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# EDITED TRANSCRIPT

GGG.N - Q4 2025 Graco Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Christopher Knutson** *Graco Inc - Director - Corporate Treasury and Investor Relations*

**Mark Sheahan** *Graco Inc - President, Chief Executive Officer, Director*

**David Lowe** *Graco Inc - Chief Financial Officer, Treasurer*

## CONFERENCE CALL PARTICIPANTS

**Deane Dray** *Rbc Capital Markets - Analyst*

**Michael Halloran** *Robert W. Baird & Co Inc - Analyst*

**Saree Boroditsky** *Jefferies LLC - Equity Analyst*

**Bryan Blair** *Oppenheimer & Co Inc - Analyst*

**Jeffrey Hammond** *KeyBanc Capital Markets Inc - Analyst*

**Matt Summerville** *DA Davidson & Co - Analyst*

**Andrew Buscaglia** *Exane Bnp Paribas - Analyst*

**Brad Hewitt** *Wolfe Research LLC - Equity Analyst*

**Walter Liptak** *Seaport Research - Analyst*

## 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 website at [www.graco.com](http://www.graco.com). Graco has additional information available in a PowerPoint slide presentation which is available as part of the webcast player.

At the request of the company, we will open the conference up for questions and answers after the opening prepared remarks from management.

During this call, various remarks may be made by management about their expectations, plans, and prospects for the future. These remarks constitute forward-looking statements for the purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act.

Actual results may differ materially from those indicated as a result of various risk factors, including those identified as item 1A of the company's 2024 annual report on Form 10-K and on 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](http://www.graco.com) and the SEC's website at [www.sec.gov](http://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'll now turn the conference over to Chris Knutson, Vice President, Controller, and Chief Accounting Officer.

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**Christopher Knutson** - *Graco Inc - Director - Corporate Treasury and Investor Relations*

Good morning, everyone, and thank you for joining our call. I am here today with Mark Sheahan and David Lowe. I will provide a brief overview of our quarterly results before turning the call over to Mark for more commentary.

Yesterday, Graco reported fourth quarter sales of \$593 million, an increase of 8% from the same quarter last year. Acquisitions contributed 4%; currency translation, 2%; and organic sales, another 2% to growth in the quarter.

Reported net earnings increased 22% to \$133 million or \$0.79 per diluted share. Excluding the impact of excess tax benefits from stock option exercises, a non-recurring tax benefit, and the prior year business reorganization charges, adjusted non-GAAP net earnings were \$0.77 per diluted share, an increase of 20%. The gross margin rate increased 80 basis points compared to the same quarter last year.

The effects of our targeted interim pricing actions more than offset higher product costs resulting from lower factory volume, unfavorable effects of lower margin rates from acquired operations, and incremental tariffs. Tariffs affected product cost by \$4 million in the quarter, resulting in a 70 basis point decline in a gross margin rate. For the full year, tariffs of \$14 million had an unfavorable impact of 60 basis points on the gross margin rate.

Operating expenses decreased \$1 million or 1% in the quarter. The decline was driven primarily by business reorganization costs of \$7 million and litigation cost of \$9 million from the prior year that did not recur. Offsetting these costs were incremental expenses of acquired operations of \$7 million and higher incentive-based costs.

Contractor segment operating margin rate for the quarter was 24% and was consistent for the same period last year, excluding business reorganization charges and litigation spending. Expansion Markets segment operating margin was 28% compared to 20% for the same quarter last year. Expansion markets had upfront electric motor license fee revenue of \$5 million in the quarter and \$7 million for the full year.

These upfront license fees increased the operating margin rate for the quarter by 9 percentage points and 3 percentage points for the full year. Total company adjusted operating earnings increased \$21 million or 15% during the quarter. Adjusted operating earnings as a percentage of sales was 27% for the quarter, compared to 25% for the same period last year.

The full year adjusted effective tax rate was 20.5%, which is consistent with our expected full year and prior year tax rate on an as-adjusted basis. Cash provided by operations totaled \$684 million for the year, an increase of \$62 million or 10%. Excluding acquisitions, inventory was \$336 million, down \$46 million for the full year and down \$140 million from its peak of \$476 million at the end of 2022. Inventory is currently at its lowest level since June 2021.

Cash provided by operations as a percentage of adjusted net earnings was 153% for the quarter and 137% for the year-to-date. Significant year-to-date uses of cash include share repurchases of 5.1 million shares, totaling \$423 million, dividends of \$183 million, acquisitions of \$135 million, and capital expenditures of \$46 million. These cash uses were offset by share issuances of \$37 million.

A few comments as we move forward to 2026. Based on current exchange rates, assuming similar volumes, mix of products, and mix of business by currency as in 2025, movement in foreign currencies would have a 1% favorable impact on net sales and net earnings for the full year 2026. The effective tax rate is expected to be 20% to 21%, excluding any impact from excess tax benefits related to stock option exercises and other one-time items.

Projected unallocated corporate expenses and capital expenditures are projected to be \$40 million to \$43 million and \$90 million to \$100 million, excluding approximately \$50 million for facility expansion projects for the full year respectively.

Finally, 2027 will be 53-week year with an extra week occurring in the fourth quarter.

I will now turn the call over to Mark for further segment and regional commentary.

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Thank you, Chris. Good morning, everyone. I'm pleased to report record sales in both the fourth quarter and for the full year. Sales were up 8% in the fourth quarter with acquisitions contributing 4% of the growth. Organic sales at constant currency were up 2% from growth in both the Industrial and Contractor segments.

Despite continued sluggish conditions in core construction markets, improved performance in the Home Center Channel, and double-digit growth in the Corob business allowed Contractor to achieve organic growth in every region this quarter.

Our Industrial business had 11% growth in the quarter with strong organic performance in both the Americas and EMEA due to broad-based market improvement and the timing of completion and acceptance of systems-based projects.

For the year, acquisitions contributed \$113 million of revenue or 5% growth. We have successfully integrated Corob while also completing the acquisitions of Radia and Color Service. Together, these businesses are expected to generate nearly \$190 million in full year revenue. They have extended our market reach, provided new product lines and innovation, and expanded our manufacturing footprint. Our acquisition pipeline is strong, and we are committed to generating one-third of our long-term revenue growth through executing smart and disciplined strategic acquisitions.

In 2025, operating cash flow of \$684 million was up 10% from 2024, and was 137% of our adjusted net earnings for the year. This impressive cash flow has allowed us to invest \$135 million in acquisitions, deploy nearly \$50 million in capital expenditures, and return over \$600 million to shareholders in dividends and share repurchases. We finished the year in a net cash position of \$600 million. In summary, our balance sheet is strong, providing us with the flexibility to achieve our long-term objectives.

Turning to segment performance. Contractor segment sales increased 8% in the fourth quarter with acquisitions contributing 5%, currency translation 2%, and organic sales another 1% of the growth. The biggest driver of the organic growth was Corob, which grew 25% in the quarter.

Sales volume improved with this being Corob's largest fourth quarter in the past three years. The Corob acquisition has performed as expected and the Radia acquisition brings added capabilities to this attractive and growing space.

The Home Center channel had growth in the quarter, however, foot traffic in the channel is still light. The Pro paint channel grew sequentially despite slower sales compared to last year. The overall market for contractor equipment is flat with affordability concerns keeping activity subdued. Despite flat conditions, we've been investing in new products, which along with our pricing actions and the acquisitions previously mentioned, are having a positive impact on our outlook this year.

Turning to the Industrial segment. We delivered a strong fourth quarter with sales up 11% driven by a combination of solid organic performance and contributions from the Color Service acquisitions. Organic growth of 5% was primarily the result of project completions in Powder Finishing Systems, as well as good growth in the Americas and EMEA offsetting declines in the Asia Pacific, particularly China.

For the full year, China grew in both revenue and bookings. Incremental margins for this segment were remarkably strong at 76% for the quarter and 117% for the full year, reflecting the benefits of One Graco.

Expansion Markets declined 6% in the quarter but grew for the full year with high single-digit full year sales growth in our semiconductor business. During the quarter, we had declines in our semiconductor, high pressure valve, and environmental businesses as compared to last year when we saw increased activity in all regions. Despite the quarterly decline, we had sequential revenue growth, with this being our largest revenue quarter of the year.

As Chris mentioned, our electronic motor business recognized upfront license fees resulting from the work our team has done to introduce this technology to OEMs and motor manufacturers. This proven technology is in Graco products today. And while we're optimistic about

opportunities for signing more license agreements in the coming years, our revenue outlook does not include any estimates for upfront license fees in 2026.

Moving on to our outlook. As we reflect on the past year, we are pleased that revenue grew in each segment and region. Both the Industrial and Expansion Market segments grew organically for the full year and we are optimistic about the growth in Contractor during in the fourth quarter. We're also pleased with the performance and contributions made by Corob, Color Service, and Radia this year, and we're hopeful that we will continue to see actionable opportunities in 2026.

Graco has engaged employees that are focused on our key initiatives of product innovation, pursuing strategic acquisitions, and advancing the One Graco operating model. We're offering 2026 revenue guidance of low single-digit organic growth on a constant currency basis and mid-single-digit growth after factoring in expected incremental sales from the Color Service and Radia acquisitions.

In closing, as we enter our 100th year, I would like to thank our employees, suppliers, distributor partners, and customers around the world for their contributions. While the last few years have been challenging for manufacturers like Graco, we navigated the obstacles and delivered meaningful value to our customers and shareholders. There are many things that contribute to our confidence in the future, but none more than our loyal and hardworking employees.

That concludes our prepared remarks. Operator, we're ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Deane Dray, RBC Capital Markets.

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### Deane Dray - Rbc Capital Markets - Analyst

Thank you. Good morning, everyone.

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### Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Good morning, Deane.

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### David Lowe - Graco Inc - Chief Financial Officer, Treasurer

Good morning.

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### Deane Dray - Rbc Capital Markets - Analyst

Hey. I'd start off with a clarification. We haven't seen one of this get called out before the upfront licensing fee associated with the electric pumps. And there's been some inbound questions about is this a one timer, or is this just in the nature of this new product. And so just give us some background here. You said it's going to OEs and to motor manufacturers. Is this going to be a lumpy type of revenue stream and just some color there to start, please?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah. I can start and, a handful of years ago, we bought a company called ETM And we bought the company because they make a high torque, quiet, compact motor that we thought would fit pretty well within some of the Graco product lines. We actually wound up buying the company because we like the technology so much.

We also recognize that there was potential that we could introduce that technology to other OEMs. And so we had a team that was really looking to work with those OEM manufacturers to sell motors to them. Long story short, that didn't play out real well.

So a couple years ago, we pivoted to a team now that's really focused on licensing the technology to OEMs and motor manufacturers that are non-competitive with Graco, that see the benefits of having a compact, high torque, quiet motor for their types of applications that they've got.

So it's probably going to be lumpy. I'm really happy with the work that the team has done and getting some upfront agreements. There will be royalties on the back end that we'll talk about when they're meaningful enough, and of course, we'll highlight any other lumpy payments as they as they come in throughout the year.

We wanted to make sure though, Deane, that you didn't feel like you needed to model it in in terms of our outlook for the full year on the organic constant currency, so we really have not factored in any of these upfront fees into that analysis.

The motors are in Graco products today. You can find them in our Contractor products. They're very well received in the marketplace. You also find them in our diaphragm pumps that go into the process industries, and in our Industrial markets where we're using electric motors to move paints around in factories. So it's a proven technology. We're excited about it and it's nice to see that some of the benefits of what we did on the M&A front are paying off there.

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**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

Yeah. I would just add to that that because we already have it successfully implemented in several of our products in the specific applications, part of the process of an agreement with an OEM or another party is they will be used for what are defined as very specific applications.

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**Deane Dray** - Rbc Capital Markets - Analyst

That's all good to hear and I appreciate that color. It's a little bit unique, but our bias would be just to include that in your operating results and not try to strip it out, but if you could highlight for us if there's any lumpiness in the future quarters, that it'd be helpful.

And then second question is more on the forward-look. No surprise to us and the low single-digits organic guide, that's where we were looking. What can you say in terms of the geographic conditions that you're looking at in '26? Interesting the traffic light slide only has the rearview mirror of 2025, not the forward look. So what would be the broad-brush changes any that you would highlight there and anything about the last five weeks or so of inbound orders would be helpful, too.

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**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

Okay, Deane, when you said we hadn't -- we hadn't updated it, I took personal offense. We did review the process, and we did review the things. And the way I would characterize it is in the markets, especially the yellowish markets, the order rates have been steady and remained steady for the most part where we stand.

I would say that the data is, while not in any sense deteriorating, the upward momentum, the catalyst for coloring a little bit more green, I think is, in our discussions, in our analysis is a bit premature. So I feel pretty good about where we stand today, and yes, it does look like

what we presented to you in the fourth quarter. And stay tuned and I'm hopeful that we'll be able to cover some of those dots green in the months to come.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I'd probably say that we had a low single-digit guide last year. We're coming out with a low single-digit guide. So top level looking at it doesn't really surprise me a whole lot that the dots didn't change colors meaningfully.

I'd sort of characterized the geographic conditions as we see them as low single-digit up into crazy on the upside, certainly, hopefully we're not going to experience another leg down. We're not anticipating that. So I would characterize our overall outlook, Deane, is pretty cautious at this point, but we feel pretty confident that we can deliver a low single-digit growth in 2026.

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**Deane Dray** - *Rbc Capital Markets - Analyst*

And the recent order trends?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. The recent order trends would support that outlook.

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**Deane Dray** - *Rbc Capital Markets - Analyst*

Got it. Thank you.

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**Operator**

Mike Halloran, Baird.

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**Michael Halloran** - *Robert W. Baird & Co Inc - Analyst*

Hey. Good morning, everyone.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Good morning.

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**Michael Halloran** - *Robert W. Baird & Co Inc - Analyst*

And so maybe just a question on the fourth quarter and then reverting back to some 3Q commentary. Did you see any signs of pull forward demand in the fourth quarter, particularly in the Contractor side? And then also in third quarter, you referenced green shoots. Any thoughts on whether you're still seeing signs of green shoots or to David's more recent comments, is it just pretty steady out there at this point and maybe specifically refer to some of the green shoots you were seeing before and maybe an update on that side?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah. I don't think there was any pull forward. I think it was normal fourth quarter from that to a point. I mean, there's always stuff that happens at the end of the year, but there's nothing out of the ordinary that comes to mind.

The one thing that we did highlight is that there was a little bit of a pickup in the Home Center channel, whether that's sustainable or not, where that goes from here, none of us really knows, but that was encouraging to us because that has been a headwind for us for a number of quarters now. So hopefully, we're starting to see some signs of life there.

I was just with our global sales team over the weekend for a meeting that they held. And we've been looking at data and talking with a lot of people. But I think there's a sense that at least here in North America, a flattish outlook again on residential housing. So not like any a dramatic shift there, as I said in my opening comments, being held back a little bit by affordability.

Commercial is actually -- the team is pretty bullish about commercial opportunities really throughout the country, multifamily and some of the infrastructure things that are going on. So I felt like most of our salespeople were upbeat on what's going on on the commercial front. Of course, those are more expensive, higher-margin products. So that's good.

And then surprisingly, talking with some of the manufacturers -- paint manufacturers, they're actually starting to see some hope on residential repaint, which would be great for us. As you know, the turnover in homes has been anemic the last couple of years. And to the extent that we get houses turning over again, there is a little bit more of a renewed bullishness on the residential repaint side.

Of course, we've got new products coming out, too, that the team is excited about. So all in all, I would say that going into this year, feel a little bit better about Contractor, maybe those are green shoots, than we would have a year ago.

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**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

Yeah. And I think that the only thing I would add is a number that we all track. Mortgage rates right now are somewhere around 6% or 6.10%, which I think is the lowest that we've seen in this last cycle over several years. Going back to Q4 of '23, rates, I think, peaked out at [7%, 8%, or 7.9%]. So it's still not that five handle that we'd like to see, but it's getting pretty dog-gone close.

And with the pent-up demand that Mark touched on, I won't say it's a green shoot, but it's certainly something that could be an extremely positive development as the spring rolls along.

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**Michael Halloran** - Robert W. Baird & Co Inc - Analyst

Thanks for that. And then on the pricing side of things, what is the price assumption embedded in that low single digit? In other words, is there a volume growth assumption in that low single-digit organic growth number? And then also, could you just remind us when the pricing was implemented by segment? I know some of it was in that late 3Q timeframe. Is there any that's coming in to start this year?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah. I think we're hoping to realize about 1.5% to -- 1% to 1.5% on the pricing front this year. Of course, it's mix dependent and timing dependent. And then on the pricing rollouts, as you know, we did accelerate some of the 2026 price adjustments in the third and fourth quarter of 2025. So there wasn't -- and there haven't been a lot of price changes on Graco here in 2026.

The timing of some of our larger customers and their price increases is more on a midyear basis. So we did see some benefit from those increases that we did in mid-2025, and we expect that being able to do that, those kinds of increases throughout 2026 as our normal cadence.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Yeah. So I would just -- yeah, especially here in North America, by midyear, we hope to have price adjustments made for key channel partners and across all the legacy product families.

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**Michael Halloran** - *Robert W. Baird & Co Inc - Analyst*

Great. Really appreciate it, gentlemen. Thank you.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. Thanks, Mike.

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**Operator**

Saree Boroditsky, Jefferies.

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**Saree Boroditsky** - *Jefferies LLC - Equity Analyst*

Hi. Thanks for taking the question. Maybe just starting out at high level, could you just update us on your One Graco initiative, and how we should think about any benefit to sales or margin performance for this year?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. So I think one of the things I would point to is the inventory reductions that we've been seeing in our factories as a result of One Graco are pretty significant once we put all the operations under one leadership team. And we looked at knocking down some of the silos that were amongst our operation units, we really identified some areas where we could make some changes, do some consolidations of different facilities, and do a better job of managing inventory than we've ever done, I think, as a company. So I'm pretty happy about that.

We also did obviously reduce expenses pretty significantly. Here, and you saw that show up in 2026. So I think the number that we gave last year of around \$15 million, if I'm remembering correctly, Chris is nodding. We did realize that maybe even a little bit more. So we did drive quite a bit of efficiencies in the company as a result of that.

The first year, when you go through a reorg, you're always going to have some growing pains, both on the internal side of the house and externally, I would say they've been minimal.

I think that we've worked through any of the internal issues that we've had with sales and marketing teams, in particular. And I think that as we go into 2026, these teams are fired up and ready to go. I mean, salespeople that now have access to multiple product lines gives them a lot more to talk to customers about. Same thing with channel partners where we had restrictions in the past.

So it's hard for us to put a dollar value on the revenue impact in 2025 of the initiatives of One Graco, but we all feel very strongly as a management team that was the right thing to do, and it should give us some tailwind in 2026 and beyond.

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**Saree Boroditsky** - *Jefferies LLC - Equity Analyst*

And do you have a cost saving number then for 2026?

**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Well, because we rolled it out right at the end of last year and we hit the ground running in 2025, the full year benefit of One Graco, as I said, was around \$15 million. There's no ongoing restructuring that we're doing costs that we're taking out related to One Graco. Of course, we're watching expenses and managing things as we always do here. But there's no ongoing cost out happening at the company.

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**Saree Boroditsky** - *Jefferies LLC - Equity Analyst*

Got it. I appreciate that. And then I think last quarter, you talked about orders coming in at low single digits. Just curious how orders performed into year-end and then so far in January.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I think what I would say is that we factor all that into the guide, right, that we're doing here for 2026. And what we've seen so far, it's early days. We're just getting through January here. We're not concerned at all on where the guide is in relation to the order rates that we're seeing from our business units.

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**Saree Boroditsky** - *Jefferies LLC - Equity Analyst*

Okay. I appreciate the color. Thanks so much.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah.

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**Operator**

Bryan Blair, Oppenheimer.

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**Bryan Blair** - *Oppenheimer & Co Inc - Analyst*

Thanks. Good morning, everyone.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Hey, Bryan.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Hey, Bryan.

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**Bryan Blair** - *Oppenheimer & Co Inc - Analyst*

I was wondering we could level set a little bit more on the upfront licensing agreements that your team has won. You were very clear in that there are noncompetitive customers or at least applications and very specific there in. What are the markets or applications where you're winning that are outside of Graco exposures?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I've been reluctant to share any specifics on customers without getting their clarification or clearance that it's okay. I would just mention that we're licensing the technology to motor manufacturers as well as some OEMs.

So with respect to the motor manufacturers, it's limited in terms of the scope of the motors that they're actually putting ETM technology into. But once they're in, they can go into multiple different applications anything from the process industries to ag industry to robotics, in some cases, where they want a small compact motor that will fit better than what they currently have available today.

So it's really up to them to make sure that once it's introduced as they launch it to their customers. And with respect to specific OEMs, again, I'm not at liberty to speak to the names. But I will tell you that when we get in front of people, and we show them a Graco product that has the motor in it, that's functioning and working, it goes a long way toward building confidence with an OEM to say, okay, no, I would need to redesign the product that I have to put those motor technology into.

It saves energy. It's quieter. It's more compact, it's lighter weight, all features that seem to resonate well with those OEM customers.

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**Bryan Blair** - *Oppenheimer & Co Inc - Analyst*

Okay. That certainly makes sense. And then your team drove a pretty solid inorganic growth in '25. Messaging remains pretty favorable there. You obviously have abundant dry powder. I was just curious if you can offer any finer points on the overall size or scale of your funnel composition of the pipeline actionability. And what, if anything, has changed on those fronts over recent tests?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

I think what's changed is our confidence in being able to identify strategic companies that make sense for Graco. We've been really encouraged with the handful of ones that we've done here recently. They've all been hand-in-glove deals for us.

There's mutual benefits on both sides. There's excitement amongst our teams when they actually see how a business that's acquired can fit with their customer base or with their channel. And so I think there's some momentum within Graco, is probably building with respect to M&A.

Of course, we're going to stay disciplined. I think that that's the most important element of any deal that you do. You want to make sure that you're creating shareholder value and that the companies are -- there's mutual benefit on both sides. So I'm encouraged by that.

We have well over 100 names in our pipeline at any given point in time. Some are actionable at different levels. Some are out there quite a ways. I will say that as I look into early 2026, there are opportunities that will come along and to the extent that it makes sense for us to be active and purchase them, we'll be ready to go.

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**Bryan Blair** - *Oppenheimer & Co Inc - Analyst*

Understood. Thank you for the color.

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**Operator**

Jeff Hammond, KeyBanc Capital Markets.

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**Jeffrey Hammond** - *KeyBanc Capital Markets Inc - Analyst*

Yeah. Hi. Good morning.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Hey, Jeff.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Good morning, Jeff.

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**Jeffrey Hammond** - *KeyBanc Capital Markets Inc - Analyst*

Just back on the Home Center, as you talk to those customers, did you get the sense of like did inventories get too low, or they're getting ahead of a price increase, or if it's underlying demand is actually getting better? Just a little more color on that.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I mean, the foot traffic is still pretty light there. So I don't think they've seen a big uptick in foot traffic. It may have been some channel activity there where they just felt like they needed to get things in better shape with their inventory. We didn't launch any new products or anything significant that really impacted our business.

So it's a nice dynamic. It's -- we haven't seen it for a while. I don't have a lot of -- unfortunately, I don't have a lot of color to provide that would give you anything more than maybe what you'd get if you spoke with them.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Yeah. I just would underline Mark's last point. It was a bounce in a business. It was meaningful, but it follows three really depressing years. So I would be getting ahead of myself if I thought -- concluded that it suggest a major change. However, these people are good merchandisers. And when they order products, they usually know what their needs are.

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**Jeffrey Hammond** - *KeyBanc Capital Markets Inc - Analyst*

Okay. Great. And then, I think you had indicated after '24, a lot of our big capital projects are done, but I think in CapEx, you have a tick up. Can you just talk about what's in the growth capital plans in '26 to drive that?

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Well, in addition to our maintenance CapEx, which I think over the years, we talk a number in 40 to 50 range. We're going to be starting in a couple of months, the construction of our new corporate headquarters building in the French Lake campus, where we already have two

existing structures. And I think that the planned number for that, I think we've communicated. It is about \$50 million, and most of that money will be spent in '26.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. And we're also vacating our campus here in Northeast Minneapolis, which we will sell, which will offset that, but we haven't factored that into the numbers that we've given you. We will disclose that if and when happens, but it will be a noticeable reduction in the overall CapEx spend when we exit this facility.

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**Jeffrey Hammond** - *KeyBanc Capital Markets Inc - Analyst*

Okay. Thanks so much.

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**Operator**

Matt Summerville, D.A. Davidson.

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**Matt Summerville** - *DA Davidson & Co - Analyst*

Yes. Thanks. I was hoping you could do a little bit of an end market around the horn in the industrial business, what you're seeing from your larger end market exposures and then maybe contrast that across the three regions? And then I have a follow-up. Thank you.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Okay. Well, I will take this one on. I made a list of end markets and a couple of areas I call out some regions. So bear with me here. This might be a useful list or less useful.

On the positive side, we have seen steady activity in the automotive space, both with EVs and with legacy companies, both in the quarter and for the full year. It was really one of the business areas where we continue to see investments here in North America and in other markets, including Asia.

Our famous dealer service market, think lubrication equipment, remains strong for the full year and had another positive quarter. So that was -- this is several years in a row where we've seen the dealer business perform satisfactorily.

Despite some of the lumpiness in our semiconductor space, and especially here in North America around the timing of projects, the business showed some firmness in the Asia region.

And in our Process Equipment segment, some of our channel partners, especially some of the MRO companies have called out seeing pretty good performance in the food and beverage space. Mark already touched on the bounce we've seen in home center, and I would add the foam insulation to that, but also it's the same thing off a very low level compared to where we were at a few years ago.

On the flat or downside, the Tier 1 automotive has been a mixed picture for us, and that's typically a steady business. With some ups and down, mining has been soft, and that's one of the larger end user markets for our automatic and industrial lubrication equipment. And Asia is, of course, a very big market for mining.

Solar CapEx was down, although one of our sales executives just returned from Asia, and he says, well, the activity is down today or down in the prior quarter. Outside of China, the Asian manufacturers are seeing panel volume increases, and that probably bodes better things for us sometime in the future.

And then, I would add just a couple of other things. Certainly, here in North America, the construction-related industrial markets, furniture, cabinetry, white goods, window and door, for the most part, are depressed.

And I guess to maybe round it out and to give you a region, our protective coatings business was a little softer this year than it had been earlier in the year. We did see, I don't know, some project order decline or less project activity in the Middle East where the oil and gas infrastructure is a big driver in spend for that equipment.

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**Matt Summerville** - *DA Davidson & Co - Analyst*

Great. Thank you. And then just maybe an update, having completed now three deals in the last 15 months or so, how you're thinking about the actionability of your M&A pipeline here looking over the course of 2026 and whether or not you're optimistic that we see a couple of additional deals it over the line. Thank you.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I'd characterize it as pretty good, Matt. You never really know how things are going to shake out. But as we are going into the first quarter here, there's things that we're looking at like every other company is. As I said before, I think that the thing that's really changed for us is we're very confident that the companies that we're pursuing are ones that really make sense to us.

And I think we've got some momentum within our organization to be able to utilize as we look at future deals, where we actually are able to get some confidence that we can add value to those companies and they can bring value to us. So I'd say it's a good picture at this point.

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**Matt Summerville** - *DA Davidson & Co - Analyst*

Thanks, Mark.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes.

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**Operator**

Andrew Buscaglia, BNP Paribas.

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**Andrew Buscaglia** - *Exane Bnp Paribas - Analyst*

Hey. Good morning, guys.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Good morning.

**Andrew Buscaglia** - *Exane Bnp Paribas - Analyst*

A couple more maybe on the modeling front. So in Industrial, it seems like you're not quite turn in the corner, but maybe the North America and Europe data suggests that maybe things are getting a little bit better. But how about on the margin front. You had that mix headwind. I'm wondering how long if that continues into next year, or how do you see margins playing out with those dynamics?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I think that the quarters are always a little bit difficult because you do get some lumpy projects in there. In this quarter, we did have that with our powder finishing business systems. A couple of big ones that shipped out and just skewed the results. I mean, I think that the margins in industrial are fantastic.

I've got no concerns whatsoever in terms of any kind of deterioration. If we can get volume rolling through the factories beyond this low single digit, there's plenty of upside. You've seen the incremental margins this year. A lot of that was due to One Graco, but also decent margin performance on volumes that have been, as you said, flattish here for a while.

So yeah, I feel good about where we're sitting on the profitability side in that business. It's really a volume story going forward.

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**Andrew Buscaglia** - *Exane Bnp Paribas - Analyst*

Okay. Got it. Yeah. Similar question on the modeling front with the expansion markets. You guys have done a great job getting those margins up in a short amount of time. I'm wondering, are there maybe the confidence is a little bit lower on the top line.

I'm just wondering, are the higher margin subsegments or subsectors that if they were to return to growth could be pretty influential on those margins going forward?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I mean, really all of the businesses within there are nice profitable businesses. So we don't really have any dogs in there. For sure, the semiconductor business has really high, nice margins as does our high-pressure business and our QED business. And then, of course, with the motor initiative that we've got going on there as well that just adds on to the top of it.

So I would say it's similar to the industrial from the standpoint that we've got the infrastructure in place. We've got the teams. And when the volumes are higher than what they are today, you'll love the incremental margins.

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**Andrew Buscaglia** - *Exane Bnp Paribas - Analyst*

Got it. Thank you.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah.

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**Operator**

Brad Hewitt, Wolfe Research.

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**Brad Hewitt** - *Wolfe Research LLC - Equity Analyst*

Hey. Good morning, guys. Thanks for taking my questions.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Good morning, Brad.

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**Brad Hewitt** - *Wolfe Research LLC - Equity Analyst*

So I'm curious how backlog trended in the quarter. It looks like you got the backlog conversion in the GEMA of business as expected this quarter, but any additional color there would be helpful.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I think we were -- we did a really good job in manufacturing in Q4. Again, I give some of the credit to One Graco and that team being organized and making sure that we're focused on getting products out to customers that wanted them by the end of the year. As we enter 2026, I think backlogs are at a decent level. No concerns there.

And we're going to be pushing product out as quickly as we can. The powder business that you referenced is part of our backlog, obviously. And that can be lumpy because at times, you'll have projects, particularly in our SAT business, which is those vertical lines that are used to coat things like windows, aluminum extrusions, those types of things. These can be projects that can go six months or more. So when we look out, we have more visibility on the powder side than any other.

And we're -- again, we factor all that into our organic outlook for the full year, which is, I think, very achievable.

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**Brad Hewitt** - *Wolfe Research LLC - Equity Analyst*

Okay. Great. And then curious if you could help us as we think about the phasing of organic growth throughout the year in 2026. Would you expect the lowest growth in Q1? And then, I know Q2 and Q3, you have easier comps. So could we be looking at maybe like mid-single-digit growth in Q2, Q3? Any thoughts there on the phasing?

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**Christopher Knutson** - *Graco Inc - Director - Corporate Treasury and Investor Relations*

I would just say, Brad, I think that our seasonality will probably hold this year. There's nothing that we look at that would change that. Typically, the way that we think about it is that if we have good business on the contractor side that we should have a stronger second and third quarter. And typically, we have project completion realization in the fourth quarter similar to what we've had this year.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

For Industrial.

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**Christopher Knutson** - *Graco Inc - Director - Corporate Treasury and Investor Relations*

For Industrial.

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**Brad Hewitt** - *Wolfe Research LLC - Equity Analyst*

Great. Thank you.

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**Operator**

(Operator Instructions) Walter Liptak, Seaport Research.

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**Walter Liptak** - *Seaport Research - Analyst*

Hey. Thanks. Good morning, guys. I wanted to ask about, in 2025, you had that \$100 million of incremental revenue. But in the profit walk, it was like \$8 million in profits because of some extra costs. I wondered about like the delta there for 2026. Like how much revenue is going to be coming through with a normalized profit in 2026, if that makes sense?

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**Christopher Knutson** - *Graco Inc - Director - Corporate Treasury and Investor Relations*

I would say, I think Mark referenced this in his script that from a revenue standpoint, if we get full year revenue from all of our acquisitions, that brings us to about \$190 million of revenue related to what we would consider our acquisitions, which would be a Corob, Color Service, and Radia.

And then from a standpoint on the margin side, when we factor in all of our purchase accounting and everything as such. I think that what you're going to see is pretty typical from these earnings rates that we saw this year, at least as a percentage of the earnings.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I think the Corob acquisition banked at this point in terms of the numbers. We all got a full year in. So it's not really going to have a meaningful impact on contract. And that was obviously the biggest one that we did. Radia margins are really good.

They're not going to be materially different than what the overall contractor margin rate is. And then Color Service, which is part of the powder business rolls up under Industrial, again, is in line with our profitability there as well.

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**Walter Liptak** - *Seaport Research - Analyst*

Okay. Great. And then so with the start of the year, maybe we could try a fun one. If we like roll everything up, and you look at the year for positives and negatives. What I'm hearing from you is that the things that could go well could be maybe the lower mortgage rates, help the resi market or maybe some of these factory CapEx projects get lose?

And then maybe on the negative side, you didn't say it, but are tariffs done for like downside impact? I guess I wonder if you could just run through your thoughts on what could go well, what could be a problem for this year.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

Well, the world is a -- we're reminded where we're headquartered, that the world is complicated, unpredictable place. And certainly, when we look at the things that could go well, yeah, I think you touched on a couple of them that are highly relevant here and including the fact that, once again, we're launching some new products in some of our most important markets.

And hopefully, that will give us some lift. And manufacturers and contractor end users are -- when they're looking ahead, they make their decisions based on ROIs, and we continue to believe that's what our equipment generates.

On the messy side, only the Good Lord knows about what the trade environment is going to be like in 2026. Certainly, tariffs were a headwind for us that we made a mid-course correction with price adjustments. And I guess we've demonstrated interim price adjustments.

And we've demonstrated that we try to be nimble as well. If we see armed conflict in the Middle East or something, that could have repercussions that we don't understand today. But I think over our 100 years, the world has almost always been a turbulent, unpredictable place.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I think we're pretty well covered on the tariff front. We did our pricing actions. And as we're heading into '26, we don't expect headwind. You're going to -- obviously, they're baked into the numbers anyway.

So -- and as David said, I mean, none of us is ever going to know what's going to happen. I think we demonstrated that we're willing to flex, and we need to do to drive value for our investors and our shareholders, and we're prepared to do that. These are uncertain markets. And Graco's in a good spot to be able to maneuver our way through them in a smart way.

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**Walter Liptak** - *Seaport Research - Analyst*

Okay. Great. Thank you.

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**Operator**

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

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Okay. Well, great. Thanks, everybody for participating. We're excited to wrap up '25 and get on to 2026. I think it's to be a great year for Graco. It is our 100-year anniversary. Not many companies make it 100 years, so we're super proud of that and, obviously, super proud of our employees for making sure that we're delivering good quality product every single day. So thank you so much. We're going to sign off. Have a great rest of the day.

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**Operator**

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

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