



3rd Quarter 2020 Earnings Conference Call

October 22, 2020

Safe Harbor



Today's presentation includes forward-looking statements that reflect management's current expectations about the Company's future business and financial performance.

These statements are subject to certain risks and uncertainties that could cause actual results to differ from anticipated results.

Factors that could cause actual results to differ from anticipated results are identified in 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 October 21, 2020.

Conference Call Logistics

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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, October 22, 2020. The replay by telephone will be available through 1 p.m. ET, October 28, 2020.

- ▶ 855-859-2056 – Conference ID #8334616
- ▶ 404-537-3406 – with the same conference ID #, for international participants

Financial Results

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Statement of Earnings

\$ in millions except per share amounts

	Third Quarter			September Year-to-Date		
	2020	2019	Change	2020	2019	Change
Sales	\$ 439.3	\$ 400.6	10 %	\$1,179.8	\$1,233.8	(4)%
Gross Profit	229.0	207.4	10 %	610.1	650.4	(6)%
% of Sales	52.1%	51.8%	0.3 pts	51.7%	52.7%	(1.0) pts
Operating Earnings	125.0	103.4	21 %	259.6	320.3	(19)%
% of Sales	28%	26%	2 pts	22%	26%	(4) pts
Net Earnings	\$ 114.1	\$ 84.1	36 %	\$ 215.8	\$ 259.0	(17)%
% of Sales	26%	21%	5 pts	18%	21%	(3) pts
Diluted Earnings Per Share	\$ 0.66	\$ 0.49	35 %	\$ 1.26	\$ 1.51	(17)%
Diluted Shares in Millions	171.7	171.8	(0)%	171.6	171.6	0 %
Operating Earnings, Adjusted (1)	\$ 125.3	\$ 103.4	21 %	\$ 294.8	\$ 320.3	(8)%
Net Earnings, Adjusted (1)	\$ 101.8	\$ 77.4	32 %	\$ 229.2	\$ 243.4	(6)%
Diluted Earnings Per Share, Adjusted (1)	\$ 0.59	\$ 0.45	31 %	\$ 1.34	\$ 1.42	(6)%

(1) Operating earnings, net earnings and diluted earnings per share for 2020 and 2019 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 5 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Financial Results Adjusted for Comparability

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Certain items have caused fluctuation in the Company's financial results. Excluding the impacts of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements follows:

Non-GAAP Reconciliation	Third Quarter			September Year-to-Date		
	2020	2019	Change	2020	2019	Change
\$ in millions except per share amounts						
Operating earnings, as reported	\$ 125.0	\$ 103.4	21 %	\$ 259.6	\$ 320.3	(19)%
Impairment	0.3	-		35.2	-	
Operating earnings, adjusted	\$ 125.3	\$ 103.4	21 %	\$ 294.8	\$ 320.3	(8)%
Income taxes, as reported	\$ 6.9	\$ 12.7	(46)%	\$ 29.4	\$ 46.3	(37)%
Impairment tax benefit	-	-		1.2	-	
Excess tax benefit from option exercises	4.6	0.7		12.6	8.1	
Other non-recurring tax benefit	8.0	6.0		8.0	7.5	
Income taxes, adjusted	\$ 19.5	\$ 19.4	1 %	\$ 51.2	\$ 61.9	(17)%
Effective income tax rate						
As reported	6%	13%		12%	15%	
Adjusted	16%	20%		18%	20%	
Net earnings, as reported	\$ 114.1	\$ 84.1	36 %	\$ 215.8	\$ 259.0	(17)%
Impairment, net	0.3	-		34.0	-	
Excess tax benefit from option exercises	(4.6)	(0.7)		(12.6)	(8.1)	
Other non-recurring tax benefit	(8.0)	(6.0)		(8.0)	(7.5)	
Net earnings, adjusted	\$ 101.8	\$ 77.4	32 %	\$ 229.2	\$ 243.4	(6)%
Weighted average diluted shares, in millions	171.7	171.8		171.6	171.6	
Diluted earnings per share						
As reported	\$ 0.66	\$ 0.49	35 %	\$ 1.26	\$ 1.51	(17)%
Adjusted	\$ 0.59	\$ 0.45	31 %	\$ 1.34	\$ 1.42	(6)%

Non-cash Impairment



- ▶ In the second quarter, the Company entered into negotiations to sell its U.K.-based valve business ("Alco"), which has significant exposure to oil and natural gas markets, and has accumulated operating losses since acquired in 2014. Alco operations contributed \$7 million of sales and \$2 million in operating losses for the year to date and are included within the Company's Process segment
- ▶ Based on the negotiations to sell, the Company revalued its investment in Alco during the second quarter, recording non-cash impairment charges of \$35 million, including \$24 million of previously unrealized foreign currency translation losses recorded in accumulated other comprehensive income
- ▶ The sale of Alco was completed in the third quarter
- ▶ On a year to date basis, the impact of the impairment on net earnings was \$34 million or \$0.20 per diluted share

Sales



Components of Net Sales Changes

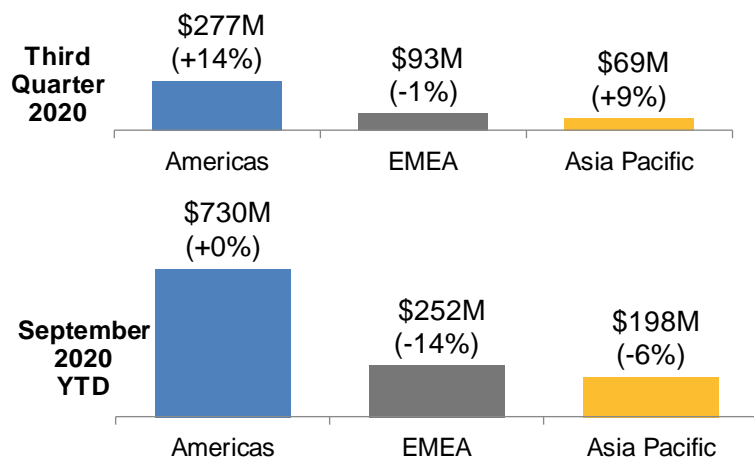
Third Quarter September 2020

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(3)%	(12)%	32 %	13 %	(5)%	5 %	8 %
Acquisitions	0 %	5 %	0 %	1 %	0 %	2 %	1 %
Currency	2 %	1 %	1 %	0 %	4 %	2 %	1 %
Total	(1)%	(6)%	33 %	14 %	(1)%	9 %	10 %

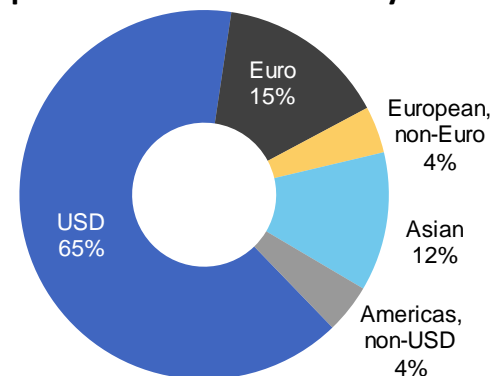
Year to Date September 2020

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(15)%	(11)%	11 %	0 %	(15)%	(8)%	(5)%
Acquisitions	0 %	6 %	0 %	1 %	1 %	3 %	1 %
Currency	(1)%	0 %	0 %	(1)%	0 %	(1)%	0 %
Total	(16)%	(5)%	11 %	0 %	(14)%	(6)%	(4)%

Sales by Region



September 2020 YTD Sales by Currency



Asian currencies include: AUD, CNY, JPY, KRW. European, non-euro currencies include: CHF, GBP, RON. Americas, non-USD currencies include: BRL, CAD, MXN.

Operating Earnings

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2019 Operating earnings (\$M and % of sales)

Translation effect

Volume and product mix

Volume effect on expense leverage

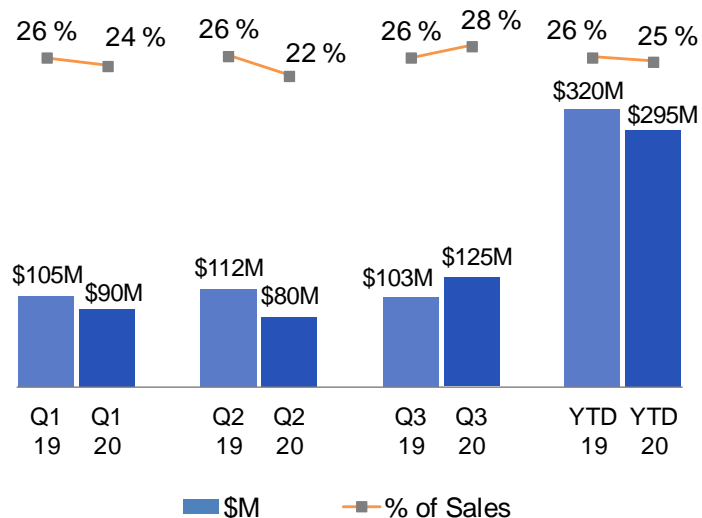
2020 Operating earnings, excluding impairment

Non-cash impairment

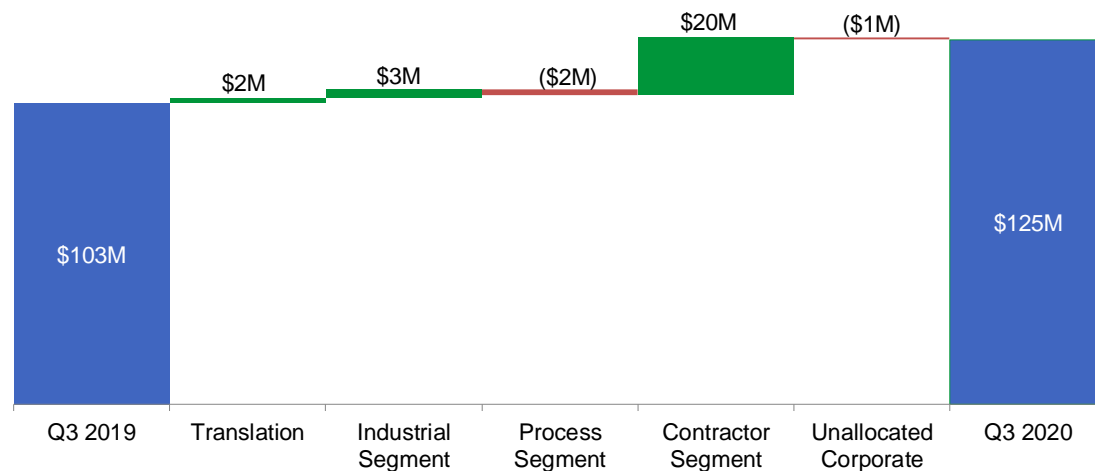
2020 Operating earnings, as reported (\$M and % of sales)

	Third Quarter		September Year to Date	
\$	103	26 %	\$ 320	26 %
	2	0	(4)	0
	19	0	(35)	(1)
	1	2	14	0
\$	125	28 %	\$ 295	25 %
	0	0	(35)	(3)
\$	125	28 %	\$ 260	22 %

Operating Earnings, Excluding Impairment



Quarter Over Quarter Operating Earnings Walk



Third Quarter 2020

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Sales	<ul style="list-style-type: none">▶ Up 10 percent from 2019, up 9 percent at consistent translation rates<ul style="list-style-type: none">▪ Acquired businesses added 1 percentage point
Gross Margin	<ul style="list-style-type: none">▶ Rate up 0.3 percentage point from 2019<ul style="list-style-type: none">▪ Realized pricing, lower product costs and favorable currency translation offset unfavorable product and channel mix
Operating Earnings	<ul style="list-style-type: none">▶ Operating earnings up \$22 million, 21%<ul style="list-style-type: none">▪ Increase in volume and favorable currency translation driving operating earnings
Other Expense	<ul style="list-style-type: none">▶ Decreased \$2 million<ul style="list-style-type: none">▪ Driven by market value fluctuation on investments held to fund certain retirement benefits liabilities
Taxes	<ul style="list-style-type: none">▶ Effective tax rate for the quarter was 6%, down 7 percentage points from third quarter 2019<ul style="list-style-type: none">▪ Decrease due to additional foreign tax benefits and excess tax benefits related to stock option exercises

September 2020 Year-to-Date

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Sales	<ul style="list-style-type: none">▶ Down 4 percent from 2019, down the same at consistent translation rates<ul style="list-style-type: none">▪ Acquired businesses added 1 percentage point
Gross Margin	<ul style="list-style-type: none">▶ Rate down 1.0 percentage point from 2019<ul style="list-style-type: none">▪ Realized pricing not enough to offset unfavorable product and channel mix
Operating Earnings	<ul style="list-style-type: none">▶ Operating earnings, excluding non-cash impairment, down \$26 million, 8%<ul style="list-style-type: none">▪ Decline in volume driving lower operating earnings, partially offset by lower volume and earnings-based expenses▶ Operating earnings, as reported, down \$61 million, 19%<ul style="list-style-type: none">▪ Non-cash impairment charge of \$35 million
Other Expense	<ul style="list-style-type: none">▶ Increased \$1 million<ul style="list-style-type: none">▪ Primarily driven by market value fluctuation on investments held to fund certain retirement benefits liabilities
Taxes	<ul style="list-style-type: none">▶ Effective tax rate for September year to date was 12%, down 3 percentage points from the comparable period in 2019<ul style="list-style-type: none">▪ Decrease due primarily to additional foreign tax credits and excess tax benefits from stock option exercises partially offset by non-deductible impairment charges

Operational Updates

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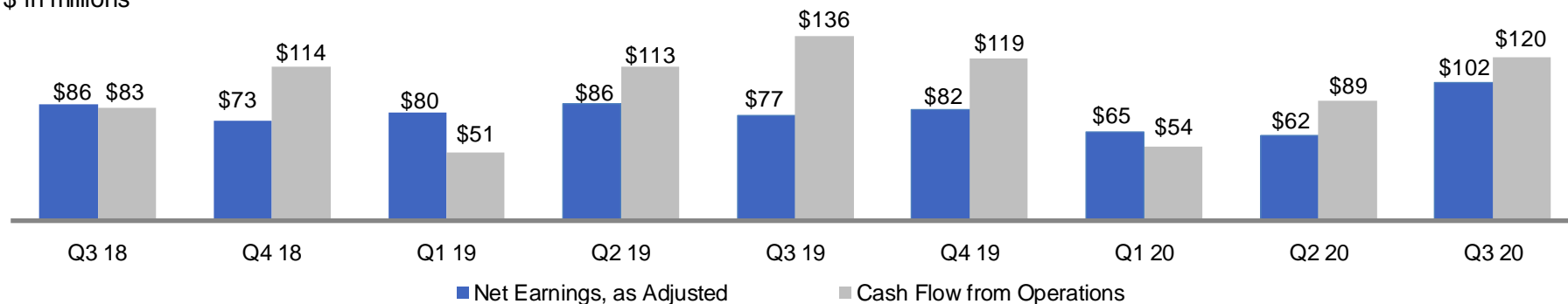
2020 Organic Sales by Segment- Compared to 2019			Bookings	
	September	August	July	6 Week Avg.
Industrial Segment	(10%)	(3%)	7%	(9%)
Process Segment	(7%)	(19%)	(9%)	(3%)
Contractor Segment	31%	40%	25%	25%
	5%	9%	10%	4%

- ▶ Our major factories and distribution centers continued to be fully operational during the third quarter
- ▶ Our global procurement team has been working closely with our supply chain to keep our production lines running throughout the quarter
- ▶ Our commercial teams are active and working with channel partners and customers every day, using a variety of communication tools
- ▶ Rate of decline for the Industrial and Process segments slowed in the third quarter. Uncertainty remains in many end markets

Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operations
\$ in millions



Significant Uses of Cash Through Sept. (\$M)

	2020	2019
Share Repurchases, net of Issued	\$ 46	\$ -
Dividends	88	80
Capital Expenditures	46	102
Net Payments on Debt	-	79
Acquisitions	28	19

- ▶ Net cash provided by operating activities was \$263 million in 2020 vs. \$299 million in 2019
 - Operating cash flows and available liquidity are sufficient to support operations at current order rates
 - Changes in working capital elements are in line with volume
- ▶ Capital expenditures of \$46 million
- ▶ Debt, including notes payable, was \$319 million - up \$147 million from December 2019
 - Interest expense down \$2 million compared to 2019
 - During the third quarter, repaid \$125 million of the \$250 million revolving credit facility draw from the first quarter

Other Discussion Items

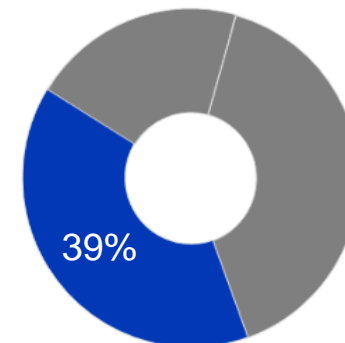


Cap Ex	<ul style="list-style-type: none">▶ Capital expenditure expectations of approximately \$85 million in 2020, including approximately \$50 million facility expansion
Expenses	<ul style="list-style-type: none">▶ Unallocated corporate expenses in 2020 are expected to be approximately \$30 million
Shares	<ul style="list-style-type: none">▶ Through September 2020, we repurchased 2.3 million shares. We may make opportunistic repurchases going forward
Currency	<ul style="list-style-type: none">▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2019, the movement in foreign currencies would have no impact on sales or earnings for the full year 2020 and be a benefit of approximately 2% on sales and 3% on earnings in the fourth quarter
Taxes	<ul style="list-style-type: none">▶ At our current estimate of results and mix of earnings, we anticipate the effective tax rate for the fourth quarter and the full year to be between 18% - 19%, excluding any impact from excess tax benefits related to stock option exercises and other one time items. Actual results and mix of earnings may materially impact the expected tax rate for the fourth quarter and full year
Fiscal Year 2021	<ul style="list-style-type: none">▶ There will be 53 weeks in fiscal 2021, with 14 weeks in the fourth quarter compared to 52 weeks in fiscal 2020, with 13 weeks in the fourth quarter

Industrial Segment Results

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2020 Industrial Segment
Sept. YTD Sales as % of Graco



\$ in millions

	Third Quarter			September Year-to-Date		
	2020	2019	Change	2020	2019	Change
Sales						
Americas	\$ 76	\$ 78	(2)%	\$ 209	\$ 239	(13)%
EMEA	53	55	(5)	134	173	(22)
Asia Pacific	44	42	4	122	141	(13)
Total	\$ 173	\$ 175	(1)%	\$ 465	\$ 553	(16)%
Operating Earnings	\$ 61	\$ 57	7%	\$ 148	\$ 187	(21)%
% of sales	35 %	33 %		32 %	34 %	

Components of Net Sales Change



	Q3 2020	Sept. YTD		Q3 2020	Sept. YTD
Americas			Asia Pacific		
Volume & Price	(1)%	(12)%	Volume & Price	3 %	(12)%
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	(1)%	(1)%	Currency	1 %	(1)%
Total	(2)%	(13)%	Total	4 %	(13)%
EMEA			Segment Total		
Volume & Price	(9)%	(22)%	Volume & Price	(3)%	(15)%
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	4 %	0 %	Currency	2 %	(1)%
Total	(5)%	(22)%	Total	(1)%	(16)%

Industrial Segment Results

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Change in % of sales

2019 Operating Earnings (% of sales)

Translation effect

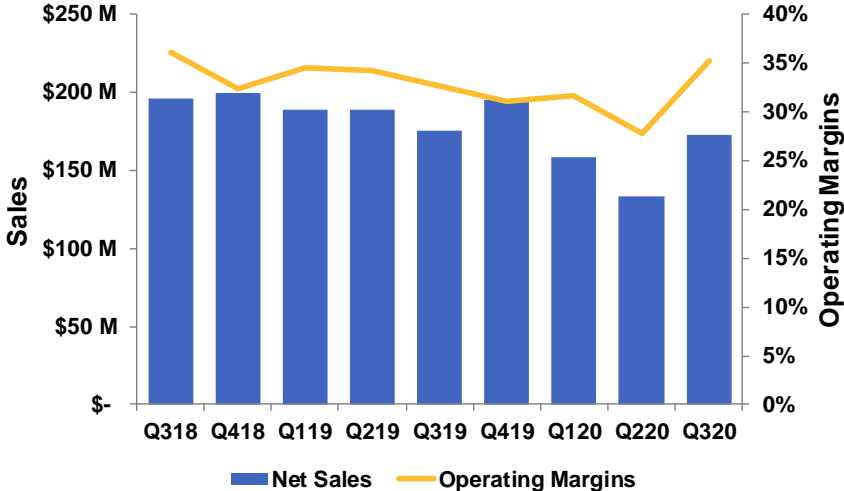
Volume and product mix

Volume effect on expense leverage

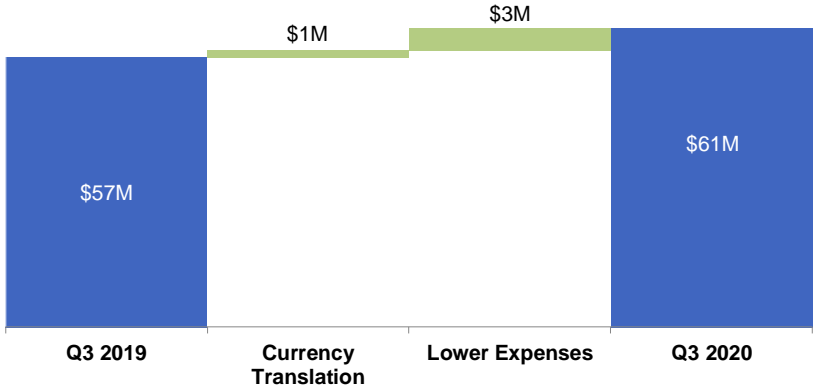
2020 Operating Earnings (% of sales)

	Third Quarter	Year-to-Date
	33 %	34 %
	0	(1)
	1	1
	1	(2)
	35 %	32 %

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



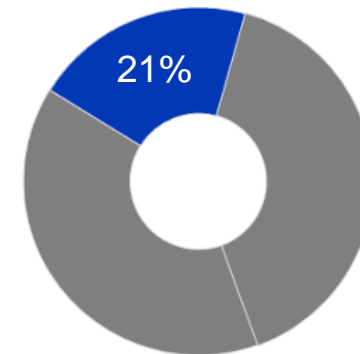
Process Segment Results



\$ in millions

	Third Quarter			September Year-to-Date		
	2020	2019	Change	2020	2019	Change
Sales						
Americas	\$ 52	\$ 55	(6)%	\$ 153	\$ 167	(9)%
EMEA	12	15	(25)	41	46	(11)
Asia Pacific	15	14	13	49	43	14
Total	\$ 79	\$ 84	(6)%	\$ 243	\$ 256	(5)%
Operating Earnings	\$ 16	\$ 18	(11)%	\$ 46	\$ 57	(19)%
% of sales	21 %	22 %		19 %	22 %	

2020 Process Segment
Sept. YTD Sales as % of Graco



Components of Net Sales Change

	Q3 2020	Sept. YTD		Q3 2020	Sept. YTD
Americas			Asia Pacific		
Volume & Price	(10)%	(12)%	Volume & Price	2 %	0 %
Acquisitions	4 %	4 %	Acquisitions	9 %	15 %
Currency	0 %	(1)%	Currency	2 %	(1)%
Total	(6)%	(9)%	Total	13 %	14 %
EMEA			Segment Total		
Volume & Price	(29)%	(18)%	Volume & Price	(12)%	(11)%
Acquisitions	2 %	7 %	Acquisitions	5 %	6 %
Currency	2 %	0 %	Currency	1 %	0 %
Total	(25)%	(11)%	Total	(6)%	(5)%

Process Segment Results

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Change in % of sales

2019 Operating Earnings (% of sales)

Volume and product mix

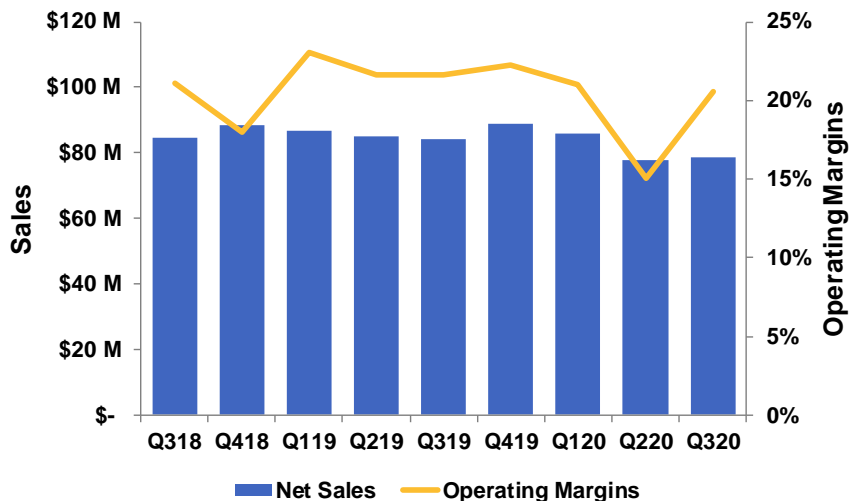
Effect of acquired business operations

Volume effect on expense leverage

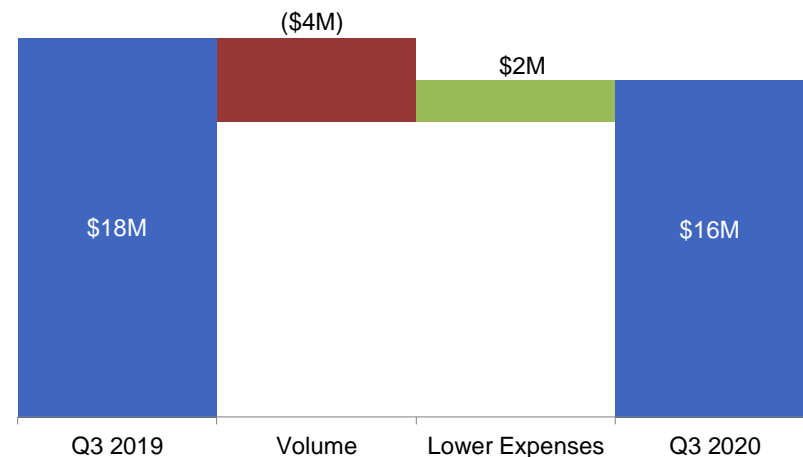
2020 Operating Earnings (% of sales)

	Third Quarter	Year-to-Date
	22 %	22 %
	1	(1)
	(1)	(1)
	(1)	(1)
	21 %	19 %

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



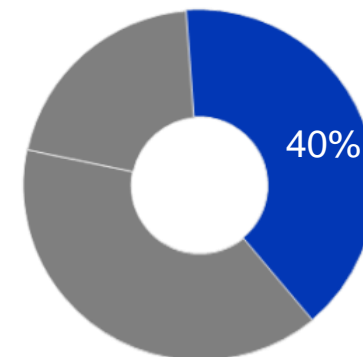
Contractor Segment Results

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\$ in millions

	Third Quarter			September Year-to-Date		
	2020	2019	Change	2020	2019	Change
Sales						
Americas	\$ 149	\$ 110	35%	\$ 367	\$ 322	14%
EMEA	29	23	24	78	77	1
Asia Pacific	10	8	26	27	26	3
Total	\$ 188	\$ 141	33%	\$ 472	\$ 425	11%
Operating Earnings	\$ 55	\$ 34	61%	\$ 125	\$ 101	24%
% of sales	29 %	24 %		26 %	24 %	

2020 Contractor Segment
Sept. YTD Sales as % of Graco



Components of Net Sales Change

	Q3 2020	Sept. YTD		Q3 2020	Sept. YTD
Americas			Asia Pacific		
Volume & Price	35 %	14 %	Volume & Price	24 %	6 %
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	0 %	0 %	Currency	2 %	(3)%
Total	35 %	14 %	Total	26 %	3 %
EMEA			Segment Total		
Volume & Price	19 %	2 %	Volume & Price	32 %	11 %
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	5 %	(1)%	Currency	1 %	0 %
Total	24 %	1 %	Total	33 %	11 %

Contractor Segment Results

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Change in % of sales

2019 Operating Earnings (% of sales)

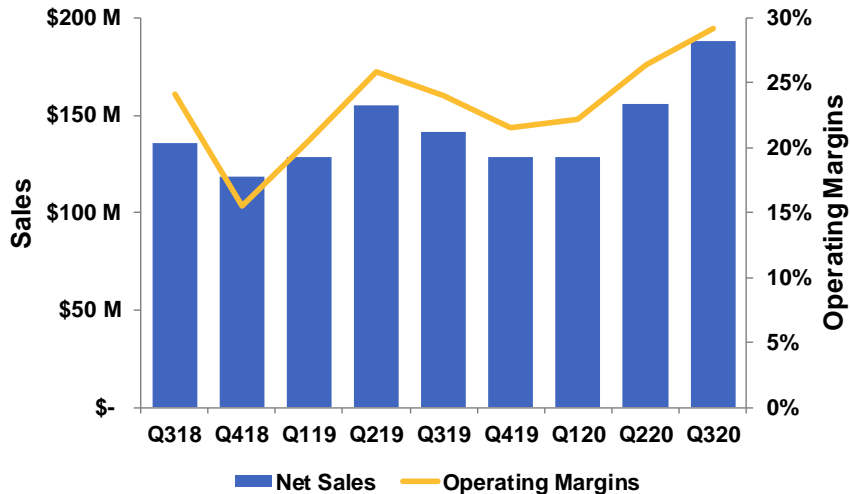
Product and channel mix

Volume effect on expense leverage

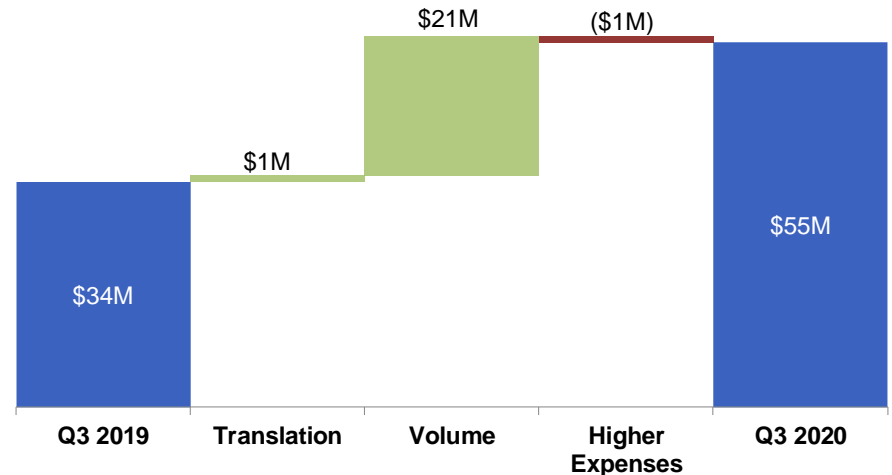
2020 Operating Earnings (% of sales)

	Third Quarter	Year-to-Date
	24 %	24 %
	0	(1)
	5	3
	29 %	26 %

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD





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