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GGG.N - Q4 2022 Graco Inc Earnings Call

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OVERVIEW:

Co. reported 4Q22 sales of $555m and net earnings of $126m or $0.74 per diluted share. Expects full-year 2023 organic constant-currency revenue growth to be low-single digit.

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CONFERENCE CALL PARTICIPANTS

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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 visiting the company's website at www.graco.com. Graco has additional information available in a PowerPoint slide presentation, which is available as part of the webcast player. (Operator Instructions).

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 2021 annual report on Form 10-K and in 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 Kathy Schoenrock, Executive Vice President, Corporate Controller and Information Systems.

Kathryn L. Schoenrock - *Graco Inc. - Executive VP, Corporate Controller & Information Systems*

Good morning, everyone, and thank you for joining our call. I'm here today with Mark Sheahan and David Lowe. I will provide a brief summary of our results and then turn the call over to Mark for additional discussion. Yesterday, we reported record fourth quarter sales of $555 million, an increase of 3% from last year. As a reminder, the fourth quarter of last year included 14 weeks as compared to 13 weeks in 2022.

Net earnings in the quarter were $126 million or $0.74 per diluted share, an increase of 7%. Currency translation rates continue to be a challenge in the fourth quarter, decreasing sales by $23 million and net earnings by $12 million or $0.07 per diluted share. The gross margin rate decreased 2 percentage points in the quarter due to the unfavorable effect of foreign exchange. During the quarter, our pricing actions more than offset increased cost and had a favorable effect on both the gross margin rate and dollars.

At current costs, we expect a favorable price cost dynamic to continue as we move into 2023. Operating expenses decreased $10 million or 7%. Reductions from lower sales and earnings-based expenses and translation rates were partially offset by volume and rate-related increases. Other expenses decreased $15 million in the quarter as last year included a $12 million pension settlement charge that did not repeat.

The adjusted tax rate for the quarter was 19% due to the unfavorable effects of foreign earnings taxed at higher rates than the U.S. rate. We anticipate the effective tax rate for 2023 will be between 19% and 20%. Cash provided by operating activities were $377 million for the year, a decrease of $80 million from last year. Contributing factors include increased annual incentive payments and investments in working capital.

I'll take a moment now to cover a few items as we look forward to 2023. As we discussed in our materials issued last night, we are initiating a revenue outlook for the full year 2023 of low single-digit growth on an organic constant currency basis. Slide 8 of our conference call slides, however, incorrectly stated with growth expected in all segments and regions. A corrected presentation will be uploaded to our website following today's call.

We have been and will continue to monitor changes in currency translation rates. More recently, we have seen improvements in our core rates and at the moment, anticipate the full year effect of currency translation would increase sales and earnings by 1 percentage point in 2023. Unallocated corporate expenses are projected to increase and fall within the range of $31 million to $34 million.

This increase is related to stock-based compensation. We expect capital expenditures to be approximately $200 million with $130 million for facility expansion projects at our Minnesota, South Dakota, Switzerland and Romania locations. I'll turn the call over to Mark now for further discussion.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Thank you, Kathy, and good morning, everyone. All of my comments this morning will be on an organic constant currency basis. Sales in the fourth quarter were up mid-single digits, resulting in quarterly and annual records for both revenue and operating earnings. We achieved these records in each quarter of 2022. Contractor was the only segment that did not realize a record in the fourth quarter. However, the segment did reach record annual revenue and ended just shy of $1 billion in total sales.

Our consolidated backlog was $355 million at the end of the quarter, which is approximately where it was last year at this time. Slowing demand in Contractor along with strong project completion in our powder equipment business reduced backlogs from what we reported at the end of the third quarter. We also experienced areas of improvement in component availability during the quarter.

While some shortages of key items like electronics and castings persist, supply chains have improved from earlier in the year. The pace of incoming orders has slowed compared to a year ago. However, year-over-year comparisons are heavily influenced by the magnitude and timing of our price increases in 2022 versus the fourth quarter of 2021. Many of you will remember that in 2021, we held pricing flat throughout the year after a modest increase in January.

In the fourth quarter of 2021, we announced that we will be implementing a substantial price increase early in 2022, which led to heightened order activity in last year's fourth quarter. We have factored these things into our outlook, which I will cover later. Now turning to some commentary on our segments. The Contractor segment had a mid-single-digit revenue decline in the fourth quarter, driven by less demand in the home center channel, limited pro paint product availability in EMEA and Asia Pacific and the effect of lost sales due to discontinuing our Russia operations earlier this year.

The North American pro paint business remained strong, with revenue growth in the high single-digits for the quarter and out-the-door sales were equally strong. Component availability improved, but we are still on back order, especially in our pro paint business. We continue to monitor global construction indicators. However, given the broad nature of our short-cycle business, which has multiple product categories, it is difficult for us to accurately predict the ultimate trajectory of revenue.

Simply put, there is no silver bullet in terms of expert consensus or leading indicators that guide us to a certain revenue outcome. Our products are used in many things such as new construction projects for single-family residential, multifamily residential and commercial construction.

Contractors also have repainting and remodeling projects covering these categories. In addition, we support specialty contractors doing things like spray foam insulation, line striping and pavement maintenance, texture spray applications and high-pressure protective coatings jobs that are often seen in infrastructure applications like bridges, pipelines and commercial shipping.

Most contractors working in the aforementioned categories report project pipelines that go through much of 2023 and even into 2024 for commercial applications. Experience has shown us that as long as contractors have solid project pipelines, they will continue to buy both spare parts and new equipment. These factors, combined with new products being launched and our channel expansion initiatives, puts Graco in a better position than if we only had to rely on the economy to determine our revenue fate.

In the Industrial segment, sales were up 17% in the quarter with positive results in all reportable regions, and they achieved fourth quarter and annual records for both sales and operating earnings. This segment is the most global of our businesses and experienced solid growth in all regions for the quarter and for the year. Key product categories such as finishing systems and sealant and adhesive equipment were the main drivers of this growth.

Profitability continues to be strong with incremental margins of 55% in the quarter and 61% for the year. Checking with our teams, project activity remained good as we finished the year. The Process segment grew sales 16% for the quarter, resulting again in both quarterly and annual records for both revenue and operating earnings. This is the fifth consecutive quarter that Process has set these records.

Increased volume drove profitability improvements as the year went on. Incremental margins were 48% in the fourth quarter and 36% for the full year. Broad-based sales growth in lubrication equipment, process pumps and semiconductor pumps, heaters and fittings, drove the strong performance. As we finish 2022, we have large backlogs in semiconductor, decent project activity in lubrication and process pumps, and we are excited about both recent and upcoming product launches in these businesses.

Moving on to our outlook. As we enter '23, we're keeping a close eye on order trends and business tempo. At this time, we remain cautiously optimistic that we can drive another year of growth in both sales and net earnings. As such, we've initiated a low single-digit organic revenue growth outlook on a constant currency basis for the year. Our teams performed extremely well over the last 2 years, and we are ready to react if conditions differ from our expectations.

I am confident that our performance will reflect this in 2023. Our core strategies of launching new products, investing in our manufacturing capabilities, expanding our global channel and pursuing strategic acquisitions will facilitate growth not only this year, but also in the future. That concludes our prepared remarks. Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Your first question comes from the line of Deane Dray from RBC Capital Markets.

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

Can we start with -- there was a lot of worry here regarding one of your pro paint customers being -- having an earnings miss and lower guide and everyone goes, oh, there's immediate negative read-through to Graco. And the reality is you're not as dependent as what people think, and there's other applications.

But just take us through that misperception, and you and I have been through this before, but just kind of frame for us the relationship and the end market exposure, et cetera.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. So I would say that overall, we haven't really seen any kind of a decline in our pro paint business, and I think that's reflective of the fact that contractors are busy. They've still got projects. They buy stuff when they feel good about the outlook on different things. But notwithstanding that, we do sell into some of the newer construction markets that have, I think, been particularly hit by the increase in interest rates and housing activity overall.

I tried to point out in the opening remarks that this is a pretty broad business when you're looking at our Contractor business. There's a lot of different applications, a lot of different product categories. And we aren't, as you said, tied into one specific macro thing that you can really use to guide what we see on the revenue growth side. So when we look at everything and what we're experiencing right now, we feel okay about CED. And as the year progresses, our visibility will be much better because we are pretty short cycle, as you know.

And orders come in, we get them out as quickly as we possibly can. It's good for our customers, but it does create some issues for us in terms of just having a clear visibility on where things are going. I was at a trade show last week by a large paint organization, it's their annual trade show. And it was very well attended. Our booth was extremely busy. They bring in their store managers from around the country.

There was a lot of interest in our new products that we're launching. And I would say overall that it is a fairly positive takeaway for me being able to walk the floor and talk with different participants in that industry. So again, we'll see how it plays out, but things are hanging in there pretty good for now.

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

That's all good to hear. And then just on pricing outlook for 2023, you're going back to -- at least you had said you're going back to one price increase or that's the plan. What is the price increase expectation for January? What kind of realization are you expecting? And what does that mean for price cost?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. It really depends on the business unit and the region. But generally speaking, this will be more of a normal price increase, I would say, in line with what you might have seen in 2018, 2019. And each segment is implementing that here in the first quarter. And some of the regions are going to wait until a bit later on because we did just push through a fairly healthy price increase at the end of the third quarter.

In Contractor, I think given that they have raised their prices already twice, we're going to hang tight for a while. I think we're in better shape than we were. You actually saw price cost neutral to slightly favorable in Q4. We're hopeful that the actions that we've taken will continue to play out that way for the rest of the year.

Operator

Our next question comes from the line of Michael Halloran from Baird.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

So maybe just then -- I think you kind of gave us all the pieces there, Mark, but maybe just talk about where you're expecting growth this year by segment and where you're not? And where the pressure points might be? And then whether -- then on a related basis -- well, I'll ask this as the second question. We'll start there and I'll keep them separate.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. So we didn't really break out, as you can see what the outlook is by segment or by region for a lot of different reasons, probably the biggest one that our visibility isn't that great, but I would say generally that we feel really good about product launches and channel expansion initiatives going on in the Process segment as well as that particular group has a lot of backlog still from orders that we took, particularly in the semiconductor part of the business, which should really help them on a full year revenue basis.

So in that segment, things are -- we feel like they're in pretty good shape. On the Industrial side, a lot of the growth that we saw here at the end of the year and really a lot of the growth in 2022 came from both our sealant and adhesive businesses as well as our powder equipment business. And fortunately, with regard to the latter, they do have backlogs and they do have some better visibility on orders and how the year might play out versus some of our other short-cycle businesses.

So when you put those 2 things together, again, I feel like we're in pretty good shape with respect to being able to grow in Industrial in 2023 without getting into details on regions and those types of things. And as you know, Contractor's sort of a wildcard. As we sit here today, orders have been okay. The pro side is better than the home center side. As you know, pro center -- or pro side is more profitable for us than the home center side.

So from that standpoint, if you had to have one that was weaker than the other, having a good strong pro side of the business should help us on the profitability front. So hopefully, that helps. But all in all, when you roll it all up, I think we feel pretty comfortable with the low single-digit guide.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

That makes sense. And then maybe talk a little bit about the cadence in that as you look through the year, some of the comments in the prepared remarks about a little bit of pre-buy ahead of some of the price increase in the fourth quarter, given kind of the time frame that tends to imply maybe a little more outflow in the front part of the year, visibility better front half versus back half? Is some of that reflected in guidance? Or is there an element of just relatively normal seasonality embedded in that outlook?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. I think we tried to do the best job that we could to factor all that in to give you the full year guide. There's probably going to be a little bit of volatility in terms of order rates and those types of things. We certainly saw that in Q4, just from a comparison standpoint from a year ago. But we also raised prices in Q3 of this past year.

So you might see a little bit more order volatility around that as well. All in all, though, I think that the guide that we gave this kind of low single-digit number for the full year, we feel pretty good about it. David, do you have anything to add there?

David M. Lowe - *Graco Inc. - CFO & Treasurer*

I think that the -- when we talk about the Industrial and Process space, I'm generalizing, but the channels really don't stock a lot. Their demand varies all over. And quite frankly, many of them wouldn't know what to order to do a plan ahead in terms of a price adjustment. As Mark touched on, certainly the CED is probably, if we look at the -- if we go back to 2019 -- we've done a little work on this, is certainly the shortest cycle of all of our short-cycle businesses.

And I feel that there to some degree, what we could be experiencing at this point is a return to normalcy or more normalcy, better quality supply chains, still some gaps in electronics and chips. But I feel pretty good that what we are seeing is, I'd say, getting to a situation -- getting closer to a situation where the channel partners order with confidence knowing that we're going to ship promptly.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

Got it. So it sounds like what you're saying is the seasonal patterns are reasonably normal, but there's going to be some volatility expected through the year. So there's going to be some variance in that thought process as we move forward.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, it could be some order volatility. Hopefully, the factories are a better spot where what we actually get out the door is a little bit smoother than the order rate volatility. Of course, we still got big backlogs, right? So I mean a year ago, when we were talking with you guys, we were lamenting the fact that we had $350-plus million of backlog, and that's where we're at here today, too. So...

Operator

Your next question comes from the line of Saree Boroditsky from Jefferies.

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

So gross margins were up a little bit sequentially, but still remain under pressure. What do you need to see to get gross margins back above that 50% level?

Kathryn L. Schoenrock - *Graco Inc. - Executive VP, Corporate Controller & Information Systems*

I think what we experienced in the quarter, as I said in my comments, we really saw the unfavorable effect of that current foreign currency exchange. I think where -- with where rates are at right now, we don't expect that headwind to continue into '23. I mean, obviously, rates could change. And given that we did have a favorable price/cost dynamic in the fourth quarter, I think we're optimistic about how we enter '23 and beginning to see some gross margin rate expansion. Of course, that -- we need volumes to remain the same and cost to remain the same. So those will be the 2 factors that we continue to monitor here in the first quarter and throughout 2023.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes. I would just add that after really about a half a dozen quarters of serious price cost pressure really going back to early in Q2 of -- gosh, I guess we've got to go back quite a way as maybe at the beginning of '22. The progress that we made here in Q4, I think, was impressive. And I would say it reflects the impact of pricing that we did at the beginning of the year. And the -- by now famous interim price increases that we completed throughout the summer months. And anticipating a question, the lesson is not lost on us.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. And like if you look at Q4, if currency were neutral, we would have been above 50%. So I think that -- let's hope that it stays neutral that our price cost gets in better shape, that the actual input costs come down at some point. We may see some of that starting to creep in. And then I have -- nothing is broken here, so we should get back up to those rates that you were talking about.

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

Great. And then obviously, you've seen positive on the outlook for Industrial next year. Can you just talk about what drove the strength in the quarter? And how do you think about those markets going into the year?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. I mean I would just say that all in all, it was a great year for that team. I would point to the things I said before. I think our adhesive dispensing business, our sealant business is on solid footing across multiple industries, including general industry, aviation, solar. They have automation projects going on both in that business as well as on the paint circulation side.

They've got really good channel initiatives for expanding their channel. We've got engineering teams now located in the regions that are doing special projects for customers that lead to a more robust product plan. So overall, I think we feel like things are in good shape there. And then you throw in like e-mobility, battery production. We're trying to build our business in the packaging space and a really good powder equipment business, which has performed extremely well over the last couple of years, and they've got nice backlogs heading into '23. All of that really makes us feel pretty positive about what's going on in our Industrial segment.

Operator

Your next question comes from the line of Matt Summerville from D.A. Davidson.

Will Jellison - *D.A. Davidson & Company - Senior Research Associate*

This is Will Jellison on for Matt Summerville today. I wanted to ask you -- in addition to the facility expansion plans, you've laid out for investing organically in the business. I was curious as to how you're thinking about investing inorganically in the business? And whether or not you have a pipeline that you believe is actionable at the moment? And what kind of businesses you would be interested in adding to the Graco portfolio as part of that process?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, it's a good question. Thanks for asking it. I mean, for sure, we're trying to put every penny back into this business that we possibly can. In good times and bad, we're going to keep investing in product development, upgrading our facilities, making capital investments that have good returns on investment associated with them.

And everybody that follows the company knows that notwithstanding that, we still generate enough cash to be able to look at things like acquisitions. I would say that the teams over the last year have done a pretty good job of working with the corporate team in developing pipelines and looking at various applications, both within their existing markets as well as adjacencies where we think we can drive some value.

And for us, the value is really on the production side. We've got great manufacturing on the engineering side. I think we bring some skills there. And then, of course, channel, sales, marketing and the infrastructure that we have around the world. So I feel really good about the -- where we're at in the journey here. We kind of stepped things up last year. All the business units now have decent pipelines. There's activities going on.

We'll see what happens, but the market has been a bit frothy, as everyone knows, over the last 18 months or so. But with rates coming up and multiples coming down, I think that could create some opportunities for Graco to help add some growth through good strategic acquisitions.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes. I would just add to Mark's point that the corporate group has spent a lot of time with the operating teams and really has fleshed out attractive segments. And from there, attractive, what I would call a prospect list with an eye towards reaching out, perhaps building up a relationship, learning about their businesses before there is a day that there is an event. We've been in those situations before when we're in a reactive mode, and that's not the greatest.

As far as just -- without getting specific on applications, I would say that things that we like, markets that have characteristics we like, we like niche markets. We like markets that are business to business. We like markets that have large installed base because that puts long-term participants in extremely strong positions. Of course, we like recurring revenue.

And there's no doubt about it, markets that will pay a supplier for quality and innovation is important to us because it's central to our value proposition.

Operator

Your next question comes from the line of Joe Ritchie from Goldman Sachs.

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

So I just want to make sure I understand the framework for the low single-digit guidance for 2023. I guess the expectation is pricing is going to come in pretty much low single-digits, the volumes may be flat to down. Is that -- did I understand that correctly?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

We didn't really break out price versus volume in our outlook. But when you roll it all up, that's where you get the low single-digit guide. We do have a lot of built-in price realization in the outlook because, of course, we raised prices a couple of times last year. And those -- as we kind of roll through '23 versus '22, there should be some favorability there. But we didn't really break out volume in the overall outlook.

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

Okay. And then maybe just on the pricing comment, as you're exiting 2022, how much of that pricing carries forward into 2023?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Well, again, last year, we started the year kind of, let's call it, ground zero. We had a big price increase that came through in January and then another one in the September time frame. So at least for the first 9 months or so, you will -- you kind of get that double effect of those 2 price increases. And as we get to September, we should be on par with where we were at, at that time a year ago.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes. When you age our backlog, the vast majority of our backlog reflects '22 pricing either in January or the interim adjustment we made at the middle of the year.

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

Got it. Yes, that makes sense. I guess -- maybe just focusing on the Contractor segment for a second. This segment is really incredible, the growth you've seen over the last several years. It's almost shocking that it's almost 50% of your revenue base as of the end of last year. I guess you mentioned that the pro is continuing to stay pretty healthy, the demand outlook. And there's been a divergence between the pro and the home center.

I guess just in your experience, is that typical that when you have cycles in that business that there is divergent trends in what you're seeing on the pro side versus the home center side? Or would you expect that to start to converge at some point if the demand outlook weakens?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. I don't really know. I mean what I would tell you is that at least with regard to the home center over the last couple of years, it's been kind of crazy, right, with all the stimulus money and people working from home and hanging out at Home Depot doing projects, that kind of thing. So it probably doesn't really line up with what we may have seen historically. Money was free for a long time. Now money is not free anymore.

So I do believe that the consumer is going to retrench a little bit and that likely would show up on that side of the business. On the Pro side, again, our experience has always been that if they've got jobs and they've got a pipeline and they're busy and they can see projects going out, they buy new equipment. Typically, if you're a painter and you buy a new sprayer and you're busy, you can pay for that thing like within one or 2 jobs.

So it's a really quick payback, plus you get all the benefits of having a new tool and a new piece of equipment. So it's sort of a confidence thing for them. And with all the different projects and things that they get involved with, at least for now, it appears to be on fairly good footing.

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

Got it. If I could sneak one last one in on the Contractor. How do you think about normalized margins for that business? Because I remember a time when like the margins were in the low 20s, and there was an opportunity for them to really expand as you mixed up your products that were being sold, higher-priced sprayers. How do you guys think about normal margins for the Contractor segment over time?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. So one thing I'd just point out is if you go back historically, they never had the protective coatings or the spray foam in their numbers. And those are in our Industrial business. So it's a little bit hard to go back and compare. What I will say is we don't really have a target for our teams when it comes to margin increases and what we're trying to get to. I think that if the volume is there, and we can get a little bit of relief on the price/cost equation, which we've really not seen much in Contractor that their margins can trend higher.

So a couple of years ago, somebody would probably have said, well, gosh, your Industrial margins are so high. Where do you go from here? And if you look at what we did this year, I mean, we went from 33% operating margins last year to 36% this year, and we were at 37% in the fourth quarter. So we don't really put a lid on these things for our people. They get incentivized to grow the business both on the top line and the bottom line. And we find ways to do it.

Operator

(Operator Instructions). Our next question comes from the line of Jeff Hammond from KeyBanc Capital Markets Inc.

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

I think in the presentation -- you said you changed something in the presentation. I don't know if you clarify what is changing. I think you said you're changing from growth in all markets and regions? Maybe just some clarification there.

Kathryn L. Schoenrock - *Graco Inc. - Executive VP, Corporate Controller & Information Systems*

Sure. We are taking out the "with growth expected in all segments and the regions" and just leaving it to the guidance of full year growth in the low single-digit range on an organic constant currency basis.

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

So does that imply that there's a geography or segment that you'd expect to be down?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

It's just an overall comment. We couldn't really get real -- like I said, we can't really fine-tune or micromanage where things are going to come from. So we want to make sure that we put that clarification in there. Unfortunately, that little note at the bottom was a carryover from the slide that we had published previously and just didn't get modified. So I wouldn't read too much into it. It's just an unfortunate clerical error. But we're still really confident in the overall guide of this low single-digit for now.

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

Okay. Perfect. I think you've been mentioning, I think, pretty consistently in Process semiconductor and maybe this quarter, just can you just remind us what your focus is there? And then there's been a lot of -- that market has been strong, but there's been a lot of CapEx cuts and worries around semi. And wondering if you're seeing any of those cracks? And just maybe even as we go longer term, how you think the CHIPS Act and some of the longer-term growth kind of plays into that market?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, we like the business. It's been really strong for us. It's grown, I think, 10x since we bought it. So there's certainly not much negative to say about it. There is still business happening there. Again, we make these high-purity components and pumps that go into the equipment that's used to actually manufacture chips. And so if they're putting in a new fab somewhere, they're going to need this equipment to go inside of the fab that's being built.

So you've got the backlog that was created by all the business that's happened over the last couple of years. And then now as manufacturers are looking to move locations around the world, that creates opportunities for us to go in and sell them new high-purity equipment. We bought some other businesses kind of around it that do things like heating and then some of the vats that are used to actually house the chemicals before they get pumped and put in. So all in all, we like the space. We're in a nice niche, and we feel pretty good about it.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

And I would just add that in terms of the capital investment spend, the big fab investments that you read about -- and actually, we've been reading about for a couple of years now, the ones of '21 and '22, they're going to play out over the next couple or 3 years. So there's some legs in this space because it's, let's say, longer cycle than the Graco average.

Operator

Your next question comes from the line of Thomas Johnson from Morgan Stanley.

Thomas Claes Johnson - *Morgan Stanley, Research Division - Research Associate*

I just wanted to revert back to the Contractor segment here. I know in your comments, you had noted limited pro paint product availability as a headwind in the EMEA business. So it would just be helpful if you could get some incremental color on exactly how that headwind has impacted the business and maybe what you've seen in terms of improvement or easing availability there?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. So I think the comment was about EMEA, as you said. And in the quarter, we were actually down, but if you were to back out the Russia business that we had a year ago and currency, it was actually sort of a flat environment for us in Contractor EMEA. But as you noted and we mentioned, part of that, we also believed, it would have been a better quarter for us and a better year if we were able to get some of the more higher-end pro units over to Europe in a more timely manner.

As you probably know, we've been battling electronic components and different aspects of the things that go into our higher-end sprayers throughout the year. And our team over in EMEA believes that if we had better flow of those products, they would have posted better numbers.

Thomas Claes Johnson - *Morgan Stanley, Research Division - Research Associate*

Great. That's very helpful. And then just in terms of what you've seen from improvements in availability and kind of -- I know -- not looking for region level outlook. But obviously, is it fair to assume that those headwinds on a year-over-year basis will be easing in 2023 for that business and region?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. I think we saw a pretty good improvement as we got through the back half of last year. We're still faced with some component shortages in things like electronics, but I would characterize that overall is we're in a better spot today than we would have been in the past.

Operator

Our next question comes from the line of Walter Liptak from Seaport Research.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Yes, thanks for the clarity about EMEA and the Contractor part of the business. I wonder if you could just talk maybe a little bit more generally about EMEA and what you -- we've seen some macro data get a little bit better recently. What's been your experience there on Industrial and Process?

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Well, I would say that if we're talking EMEA on the, I'll call it, macro data side, certainly, the economic outlook picture for Germany, which is Europe's largest Industrial market, I would say, bodes -- maybe to call it a bright spot's an exaggeration, but is a favorable attribute. Our people on the ground in Europe indicate that we have had a milder winter than I guess -- than some people were projecting and which we've had in prior years, and that really helps.

So the fact that energy prices have stabilized. And I think that also the work that the Europeans are doing around conservation, some new sources of natural gas and even extensions of nuclear and coal probably helped people in our space quite a bit. In terms of natural gas prices, we're down about 50% from peak, our people tell us. And electric prices are down about 30%. It's -- those are still at elevated levels, but a pretty dramatic change. And I guess, lastly, always an important market for Europe, automotive has had a couple of tough years there, along with here in North America. But retail auto sales are improving as well.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. Great. And similarly, China looks like it's beginning to open up. ISMs were a little bit better. Can you talk to us about just your exposure there? And is it mostly supply chain? Or do you benefit from an improving economy?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, we should benefit in China from an improving economy hopefully, now that they're opening things up. I think they're still going through this COVID wave over there, but the people that -- we talk to our team basically say things are getting better literally by the week. So as they open up more, it should be more activity for us. Big part of that business is Industrial.

All the factories that we serve and obviously all the alternative energy stuff that we talked about with batteries, solar, wind energy, all that, all those applications are important for Graco along with automotive. So hopefully -- I always say this with a grain of salt, but hopefully, once we work our way through COVID in China, that should be some potential upside for the company.

Operator

Thank you. As there are no further questions, I will now turn the conference over to Mark Sheahan.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Okay. Thank you, everyone. In closing, I'd like to thank our employees, our suppliers, our distributor partners around the world for their strong contributions in helping us post another record year at Graco. Yes, it's been a challenging year, but in true Graco fashion, we've been able to overcome the hurdles and deliver significant shareholder and customer value.

While there are many things that contribute to our strong performance, it's really our loyal and hard-working employees that make this company great. That concludes today's call. Thanks for participating, and have a good day.

Operator

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