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GGG - Q4 2019 Graco Inc Earnings Call

EVENT DATE/TIME: JANUARY 28, 2020 / 4:00PM GMT



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PRESENTATION

Operator

Good morning, and welcome to the fourth quarter conference call for Graco Inc. If you wish to access the replay for this call, you may do so by dialing 1 (888) 203-1112 within the United States or Canada. The dial-in number for international callers is (719) 457-0820. The conference ID number is 8157037. The replay will be available through 1:00 p.m. Eastern Time, Saturday, February 1, 2020.

Graco has additional information available in a PowerPoint slide presentation, which is available as part of the webcast player. At the request of the company, we will open the conference up for question and answers after the opening remarks from management.

During this call, various remarks may be made by management about their expectations, plans and prospects for the future. These remarks constitute forward-looking statements for the purposes of the safe harbor provisions of the Private Securities Litigation Reform Act. Actual results may differ materially from those indicated as a result of various risk factors, including those identified in Item 1A of the company's 2018 annual report on Form 10-K and in the Item 1A of the company's most recent quarterly report on Form 10-Q. These reports are available on the company's website at www.graco.com and the SEC's website at www.sec.gov.

Forward-looking statements reflect management's current views and speak only as of the time they are made. The company undertakes no obligation to update these statements in light of new information or future events.

I will now turn the conference over to Caroline Chambers, Executive Vice President, Corporate Controller and Information Systems.

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems & Corporate Controller*

Good morning. I'm here this morning with Pat McHale and Mark Sheahan. Our conference call slides have been posted on our website and provide additional information that may be helpful.

Sales totaled \$412 million this quarter, an increase of 1% from the fourth quarter last year. While changes in currency translation rates decreased sales by approximately 1 percentage point, acquisitions added 1 percentage point of revenue growth this quarter.



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Net earnings totaled \$85 million for the quarter or \$0.49 per diluted share. After adjusting for the impact of excess tax benefits from stock option exercises and other nonrecurring items, net earnings totaled \$82 million or \$0.48 per diluted share.

Gross margin rates decreased by 60 basis points as compared to the fourth quarter last year. Realized pricing more than offset higher material costs and tariffs. Though the effects of lower factory volume, unfavorable channel and product mix and changes in currency translation rates resulted in a decline in gross margin rates from the prior year. Operating expenses were \$7 million lower in the fourth quarter as compared to a year ago as reductions in volume and earnings-based expenses more than offset higher product development costs.

The reported income tax rate was 16% for the quarter, approximately 2 percentage points lower than last year primarily due to an increase in excess tax benefits related to stock option exercises. After adjusting for the effect of excess tax benefits from stock option exercises and other nonrecurring tax benefits, our tax rate for the quarter was 18.5%, essentially the same as the fourth quarter last year.

Cash flows from operations totaled \$119 million in the fourth quarter and \$419 million for the full year. Capital expenditures totaled \$128 million in 2019. We repaid \$75 million for the current portion of our long-term debt midyear, and dividends paid totaled \$106 million in 2019.

A few comments as we look forward into next year. Based on current exchange rates and the same volume and mix of products and sales by currency, the effective exchange is currently expected to be immaterial for 2020. Although factory volumes will continue to be a headwind for us at the sales level indicated by our outlook, we expect the effect to be tempered by factory operating performance and realized pricing. Unallocated corporate expenses are expected to be approximately \$30 million in 2020 and can vary by quarter. The effective tax rate is expected to be approximately 20%.

Capital expenditures are expected to be approximately \$70 million, including approximately \$30 million for facility expansion projects. Finally, we may make share repurchases in 2020 via opportunistic open market transactions or short-dated accelerated share repurchase programs.

I'll turn the call over to Pat now for further comments.

Patrick J. McHale - Graco Inc. - President, CEO & Director

Thank you, Carol, and good morning, everyone. All of my comments this morning will be on an organic constant currency basis.

Sales for the quarter and the full year grew at a modest rate of 1%, slightly above our most recent outlook for the year. 2019 was a tough year, and I was happy to have the calendar flip to 2020 so that we can try again. Despite disappointing results in aggregate, we did have bright spots, and I thank all of our employees, distributor partners and end users for your hard work and support.

Now for some color on the segments. The Industrial segment declined low single digits for the quarter and for the year. Positive demand in system sales and construction-related equipment for the quarter was offset by the continued soft demand by manufacturers worldwide, particularly those in Asia Pacific.

The Process segment declined mid-single digits for the quarter, bringing our organic performance for the year to low single digits. Sales results have varied significantly by end market with semiconductor and environmental market solid and industrial and energy markets weaker.

The Contractor segment continued its organic growth streak with high single-digit growth for the quarter, finishing mid-single digits for the year. A good construction environment with stable demand in both North America and EMEA, along with the 2019 new products contributed to top line sales growth. Outdoor sales remained positive in both paint store and home center channels.

Moving on to a regional perspective. Asia Pacific demand remained weak in the quarter and was negative across the end markets, particularly automotive, in-plant manufacturing and China in general, resulting in a double-digit decline for this region for the year.



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EMEA demand remained positive in the quarter, with notable strength in sales of systems and contractor painting equipment. Automotive industry demand remains soft and continues to be a concern.

North America demand in construction markets remains favorable. However, we do see manufacturing customers cautious regarding CapEx spending.

A comment on profitability. In the quarter, lower expenses tied to volumes, such as customer rebates and sales incentives as well as good discretionary expense control had a positive impact on operating earnings for the quarter. As a result, incremental margins for the year finished in the 40s, slightly better than our expectations in a low single-digit growth environment. We continue to see positive leverage in the quarter and in the year in both our Process and Contractor segments. Price realization remained favorable for the year.

Moving on to our outlook. 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. Outlook for the Contractor segment remains positive as favorable conditions continue, and demand for our product is solid across major end markets and product categories. As a result, our outlook for 2020 is low single-digit revenue growth on an organic constant currency basis.

Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Joe Ritchie with Goldman Sachs Research.

Joseph Alfred Ritchie - Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst

Pat, maybe just talk a little bit about the Contractor segment. It was pretty incredible to see the growth rate, both in the U.S. and in EMEA. Can you maybe just talk about the new product introductions into 2020? And then how you're thinking about that environment? And how much maybe new products added to that growth in the fourth quarter?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes. I mean new products were well accepted this year, but you'll remember that they were late, and we didn't get the new products launched on time in 2019. So we really started to see the benefit on the 2019 new products later than we normally would have and even later than that in the overseas markets. So coming into 2020, I think the main focus for us is to make sure that we continue to harvest the incremental here in the first few months of 2020 of the 2019 new products, which we didn't have this year to get the season going, and then we'll be launching more products as we move throughout 2020. But I think there's an opportunity here for us to begin the year to continue to get incremental new product sales on the stuff that we released last year in that kind of April, May time frame.

Joseph Alfred Ritchie - Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst

And that makes sense. And I know like, as you turn the calendar year, you guys are always good about just 0-based budgeting and just thinking about this really just curbing inflation as we head into the new year. I guess as it relates to the Industrial segment, we had some decrements in 2019 with the margins coming down. I guess how are we thinking about your ability to potentially grow margins in that business in 2020?

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Patrick J. McHale - Graco Inc. - President, CEO & Director

So I think we've said before, if we can get more of a historical top line growth rate in any of our businesses, we have very nice earnings leverage and particularly in Industrial. We've got high incremental margins. We also have pretty heavy decremental margins. So the environment globally, going into 2020 on Industrial, I'll call that muted. We're going to do our best, but the opportunity to expand margins is really going to be dependent upon finding some top line. We don't have any major self-help initiatives. We're not going to go and make major head count reductions or change our strategies. We like our programs, and we're going to continue to run them. We'll try to manage our discretionary expenses, but top line is going to be important. And of course, part of our goal coming into every year in addition to good cost control is to make sure that we get our typical modest pricing increase, and we expect to get that in 2020.

Joseph Alfred Ritchie - Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst

That makes sense. And maybe one last one for you, Pat. As you kind of think through, clearly, an election year, you've gone through a few election cycles at this point. You had some commentary just around the muted CapEx backdrop. Like what do you typically see or expect in an election cycle? Is there some risk potentially to second half CapEx decisions? Or do you generally feel good about things entering typical election years?

Patrick J. McHale - Graco Inc. - President, CEO & Director

So I'll give you my view and then Mark or Caroline can chime in. As I travel the world, historically, when I would go to Brazil or I'd go to India or somewhere, and that was an election year, it created a fair amount of economic uncertainty and all the distributors and end users would be talking about doing something before or after the election. Never really felt that strongly about the influence of elections here in the U.S. I think there could be a little bit different dynamic here, particularly with the trade that we've got with China and the potential for what may be looming in terms of polling results coming up late summer to influence potentially the Chinese trade agreements. But hopefully, we haven't devolved into a banana republic, where we're going to not spend money waiting for an election.

Operator

We'll take our next question from Saree Boroditsky with Jefferies.

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

Congratulations on the strong quarter. Could you provide some color on how we should think about the benefit from price/cost in 2020 as I believe that should be a stronger contributor this year as you don't have the same type of tariff and material headwinds that you did in 2019?

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. We did -- Saree, it's Mark. We did really well on price/cost this year. I think that we more than offset the tariff impact and material cost pressures that we had in the factories. I think that the real challenge for us is more on the volume side this year when it comes to the gross margin. And heading into 2020, of course, we will implement our 2020 price increase. And I think we've said historically that we intend to realize somewhere between 1.5% and 2% in pricing for the full year. So I think that we're in good shape heading into 2020 on the price/cost dynamic as well.

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

Would you -- could you say that -- would it be fair to say that you expect price/cost to be a larger contributor in 2020?



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Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Might be with respect to -- like the Contractor business, where I think that some of their pricing actions got pushed out a little bit with the new launches and things like that. So now we've got -- at least in the first half, we've got those new products coming through at decent margin rates. But generally speaking, I think that we're in good shape, as I said, for 2020 on this topic.

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

And then Industrial, Americas and then also EMEA organic growth came in stronger than expected. Could you just highlight what drove the pickup in growth versus third quarter?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Say that -- sorry, could you say your question again?

Saree Emily Boroditsky - Jefferies LLC, Research Division - Equity Analyst

Sorry. Industrial, Americas and EMEA organic growth came in stronger than expected. Could you just highlight what drove the pickup in growth versus the third quarter?

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes. It was more, I think, more notable in the results that we had in EMEA. And a lot of that was driven by system sales, particularly on the finishing side. And that business does have the potential to be a little bit lumpy from time to time. So I don't think what we saw was a massive surge in Industrial activity in EMEA as much as the good timing and some good work by our folks that are selling some of our finishing systems there.

Operator

We'll take our next question from Jeffrey Hammond with KeyBanc Capital Markets Inc.

Jeffrey David Hammond - KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst

Asia just has continued to be a headwind for you guys. Just anything, any indications that you're starting to see any stabilization there or any signs of improvement? Certainly, the comps get a lot easier.

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes. For sure, particularly in the second half, the comps get easier. We were negative in the first half, but not anywhere near to the extent that we were in the second half. I would say that our team is feeling optimistic about being able to achieve the goals that we set out in the, I think, it's Slide 11 of the slide deck, which is really to try to get AP back to flat for the year. It's an uncertain number. Things can change pretty rapidly over there. Now we got the virus thing spreading, and we're not sure if that's going to be a topic in 3 weeks or it's going to be gone in 3 weeks and how that might affect the business. We did not bake that into our forecast. But things can turn positive over there just as quickly as they can turn negative. And so I think flat is kind of a smart way to look at 2020, and we're just going to do our thing.



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Jeffrey David Hammond - KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst

Okay. And then just thinking about cadence in Contractor, should we think of a more normal 1Q product introduction cycle, and then maybe that normalizes out as you move forward?

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. I mean I think that for the most part, their growth for the year should be pretty consistent. I guess that's the way we're looking at it on a year-over-year basis. And as you go through the quarters, I think it should be -- we're expecting that business to have decent growth rates through the quarters and through the year.

Jeffrey David Hammond - KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst

Okay. And then just you guys have been certainly pretty quiet on capital allocation. Anything starting to break free from an M&A perspective? And are you getting itchy to use some of that cash on buybacks or otherwise?

Mark W. Sheahan - Graco Inc. - CFO & Treasurer

Yes. We're always looking for the M&A opportunities. And as we've said in the past, the pricing is still pretty high, makes it more difficult for us maybe to make the math work on some of the deals. But I think that the teams are still pursuing a pipeline of activities there. We did do some smaller deals in Process here in 2019, which were nice niche businesses that they're excited about. So it's hard to predict the future, but everyone's working hard to get some stuff done there.

On the share buyback side, again, I think we've said that we'll be opportunistic there, and we are continually looking at opportunities to potentially look at accelerated share buybacks, those types of things. So kind of wait and see in how the year plays out here, and we'll let the numbers kind of speak for themselves.

Operator

We'll take our next question from Deane Dray with RBC Capital Markets.

Deane Michael Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment

Pat, when you say you travel the world, something tells me you are not going to be traveling to China anytime soon. Is that right?

Patrick J. McHale - Graco Inc. - President, CEO & Director

So we do have a trip scheduled, and we haven't canceled it at this point. It's -- I'm not prohibiting anybody nor forcing anybody to either go or to stay. We're going to let the new cycle play out. It's hard to tell what's going on. I mean a lot of times, these things that the people that are getting sick of breathing -- are dying from it either have breathing problems or are really old, and I still stay in shape. So I'm not particularly concerned. If we go to China tomorrow, I wouldn't panic unless I was going to get stranded there because of the travel ban. So I don't know, we'll see.

Deane Michael Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment

Is there just -- it wasn't a flip comment, but just the idea, there are business disruptions. The government's extending the national holiday. And just from your perspective, businesses that you touch, are you beginning to see disruptions? And/or is it too early to tell?



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Patrick J. McHale - Graco Inc. - President, CEO & Director

No, we're starting to see disruptions and starting to be concerned, not ones that impact us directly yet. But just here within the last couple days, when they announced the extension of some of the closings, we're starting to think there could be supply chain issues and maybe not directly in the short term at Graco, but it doesn't take too long for an area of the world to shut down before somebody needs a part, and they can't get one. So I think it will be important that things get back up and running here in a reasonable period of time. Otherwise, I think you could see, for sure, some of our customers will be disrupted. And I think that's another thing we don't need right now.

Deane Michael Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment

Got it. All right. So we'll all be watching that. And then just over on Industrial, on the comment you made earlier on the decrementals, is that a pure decremental that we saw the 85% this quarter? Anything -- any one-timers in there? Or is that really the fall-through that you see in that kind of volume drop?

Patrick J. McHale - Graco Inc. - President, CEO & Director

No. Our decrementals aren't quite that bad. But on the -- they're probably more in the 50s, I would say, would be more typical of what you'd see. But we had some mix in there as well.

Deane Michael Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment

So that -- it was just mix that would have made it worse? And just any color there. What was...

Patrick J. McHale - Graco Inc. - President, CEO & Director

Yes. Caroline, could chime in. But system sales that we have in EMEA tend to be at good, but not as good of gross margins as our typical Asia Pacific Industrial business, for example. And so just a shift from out of Asia into some system sales in Europe, driving the growth for the quarter does have a mix impact on us.

Caroline M. Chambers - Graco Inc. - Executive VP of Information Systems & Corporate Controller

Yes. And we typically call that out when we see it. And still, when we talk about channel and product mix, it's usually in there.

Deane Michael Dray - RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment

Got it. And then just -- was interesting a year ago when there was all this pre-buy going on and people trying to get around tariffs. Do you remember, everyone was clamoring, why didn't you guys impose a price increase, and you said you're not going to do it out of the normal seasonality. So the expectation that 1.5% to 2%, does that change in terms of the cadence of the new product introductions this year?

Patrick J. McHale - Graco Inc. - President, CEO & Director

No. I think we should -- our price increase cadence should remain stable with prior years.



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Operator

We'll take our next question from Matt Summerville with D.A. Davidson & Co., Research.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

Just a follow-up on North American Industrial. Pat, in your prepared remarks, I think you mentioned manufacturers seemingly being a bit more cautious on Capex. And I guess I'm wondering, is that a step-function change in behavior or the dialogue you're having relative to last quarter? Is that more of a continuation of the same?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

No. I think it's more of a continuation of the same.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

And then just a follow-up on the Contractor business. Is there anything to sort of talk about between the sell-in, sell-through trends you're seeing in either the pro paint or home center channel? And then bigger picture, as it pertains to both Industrial and Contractor, what your thoughts are if you want to split out the construction end markets you serve for 2020 between what your view is on commercial versus residential?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. Okay, I'll take the first piece. In terms of the sell-in, sell-out, I don't think there was anything as we went through 2019, that was overly dramatic. We didn't have a huge new customer come online or a giant channel fill nor did we see anybody do dramatic inventory reductions. So I would say we saw sort of normal activities on flow in and flow out in both channels in Contractor in North America as we progress through the year. Nothing really that I would note on that front.

Your second question was more regarding our outlook on, I'll say, the commercial side of the construction market. And certainly, the residential numbers that just came out here in December looked pretty positive, and I think bode well for painting, which is going to come 6 or 9 months later than some of the starts that you see. But I think there's probably more variability around the commercial number.

Our modeling looks pretty good. I feel pretty good about that. Residential, I feel pretty good about that. I think commercial might be mixed depending upon what the category is. We all look at the same numbers that you do anyway.

Operator

We'll take our next question from Bryan Blair with Oppenheimer & Co., Research.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

I just wanted to circle back to Industrial EMEA for a second. Could you parse out the contribution from the system sales there, just to help us level set relative to the mid-teens organic number EBITDA?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

No, we don't break our sales out publicly by product categories for a whole bunch of reasons. But when it influences the number, we'll let you know kind of in general terms. And in general terms, the system sales in EMEA were strong in fourth quarter.



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Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Okay. That's fair. And then thinking about Contractor's really strong 4Q performance, good setup there going into 2020. Margin, in particular, in the fourth quarter was higher than we expected even with the volume lift. How should we think about profitability there for 2020, realistic margin range for that segment?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So I would look at the year-to-date number, I mean we had a couple of quarters where we stopped to in terms of our flow-through profitability in Contractor. And I think that when you get away from the quarterly look, and you look at 2019 versus 2018, we're in that 23% kind of range. And I kind of feel like that's a decent sort of low 20s number you got to be thinking about for 2020. Caroline, you can chime in if you like

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems & Corporate Controller*

Yes. Fourth quarter '18, the -- so a year ago, the Contractor probably was influenced by a heavy -- heavier load of product development expenses that they were getting ready for the launches in the following year. So the fourth quarter of 2018 also was probably a little bit of a comp issue, too.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Got it. Okay. Then one quick one, if I can. You've called out \$30 million in incremental brick-and-mortar CapEx for 2020. Are there any other projects on the radar that could hit the latter part of 2020 or 2021 that we should keep in mind?

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

I think those are encompassed in the \$30 million. It's really what's left to do in our Contractor group with the building up there and then the Switzerland operation, where we're likely to do something there as well.

Operator

(Operator Instructions) We'll take our next question from Walter Liptak with Seaport Global Securities LLC.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

I wanted to ask just a follow-up on the last one. Can you update us on the CapEx for 2020? And then just what's been completed now in 2019? And are there benefits in 2020 from the work that was done?

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

I think for 2019, we've gotten through all the major projects, except for, as I said, the Contractor factory where we still have some work to do. I think most of the factory floor and factory production areas are more or less complete, but we have a build-out in the office and demo areas that we'll kind of go through here in the first quarter, maybe slap in a little bit into Q2. But the other projects we did in Sioux Falls, South Dakota; in Utah; in Erie, Pennsylvania, where we purchased some property, those are all done and completed.

And then going into 2020, beyond that, we have our powder facility in Switzerland, the Gema operation. And as we've said, they've had a really good, strong revenue trajectory here in the last few years. They're in need of space, and they are evaluating a new facility addition there.



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The other part of the CapEx next year is more machine tools, equipment, things that we would buy for our factory that have efficiency improvements. We don't break those out in terms of what we expect to get from the investments each year, but we do a pretty thorough return on invested capital analysis for all of those types of projects. It's harder to do on buildings. But for the stuff that's going into the factories, those have really good payback rates associated with them.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. And what is the CapEx number? I think it was mentioned earlier in the call, but I just didn't get it.

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

\$70 million for the full year, \$30 million in brick-and-mortar and \$40 million of the factory equipment stuff.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. All right. Great. And so the projects that were done in 2019, are you starting to get the benefits already with better throughput or better working capital accounts? And is that part of the reason that the margins, especially in Contractor, are looking better for 2020?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

As Mark said, the brick-and-mortar is pretty hard for us to run an ROI. I mean we try to use our space efficiently. And when it's time to expand, we tend to try to expand so that we have some number of years' worth of growth. So I would say, brick-and-mortar actually probably weighs on us for a while. It's not necessarily a short-term benefit to us, and we got the additional depreciation. The equipment that we buy for our factories is all justified based upon cycle time improvements, cost reductions, quality improvements, throughput, and those generally have nice ROIs that rarely do we see them less than the teens. And generally they're in that closer to the 20% kind of range. So the machines, yes, but the buildings, no, they weigh on our profitability. And I don't believe that the Contractor fourth quarter had any real influence to the positive because of the fact that we're building the building up there.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. All right. Great. And then the last one was the price/cost conversation that we had, how would you characterize it for 2020? Is it more normal than it has been in the past? It seems like commodities prices have stabilized a little bit. And how are you thinking about the inventory that's in the channel given the cautiousness, I guess, around Industrial? Are the inventories leaner do you think than they were at the start of last year?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So you recall that last year, we tried to push price a little bit harder just in order to cover off the impact that we were going to have from the tariffs. But typically, we're pretty consistent with what our pricing looks like on a year-to-year basis. And Mark referenced that 1.5% to 2% realized so that's, over a longer period of time, that's kind of where we're at, and that's where we expect that we're targeting for 2020.

Operator

As there are no further questions, I will now turn the conference over to Pat McHale.



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Patrick J. McHale - *Graco Inc. - President, CEO & Director*

All right. Well, thank you, everyone, for your time this morning. And hopefully, we'll have a better 2020. Thank you.

Operator

This concludes our conference for today. Thank you all for participating, and have a nice day. All parties may now disconnect.

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