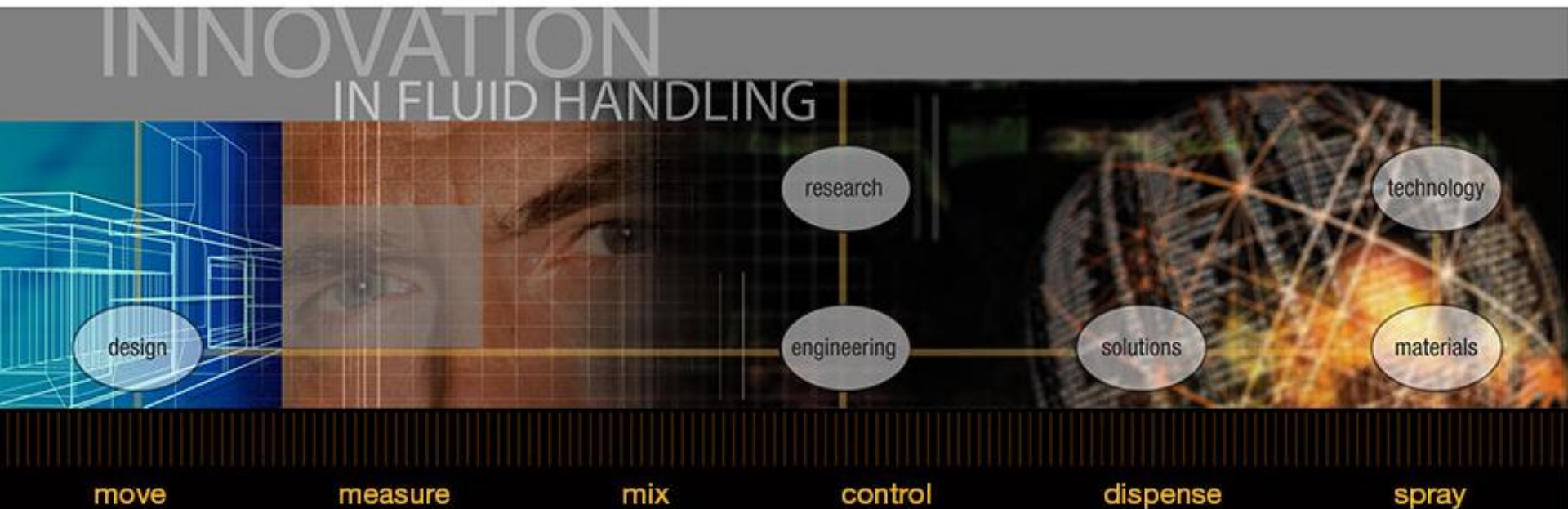


# 2<sup>nd</sup> Quarter 2013 Earnings Conference Call

## Thursday July 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 the Company's Form 10-K, and the current Quarterly Report on Form 10-Q.

# Conference Call Logistics



The release, accompanying slides and replay web cast are available online at [www.graco.com/ir](http://www.graco.com/ir)

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

- 800-406-7325 – Conference ID #4627991
- 303-590-3030 – Conference ID #4627991, for International participants

# Consolidated Financial Results



\$ millions except EPS	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Sales	\$ 286.0	\$ 268.2	7 %	\$ 555.1	\$ 502.3	11 %
Gross Profit	\$ 158.7	139.5	14 %	309.4	271.7	14 %
% of Sales	55.5 %	52.0 %	3.5 pts	55.7 %	54.1 %	1.6 pts
Operating Earnings	\$ 75.2	52.5	43 %	146.7	110.4	33 %
% of Sales	26.3 %	19.6 %	6.7 pts	26.4 %	22.0 %	4.4 pts
Net Earnings	\$ 57.8	\$ 34.4	68 %	\$ 110.0	\$ 69.7	58 %
% of Sales	20.2 %	12.8 %	7.4 pts	19.8 %	13.9 %	5.9 pts
Diluted Earnings Per Share	\$ 0.92	\$ 0.56	64 %	\$ 1.76	\$ 1.13	56 %

Includes dividends from Liquid Finishing businesses held separate:

\$ 11	\$ 4	\$ 15	\$ 4
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# Consolidated Financial Results – Net Sales



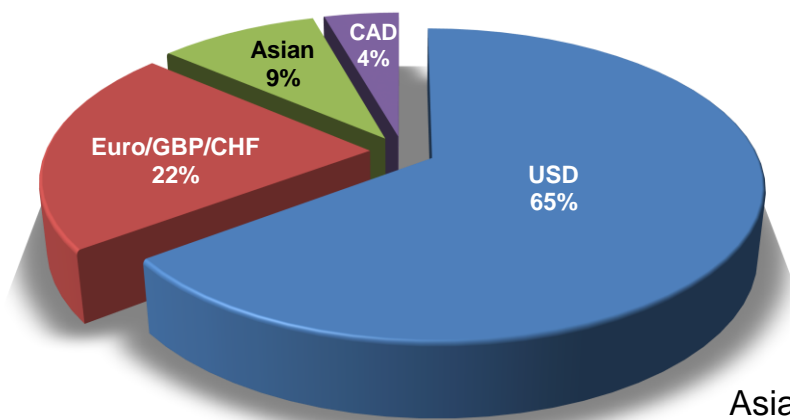
## Second Quarter 2013

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	1 %	20 %	—	14 %	1 %	(5)%	7 %
Currency	—	—	—	—	1 %	(1)%	—
Total	1 %	20 %	—	14 %	2 %	(6)%	7 %

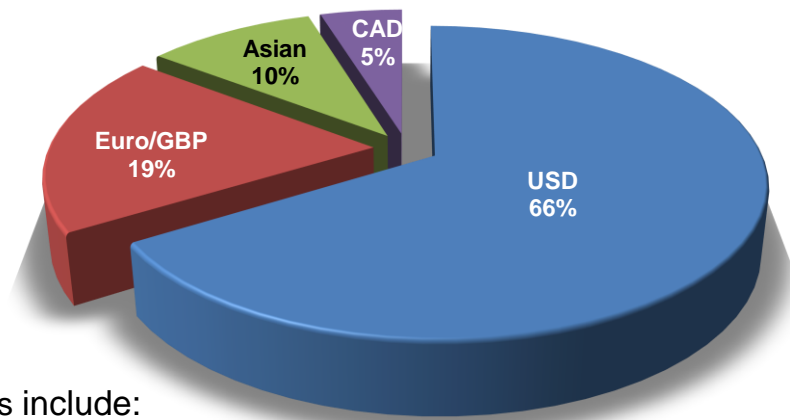
## Year-to-Date June 2013

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	1 %	14 %	(1)%	10 %	(1)%	(1)%	5 %
Acquisitions	10 %	—	—	2 %	13 %	7 %	6 %
Currency	—	—	—	—	1 %	(2)%	—
Total	11 %	14 %	(1)%	12 %	13 %	4 %	11 %

Sales by Currency YTD June 2013

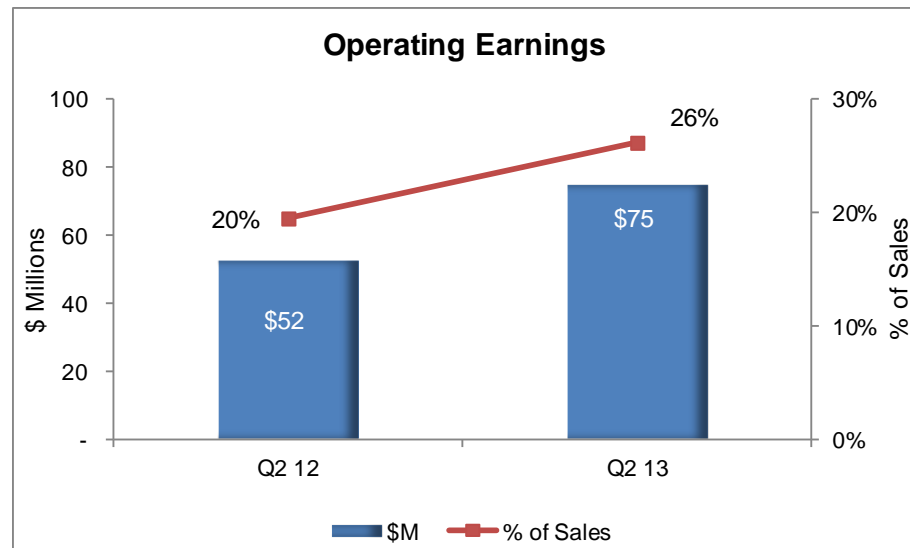
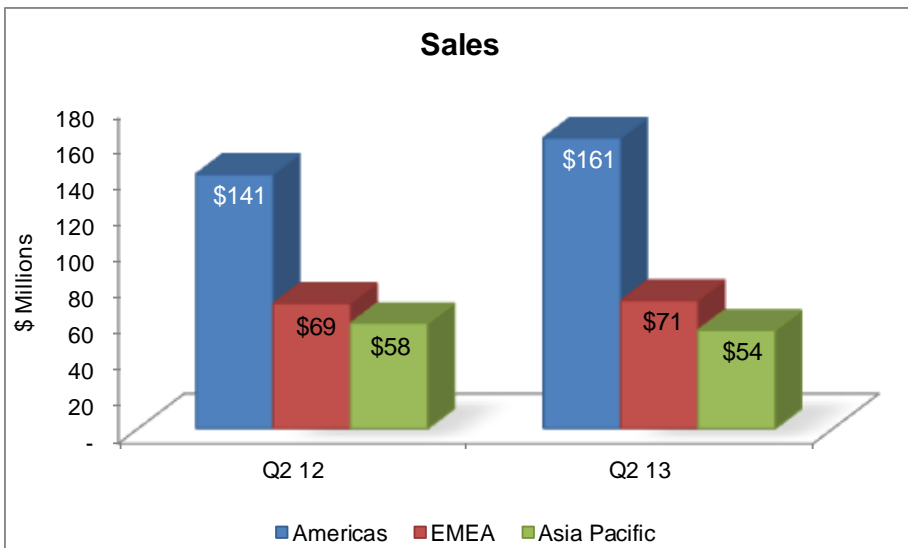


Sales by Currency YTD June 2012



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

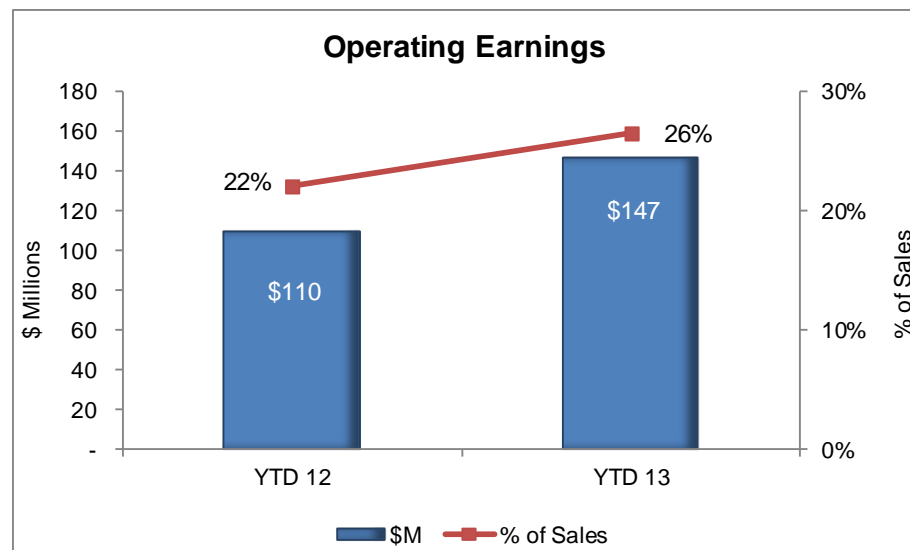
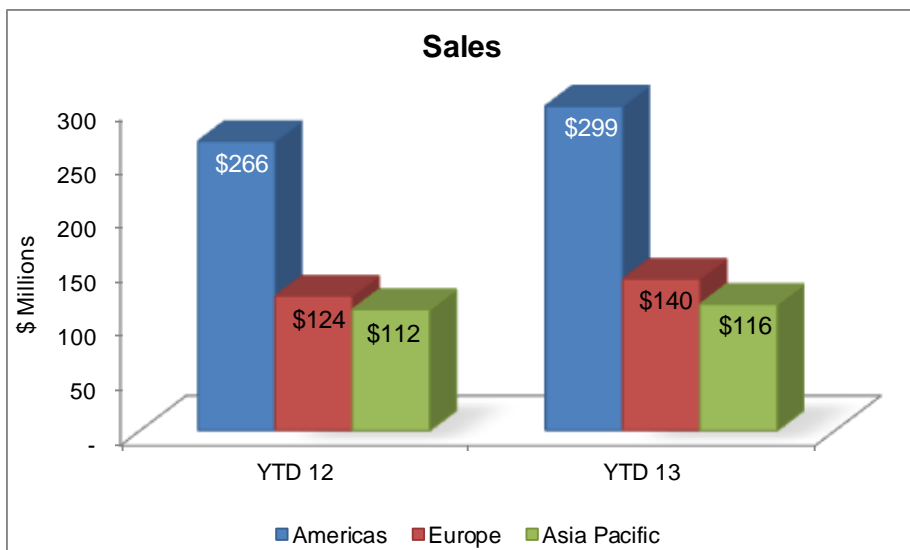
# Consolidated Second Quarter 2013 Results



- Sales increase of 7% (no impact from currency translation)
- Gross margin rate up 3½ percentage points from prior year
  - Realized pricing plus manufacturing cost improvements
  - Non-recurring inventory charges related to the purchase of Powder Finishing had a 3 percentage point impact on 2012 gross margin

- Operating expenses are down \$4 million
  - Acquisition/divestiture expenses \$1 million in the quarter, down \$7 million from Q2 2012
- Interest expense \$5 million
- Liquid Finishing dividend \$11 million (post tax)
- Tax rate of 29% is lower than second quarter 2012 rate of 32%
  - 2013 reduced by effect additional \$7 million of investment income (post-tax) from Liquid Finishing
  - R&D tax credit in 2013, not approved in 2012

# Consolidated Year-to-Date 2013 Results



- Sales increase of 11% (no impact from currency translation)
- Gross margin rate up 1½ percentage points from prior year
  - Realized pricing plus manufacturing cost improvements partially offset by mix
  - Purchase accounting had a negative impact on 2012 gross margin
- Operating expenses are up \$1 million
  - Acquisition/divestiture expenses \$1 million year-to-date, down \$10 million from 2012

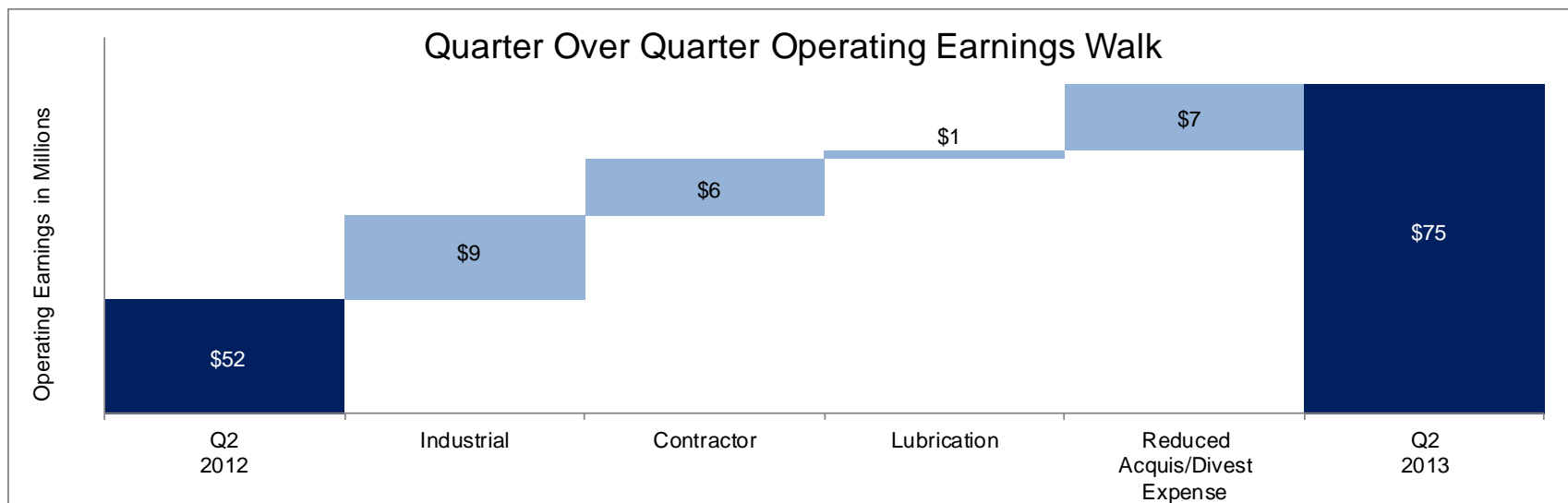
- Interest expense flat compared to 2012
- Liquid Finishing dividend \$15 million (post tax) compared to \$4 million in 2012
  - 2013 quarterly dividends of \$ 4 million in Q1 and \$11 million in Q2 vs. \$4 million in Q2 2012
- Tax rate of 28% is lower than 2012 rate of 33%
  - 2013 reduced by effect of additional \$11 million investment income (post-tax) from Liquid Finishing
  - R&D tax credit reinstated; full year 2012 effect (\$3 million) and 2013 credit recognized in 2013

# Consolidated Results



## Change in Operating Earnings

	Second Quarter		Year-to-Date	
2012 Operating Earnings (\$M and % of sales)	\$ 52	20 %	\$ 110	22 %
Translation effect	—	—	—	—
Pricing, product cost and mix	12	1	32	—
Effect of 2012 purchase accounting	7	2	7	1
Acquisition/divestiture costs reduction	7	2	10	2
Volume effect on expense leverage	(3)	1	(12)	1
2013 Operating Earnings (\$M and % of sales)	<u>\$ 75</u>	<u>26 %</u>	<u>\$ 147</u>	<u>26 %</u>

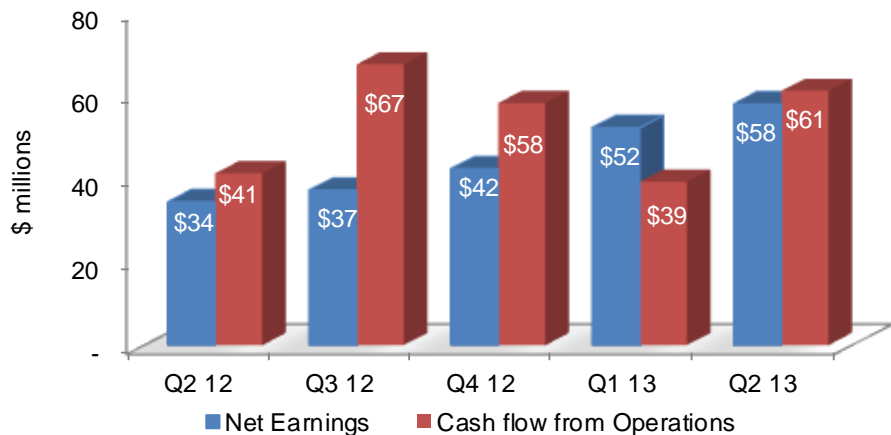




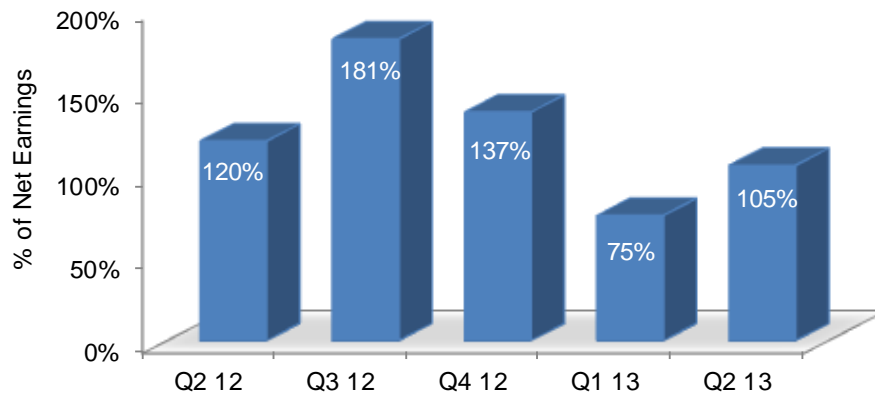
# Cash Flow and Liquidity



**Net Earnings and Cash from Operations**



**Cash from Operations as % of Net Income**



2013 cash flow from operations \$100 million versus \$65 million in 2012

- Cash uses year-to-date
  - Net payments on long-term line of credit \$91 million
  - Capital expenditures \$9 million
  - Dividends paid \$31 million
  - Share repurchases \$6 million
- Working capital – 6 months change
  - Increase in accounts receivable \$27 million
  - Increase in inventories \$12 million, stronger bookings, housing market improvements

Long-term debt \$466 million; down \$91 million from year-end

- Interest expense \$9 million year-to-date

Liquid Finishing dividend (post-tax) \$15 million for the year

# Acquisition of Finishing Businesses



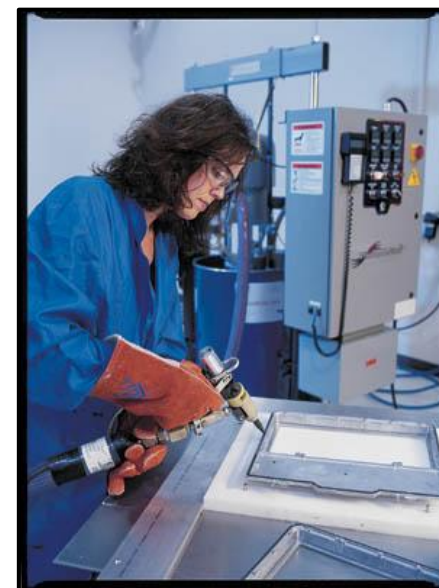
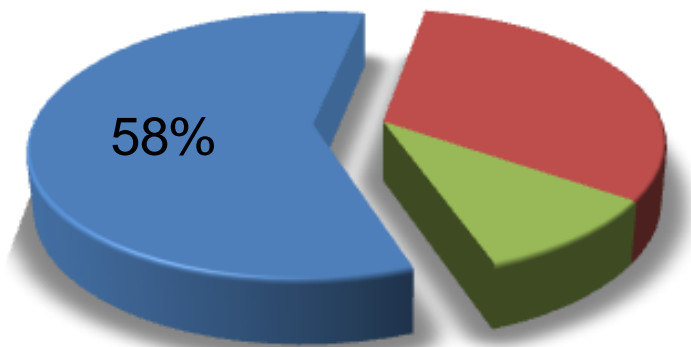
- In April 2012, the purchase of the finishing businesses of Illinois Tool Works Inc. was completed and included Powder Finishing and Liquid Finishing equipment operations, technologies and brands. Results of the Powder Finishing business have been included in the Industrial segment since the acquisition
- 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, \$15 million (post-tax) in 2013 year-to-date
- 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 third quarter and the full year expected to be approximately 29-30%
  - Q3 Liquid Finishing dividend expected to be approximately \$8 million (post-tax)
- Capital expenditures expected to be in the range of \$20 million for 2013
- Resumed modest share repurchases in Q2, continuing going forward

# Industrial Equipment Results



**June YTD Industrial Segment Sales as % of Consolidated**

Sales (\$M)	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Americas	\$ 70	\$ 65	7 %	\$ 137	\$ 125	9 %
EMEA	50	50	—	100	87	15
Asia Pacific	40	43	(7)	87	80	8
<b>Total</b>	<b>\$ 160</b>	<b>\$ 158</b>	<b>1 %</b>	<b>\$ 324</b>	<b>\$ 292</b>	<b>11 %</b>
Operating Earnings	\$ 52	\$ 43	19 %	\$ 107	\$ 91	17 %
% of sales	32 %	27 %		33 %	31 %	

# Industrial Equipment Results



## Change in % of sales

2012 Operating Earnings (percentage of sales)

Translation effect

Pricing, product cost and mix

Effect of 2012 purchase accounting

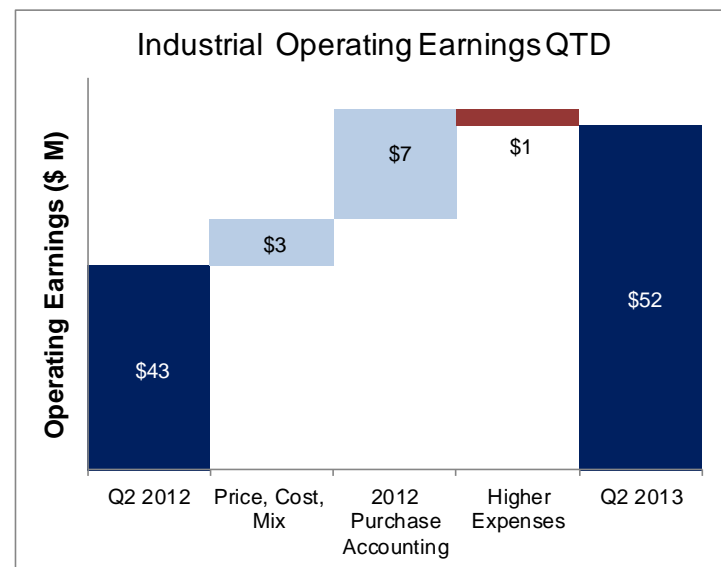
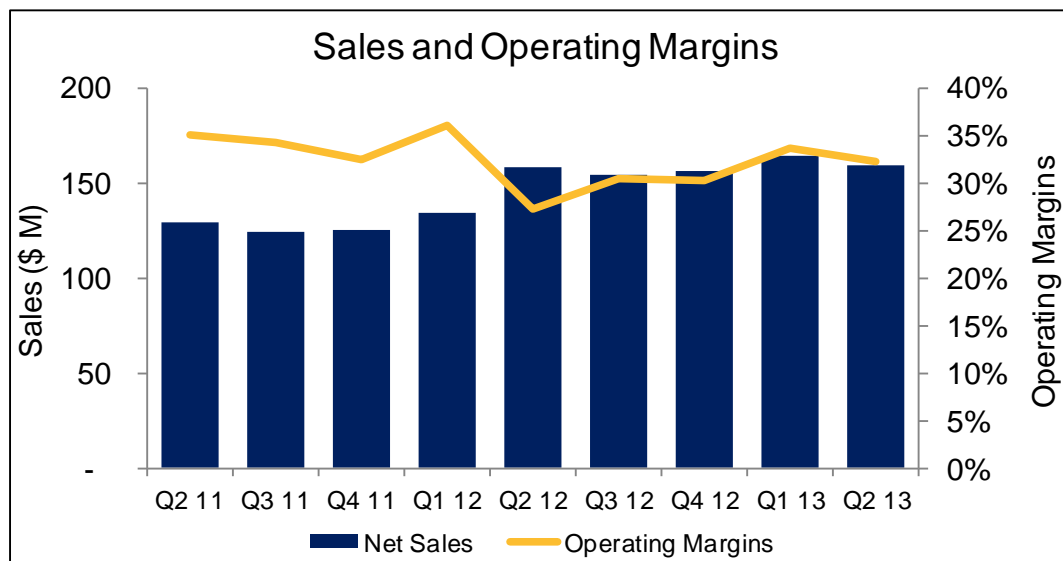
Volume effect on expense leverage

2013 Operating Earnings (percentage of sales)

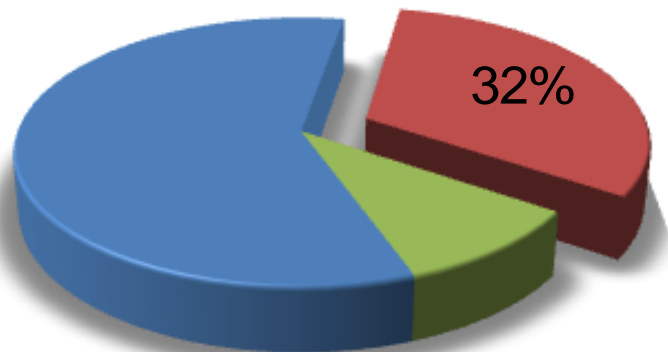
## Second Quarter

## Year-to-Date

27 %	31 %
—	—
1	—
4	2
—	—
<b>32 %</b>	<b>33 %</b>



# Contractor Equipment Results



June YTD Contractor Sales as % of Consolidated



Sales (\$ M)	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Americas	\$ 70	\$ 55	28 %	\$ 121	\$ 101	20 %
EMEA	18	17	5	34	33	3
Asia Pacific	10	10	2	21	20	2
<b>Total</b>	<b>\$ 98</b>	<b>\$ 82</b>	<b>20 %</b>	<b>\$ 176</b>	<b>\$ 154</b>	<b>14 %</b>
Operating Earnings	\$ 24	\$ 18	36 %	\$ 41	\$ 31	34 %
% of sales	25 %	22 %		23 %	20 %	

# Contractor Equipment Results



## Change in % of sales

2012 Operating Earnings (percentage of sales)

Translation effect

Volume, pricing, product cost and mix

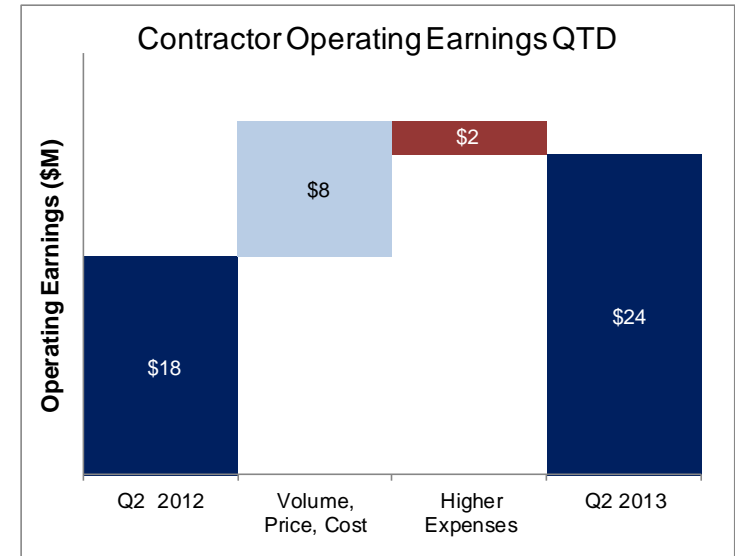
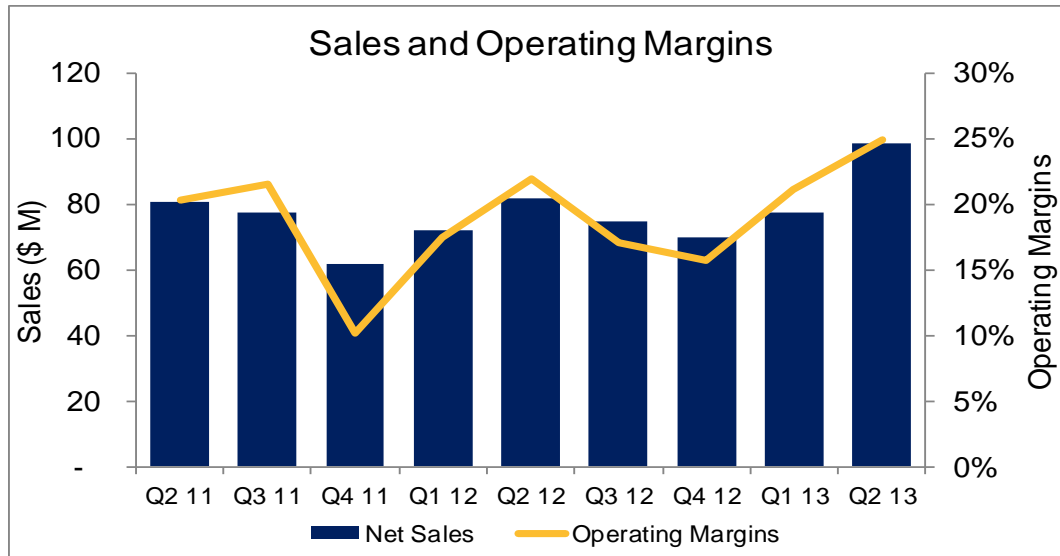
Expense/volume leverage

2013 Operating Earnings (percentage of sales)

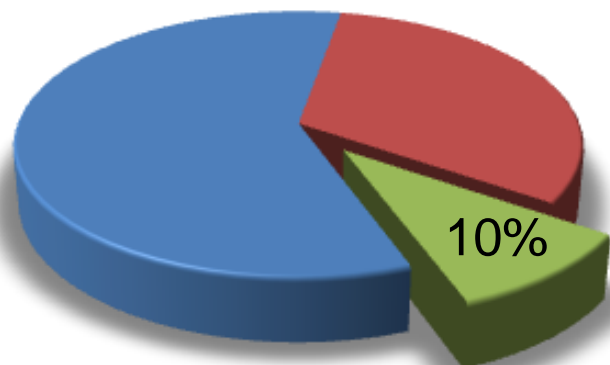
## Second Quarter

## Year-to-Date

22 %	20 %
—	—
—	1
3	2
<u>25 %</u>	<u>23 %</u>



# Lubrication Equipment Results



June YTD Lubrication Sales as % of Consolidated



Sales (\$ M)	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Americas	\$ 21	\$ 21	—	\$ 41	\$ 41	1 %
EMEA	3	2	34 %	6	4	32
Asia Pacific	4	5	(17)	8	11	(22)
Total	\$ 28	\$ 28	—	\$ 55	\$ 56	(1)%
Operating Earnings	\$ 7	\$ 6	20 %	\$ 12	\$ 12	1 %
% of sales	24 %	20 %		21 %	21 %	



# Lubrication Equipment Results



## Change in % of sales

2012 Operating Earnings (percentage of sales)

Translation effect

Pricing, product cost, mix

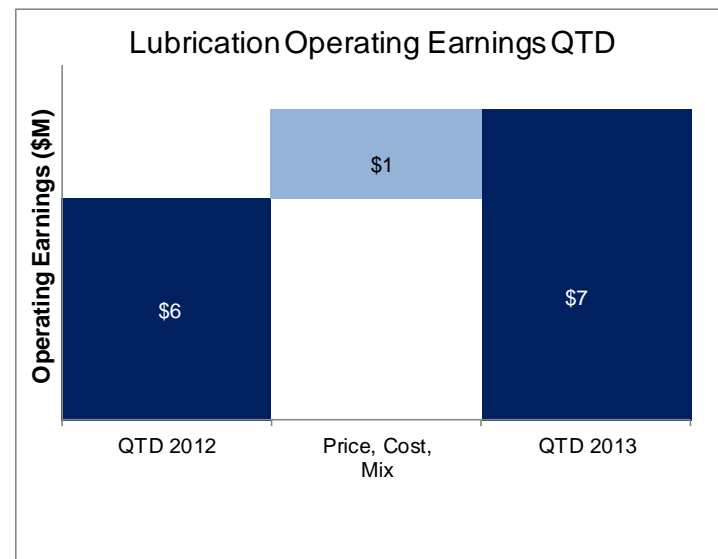
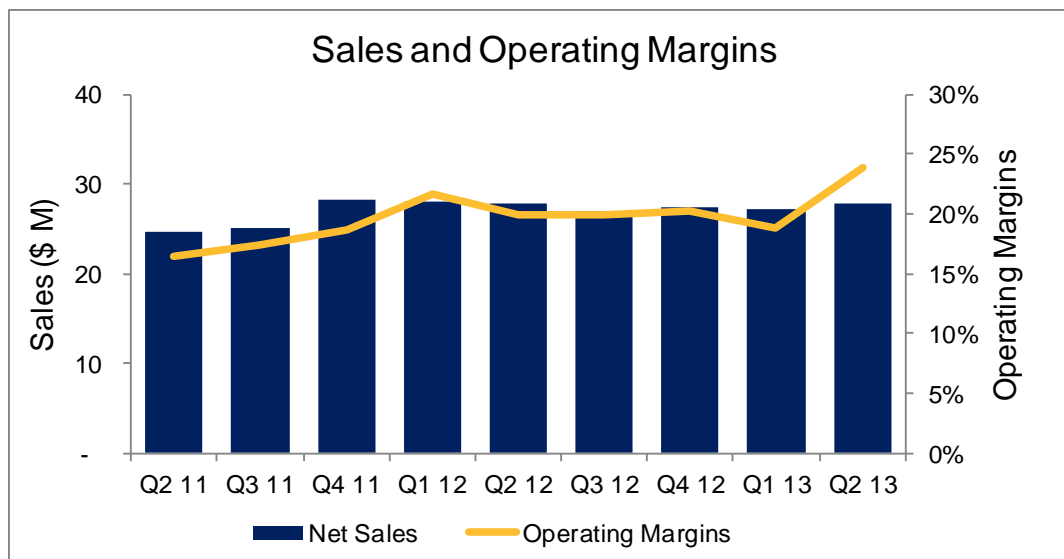
Investment in product development

2013 Operating Earnings (percentage of sales)

## Second Quarter

## Year-to-Date

20 %	21 %
—	—
4	1
—	(1)
<u>24 %</u>	<u>21 %</u>



# INNOVATION IN FLUID HANDLING



move

measure

mix

control

dispense

spray

# MANUFACTURING EXCELLENCE