



2nd Quarter 2018 Earnings Conference Call

July 26, 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 July 25, 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, July 26, 2018. The replay by telephone will be available through July 30, 2018.

- ▶ 888-203-1112 – Conference ID #4411660
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Financial Results



Statement of Earnings	Second Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
\$ in millions except per share amounts						
Sales	\$ 425	\$ 379	12 %	\$ 831	\$ 720	15 %
Gross Profit	230	205	12 %	452	390	16 %
% of Sales	54.1 %	53.9 %	0.2 pts	54.4 %	54.2 %	0.2 pts
Operating Earnings	113	100	13 %	225	188	20 %
% of Sales	26.7 %	26.5 %	0.2 pts	27.1 %	26.1 %	1.0 pts
Net Earnings	\$ 89	\$ 80	12 %	\$ 175	\$ 141	24 %
% of Sales	21.0 %	21.0 %	0.0 pts	21.0 %	19.5 %	1.5 pts
Diluted Earnings Per Share	\$ 0.51	\$ 0.46	11 %	\$ 1.00	\$ 0.81	23 %
<i>Diluted Shares in Millions</i>	173.3	173.8		174.5	173.5	
<i>Net Earnings, Adjusted (1)</i>	\$ 83	\$ 66	25 %	\$ 167	\$ 123	35 %
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.48	\$ 0.38	26 %	\$ 0.96	\$ 0.71	35 %

(1) Net earnings and diluted earnings per share for 2018 and 2017 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.

Financial Results



Components of Net Sales Change

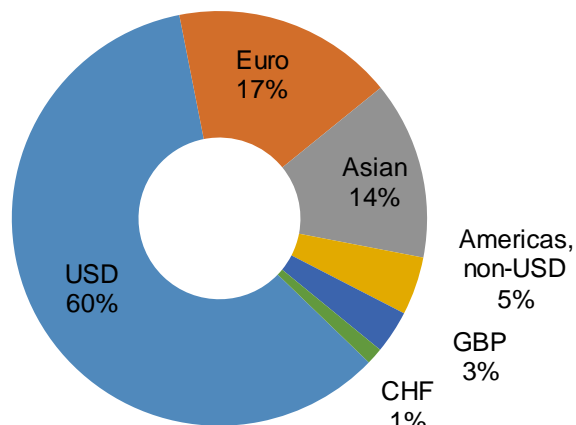
Second Quarter June 2018

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	1 %	13 %	11 %	10 %	(2)%	7 %	6 %
Acquisitions	4 %	1 %	1 %	1 %	6 %	3 %	3 %
Currency	4 %	2 %	2 %	0 %	7 %	5 %	3 %
Total	9 %	16 %	14 %	11 %	11 %	15 %	12 %

Year-to-Date June 2018

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	6 %	11 %	11 %	10 %	3 %	15 %	9 %
Acquisitions	5 %	1 %	1 %	1 %	6 %	4 %	3 %
Currency	5 %	3 %	2 %	0 %	10 %	6 %	3 %
Total	16 %	15 %	14 %	11 %	19 %	25 %	15 %

2018 Sales by Currency



Asian currencies include:
AUD, CNY, KRW, JPY

Americas currencies include:
BRL, CAD, MXN

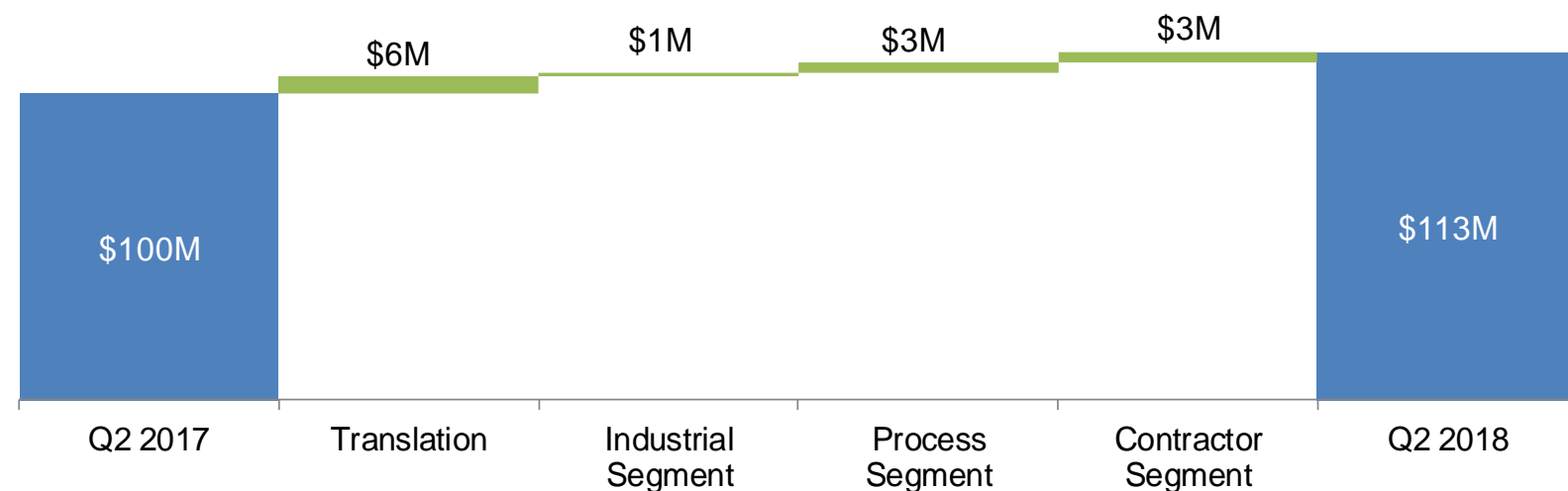
Operating Earnings



Change in Operating Earnings

	Second Quarter		Year-to-Date	
2017 Operating Earnings (\$M and % of sales)	\$ 100	26 %	\$ 188	26 %
Translation effect	6	1	13	1
Volume, product and channel mix, price and cost	18	1	42	0
Effect of acquired business operations and acquisition costs, net	1	0	2	0
Market-driven share-based compensation	(1)	0	(2)	0
Increase in sales and earnings-based costs	(4)	(1)	(9)	(1)
Volume effect on expense leverage	(7)	0	(9)	1
2018 Operating Earnings (\$M and % of sales)	<u>\$ 113</u>	<u>27 %</u>	<u>\$ 225</u>	<u>27 %</u>

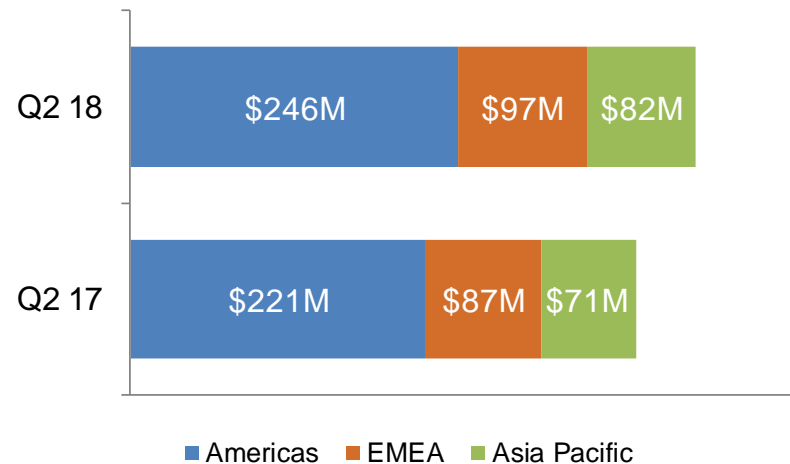
Quarter over Quarter Operating Earnings Walk



Second Quarter 2018 Results

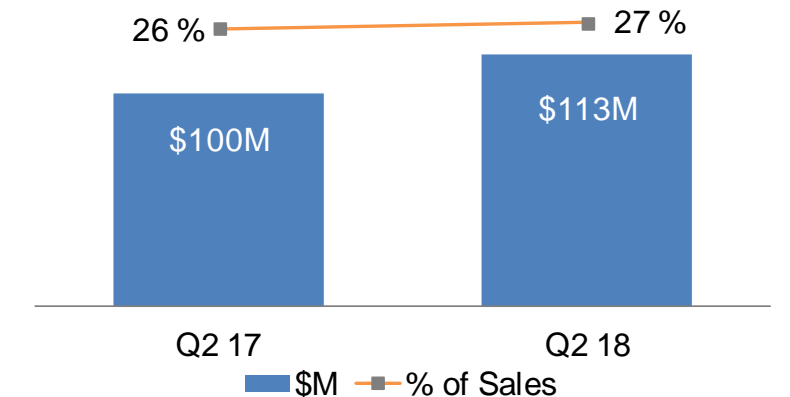


Sales



- ▶ Sales increase of 12%
 - Favorable effect of currency translation rates increased sales by approximately \$9 million, 3 percentage points
 - Acquired businesses sales of \$11 million account for 3 percentage points of growth
- ▶ Gross margin rate up 0.2 percentage point from second quarter 2017
 - Favorable effects from currency translation and realized pricing mostly offset by lower average gross margin rates of acquired operations (including \$1 million of purchase accounting related to inventory valuation) and unfavorable product and channel mix
- ▶ Operating earnings are up \$13 million, or 13%, from second quarter 2017
 - Higher sales volume, positive impact of currency translation, acquired operations and a reduction in acquisition costs driving increase
 - Higher sales and earnings-based costs increased expenses by \$4 million
 - Market-driven share-based compensation increased expenses \$1 million
- ▶ Other expense includes \$3 million of exchange losses on net assets of foreign operations, compared to a small gain in second quarter 2017
- ▶ The effective tax rate for the quarter was 15%, down 1 percentage point from second quarter last year
 - 2018 rate benefited approximately 9 percentage points from U.S. federal income tax reform legislation
 - Excess tax benefits related to stock option exercises reduced the 2018 effective tax rate approximately 6 percentage points, compared to a 14 percentage point reduction in 2017

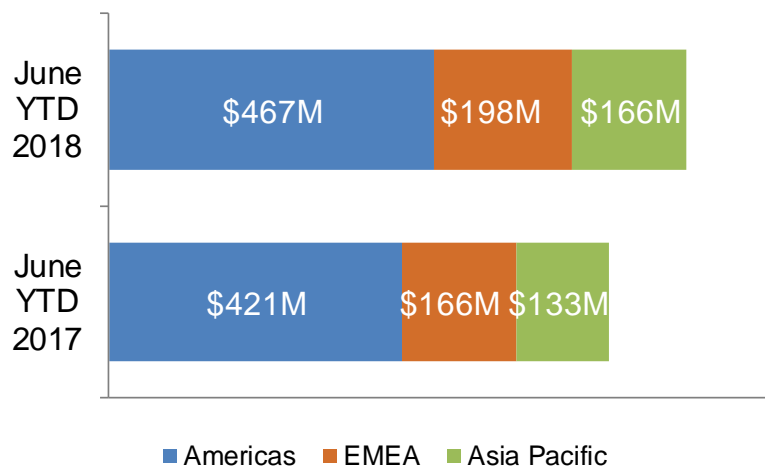
Operating Earnings



June Year to Date 2018 Results

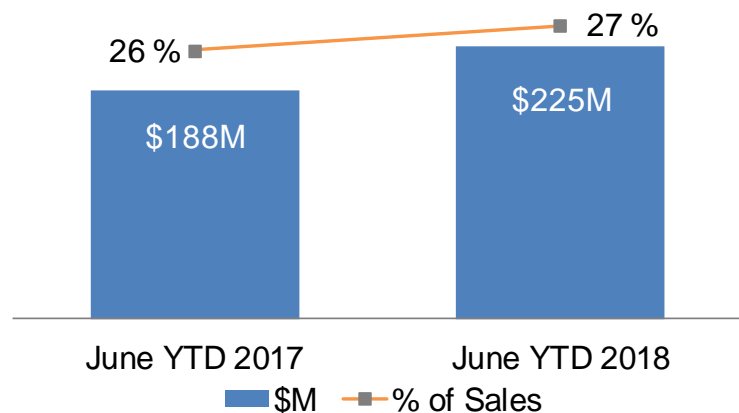


Sales



- ▶ Sales increase of 15%
 - Favorable effect of currency translation rates increased sales by approximately \$23 million, 3 percentage points
 - Acquired businesses sales of \$22 million account for 3 percentage points of growth
- ▶ Gross margin rate up 0.2 percentage point from 2017
 - Favorable effects from currency translation and realized pricing mostly offset by lower average gross margin rates of acquired operations (including \$2 million of purchase accounting related to inventory valuation) and unfavorable product and channel mix
- ▶ Operating earnings are up \$37 million, or 20%, from 2017
 - Higher sales volume, positive impact of currency translation, acquired operations and a reduction in acquisition costs driving increase
 - Higher sales and earnings-based costs increased expenses by \$9 million
 - Market-driven share-based compensation increased expenses \$2 million
- ▶ Other expense includes \$2 million of exchange losses on net assets of foreign operations, compared to a slight gain in 2017
- ▶ The effective tax rate for the year to date was 18%, down 3 percentage points from last year
 - 2018 rate benefited approximately 9 percentage points from U.S. federal income tax reform legislation
 - Excess tax benefits related to stock option exercises reduced the 2018 effective tax rate by 4 percentage points, compared to a 10 percentage point reduction in 2017

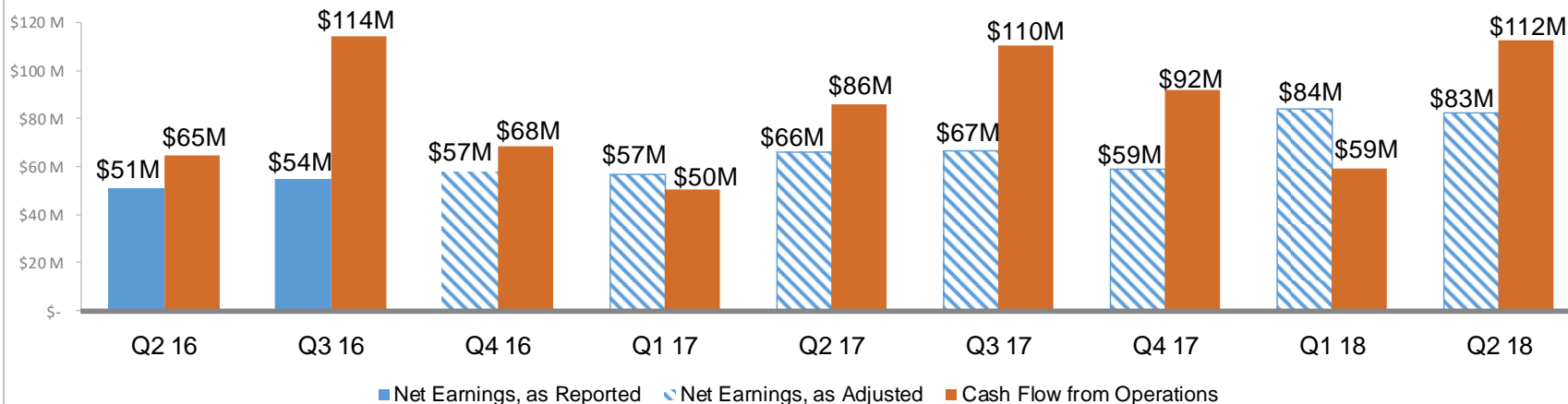
Operating Earnings



Cash Flow and Liquidity

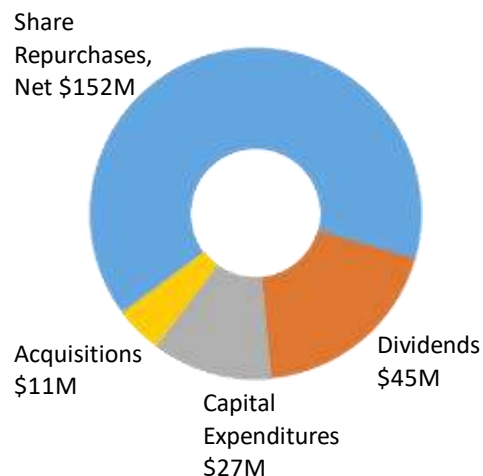


Net Earnings, as Adjusted, and Cash from Operations



See Q2 2018 non-GAAP reconciliation on page 18

2018 Significant Uses of Cash



- ▶ Net cash provided by operating activities was \$171 million in 2018 vs. \$136 million in 2017
- ▶ Debt, including notes payable, was \$304 million - up \$71 million from year end
 - Interest expense down \$1.1 million from 2017
- ▶ Share repurchases, net of shares issued, totaled \$152 million
- ▶ A voluntary pension contribution of \$40 million was made to one of the U.S. qualified defined benefit plans subsequent to the end of the second quarter

Other Discussion Items












- ▶ Excluding bricks and mortar, capital expenditure expectations are approximately \$40 million in 2018. Current estimate of 2018 building projects to increase production and distribution capacity is approximately \$40 million. Additional building project investments of \$80-\$100 million expected in 2019 and 2020
- ▶ Unallocated corporate expenses in 2018 are expected to be approximately \$28 million
- ▶ In the first half of the year, we repurchased 3.5 million shares and may make further share repurchases going forward
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2017, the movement in foreign currencies would increase sales approximately 1% and increase earnings approximately 3% for the full year. We expect unfavorable currency translation in the second half to nearly offset favorable impact through June
- ▶ The effective tax rate for third quarter and the full year is expected to be approximately 21-22% excluding any impact from excess tax benefits related to stock option exercises and one time items such as the pension contribution
- ▶ Increases in tariffs, material and freight costs are currently estimated to have an unfavorable effect of approximately one half percentage point on gross margin in the second half of 2018

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 Q2 2018 10% YTD 2018 10%	Sales Growth Q2 2018 (2%) YTD 2018 3%	Sales Growth Q2 2018 7% YTD 2018 14%	Sales Growth Q2 2018 6% YTD 2018 9%
Industrial Segment	Environment Unchanged  Sales Growth Q2 2018 4% YTD 2018 6%	Environment Unchanged  Sales Growth Q2 2018 (5%) YTD 2018 2%	Environment Unchanged  Sales Growth Q2 2018 2% YTD 2018 12%	Sales Growth Q2 2018 1% YTD 2018 6%
Contractor Segment	Environment Unchanged  Sales Growth Q2 2018 11% YTD 2018 10%	Environment Unchanged  Sales Growth Q2 2018 4% YTD 2018 10%	Environment Unchanged  Sales Growth Q2 2018 22% YTD 2018 17%	Sales Growth Q2 2018 11% YTD 2018 11%
Process Segment	Environment Unchanged  Sales Growth Q2 2018 16% YTD 2018 14%	Environment Unchanged  Sales Growth Q2 2018 (2%) YTD 2018 (5%)	Environment Improved  Sales Growth Q2 2018 18% YTD 2018 21%	Sales Growth Q2 2018 13% YTD 2018 11%
Full Year 2018 Outlook	Outlook Unchanged Mid-to-High Single-digit	Outlook Lowered Mid-single-digit	Outlook Raised High Single-digit	Outlook Unchanged Mid-to-High Single-digit

Demand remains broad-based across products and geographies. We are holding to our outlook of mid-to-high single-digit organic sales growth on a constant currency basis worldwide for the full year 2018.

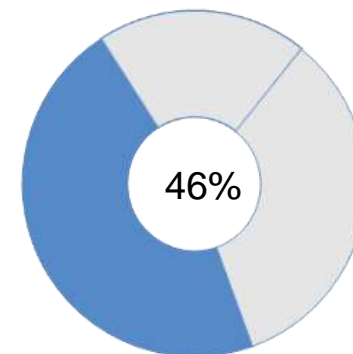
Industrial Segment Results



Sales

\$ in millions	Second Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 79	\$ 76	4 %	\$ 154	\$ 145	6 %
EMEA	56	50	13	117	94	24
Asia Pacific	55	49	12	115	92	25
Total	\$ 190	\$ 175	9 %	\$ 386	\$ 331	16 %
Operating Earnings	\$ 67	\$ 62	9 %	\$ 136	\$ 115	18 %
% of sales	35 %	35 %		35 %	35 %	

2018 Industrial Segment Sales as % of Graco



2018 Components of Net Sales Change

Current Environment

	Second Quarter	Year-to-Date
Americas		
Volume & Price	4 %	6 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	4 %	6 %
EMEA		
Volume & Price	(5) %	2 %
Acquisitions	11 %	11 %
Currency	7 %	11 %
Total	13 %	24 %
Asia Pacific		
Volume & Price	2 %	12 %
Acquisitions	5 %	6 %
Currency	5 %	7 %
Total	12 %	25 %
Segment Total		
Volume & Price	1 %	6 %
Acquisitions	4 %	5 %
Currency	4 %	5 %
Total	9 %	16 %



- Favorable: Construction markets
- Stable: Tier one auto, protective coatings, ag, truck & trailer
- Challenging: South America



- Favorable: Construction markets, aerospace
- Stable: Western Europe, general industrial, truck & trailer
- Challenging: Geopolitical

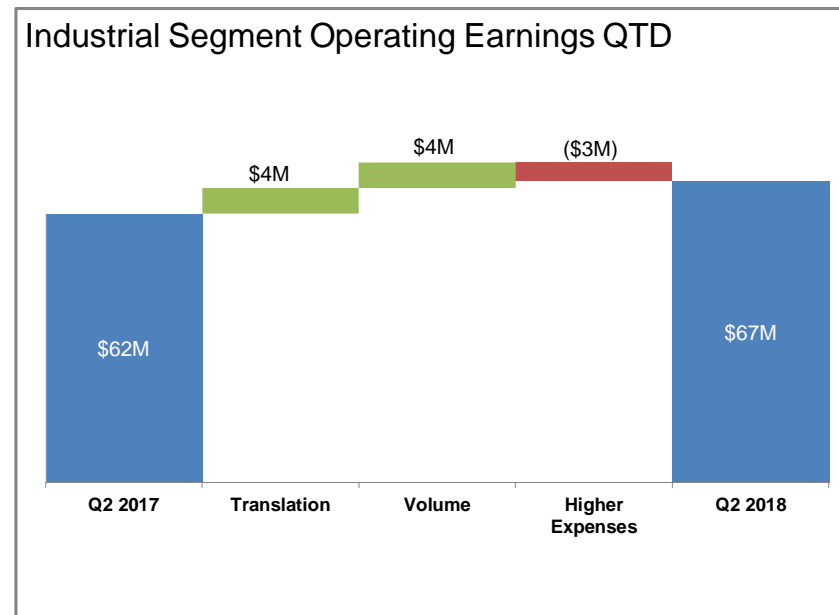
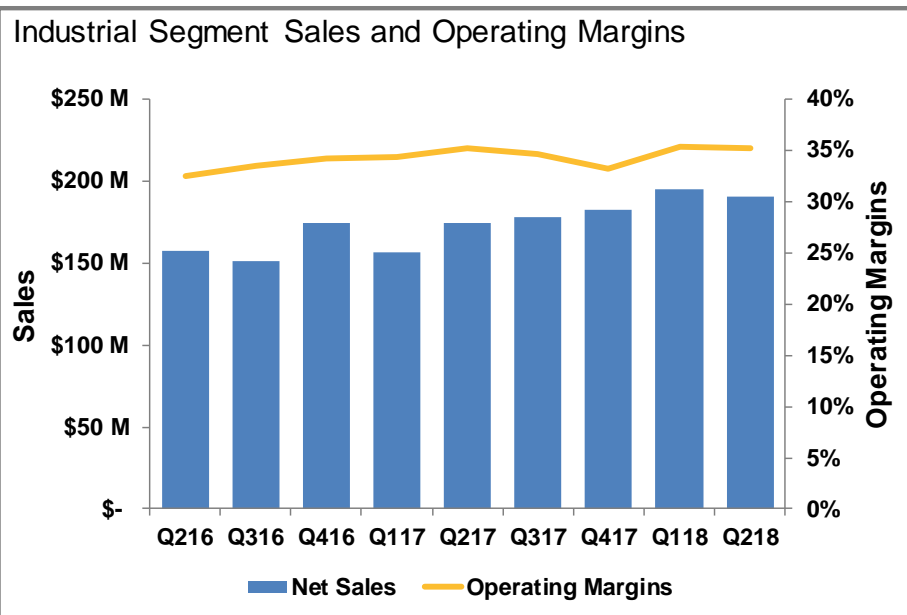


- Favorable: Tier one auto, adhesive dispense
- Stable: General industrial, construction
- Challenging: Marine
- Spotty: Project activity

Industrial Segment Results



Change in % of sales	Second Quarter	Year-to-Date
2017 Operating Earnings (% of sales)	35 %	35 %
Translation effect	1	1
Product and channel mix, volume, price	2	1
Effect of acquired business operations	(2)	(2)
Expense leverage	(1)	0
2018 Operating Earnings (% of sales)	<u>35 %</u>	<u>35 %</u>



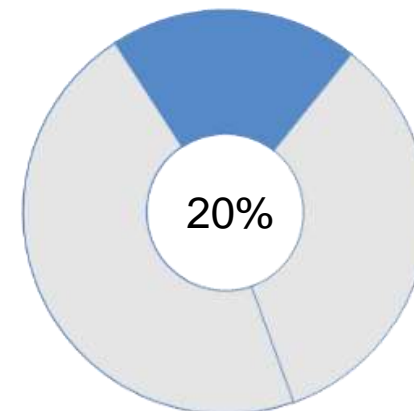
Process Segment Results



Sales

\$ in millions	Second Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 55	\$ 46	18 %	\$ 106	\$ 91	16 %
EMEA	14	14	4	29	29	2
Asia Pacific	16	13	23	30	23	27
Total	\$ 85	\$ 73	16 %	\$ 165	\$ 143	15 %
Operating Earnings	\$ 17	\$ 13	27 %	\$ 35	\$ 27	29 %
% of sales	20 %	18 %		21 %	19 %	

2018 Process Segment Sales as % of Graco



2018 Components of Net Sales Change

Current Environment

	Second Quarter	Year-to-Date
Americas		
Volume & Price	16 %	14 %
Acquisitions	2 %	2 %
Currency	0 %	0 %
Total	18 %	16 %
EMEA		
Volume & Price	(2)%	(5)%
Acquisitions	1 %	1 %
Currency	5 %	6 %
Total	4 %	2 %
Asia Pacific		
Volume & Price	18 %	21 %
Acquisitions	1 %	1 %
Currency	4 %	5 %
Total	23 %	27 %
Segment Total		
Volume & Price	13 %	11 %
Acquisitions	1 %	1 %
Currency	2 %	3 %
Total	16 %	15 %



- Favorable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications
- Improving: Onshore oil & natural gas



- Favorable: Technology, sanitary
- Stable: Chemical, environmental
- Challenging: Offshore oil & natural gas, geopolitical



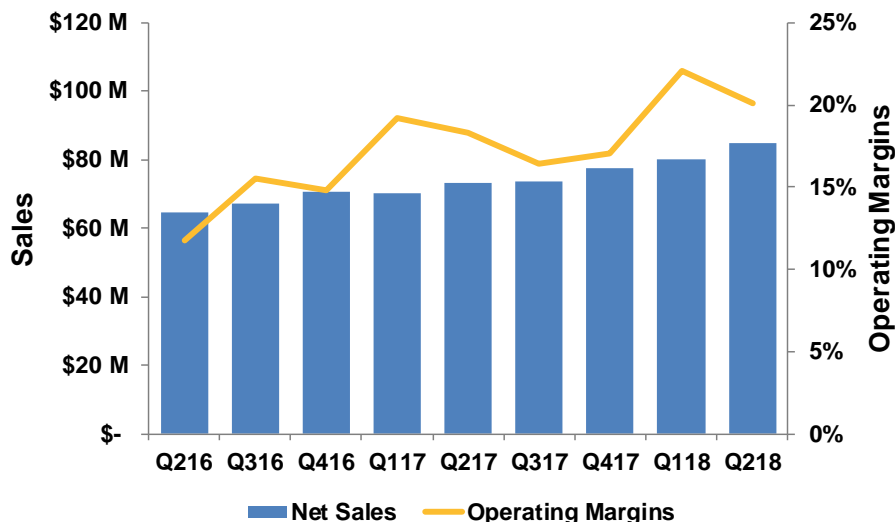
- Favorable: Technology
- Stable: Process applications
- Improving: Mining

Process Segment Results

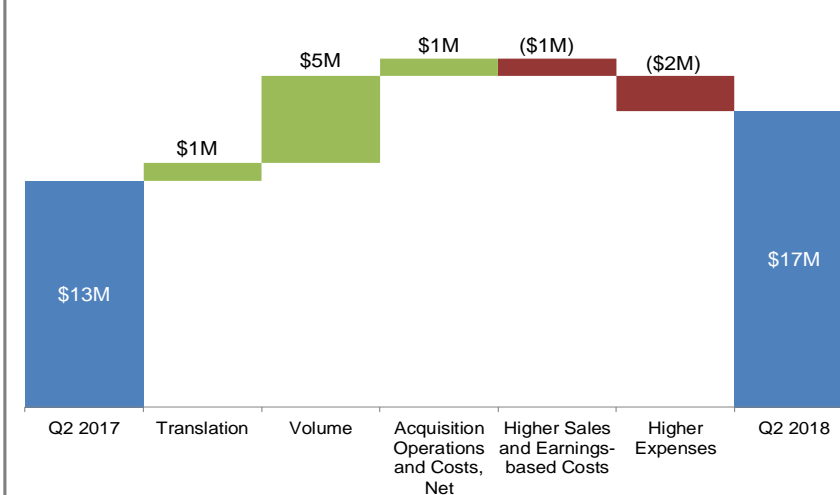


Change in % of sales	Second Quarter	Year-to-Date
2017 Operating Earnings (% of sales)	18 %	19 %
Translation effect	0	0
Channel and product mix, volume, price and cost	0	0
Effect of acquired business operations and acquisition cost, net	1	1
Increase in sales and earnings-based costs	(1)	(1)
Expense leverage	2	2
2018 Operating Earnings (% of sales)	<u>20 %</u>	<u>21 %</u>

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



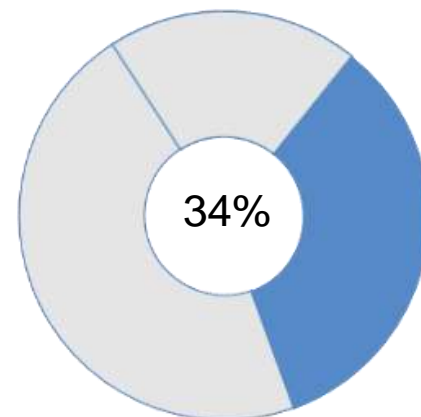
Contractor Segment Results



Sales

\$ in millions	Second Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 112	\$ 99	13 %	\$ 208	\$ 185	12 %
EMEA	26	23	12	52	43	21
Asia Pacific	11	9	26	20	17	22
Total	\$ 149	\$ 131	14 %	\$ 280	\$ 245	14 %
Operating Earnings	\$ 38	\$ 34	14 %	\$ 70	\$ 60	17 %
% of sales	26 %	26 %		25 %	24 %	

2018 Contractor Segment Sales as % of Graco



2018 Components of Net Sales Change

Current Environment

	Second Quarter	Year-to-Date
Americas		
Volume & Price	11 %	10 %
Acquisitions	2 %	2 %
Currency	0 %	0 %
Total	13 %	12 %
EMEA		
Volume & Price	4 %	10 %
Acquisitions	0 %	0 %
Currency	8 %	11 %
Total	12 %	21 %
Asia Pacific		
Volume & Price	22 %	17 %
Acquisitions	0 %	0 %
Currency	4 %	5 %
Total	26 %	22 %
Segment Total		
Volume & Price	11 %	11 %
Acquisitions	1 %	1 %
Currency	2 %	2 %
Total	14 %	14 %



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



- Favorable: Western Europe, DIY
- Challenging: Geopolitical, 2017 comparables



- Favorable: SE Asia, Australia
- Stable: Pavement products
- Challenging: General construction, equipment adoption rates

Contractor Segment Results



Change in % of sales

Second Quarter

Year-to-Date

2017 Operating Earnings (% of sales)

26 %

24 %

Translation effect

0

1

Product and channel mix, volume, product cost

0

0

Increase in sales and earnings-based costs

(1)

(1)

Expense leverage

1

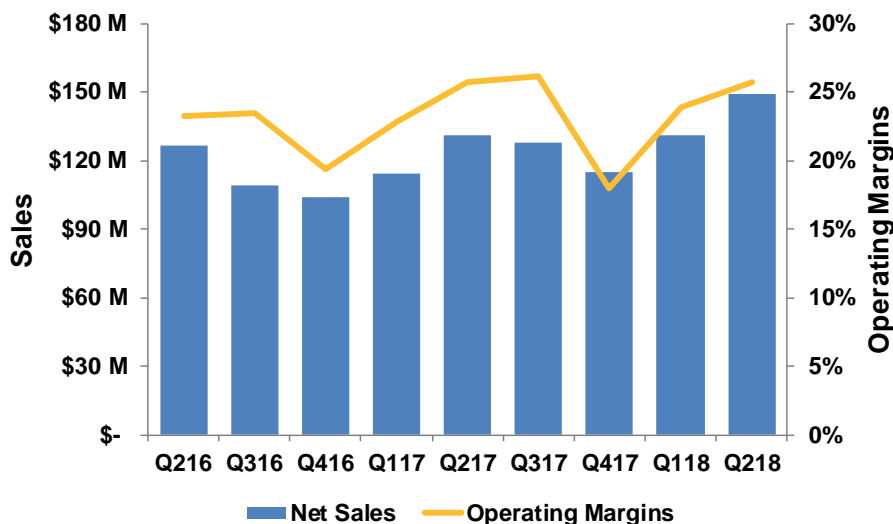
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2018 Operating Earnings (% of sales)

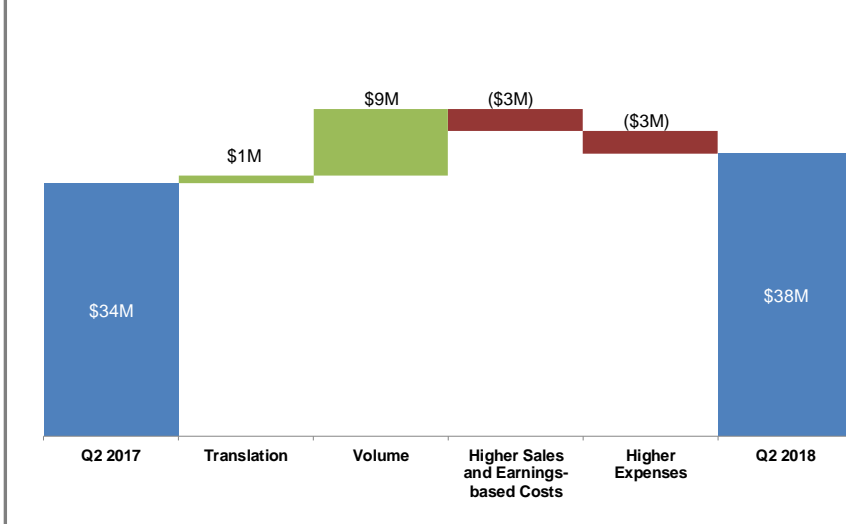
26 %

25 %

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD



Financial Results Adjusted for Comparability



Tax benefits related to stock option exercises have caused significant fluctuation in the Company's effective tax rate. Excluding the impact presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective tax rates, net earnings and diluted earnings per share follows:

Non-GAAP Reconciliation	Second Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
\$ in millions except per share amounts						
Income taxes, as reported	\$ 16.1	\$ 15.8	2 %	\$ 38.0	\$ 36.6	4 %
Excess tax benefit from option exercises	6.4	13.6	(53)%	7.9	17.2	(54)%
Income taxes, adjusted	<u>\$ 22.5</u>	<u>\$ 29.4</u>	(23)%	<u>\$ 45.9</u>	<u>\$ 53.8</u>	(15)%
Effective income tax rate						
As reported	15.3%	16.5%		17.9%	20.7%	
Adjusted	21.4%	30.7%		21.6%	30.4%	
Net earnings, as reported	\$ 89.1	\$ 79.8	12 %	\$ 174.7	\$ 140.6	24 %
Excess tax benefit from option exercises	(6.4)	(13.6)	(53)%	(7.9)	(17.2)	(54)%
Net earnings, adjusted	<u>\$ 82.7</u>	<u>\$ 66.2</u>	25 %	<u>\$ 166.8</u>	<u>\$ 123.4</u>	35 %
Weighted Average Diluted Shares, in millions	173.3	173.8		174.5	173.5	
Diluted Earnings per Share						
As reported	\$ 0.51	\$ 0.46	11 %	\$ 1.00	\$ 0.81	23 %
Adjusted	\$ 0.48	\$ 0.38	26 %	\$ 0.96	\$ 0.71	35 %



move

measure

mix

control

dispense

spray

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