

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q**

☒ Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934  
For the quarterly period ended **March 26, 2021**

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from to

Commission File Number: 001-09249

**GRACO INC.**

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0285640

(I.R.S. Employer Identification Number)

88 - 11th Avenue N.E.  
Minneapolis, Minnesota

(Address of principal executive offices)

55413

(Zip Code)

(612) 623-6000

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	GGG	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐  
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

169,435,068 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of April 14, 2021.

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**PART I   Item 1.**  
**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS**  
(Unaudited) (In thousands except per share amounts)

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net Sales	\$ 454,129	\$ 373,567
Cost of products sold	206,795	174,936
Gross Profit	247,334	198,631
Product development	19,571	17,081
Selling, marketing and distribution	62,228	57,388
General and administrative	37,249	34,350
Operating Earnings	128,286	89,812
Interest expense	2,428	2,486
Other expense, net	121	5,223
Earnings Before Income Taxes	125,737	82,103
Income taxes	20,050	9,285
Net Earnings	\$ 105,687	\$ 72,818
Net Earnings per Common Share		
Basic	\$ 0.63	\$ 0.43
Diluted	\$ 0.61	\$ 0.42

See notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
(Unaudited) (In thousands)

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net Earnings	\$ 105,687	\$ 72,818
Components of other comprehensive income (loss)		
Cumulative translation adjustment	(10,470)	(4,677)
Pension and postretirement medical liability adjustment	3,308	2,749
Income taxes - pension and postretirement medical liability adjustment	(672)	(615)
Other comprehensive income (loss)	(7,834)	(2,543)
Comprehensive Income	\$ 97,853	\$ 70,275

See notes to consolidated financial statements.

# GRACO INC. AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands)

	March 26, 2021	December 25, 2020
<b>ASSETS</b>		
Current Assets		
Cash and cash equivalents	\$ 460,616	\$ 378,909
Accounts receivable, less allowances of \$5,000 and \$4,400	323,197	314,946
Inventories	311,645	285,704
Other current assets	31,928	44,242
Total current assets	1,127,386	1,023,801
Property, Plant and Equipment, net	360,370	350,750
Goodwill	343,010	347,603
Other Intangible Assets, net	152,792	160,669
Operating Lease Assets	37,164	37,807
Deferred Income Taxes	22,902	25,828
Other Assets	44,096	41,670
Total Assets	\$ 2,087,720	\$ 1,988,128
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Current Liabilities		
Notes payable to banks	\$ 31,661	\$ 22,183
Trade accounts payable	66,242	58,305
Salaries and incentives	45,246	52,005
Dividends payable	31,718	31,636
Other current liabilities	148,653	157,260
Total current liabilities	323,520	321,389
Long-term Debt	150,000	150,000
Retirement Benefits and Deferred Compensation	183,576	184,747
Operating Lease Liabilities	30,020	29,224
Deferred Income Taxes	9,502	10,264
Other Non-current Liabilities	8,600	8,600
Shareholders' Equity		
Common stock	169,413	168,568
Additional paid-in-capital	702,829	671,206
Retained earnings	642,259	568,295
Accumulated other comprehensive income (loss)	(131,999)	(124,165)
Total shareholders' equity	1,382,502	1,283,904
Total Liabilities and Shareholders' Equity	\$ 2,087,720	\$ 1,988,128

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited) (In thousands)

	Three Months Ended	
	March 26, 2021	March 27, 2020
<b>Cash Flows From Operating Activities</b>		
Net Earnings	\$ 105,687	\$ 72,818
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	14,515	13,062
Deferred income taxes	1,842	(65)
Share-based compensation	6,618	6,318
Change in		
Accounts receivable	(10,611)	(10,139)
Inventories	(27,541)	(17,726)
Trade accounts payable	9,323	5,185
Salaries and incentives	(6,949)	(20,182)
Retirement benefits and deferred compensation	2,867	3,172
Other accrued liabilities	4,493	1,441
Other	1,425	349
Net cash provided by operating activities	101,669	54,233
<b>Cash Flows From Investing Activities</b>		
Property, plant and equipment additions	(21,415)	(18,944)
Other	(34)	(256)
Net cash used in investing activities	(21,449)	(19,200)
<b>Cash Flows From Financing Activities</b>		
Borrowings (payments) on short-term lines of credit, net	9,667	24,576
Borrowings on long-term lines of credit	—	250,000
Payments of debt issuance costs	(1,404)	—
Common stock issued	26,460	38,882
Common stock repurchased	—	(82,176)
Taxes paid related to net share settlement of equity awards	—	(1,796)
Cash dividends paid	(31,642)	(29,333)
Net cash provided by financing activities	3,081	200,153
Effect of exchange rate changes on cash	(1,594)	497
Net increase in cash and cash equivalents	81,707	235,683
<b>Cash and Cash Equivalents</b>		
Beginning of year	378,909	220,973
End of period	\$ 460,616	\$ 456,656

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY**  
(Unaudited) (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
<b>Three Months Ended March 26, 2021</b>					
<b>Balance, December 25, 2020</b>	\$ 168,568	\$ 671,206	\$ 568,295	\$ (124,165)	\$ 1,283,904
Shares issued	845	25,615	—	—	26,460
Stock compensation cost	—	6,008	—	—	6,008
Net earnings	—	—	105,687	—	105,687
Dividends declared (\$0.188 per share)	—	—	(31,723)	—	(31,723)
Other comprehensive income (loss)	—	—	—	(7,834)	(7,834)
<b>Balance, March 26, 2021</b>	<u>\$ 169,413</u>	<u>\$ 702,829</u>	<u>\$ 642,259</u>	<u>\$ (131,999)</u>	<u>\$ 1,382,502</u>
<b>Three Months Ended March 27, 2020</b>					
<b>Balance, December 27, 2019</b>	\$ 167,287	\$ 578,440	\$ 448,991	\$ (169,787)	\$ 1,024,931
Shares issued	1,620	35,467	—	—	37,087
Shares repurchased	(2,067)	(7,143)	(80,819)	—	(90,029)
Stock compensation cost	—	5,934	—	—	5,934
Net earnings	—	—	72,818	—	72,818
Dividends declared (\$0.175 per share)	—	—	(29,540)	—	(29,540)
Other comprehensive income (loss)	—	—	—	(2,543)	(2,543)
<b>Balance, March 27, 2020</b>	<u>\$ 166,840</u>	<u>\$ 612,698</u>	<u>\$ 411,450</u>	<u>\$ (172,330)</u>	<u>\$ 1,018,658</u>

See notes to consolidated financial statements.

**GRACO INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**1. Basis of Presentation**

The consolidated balance sheet of Graco Inc. and Subsidiaries (the "Company") as of March 26, 2021 and the related statements of earnings, comprehensive income and shareholders' equity for the three months ended March 26, 2021 and March 27, 2020, and cash flows for the three months ended March 26, 2021 and March 27, 2020 have been prepared by the Company and have not been audited.

In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of March 26, 2021, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2020 Annual Report on Form 10-K.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

**2. Segment Information**

The Company has three reportable segments: Industrial, Process and Contractor. Sales and operating earnings by segment were as follows (in thousands):

	Three Months Ended	
	March 26, 2021	March 27, 2020
<b>Net Sales</b>		
Industrial	\$ 184,732	\$ 158,684
Process	91,373	86,078
Contractor	178,024	128,805
<b>Total</b>	<b>\$ 454,129</b>	<b>\$ 373,567</b>
<b>Operating Earnings</b>		
Industrial	\$ 65,243	\$ 50,233
Process	21,733	18,111
Contractor	48,166	28,630
Unallocated corporate (expense)	(6,856)	(7,162)
<b>Total</b>	<b>\$ 128,286</b>	<b>\$ 89,812</b>

Assets by segment were as follows (in thousands):

	March 26, 2021	December 25, 2020
Industrial	\$ 626,256	\$ 632,165
Process	411,804	404,370
Contractor	459,715	438,067
Unallocated corporate	589,945	513,526
<b>Total</b>	<b>\$ 2,087,720</b>	<b>\$ 1,988,128</b>

Geographic information follows (in thousands):

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net Sales (based on customer location)		
United States	\$ 231,501	\$ 198,243
Other countries	222,628	175,324
Total	<u>\$ 454,129</u>	<u>\$ 373,567</u>
	March 26, 2021	December 25, 2020
Long-lived Assets		
United States	\$ 312,836	\$ 301,643
Other countries	47,534	49,107
Total	<u>\$ 360,370</u>	<u>\$ 350,750</u>

### 3. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net earnings available to common shareholders	<u>\$ 105,687</u>	<u>\$ 72,818</u>
Weighted average shares outstanding for basic earnings per share	168,948	167,977
Dilutive effect of stock options computed using the treasury stock method and the average market price	4,900	4,665
Weighted average shares outstanding for diluted earnings per share	<u>173,848</u>	<u>172,642</u>
Basic earnings per share	\$ 0.63	\$ 0.43
Diluted earnings per share	\$ 0.61	\$ 0.42

Stock options to purchase 700,000 and 2,014,000 shares were not included in the March 26, 2021 and March 27, 2020 computations of diluted earnings per share, respectively, because they would have been anti-dilutive.

### 4. Share-Based Awards

Options on common shares granted and outstanding, as well as the weighted average exercise price, are shown below (in thousands, except exercise prices):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 25, 2020	10,208	\$ 35.02	6,553	\$ 28.02
Granted	700	71.92		
Exercised	(448)	21.91		
Canceled	(4)	47.54		
Outstanding, March 26, 2021	<u>10,456</u>	\$ 38.05	7,334	\$ 30.92

The Company recognized year-to-date share-based compensation of \$6.6 million in 2021 and \$6.3 million in 2020. As of March 26, 2021, there was \$19.8 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 2.2 years.



The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Three Months Ended	
	March 26, 2021	March 27, 2020
Expected life in years	7.5	7.5
Interest rate	0.9 %	1.5 %
Volatility	25.2 %	21.7 %
Dividend yield	1.0 %	1.2 %
Weighted average fair value per share	\$ 17.66	\$ 12.44

Under the Company's Employee Stock Purchase Plan, the Company issued 310,000 shares in 2021 and 400,000 shares in 2020. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Three Months Ended	
	March 26, 2021	March 27, 2020
Expected life in years	1.0	1.0
Interest rate	0.1 %	1.5 %
Volatility	40.1 %	21.9 %
Dividend yield	1.1 %	1.4 %
Weighted average fair value per share	\$ 21.50	\$ 11.55

## 5. Retirement Benefits

The components of net periodic benefit cost for retirement benefit plans were as follows (in thousands):

	Three Months Ended	
	March 26, 2021	March 27, 2020
<b>Pension Benefits</b>		
Service cost	\$ 2,721	\$ 2,422
Interest cost	2,981	3,407
Expected return on assets	(5,130)	(4,750)
Amortization and other	2,551	2,721
Net periodic benefit cost	\$ 3,123	\$ 3,800
<b>Postretirement Medical</b>		
Service cost	\$ 175	\$ 175
Interest cost	250	248
Amortization	250	177
Net periodic benefit cost	\$ 675	\$ 600

## 6. Shareholders' Equity

Changes in components of accumulated other comprehensive income (loss), net of tax were (in thousands):

	Pension and Postretirement Medical	Cumulative Translation Adjustment	Total
<b>Three Months Ended March 26, 2021</b>			
Balance, December 25, 2020	\$ (114,129)	\$ (10,036)	\$ (124,165)
Other comprehensive income (loss) before reclassifications	—	(10,470)	(10,470)
Reclassified to pension cost and deferred tax	2,636	—	2,636
Balance, March 26, 2021	<u>\$ (111,493)</u>	<u>\$ (20,506)</u>	<u>\$ (131,999)</u>
<b>Three Months Ended March 27, 2020</b>			
Balance, December 27, 2019	\$ (113,721)	\$ (56,066)	\$ (169,787)
Other comprehensive income (loss) before reclassifications	—	(4,677)	(4,677)
Reclassified to pension cost and deferred tax	2,134	—	2,134
Balance, March 27, 2020	<u>\$ (111,587)</u>	<u>\$ (60,743)</u>	<u>\$ (172,330)</u>

Amounts related to pension and postretirement medical adjustments are reclassified to non-service components of pension cost that are included within other non-operating expenses.

## 7. Receivables and Credit Losses

Accounts receivable includes trade receivables of \$306 million and other receivables of \$17 million as of March 26, 2021 and \$302 million and \$13 million, respectively, as of December 25, 2020.

### Allowance for Credit Losses

Following is a summary of activity in the allowance for credit losses (in thousands):

	Three Months Ended	
	March 26, 2021	December 25, 2020
Balance, beginning	\$ 3,745	\$ 4,025
Additions (reversals) charged to costs and expenses	158	309
Deductions from reserves <sup>(1)</sup>	(104)	(1,485)
Other additions (deductions) <sup>(2)</sup>	(75)	896
Balance, ending	<u>\$ 3,724</u>	<u>\$ 3,745</u>

(1) Represents amounts determined to be uncollectible and charged against reserves, net of collections on accounts previously charged against reserves.

(2) Includes amounts assumed or established in connection with acquisitions and effects of foreign currency translation.

## 8. Inventories

Major components of inventories were as follows (in thousands):

	March 26, 2021	December 25, 2020
Finished products and components	\$ 149,906	\$ 133,122
Products and components in various stages of completion	86,801	83,791
Raw materials and purchased components	136,969	129,319
Subtotal	373,676	346,232
Reduction to LIFO cost	(62,031)	(60,528)
Total	\$ 311,645	\$ 285,704

## 9. Intangible Assets

Components of other intangible assets were (dollars in thousands):

	Finite Life			Indefinite Life	
	Customer Relationships	Patents and Proprietary Technology	Trademarks, Trade Names and Other	Trade Names	Total
As of March 26, 2021					
Cost	\$ 186,073	\$ 25,364	\$ 900	\$ 61,920	\$ 274,257
Accumulated amortization	(97,426)	(13,603)	(338)	—	(111,367)
Foreign currency translation	(7,625)	(661)	—	(1,812)	(10,098)
Book value	\$ 81,022	\$ 11,100	\$ 562	\$ 60,108	\$ 152,792
Weighted average life in years	13	10	5	N/A	
As of December 25, 2020					
Cost	\$ 186,073	\$ 25,187	\$ 900	\$ 61,920	\$ 274,080
Accumulated amortization	(93,832)	(12,924)	(301)	—	(107,057)
Foreign currency translation	(6,004)	(538)	—	188	(6,354)
Book value	\$ 86,237	\$ 11,725	\$ 599	\$ 62,108	\$ 160,669
Weighted average life in years	13	10	5	N/A	

Amortization of intangibles for the quarter was \$4.3 million in 2021 and \$4.1 million in 2020. Estimated annual amortization expense based on the current carrying amount of other intangible assets is as follows (in thousands):

	2021 (Remainder)	2022	2023	2024	2025	Thereafter
Estimated Amortization Expense	\$ 12,679	\$ 16,796	\$ 15,920	\$ 14,245	\$ 13,796	\$ 19,248

Changes in the carrying amount of goodwill for each reportable segment were (in thousands):

	Industrial	Process	Contractor	Total
Balance, December 25, 2020	\$ 186,536	\$ 141,513	\$ 19,554	\$ 347,603
Foreign currency translation	(4,727)	134	—	(4,593)
Balance, March 26, 2021	\$ 181,809	\$ 141,647	\$ 19,554	\$ 343,010

Subsequent to the end of the first quarter, the Company completed the acquisition of a business that is not material to the consolidated financial statements.

## 10. Other Current Liabilities

Components of other current liabilities were (in thousands):

	March 26, 2021	December 25, 2020
Accrued self-insurance retentions	\$ 9,407	\$ 8,041
Accrued warranty and service liabilities	13,426	13,082
Accrued trade promotions	9,419	12,140
Payable for employee stock purchases	3,001	14,554
Customer advances and deferred revenue	45,200	41,689
Income taxes payable	6,926	8,564
Right of return refund liability	16,630	16,303
Operating lease liabilities, current	9,353	11,178
Other	35,291	31,709
Total	<u>\$ 148,653</u>	<u>\$ 157,260</u>

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

Balance, December 25, 2020	\$ 13,082
Charged to expense	2,701
Margin on parts sales reversed	835
Reductions for claims settled	(3,192)
Balance, March 26, 2021	<u>\$ 13,426</u>

## Deferred Revenue

Revenue is deferred when cash payments are received or due in advance of performance, including amounts which are refundable. This is also the case for services associated with certain product sales. The balance in the deferred revenue and customer advances was \$45.2 million as of March 26, 2021 and \$41.7 million as of December 25, 2020. Net sales for the year to date included \$17.5 million in 2021 and \$11.3 million in 2020 that related to deferred revenue as of the beginning of each period.

## 11. Debt

On March 25, 2021, the Company entered into an Amended and Restated Credit Agreement that amends, supersedes and restates in its entirety its prior Credit Agreement with U.S. Bank National Association, as administrative agent (the "Agent") and a lender, and the other lenders that are parties thereto. The Amended and Restated Credit Agreement extends the maturity of the Company's \$500 million unsecured revolving credit facility from December 15, 2021 to March 25, 2026; includes a \$250 million accordion feature; and provides mechanisms for two further one-year extensions of the maturity, subject to the consent of the extending banks.

Borrowings under the Amended and Restated Credit Agreement may be denominated in U.S. Dollars or certain other currencies. Outstanding loans in currencies other than U.S. Dollars cannot exceed \$200 million in the aggregate. Loans denominated in U.S. Dollars may bear interest, at the Company's option, at either a base rate or a LIBOR-based rate. Loans denominated in currencies other than U.S. Dollars will bear interest at a LIBOR-based rate. The base rate is an annual rate equal to a margin ranging from 0.00% to 0.75%, depending on the Company's cash flow leverage ratio, plus the highest of (i) the rate of interest from time to time announced by the Agent as its prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) one-month LIBOR plus 1.50%. In general, LIBOR-based loans bear interest at a rate per annum equal to LIBOR, plus a margin ranging from 1.00% to 1.75%, depending on the Company's cash flow leverage ratio.

In addition to paying interest on the outstanding loans, the Company is required to pay a facility fee on the unused amount of the loan commitments at a rate per annum ranging from 0.125% to 0.25%, depending on the Company's cash flow leverage ratio.

The Amended and Restated Credit Agreement contains customary provisions for the replacement of the LIBOR-based rate as that rate is phased out in the lending market. The Amended and Restated Credit Agreement contains customary representations, warranties, covenants and events of default, including but not limited to covenants restricting the Company's and its subsidiaries' ability to (i) merge or consolidate with another entity, (ii) sell, transfer, lease or convey their assets, (iii) make any material change in the nature of the core business of the Company, (iv) make certain investments, or (v) incur secured indebtedness. The Credit Agreement also requires the Company to maintain a cash flow leverage ratio of not more than 3.50 to 1.00 (unless a significant acquisition has been consummated, in which case, not more than 4.00 to 1.00 during the four fiscal quarter period beginning with the quarter in which such acquisition occurs) and an interest coverage ratio of not less than 3.00 to 1.00 (unless a significant acquisition has been consummated, in which case, not less than 2.50 to 1.00 during the four fiscal quarter period beginning with the quarter in which such acquisition occurs). A change in control of the Company will constitute an event of default under the Credit Agreement.

## 12. Fair Value

Assets and liabilities measured at fair value on a recurring basis and fair value measurement level were as follows (in thousands):

	Level	March 26, 2021	December 25, 2020
<b>Assets</b>			
Cash surrender value of life insurance	2	\$ 21,238	\$ 19,887
Forward exchange contracts	2	164	16
Total assets at fair value		<u>\$ 21,402</u>	<u>\$ 19,903</u>
<b>Liabilities</b>			
Contingent consideration	3	\$ 9,913	\$ 9,454
Deferred compensation	2	5,348	5,099
Total liabilities at fair value		<u>\$ 15,261</u>	<u>\$ 14,553</u>

Contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans are held in trust. Cash surrender value of the contracts is based on performance measurement funds that shadow the deferral investment allocations made by participants in certain deferred compensation plans. The deferred compensation liability balances are valued based on amounts allocated by participants to the underlying performance measurement funds.

Contingent consideration liability represents the estimated value (using a probability-weighted expected return approach) of future payments to be made to previous owners of certain acquired businesses based on future revenues.

Long-term notes payable with fixed interest rates had a carrying amount of \$150 million and estimated fair value of \$165 million and \$170 million as of March 26, 2021 and December 25, 2020. The fair value of variable rate borrowings approximates carrying value. The Company uses significant other observable inputs to estimate fair value (level 2 of the fair value hierarchy) based on the present value of future cash flows and rates that would be available for issuance of debt with similar terms and remaining maturities.

## Item 2. GRACO INC. AND SUBSIDIARIES

### MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

#### Overview

The Company supplies technology and expertise for the management of fluids and coatings in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid and coating materials. Management classifies the Company's business into three reportable segments: Industrial, Process and Contractor. Key strategies include developing and marketing new products, leveraging products and technologies into additional, growing end-user markets, expanding distribution globally and completing strategic acquisitions that provide additional channel and technologies.

The ongoing COVID-19 pandemic and related governmental and business responses continue to have an impact on our operations, supply chains, distribution channels, and end-user customers. The timing and extent of the financial impact from the pandemic in our major geographies is still uncertain and we cannot predict the magnitude of the impact to the results of our operations or financial position. While we have been able to meet current demand in our businesses, our manufacturing and purchasing operations may experience supply chain disruptions that constrain our ability to meet future demand.

The following Management's Discussion and Analysis reviews significant factors affecting the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

#### Consolidated Results

A summary of financial results follows (in millions except per share amounts):

	Three Months Ended		
	March 26, 2021	March 27, 2020	% Change
Net Sales	\$ 454.1	\$ 373.6	22 %
Operating Earnings	128.3	89.8	43 %
Net Earnings	105.7	72.8	45 %
Net Earnings, adjusted <sup>(1)</sup>	101.6	65.0	56 %
Diluted Net Earnings per Common Share	\$ 0.61	\$ 0.42	45 %
Diluted Net Earnings per Common Share, adjusted <sup>(1)</sup>	\$ 0.58	\$ 0.38	53 %

(1) See below for a reconciliation of adjusted non-GAAP financial measures to GAAP.

Net sales increased by 22 percent with double-digit percentage growth in all regions and in the Industrial and Contractor segments. Favorable currency translation contributed 4 percentage points of sales growth.

Gross margin rates increased more than 1 percentage point compared to the first quarter last year. Changes in currency translation rates accounted for approximately half of the increase.

Operating expense leverage for the quarter remained strong. Total operating expenses increased 9 percent primarily due to increases in sales and earnings-based expenses.

Excluding the impact of excess tax benefits related to stock option exercises presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	Three Months Ended	
	March 26, 2021	March 27, 2020
Earnings before income taxes	\$ 125.7	\$ 82.1
Income taxes, as reported	\$ 20.0	\$ 9.3
Excess tax benefit from option exercises	4.1	7.8
Income taxes, adjusted	\$ 24.1	\$ 17.1
Effective income tax rate		
As reported	15.9 %	11.3 %
Adjusted	19.2 %	20.8 %
Net Earnings, as reported	\$ 105.7	\$ 72.8
Excess tax benefit from option exercises	(4.1)	(7.8)
Net Earnings, adjusted	\$ 101.6	\$ 65.0
Weighted Average Diluted Shares	173.8	172.6
Diluted Earnings per Share		
As reported	\$ 0.61	\$ 0.42
Adjusted	\$ 0.58	\$ 0.38

The following table presents an overview of components of net earnings as a percentage of net sales:

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net Sales	100.0 %	100.0 %
Cost of products sold	45.5	46.8
Gross Profit	54.5	53.2
Product development	4.3	4.6
Selling, marketing and distribution	13.8	15.4
General and administrative	8.2	9.2
Operating Earnings	28.2	24.0
Interest expense	0.5	0.6
Other expense, net	—	1.4
Earnings Before Income Taxes	27.7	22.0
Income taxes	4.4	2.5
Net Earnings	23.3 %	19.5 %

### Net Sales

The following table presents net sales by geographic region (in millions):

	Three Months Ended	
	March 26, 2021	March 27, 2020
Americas <sup>(1)</sup>	\$ 264.9	\$ 224.8
EMEA <sup>(2)</sup>	110.2	87.8
Asia Pacific	79.0	61.0
Consolidated	\$ 454.1	\$ 373.6

(1) North, South and Central America, including the United States

(2) Europe, Middle East and Africa

The following table presents the components of net sales change by geographic region:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	17%	1%	0%	18%
EMEA	18%	(1)%	8%	25%
Asia Pacific	25%	(3)%	8%	30%
Consolidated	19%	(1)%	4%	22%

### Gross Profit

Gross profit margin rate for the quarter increased by 1 percentage point from the comparable period last year. Favorable changes in currency translation rates, realized pricing and higher production volume were partially offset by unfavorable effects of product and channel mix.



## Operating Expenses

Total operating expenses for the quarter increased \$10 million (9 percentage points) mostly due to increases in sales and earnings-based expenses.

## Other Expense

Other non-operating expenses decreased \$5 million for the quarter mostly due to market valuation changes on investments held to fund certain retirement benefits liabilities.

## Income Taxes

The effective income tax rate for the quarter was 16 percent, up 5 percentage points from the first quarter last year, primarily due to a decrease in excess tax benefits related to stock option exercises.

## Segment Results

Certain measurements of segment operations compared to last year are summarized below:

### Industrial Segment

The following table presents net sales and operating earnings as a percentage of sales for the Industrial segment (dollars in millions):

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net Sales		
Americas	\$ 80.0	\$ 74.4
EMEA	56.7	46.2
Asia Pacific	48.0	38.1
Total	\$ 184.7	\$ 158.7
Operating earnings as a percentage of net sales	35 %	32 %

The following table presents the components of net sales change by geographic region for the Industrial segment:

	Three Months			
	Volume and Price	Acquisitions and Divestitures	Currency	Total
Americas	8%	0%	0%	8%
EMEA	14%	0%	9%	23%
Asia Pacific	19%	0%	7%	26%
Segment Total	12%	0%	4%	16%

Increased activity in worldwide manufacturing facilities contributed to Industrial segment sales growth in the first quarter. Changes in currency translation rates, lower product costs due to higher factory volumes and expense leverage drove the first quarter operating margin rate 3 percentage points higher than last year.

### Process Segment

The following table presents net sales and operating earnings as a percentage of sales for the Process segment (dollars in millions):

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net Sales		
Americas	\$ 56.8	\$ 55.1
EMEA	14.8	15.8
Asia Pacific	19.8	15.2
Total	\$ 91.4	\$ 86.1
Operating earnings as a percentage of net sales	24 %	21 %

The following table presents the components of net sales change by geographic region for the Process segment:

	Three Months			
	Volume and Price	Acquisitions and Divestitures	Currency	Total
Americas	2%	1%	0%	3%
EMEA	(3)%	(7)%	4%	(6)%
Asia Pacific	38%	(15)%	7%	30%
Segment Total	7%	(3)%	2%	6%

The Process segment had strong organic sales growth in most applications for the quarter. Favorable changes in currency translation rates and the impact of divested operations combined to increase the first quarter operating margin rate.

#### Contractor Segment

The following table presents net sales and operating earnings as a percentage of sales for the Contractor segment (dollars in millions):

	Three Months Ended	
	March 26, 2021	March 27, 2020
Net Sales		
Americas	\$ 128.1	\$ 95.3
EMEA	38.7	25.8
Asia Pacific	11.2	7.7
Total	\$ 178.0	\$ 128.8
Operating earnings as a percentage of net sales	27 %	22 %

The following table presents the components of net sales change by geographic region for the Contractor segment:

	Three Months			
	Volume and Price	Acquisitions and Divestitures	Currency	Total
Americas	34%	0%	0%	34%
EMEA	38%	0%	12%	50%
Asia Pacific	36%	0%	10%	46%
Segment Total	35%	0%	3%	38%

Contractor segment sales increased double-digit percentages in all channels. Operating margin rates for this segment increased 5 percentage points driven by higher sales and favorable expense leverage, partially offset by unfavorable product and channel mix.

## **Liquidity and Capital Resources**

Net cash provided by operating activities totaled \$102 million in the first quarter of 2021, up \$47 million from the comparable period of 2020. The increase was driven by higher sales and net earnings. Increases in accounts receivable and inventories reflect growth in business activity in the first quarter of 2021. Significant uses of cash in 2021 included dividend payments of \$32 million and property, plant and equipment additions of \$21 million. Proceeds from shares issued in the first quarter of 2021 totaled \$26 million. Although the Company did not repurchase any shares in the first quarter of 2021, it may make opportunistic purchases going forward.

At March 26, 2021, the Company had various lines of credit totaling \$596 million, of which \$566 million was unused. In addition to its lines of credit, under the terms of a master note agreement with a sole lender expiring in January 2023, the Company may issue up to \$200 million of senior notes. Interest on the notes will be determined at the time of issuance, at a fixed or LIBOR-based floating rate at the option of the Company, provided that the maximum aggregate principal amount of notes bearing interest at a floating rate may not exceed \$100 million. Fixed rate notes issued under the agreement will mature no longer than 12 years from date of issuance and variable rate notes will mature no longer than 10 years from date of issuance.

Significant uses of cash in 2020 included purchases of Company common stock totaling \$82 million, which were partially offset by net proceeds from shares issued totaling \$37 million. Other significant uses of cash in 2020 included dividend payments of \$29 million and property, plant and equipment additions of \$19 million.

Cash balances and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2021, including its capital expenditure plan, planned dividends, share repurchases, acquisitions and operating requirements.

## **Outlook**

Demand for our products is solid across major end markets and product categories. Revenue and incoming order rates have improved for both the Industrial and Process segments, although the timing of projects can impact orders. Our outlook for the Contractor segment remains positive as favorable conditions continue in all regions. Uncertainty remains in both the supply chain and demand environment that may affect certain end markets and geographies for the remainder of the year.

## **Cautionary Statement Regarding Forward-Looking Statements**

The Company desires to take advantage of the “safe harbor” provisions regarding forward-looking statements of the Private Securities Litigation Reform Act of 1995 and is filing this Cautionary Statement in order to do so. From time to time various forms filed by our Company with the Securities and Exchange Commission, including our Form 10-K, Form 10-Qs and Form 8-Ks, and other disclosures, including our 2020 Overview report, press releases, earnings releases, analyst briefings, conference calls and other written documents or oral statements released by our Company, may contain forward-looking statements. Forward-looking statements generally use words such as “expect,” “foresee,” “anticipate,” “believe,” “project,” “should,” “estimate,” “will,” and similar expressions, and reflect our Company’s expectations concerning the future. All forecasts and projections are forward-looking statements. Forward-looking statements are based upon currently available information, but various risks and uncertainties may cause our Company’s actual results to differ materially from those expressed in these statements. The Company undertakes no obligation to update these statements in light of new information or future events.

Future results could differ materially from those expressed due to the impact of changes in various factors. These risk factors include, but are not limited to: the impact of the COVID-19 pandemic on our business; economic conditions in the United States and other major world economies; our Company’s growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; the ability to meet our customers’ needs and changes in product demand; supply interruptions or delays; security breaches; new entrants who copy our products or infringe on our intellectual property; risks incident to conducting business internationally; catastrophic events; changes in laws and regulations; compliance with anti-corruption and trade laws; changes in tax rates or the adoption of new tax legislation; the possibility of asset impairments if acquired businesses do not meet performance expectations; political instability; results of and costs associated with litigation, administrative proceedings and regulatory reviews incident to our business; our ability to attract, develop and retain qualified personnel; the possibility of decline in purchases from a few large customers of the Contractor segment, variations in activity in the construction, automotive, mining and oil and natural gas industries, and the impact of declines in interest rates, asset values and investment returns on pension costs and required pension contributions. Please refer to

Item 1A of our Annual Report on Form 10-K for fiscal year 2020 and Item 1A of this Form 10-Q for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at [www.graco.com](http://www.graco.com) and the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

Investors should realize that factors other than those identified above and in Item 1A might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

### **Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There have been no material changes related to market risk from the disclosures made in the Company's 2020 Annual Report on Form 10-K.

### **Item 4. Controls and Procedures**

#### **Evaluation of disclosure controls and procedures**

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer and the Chief Financial Officer and Treasurer. Based upon that evaluation, the Company's President and Chief Executive Officer and the Chief Financial Officer and Treasurer concluded that the Company's disclosure controls and procedures are effective.

#### **Changes in internal controls**

During the quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1A. Risk Factors**

There have been no material changes to the Company's risk factors from those disclosed in the Company's 2020 Annual Report on Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

### Issuer Purchases of Equity Securities

On April 24, 2015, the Board of Directors authorized the Company to purchase up to 18,000,000 shares of its outstanding common stock, primarily through open-market transactions. There were approximately 3.3 million shares remaining under the authorization on December 7, 2018, when the board of Directors authorized the purchase of up to an additional 18 million shares. The authorizations are for an indefinite period of time or until terminated by the Board.

In addition to shares purchased under the Board authorizations, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax due upon exercise of options or vesting of restricted stock.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
Dec 26,2020 - Jan 22, 2021	—	\$ —	—	18,517,834
Jan 23, 2021 - Feb 19, 2021	—	\$ —	—	18,517,834
Feb 20, 2021 - March 26, 2021	—	\$ —	—	18,517,834

## Item 6. Exhibits

- 3.1 Restated Articles of Incorporation as amended December 8, 2017. ([Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K filed December 8, 2017.](#))
- 3.2 Restated Bylaws as amended February 14, 2014. ([Incorporated by reference to Exhibit 3.2 to the Company's 2013 Annual Report on Form 10-K.](#))
- 10.1 Executive Officer Restricted Stock Unit Agreement. Form of agreement used to award restricted stock units to Dale D. Johnson under the Graco Inc. 2019 Stock Incentive Plan. ([Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed February 26, 2021.](#))
- 10.2 Amended and Restated Credit Agreement, dated March 25, 2021, among Graco Inc., the borrowing subsidiaries from time to time party thereto, the banks from time to time party thereto and U.S. Bank National Association, as administrative agent. ([Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed March 25, 2021.](#))
- [31.1](#) Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
- [31.2](#) Certification of Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a).
- [32](#) Certification of President and Chief Executive Officer and Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C.
- [99.1](#) Press Release Reporting First Quarter Earnings dated April 21, 2021.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline eXtensible Business Reporting Language).
- 104 Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date: April 21, 2021

By: /s/ Patrick J. McHale  
Patrick J. McHale  
President and Chief Executive Officer  
(Principal Executive Officer)

Date: April 21, 2021

By: /s/ Mark W. Sheahan  
Mark W. Sheahan  
Chief Financial Officer and Treasurer  
(Principal Financial Officer)

Date: April 21, 2021

By: /s/ Kathryn L. Schoenrock  
Kathryn L. Schoenrock  
Executive Vice President, Corporate Controller  
(Principal Accounting Officer)

**CERTIFICATION**

I, Patrick J. McHale, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2021

/s/ Patrick J. McHale

Patrick J. McHale  
President and Chief Executive Officer



**CERTIFICATION**

I, Mark W. Sheahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 21, 2021

/s/ Mark W. Sheahan

Mark W. Sheahan  
Chief Financial Officer and Treasurer

## CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: April 21, 2021

/s/ Patrick J. McHale

Patrick J. McHale

President and Chief Executive Officer

Date: April 21, 2021

/s/ Mark W. Sheahan

Mark W. Sheahan

Chief Financial Officer and Treasurer

# News Release

**FOR IMMEDIATE RELEASE:**

Wednesday, April 21, 2021

 GRACO INC.  
 P.O. Box 1441  
 Minneapolis, MN  
 55440-1441  
 NYSE: GGG

**FOR FURTHER INFORMATION:**

 Financial Contact: Mark Sheahan, 612-623-6656  
 Media Contact: Charlotte Boyd, 612-623-6153  
[Charlotte\\_M\\_Boyd@graco.com](mailto:Charlotte_M_Boyd@graco.com)

## Graco Reports Record First Quarter Results Sales Growth in All Segments and Regions

**MINNEAPOLIS (April 21, 2021)** – Graco Inc. (NYSE: GGG) today announced results for the first quarter ended March 26, 2021.

**Summary**

\$ in millions except per share amounts

	Three Months Ended		
	Mar 26, 2021	Mar 27, 2020	% Change
Net Sales	\$ 454.1	\$ 373.6	22 %
Operating Earnings	128.3	89.8	43 %
Net Earnings	105.7	72.8	45 %
Diluted Net Earnings per Common Share	\$ 0.61	\$ 0.42	45 %
Adjusted (non-GAAP): <sup>(1)</sup>			
Net Earnings, adjusted	\$ 101.6	\$ 65.0	56 %
Diluted Net Earnings per Common Share, adjusted	\$ 0.58	\$ 0.38	53 %

(1) Excludes impacts of excess tax benefits from stock option exercises. See Financial Results Adjusted for Comparability below for a reconciliation of adjusted non-GAAP financial measures to GAAP.

- Net sales increased by 22 percent, with double-digit percentage growth in all regions and in the Industrial and Contractor segments. Favorable currency translation contributed 4 percentage points of sales growth.
- Gross profit margin rate was more than 1 percentage point higher than the first quarter last year. Changes in currency translation rates accounted for over half of the increase.
- Operating expense leverage for the quarter remained strong. Total operating expenses increased 9 percent primarily due to increases in sales and earnings-based expenses.
- The effective income tax rate for the quarter increased 5 percentage points primarily due to a decrease in excess tax benefits related to stock option exercises.

"I am pleased with Graco's performance in the first quarter, where we achieved organic, constant currency growth in every region and reportable segment," said Patrick J. McHale, Graco's President and CEO. "We are continuing to see strong performance from our Contractor segment and improving demand in both our Industrial and Process groups. Our manufacturing and purchasing teams performed well to meet the increase in demand in spite of external supply chain challenges."

## Consolidated Results

Net sales for the quarter increased 22 percent from the comparable period last year (18 percent at consistent translation rates). Sales increased 18 percent in the Americas, 25 percent in EMEA (17 percent at consistent translation rates) and 30 percent in Asia Pacific (22 percent at consistent translation rates). Changes in currency translation rates increased worldwide sales by \$11 million for the quarter (4 percentage points).

Gross profit margin rate for the quarter increased by 1 percentage point from the comparable period last year. Favorable changes in currency translation rates, realized pricing and higher production volume were partially offset by the unfavorable effects of material costs and product and channel mix.

Total operating expenses for the quarter increased \$10 million (9 percentage points) mostly due to increases in sales and earnings-based expenses and product development spending.

Other non-operating expenses decreased \$5 million for the quarter mostly due to favorable market valuation changes on investments held to fund certain retirement benefits liabilities.

The effective income tax rate for the first quarter was 16 percent, up 5 percentage points from the comparable period last year, primarily due to a decrease in excess tax benefits related to stock option exercises.

## Segment Results

Management assesses performance of segments by reference to operating earnings excluding unallocated corporate expenses. For a reconciliation of segment operating earnings to consolidated operating earnings, refer to the segment information table included in the financial statement section of this release. Certain measurements of segment operations are summarized below:

	Three Months		
	Industrial	Process	Contractor
Net Sales (in millions)	\$ 184.7	\$ 91.4	\$ 178.0
Percentage change from last year			
Sales	16 %	6 %	38 %
Operating earnings	30 %	20 %	68 %
Operating earnings as a percentage of sales			
2021	35 %	24 %	27 %
2020	32 %	21 %	22 %

Components of net sales change by geographic region for the Industrial segment were as follows:

	Three Months			
	Volume and Price	Acquisitions and Divestitures	Currency	Total
Americas	8%	0%	0%	8%
EMEA	14%	0%	9%	23%
Asia Pacific	19%	0%	7%	26%
Consolidated	12%	0%	4%	16%

Increased activity in worldwide manufacturing facilities contributed to Industrial segment sales growth in the first quarter. Changes in currency translation rates, realized pricing, higher production volume and expense leverage drove the first quarter operating margin rate 3 percentage points higher than last year.

Components of net sales change by geographic region for the Process segment were as follows:

	Three Months			
	Volume and Price	Acquisitions and Divestitures	Currency	Total
Americas	2%	1%	0%	3%
EMEA	(3)%	(7)%	4%	(6)%
Asia Pacific	38%	(15)%	7%	30%
Consolidated	7%	(3)%	2%	6%

The Process segment had organic sales growth in most applications for the quarter. Favorable changes in currency translation rates and the impact of divested operations combined to increase the first quarter operating margin rate.

Components of net sales change by geographic region for the Contractor segment were as follows:

	Three Months			
	Volume and Price	Acquisitions and Divestitures	Currency	Total
Americas	34%	0%	0%	34%
EMEA	38%	0%	12%	50%
Asia Pacific	36%	0%	10%	46%
Consolidated	35%	0%	3%	38%

Contractor segment sales increased by double-digit percentages in all regions. Operating margin rates for this segment increased 5 percentage points driven by higher sales and favorable expense leverage, partially offset by unfavorable product and channel mix.

## Outlook

"Improvement in our end markets and our incoming order rates bode well for continued success in the second quarter," said McHale. "However, we are cautious on the longer term outlook as uncertainty remains in the overall demand environment. We will continue to execute on our core growth strategies."

**Financial Results Adjusted for Comparability**

Excluding the impact of excess tax benefits related to stock option exercises presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	Three Months Ended	
	Mar 26, 2021	Mar 27, 2020
Earnings before income taxes	\$ 125.7	\$ 82.1
Income taxes, as reported	\$ 20.0	\$ 9.3
Excess tax benefit from option exercises	4.1	7.8
Income taxes, adjusted	\$ 24.1	\$ 17.1
Effective income tax rate		
As reported	15.9 %	11.3 %
Adjusted	19.2 %	20.8 %
Net Earnings, as reported	\$ 105.7	\$ 72.8
Excess tax benefit from option exercises	(4.1)	(7.8)
Net Earnings, adjusted	\$ 101.6	\$ 65.0
Weighted Average Diluted Shares	173.8	172.6
Diluted Earnings per Share		
As reported	\$ 0.61	\$ 0.42
Adjusted	\$ 0.58	\$ 0.38

**Cautionary Statement Regarding Forward-Looking Statements**

The Company desires to take advantage of the “safe harbor” provisions regarding forward-looking statements of the Private Securities Litigation Reform Act of 1995 and is filing this Cautionary Statement in order to do so. From time to time various forms filed by our Company with the Securities and Exchange Commission, including our Form 10-K, Form 10-Qs and Form 8-Ks, and other disclosures, including our overview report, press releases, earnings releases, analyst briefings, conference calls and other written documents or oral statements released by our Company, may contain forward-looking statements. Forward-looking statements generally use words such as “expect,” “foresee,” “anticipate,” “believe,” “project,” “should,” “estimate,” “will,” and similar expressions, and reflect our Company’s expectations concerning the future. All forecasts and projections are forward-looking statements. Forward-looking statements are based upon currently available information, but various risks and uncertainties may cause our Company’s actual results to differ materially from those expressed in these statements. The Company undertakes no obligation to update these statements in light of new information or future events.

Future results could differ materially from those expressed due to the impact of changes in various factors. These risk factors include, but are not limited to: the impact of the COVID-19 pandemic on our business; economic conditions in the United States and other major world economies; our Company’s growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; the ability to meet our customers’ needs and changes in product demand; supply interruptions or delays; security breaches; new entrants who copy our products or

infringe on our intellectual property; risks incident to conducting business internationally; catastrophic events; changes in laws and regulations; compliance with anti-corruption and trade laws; changes in tax rates or the adoption of new tax legislation; the possibility of asset impairments if acquired businesses do not meet performance expectations; political instability; results of and costs associated with litigation, administrative proceedings and regulatory reviews incident to our business; our ability to attract, develop and retain qualified personnel; the possibility of decline in purchases from a few large customers of the Contractor segment, variations in activity in the construction, automotive, mining and oil and natural gas industries, and the impact of declines in interest rates, asset values and investment returns on pension costs and required pension contributions. Please refer to Item 1A of our Annual Report on Form 10-K for fiscal year 2020 (and most recent Form 10-Q) for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at [www.graco.com](http://www.graco.com) and the Securities and Exchange Commission's website at [www.sec.gov](http://www.sec.gov). Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

Investors should realize that factors other than those identified above and in Item 1A might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

### **Conference Call**

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Thursday, April 22, 2021, at 11 a.m. ET, 10 a.m. CT, to discuss Graco's first quarter results.

A real-time listen-only webcast of the conference call will be broadcast by Nasdaq. Individuals can access the call and view the slides on the Company's website at [www.graco.com](http://www.graco.com). Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

For those unable to listen to the live event, a replay will be available soon after the conference call at Graco's website, or by telephone beginning at approximately 2 p.m. ET on Thursday, April 22, 2021, by dialing 855-859-2056, Conference ID # 6165727, if calling within the U.S. or Canada. The dial-in number for international participants is 404-537-3406, with the same Conference ID #. The replay by telephone will be available through 2 p.m. ET on Thursday, April 29, 2021.

### **About Graco**

Graco Inc. supplies technology and expertise for the management of fluids and coatings in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid and powder materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at [www.graco.com](http://www.graco.com).

**GRACO INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)**  
(In thousands except per share amounts)

	Three Months Ended	
	Mar 26, 2021	Mar 27, 2020
Net Sales	\$ 454,129	\$ 373,567
Cost of products sold	206,795	174,936
Gross Profit	247,334	198,631
Product development	19,571	17,081
Selling, marketing and distribution	62,228	57,388
General and administrative	37,249	34,350
Operating Earnings	128,286	89,812
Interest expense	2,428	2,486
Other expense, net	121	5,223
Earnings Before Income Taxes	125,737	82,103
Income taxes	20,050	9,285
Net Earnings	\$ 105,687	\$ 72,818
Net Earnings per Common Share		
Basic	\$ 0.63	\$ 0.43
Diluted	\$ 0.61	\$ 0.42
Weighted Average Number of Shares		
Basic	168,948	167,977
Diluted	173,848	172,642

**SEGMENT INFORMATION (Unaudited)**  
(In thousands)

	Three Months Ended	
	Mar 26, 2021	Mar 27, 2020
Net Sales		
Industrial	\$ 184,732	\$ 158,684
Process	91,373	86,078
Contractor	178,024	128,805
Total	\$ 454,129	\$ 373,567
Operating Earnings		
Industrial	\$ 65,243	\$ 50,233
Process	21,733	18,111
Contractor	48,166	28,630
Unallocated corporate (expense)	(6,856)	(7,162)
Total	\$ 128,286	\$ 89,812