sales and Operating Margins



Process Operating Earnings QTD



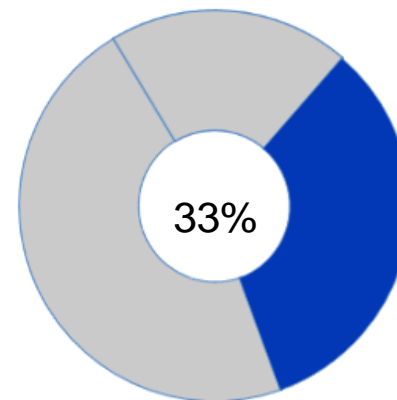
Contractor Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 83	\$ 76	10 %	\$ 363	\$ 325	12 %
EMEA	23	19	18	88	74	19
Asia Pacific	9	9	0	37	34	9
Total	\$ 115	\$ 104	11 %	\$ 488	\$ 433	13 %
Operating Earnings	\$ 21	\$ 20	3 %	\$ 114	\$ 92	24 %
% of sales	18 %	19 %		23 %	21 %	

2017 Contractor Segment Sales as % of Graco



2017 Components of Net Sales Change

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	10 %	12 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	10 %	12 %
EMEA		
Volume & Price	11 %	17 %
Acquisitions	0 %	0 %
Currency	7 %	2 %
Total	18 %	19 %
Asia Pacific		
Volume & Price	(2)%	9 %
Acquisitions	0 %	0 %
Currency	2 %	0 %
Total	0 %	9 %
Segment Total		
Volume & Price	9 %	12 %
Acquisitions	0 %	0 %
Currency	2 %	1 %
Total	11 %	13 %

Current Environment

- Stable: Residential and commercial construction
- Focus Sectors: Pro paint, general construction, DIY
- Favorable: Western Europe, emerging markets
- Challenging: Geopolitical, 2017 comparables
- Stable: Pavement products
- Challenging: General construction, equipment adoption rates

Contractor Segment Results



Change in % of sales

2016 Operating Earnings (% of sales)

Translation effect

Product and channel mix, volume, product cost

Volume and earnings based incentives

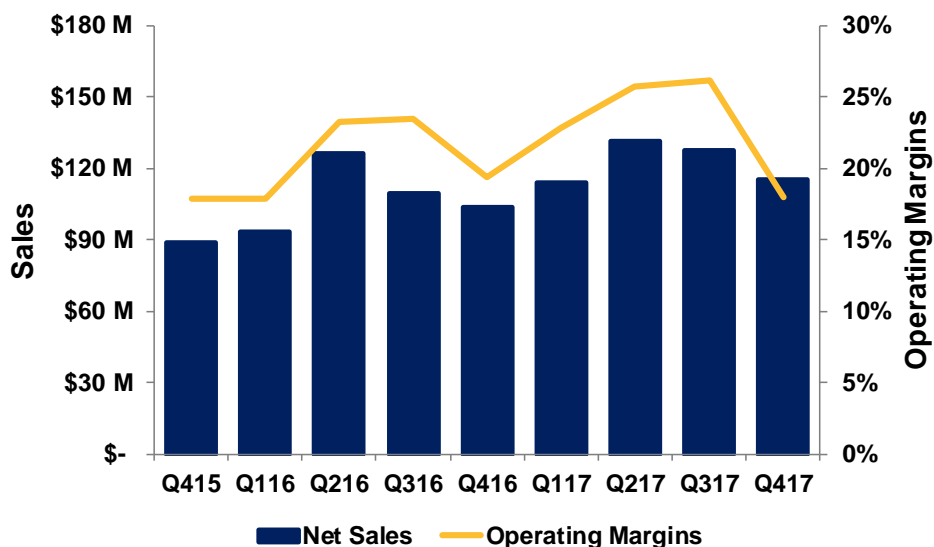
Expense leverage

2017 Operating Earnings (% of sales)

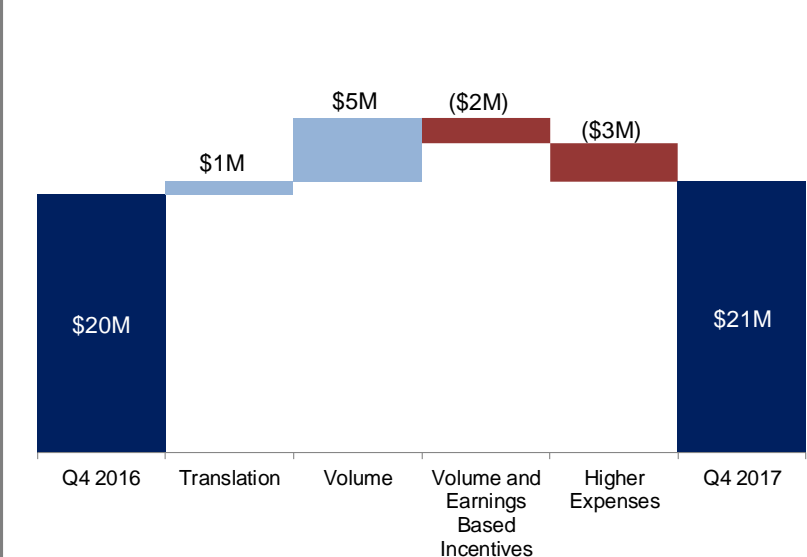
Fourth Quarter Year-to-Date

19 %	21 %
1	0
(1)	1
(2)	(1)
1	2
18 %	23 %

Contractor Segment Sales and Operating Margins



Contractor Operating Earnings QTD





move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

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