



To Our Shareholders



Pat McHale
President and CEO

A handwritten signature in black ink that reads "Pat McHale". The signature is fluid and cursive, written in a professional style.

In last year's letter, I ended with a message saying we were looking forward to 2020 – can I take that back? The year demonstrated how difficult it is to predict even the near-term future, and we faced a myriad of challenges not included in our plans.

Thankfully, we were fortunate to perform financially, primarily due to our diverse end market exposure, strong balance sheet, ability to adapt, and qualification as an essential business that allowed our factories and distribution centers to remain fully operational most of the year. We experienced a double-digit decline in sales in the first half of the year caused by weakness in our Industrial and Process segments and declines in the EMEA and Asia Pacific regions. In the second half, we rallied to finish with record sales for both the third and fourth quarters driven by strong performance in our Contractor segment, particularly in the Americas. We ended the year with a hard-fought but modest sales increase over 2019 and adjusted earnings growth.

Our ability to make it out of 2020 in good shape was made possible by our employees. When incoming orders fell off a cliff in March and the external world was in a constant state of change, I laid out three challenges for the organization: get enough orders to avoid layoffs and wage reductions; remain fully operational; and protect our high-risk teammates. The sales and marketing organization implemented creative new approaches to connect with our customers and keep our factories busy. Our factory and warehouse employees came to work every day with positive attitudes and kept us 100 percent operational and running on all cylinders. Our IT group stepped up in a big way to support the changes needed to allow most of our office employees to work from home.

Meanwhile, our leadership and corporate groups implemented various programs to support employees who had unexpected disruptions in their personal lives and kept us updated on the constantly shifting regulations. Through all of this, our engineering teams kept new product development projects on track for our scheduled slate of product launches in 2021. No excuses were made, and no goals or incentive programs were reset. I was not surprised by the strength of Graco employees, but I sure was proud.

Speed and agility became critical in 2020, and nowhere at Graco was this demonstrated better than in our Contractor business. With our selling shows and distributor events wiped off the calendar without warning, the pressure was on for us to find alternative selling methods. Teamwork between sales and marketing resulted in new approaches – like electronic selling tools – that kept us in the game. Engineering, marketing and manufacturing teams moved at lightning speed to identify and execute on new market demands – and sales teams responded by driving the product through our existing channel and into new channels to the tune of tens of millions of dollars in incremental sales. With “work from home” rules in effect for many of our end markets, we saw an unprecedented explosion in our Home Center business. Affected factories ramped up from the depths of the downturn in Q2 to record-high business levels by early summer, which required hiring and training more than 300 temporary production workers, relocating existing employees from every other segment and duplicating multiple production lines.

What struck me in all of this was each employee's unwavering commitment to our

brand promise: continually innovating to create best-in-class technology; manufacturing high-quality products built to last; and delivering A+ Service to every customer, every time.

So, while 2020 was frustrating, the strength of our culture was stress tested, and we passed with flying colors. I've never been more proud of Graco employees. This dedication from all employees allowed us to remain financially strong and continue to invest in our long-term growth strategies of new product development, new markets, acquisitions and geographic expansion. We continued our industry-leading spending on research and development; acquired a company that will allow expansion into several new industries and sold one that no longer fit our goals; purchased land to expand our operations in our home state of Minnesota; and planned for the opening of a new application engineering center in Europe.

Thank you for sticking with us in 2020. Whether you're a shareholder, end user, distributor, supplier, employee or neighbor in our community, your commitment has allowed us to emerge from 2020 strong.

2021 brings exciting new opportunities – and some changes. After 31 years with the Company, I've decided to retire, and the board has chosen Mark Sheahan, a well-rounded, 25-year Graco veteran to lead Graco to the next level. The transition will happen mid-year, and I'm confident the organization will continue to thrive.

Onward and upward!



INDUSTRIAL

Fusion® ProConnect® (PC) Spray Gun

Designed for spray foam and polyurea applications, the Fusion PC gun with ProConnect technology combines 13 components that make up the entire fluid section into a single, disposable cartridge that offers contractors the ability to perform gun service quickly and easily in the field while avoiding costly downtime.



Fusion ProConnect (PC) Spray Gun

E-Flo® iQ One Component Metering System

Designed for industrial and automotive sealant and adhesive applications, this advanced one component metering dispense system provides better precision and control without the need of an external dosing system.



E-Flo iQ One Component Metering System

Therm-O-Flow® Bulk Warm Melt Supply Pumps

An extension of Graco's Therm-O-Flow bulk supply pumps product line, bulk warm melt supply pumps provide additional heat zones for greater application flexibility in sealant and adhesive temperature conditioning applications.



Therm-O-Flow Bulk Warm Melt Supply Pumps

DynaMite™ DM-22 Pump

The DynaMite DM-22 pump delivers precise and consistent material feed from small containers ranging from 300cc cartridges to one-gallon pails. Built with durable and wear-resistant components, this compact supply pump is ideal for heavy-duty applications using highly viscous and abrasive materials.



DynaMite DM-22 Pump

PR-X™ Meter Mix Dispense System

With a true first-in, first-out fluid path, this meter, mix and dispense system is ideal for sealant, adhesive and thermal applications requiring both precision dispensing and tight ratio tolerances. The servo-driven PR-X system provides superior control and repeatability for beads, dots and other patterns.



PR-X Meter Mix Dispense System

» New Products 2020

INDUSTRIAL

Switch™ 3D Gun

The Switch 3D gun multi-directional, rotating dispense gun provides precise, continuous flow for automotive sealant applications. This gun provides an easy to use, easy to install and easy to maintain solution for sustained in-plant performance.



Switch 3D Gun



iQ Dispense Valves

iQ Dispense Valves

With tip seal, snuff-back and ball-seat models, this line of valves delivers long-lasting and dependable performance for single component sealant and adhesive dispensing applications. For greater flexibility and compatibility, the valves are available with several temperature, nozzle and tip offerings.

HydroShield™ Waterborne System

Proven reliability and unique control make the HydroShield system the market's most operator-friendly solution for using electrostatics to spray waterborne material. The custom controller interface allows for setting system parameters, including color change and flushing sequences.



HydroShield Waterborne System

Intelligent Paint Kitchen

Intelligent Paint Kitchen control for pneumatic pumps and agitators extends remote management to all types of industrial paint supply and circulation systems. The advancement digitally connects both electric and pneumatic equipment. Hybrid-mode software allows factories to run paint circulation in the most efficient way possible over time.



Intelligent Paint Kitchen

Low-Shear Back Pressure Regulators (BPR)

The innovative design of four low-shear BPR models significantly reduces paint shear, meaning manufacturers can produce products with more consistent finish quality and waste less material caused by paint degradation or damage.



Low-Shear Back Pressure Regulators (BPR)

INDUSTRIAL

INDUSTRIAL

OptiFlex® Pro FE and CF Units

With the new FE manual unit designed for enamel applications and the CF unit for small sample sizes, powder is applied with ease and complex geometries are coated with outstanding efficiency and quality, even in challenging environments.



OptiFlex Pro FE



OptiFlex CF

OptiSelect® Pro GM04-CF and GM04-E Guns

These lightweight and ergonomic electrostatic guns offer the performance and control to achieve the best-possible surface finish with organic powder (GM04-CF) or enamel powder (GM04-E). Wear-resistant spray nozzles provide excellent powder distribution and penetration needed to coat difficult parts.



OptiSelect Pro GM04-CF



OptiSelect Pro GM04-E

OptiCenter® OC07-E System

Based on the proven OptiCenter generation and equipped with OptiSpray® AP01-E application pumps for consistent results, this powder management center is designed to produce superior coating, minimal powder consumption and multi-color enamel applications.



OptiCenter OC07-E System

MagicControl® 4.0 Software Options

Designed with modern powder coating management in mind, MagicControl 4.0 software allows additional functions to be activated, including line management to visualize and optimize the coating system, sequence programming for axes movement, batch management to measure powder consumption and energy management to optimize energy usage.



MagicControl 4.0 Software Options

» New Products 2020

PROCESS

G-Mini™ Compact Automatic Lubrication Pump

The G-Mini pump simplifies everyday maintenance, extends equipment life cycles and optimizes uptime, boosting productivity and profitability. Its IP69K design is rugged and tough, built to withstand the harshest environments and the 24/7 rigors of any job, while the pump's small footprint fits machines in several applications.

Husky™ 3300 Electric-Operated Diaphragm Pump

This high-flow, low-pressure double diaphragm pump expands Graco's electric pump product offering, building on the trend of moving away from compressed air. This technology is offered in both metal and plastic fluid sections, allowing users to pump virtually any fluid including water, ceramic slip, paint, oil and chemicals.



G-Mini Compact Automatic Lubrication Pump



Husky 3300 Electric-Operated Diaphragm Pump

PROCESS

CONTRACTOR

Contractor PC Compact™ Airless Spray Gun

The lightest and smallest professional-grade airless spray gun available, the Contractor PC Compact gun delivers all-day comfort and control, even in tight spaces. This gun also features the lightest trigger pull and trigger holding force on the market, allowing contractors to finish jobs faster and with less fatigue.



Contractor PC Compact Airless Spray Gun

Ultra® Max II™ 650 PC Pro Electric Airless Sprayer

This sprayer is a true workhorse, delivering large sprayer performance with mid-size portability. It is the lightest weight electric airless sprayer available that is engineered to support a two-gun setup, providing the perfect combination of quality, performance, portability and durability.



Ultra Max II 650 PC Pro Electric Airless Sprayer

SaniSpray HP™ Airless Disinfectant Sprayers

Using the power of airless spraying, SaniSpray HP sprayers deliver consistent thickness and coverage from edge to edge to meet chemical dwell time requirements of List-N disinfectants, allowing businesses to operate safely. With eight different models to choose from, there is a SaniSpray HP sprayer for every facility.



SaniSpray HP Airless Disinfectant Sprayers

10 Year Financial Summary

Graco Inc. & Subsidiaries

(Dollars in thousands, except per share amounts)

	2020 ⁽¹⁾	2019	2018	2017	2016 ⁽²⁾	2015 ⁽³⁾	2014	2013	2012	2011
Operations										
Net Sales	\$1,650,115	\$1,646,045	\$1,653,292	\$1,474,744	\$1,329,293	\$1,286,485	\$1,221,130	\$1,104,024	\$1,012,456	\$895,283
Gross Profit	854,937	859,756	882,539	795,202	710,869	684,700	666,736	607,455	550,530	500,205
Percent of Sales	51.8%	52.2%	53.4%	53.9%	53.5%	53.2%	54.6%	55.0%	54.4%	55.9%
Operating Earnings	391,718	424,456	436,427	378,745	121,144	302,125	308,925	279,769	224,677	219,514
Percent of Sales	23.7%	25.8%	26.4%	25.7%	9.1%	23.5%	25.3%	25.3%	22.2%	24.5%
Net Earnings	330,456	343,853	341,054	252,412	40,674	345,713	225,573	210,822	149,126	142,328
Percent of Sales	20.0%	20.9%	20.6%	17.1%	3.1%	26.9%	18.5%	19.1%	14.7%	15.9%
Net Earnings, Adjusted ⁽⁴⁾	335,179	325,385	326,075	249,472	202,132	204,327	225,573	210,822	149,126	142,328
Percent of Sales, Adjusted ⁽⁴⁾	20.3%	19.8%	19.7%	16.9%	15.2%	15.9%	18.5%	19.1%	14.7%	15.9%
Financial Position										
Current Assets	\$ 1,023,801	\$791,468	\$723,216	\$643,338	\$503,362	\$509,017	\$839,538	\$792,593	\$776,996	\$582,970
Current Liabilities	321,389	285,322	299,803	245,838	177,985	194,616	172,737	168,853	151,671	131,282
Working Capital	702,412	506,146	423,413	397,500	325,377	314,401	666,801	623,740	625,325	451,688
Property, Plant & Equipment, Net	350,750	325,546	229,295	204,298	189,596	178,437	161,230	151,717	151,544	138,248
Total Assets	1,988,128	1,692,210	1,472,741	1,390,617	1,243,109	1,391,352	1,544,778	1,327,228	1,321,734	874,309
Long-term Debt (including current portion)	150,000	164,298	266,391	226,035	305,685	392,695	615,000	408,370	556,480	300,000
Shareholders' Equity	1,283,904	1,024,931	751,873	723,063	573,820	635,551	596,032	634,365	454,114	322,740
Capital (long-term debt plus shareholders' equity)	1,433,904	1,189,229	1,018,264	949,098	879,505	1,028,246	1,211,032	1,042,735	1,010,594	622,740
Cash Provided (Used) By										
Operations	\$ 394,035	\$418,734	\$367,985	\$337,864	\$276,006	\$191,414	\$247,889	\$251,402	\$193,899	\$164,239
Investing, excluding marketable securities	(99,038)	(155,469)	(66,247)	(68,447)	(91,223)	369,939	(216,731)	(31,238)	(694,520)	(27,997)
Financing	(139,471)	(174,052)	(282,711)	(217,076)	(185,165)	(536,186)	(30,208)	(234,239)	228,454	157,446
Other Data										
Depreciation and Amortization	\$ 55,329	\$48,911	\$47,754	\$45,583	\$48,290	\$44,607	\$35,515	\$37,316	\$38,762	\$32,483
Property, Plant and Equipment Additions	71,338	127,953	53,854	40,194	42,113	41,749	30,636	23,319	18,234	23,854
Per Common Share⁽⁵⁾										
Basic Net Earnings	\$ 1.97	\$2.06	\$2.04	\$1.50	\$0.24	\$2.00	\$1.25	\$1.15	\$0.82	\$0.79
Diluted Net Earnings	1.92	2.00	1.97	1.45	0.24	1.95	1.22	1.12	0.81	0.77
Diluted Net Earnings, Adjusted ⁽⁴⁾	1.95	1.90	1.88	1.43	1.18	1.15	1.22	1.12	0.81	0.77
Dividends Paid	0.70	0.64	0.53	0.48	0.44	0.40	0.37	0.33	0.30	0.28
Shareholders' Equity	7.62	6.13	4.55	4.27	3.43	3.80	3.36	3.47	2.49	1.80
Other Statistics										
Sales Growth	0.2%	(0.4%)	12.1%	10.9%	3.3%	5.4%	10.6%	9.0%	13.1%	20.3%
Return on Average Shareholders' Equity	28.6%	38.7%	46.2%	38.9%	6.7%	56.1%	36.7%	38.7%	38.4%	48.5%
Return on Average Capital	25.2%	31.2%	34.7%	27.6%	4.3%	30.9%	20.0%	20.5%	18.3%	29.7%
Long-term Debt/Capital	10.5%	13.8%	26.2%	23.8%	34.8%	38.2%	50.8%	39.2%	55.1%	48.2%
Current Ratio	3.2	2.8	2.4	2.6	2.8	2.6	4.9	4.7	5.1	4.4

(1) Operating results in 2020 included impairment charges related to the sale of the Company's U.K.-based valves business that reduced operating earnings by \$35 million and net earnings by \$34 million (\$0.20 per diluted share).

(2) Operating results in 2016 included intangible asset impairment charges that reduced operating earnings by \$192 million and net earnings by \$161 million (\$0.95 per diluted share).

(3) Net earnings in 2015 included \$141 million (\$0.80 per diluted share) of after-tax dividends and gain on sale of the Liquid Finishing business assets held separate from the Company's other businesses.

(4) Adjusted amounts in 2020, 2019 and 2018 exclude impacts of non-recurring income tax adjustments and excess tax benefits from stock option exercises.

Adjusted amounts in 2017 exclude impacts of non-recurring income tax adjustments, excess tax benefits from option exercises and pension restructuring.

Adjusted amounts exclude the effects of impairment charges in 2020 and 2016 and net investment income from the Liquid Finishing businesses sold in 2015. See (1), (2) and (3) above.

(5) Per share data reflects three-for-one stock split distributed on December 27, 2017.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

FORM 10-K

- Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the fiscal year ended **December 25, 2020**, or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the transition period from _____ to _____.

Commission File No. 001-09249

Graco Inc.

(Exact name of Registrant as specified in its charter)

Minnesota

41-0285640

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

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

55413

(Address of principal executive offices)

(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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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 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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Act). Yes No

The aggregate market value of 164,223,420 shares of common stock held by non-affiliates of the registrant was \$7,690,582,750 as of June 26, 2020.

168,767,073 shares of common stock were outstanding as of January 14, 2021.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's definitive Proxy Statement for its Annual Meeting of Shareholders to be held on April 23, 2021, are incorporated by reference into Part III, as specifically set forth in said Part III.

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ACCESS TO REPORTS

Investors may obtain access free of charge to the Graco Inc. Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, other reports and amendments to the reports by visiting the Graco website at www.graco.com. These reports will be available as soon as reasonably practicable following electronic filing with, or furnishing to, the Securities and Exchange Commission.

PART I

Item 1. Business

Graco Inc., together with its subsidiaries (“Graco,” “us,” “we,” or “our Company”), is a multi-national manufacturing company. We supply technology and expertise for the management of fluids and coatings in industrial and commercial applications. We design, manufacture and market systems and equipment used to move, measure, control, dispense and spray fluid and powder materials. Our equipment is used in manufacturing, processing, construction and maintenance industries. Graco is a Minnesota corporation and was incorporated in 1926.

We specialize in providing equipment solutions for difficult-to-handle materials with high viscosities, abrasive or corrosive properties, and multiple component materials that require precise ratio control. We aim to serve niche markets, providing high customer value through product differentiation. Our products enable customers to reduce their use of labor, material and energy, improve quality and achieve environmental compliance.

We make significant investments in developing innovative, high-quality products. We strive to grow into new geographic markets by strategically adding commercial and technical resources and third-party distribution in growing and emerging markets. We have grown our third-party distribution to have specialized experience in particular end-user applications. We leverage our product technologies for new applications and industries.

We also make targeted acquisitions to broaden our product offering, enhance our capabilities in the end-user markets we serve, expand our manufacturing and distribution base and potentially strengthen our geographic presence. These acquisitions may be integrated into existing Graco operations or may be managed as stand-alone operations. We completed business acquisitions in 2020, 2019 and 2018 that were not material to our consolidated financial statements.

We have particularly strong manufacturing, engineering and customer service capabilities that enhance our ability to provide premium customer experience, produce high-quality and reliable products and drive ongoing cost savings.

Our investment in new products, targeted acquisitions and strong manufacturing, engineering and customer service capabilities comprise our long-term growth strategies, which we coordinate and drive across our geographic regions. Values central to our identity - growth, product innovation, premium customer service, quality and continuous improvement - are leveraged to integrate and expand the capabilities of acquired businesses.

We classify our business into three reportable segments, each with a worldwide focus: Industrial, Process and Contractor.

Each segment sells its products in North, Central and South America (the “Americas”), Europe, Middle East and Africa (“EMEA”), and Asia Pacific. Sales in the Americas represent approximately 60 percent of our Company’s total sales. Sales in EMEA represent approximately 23 percent. Sales in Asia Pacific represent approximately 17 percent. We provide marketing and product design in each of these geographic regions. Our Company also provides application assistance to distributors and employs sales personnel in each of these geographic regions.

Financial information concerning our segments and geographic markets is set forth in Part II, Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations and Note B (Segment Information) to the Consolidated Financial Statements of this Form 10-K.

For information about our Company and our products, services and solutions, visit our website at www.graco.com. The information on the website is not part of this report nor any other report filed or furnished to the Securities and Exchange Commission (“SEC”).

Manufacturing and Distribution

We manufacture a majority of our products in the United States (“U.S.”). We manufacture some of our products in Switzerland (Industrial segment), Italy (Industrial segment), the United Kingdom (Process segment), the People’s Republic of China (“P.R.C.”) (all segments), Belgium (all segments) and Romania (Industrial segment). Our manufacturing is aligned with our business segments and is co-located with product development to accelerate technology improvements and improve our cost structure. We perform critical machining, assembly and testing in-house for most of our products to control quality, improve response time and maximize cost-effectiveness. We make our products in focused factories and product cells. We source raw materials and components from suppliers around the world.

For all segments, we primarily sell our equipment through third-party distributors worldwide, positioned throughout our geographic regions, and through selected retailers. Our products are sold from our warehouse to our third-party distributors or retailers who sell our products to end users. Certain of our businesses sell their products directly to end-user customers and have direct relationships with customers.

Outside of the U.S., our subsidiaries located in Australia, Belgium, Japan, Italy, Korea, the P.R.C., the United Kingdom and Brazil distribute our Company's products. Operations in Maasmechelen, Belgium; St. Gallen, Switzerland; Shanghai, P.R.C.; and Montevideo, Uruguay; reinforce our commitment to their regions.

During 2020, manufacturing capacity met business demand. Production requirements in the immediate future are expected to be met through existing facilities, planned facility expansions, the installation of new automatic and semi-automatic machine tools, efficiency and productivity improvements, the use of leased space and available subcontract services. In 2020, we completed a project to significantly expand our Contractor segment facility in Rogers, Minnesota. We are in the planning and design phases of additional projects to expand capacity in other manufacturing and distribution locations in 2021 and beyond. For more details on our facilities, see Item 2, Properties.

Product Development

Our primary product development efforts are carried out in facilities located in Minneapolis, Anoka and Rogers, Minnesota; North Canton, Ohio; St. Gallen, Switzerland; Suzhou and Shanghai, P.R.C.; Dexter, Michigan; Erie, Pennsylvania; Kamas, Utah; and Coventry, United Kingdom. The product development and engineering groups focus on new product design, product improvements, and new applications for existing products and technologies for their specific customer base. We continue to enhance our product capabilities with particular emphasis on automation and configurability, easier integration with end-user customer manufacturing and business systems, and increased focus on data and analytics. Our product development efforts focus on bringing new and supplemental return on investment value to end users of our products.

Our Company consistently makes significant investments in new products. Total product development expenditures for all segments were \$72 million in 2020, \$68 million in 2019 and \$63 million in 2018. The amounts invested in product development averaged approximately 4 percent of sales over the last three years. Our product development activities are focused both on upgrades to our current product lines to provide features and benefits that will provide a return on investment to our end-user customers and development of products that will reach into new industries and applications to incrementally grow our sales. Sales of products that refresh and upgrade our product lines are measured and compared with planned results. Sales of products that provide entry into new industries and applications are also measured, with additional focus on commercial resources and activities to build specialized third-party distribution and market acceptance by end users.

Our Company measures the results of acquired businesses as compared to historical results and projections made at the time of acquisition. Our Company will invest in engineering, manufacturing and commercial resources for these businesses based on expected return on investment.

Business Segments

Industrial Segment

The Industrial segment is our largest segment and represents approximately 41 percent of our total sales in 2020. It includes the Industrial Products and Applied Fluid Technologies divisions. The Industrial segment markets equipment and solutions for moving and applying paints, coatings, sealants, adhesives and other fluids. Markets served include automotive and vehicle assembly and components production, wood and metal products, rail, marine, aerospace, farm, construction, bus, recreational vehicles and various other industries. End users often invest in our equipment to gain process efficiencies, improve quality or save on material or energy costs.

Most Industrial segment equipment is sold worldwide through specialized third-party distributors, integrators, design centers, original equipment manufacturers and material suppliers. Some products are sold directly to end users and may include design and installation to specific customer requirements. We work with material suppliers to develop or adapt our equipment for use with specialized or hard-to-handle materials. Distributors promote and sell the equipment, hold inventory, provide product application expertise and offer on-site service, technical support and integration capabilities. Integrators implement large individual installations in manufacturing plants where products and services from a number of different manufacturers are aggregated into a single system. Design centers

engineer systems for their customers using our products. Original equipment manufacturers incorporate our Company's Industrial segment products into systems and assemblies that they then supply to their customers.

Applied Fluid Technologies

The Applied Fluid Technologies division designs and sells equipment for use by industrial customers and specialty contractors. This equipment includes two-component proportioning systems that are used to spray polyurethane foam (spray foam) and polyurea coatings. Spray foam is commonly used for insulating building walls, roofs, water heaters, refrigerators, hot tubs and other items. Polyurea coatings are applied on storage tanks, pipes, roofs, truck beds, concrete and other items. We offer a complete line of pumps and proportioning equipment that sprays specialty coatings on a variety of surfaces for protection and fireproofing. This division also manufactures equipment that pumps, meters, mixes and dispenses sealant, adhesive and composite materials. Our advanced composite equipment includes gel-coat equipment, chop and wet-out systems, resin transfer molding systems and applicators and precision dispensing solutions. This equipment bonds, molds, seals, vacuum encapsulates and laminates parts and devices in a wide variety of industrial applications.

Industrial Products

The Industrial Products division makes finishing equipment that applies paint and other coatings to products such as motor vehicles, appliances, furniture and other industrial and consumer products. A majority of this division's business is outside of North America.

This division's products include liquid finishing equipment that applies liquids on metals, wood and plastics, with emphasis on solutions that provide easy integration to paint monitoring and control systems. Products include paint circulating and paint supply pumps, paint circulating advanced control systems, plural component coating proportioners, various accessories to filter, transport, agitate and regulate fluid, and spare parts such as spray tips, seals and filter screens. We also offer a variety of applicators that use different methods of atomizing and spraying the paint or other coatings depending on the viscosity of the fluid, the type of finish desired and the need to maximize transfer efficiency, minimize overspray and minimize the release of volatile organic compounds into the air. Manufacturers in the automotive, automotive feeder, commercial and recreational vehicle, military and utility vehicle, aerospace, farm, construction, wood and general metals industries use our liquid finishing products.

This division also makes powder finishing products and systems that coat powder finishing on metals. These products are sold under the Gema® and SAT® brands. Gema powder systems coat window frames, metallic furniture, automotive components and sheet metal. Primary end users of our powder finishing products include manufacturers in the construction, home appliance, automotive component and custom coater industries. We strive to provide innovative solutions in powder coating for end users in emerging and developed markets.

Process Segment

The Process segment represented approximately 20 percent of our total sales in 2020. It includes our Process, Oil and Natural Gas, and Lubrication divisions. The Process segment markets pumps, valves, meters and accessories to move and dispense chemicals, oil and natural gas, water, wastewater, petroleum, food, lubricants and other fluids. Markets served include food and beverage, dairy, oil and natural gas, pharmaceutical, cosmetics, semiconductor, electronics, wastewater, mining, fast oil change facilities, service garages, fleet service centers, automobile dealerships and industrial lubrication applications.

Most Process segment equipment is sold worldwide through third-party distributors and original equipment manufacturers. Some products are sold directly to end users, particularly in the oil and natural gas and semiconductor industries.

Process

Our Process division makes pumps of various technologies that move chemicals, water, wastewater, petroleum, food and other fluids. Manufacturers and processors in the food and beverage, dairy, pharmaceutical, cosmetic, oil and natural gas, semiconductor, electronics, wastewater, mining and ceramics industries use these pumps. This division makes environmental monitoring and remediation equipment that is used to conduct ground water sampling and ground water remediation, and for landfill liquid and gas management.

Oil and Natural Gas

Our Oil and Natural Gas division makes high pressure and ultra-high pressure valves used in the oil and natural gas industry, other industrial processes and research facilities. Our high and ultra-high pressure valves are sold directly to end-user customers as well as through distribution worldwide. The division also has a line of chemical injection pumping solutions for precise injection of chemicals into producing oil wells and pipelines and is sold through third-party distributors. In 2020, we sold our U.K.-based valves business (Alco), reducing our exposure to oil and natural gas markets.

Lubrication

The Lubrication division designs and sells equipment for use in vehicle servicing. We supply pumps, hose reels, meters, valves and accessories for use by fast oil change facilities, service garages, fleet service centers, automobile dealerships, auto parts stores, truck builders and heavy equipment service centers.

The Lubrication division also offers systems, components and accessories for the automatic lubrication of bearings, gears and generators in industrial and commercial equipment, compressors, turbines and on- and off-road vehicles. Automatic lubrication systems reduce maintenance needs and down time and extend the life of the equipment. Industries served include gas transmission, petrochemical, pulp and paper, mining, construction, agricultural equipment, food and beverage, material handling, metal manufacturing, wind energy and oil and natural gas.

Contractor Segment

The Contractor segment represented approximately 39 percent of our total sales in 2020. Through this segment, we offer sprayers that apply paint to walls and other structures, with product models for users ranging from do-it-yourself homeowners to professional painting contractors. Contractor equipment also includes sprayers that apply texture to walls and ceilings, highly viscous coatings to roofs, and markings on roads, parking lots, athletic fields and floors. This segment introduced airless and electrostatic disinfectant sprayers in 2020, which are compatible with chemicals used to treat surfaces against SARS-CoV-2, the novel coronavirus that causes the disease COVID-19.

This segment's end users are primarily professional painters in the construction and maintenance industries, tradesmen and do-it-yourselfers. Contractor products are marketed and sold in all major geographic areas. We continue to add distributors throughout the world that specialize in the sale of Contractor products. Globally, we are pursuing a broad strategy of converting contractors accustomed to manually applying paint and other coatings by brush-and-roller to spray technology.

Our Contractor products are distributed primarily through distributor outlets whose main products are paint and other coatings. Certain sprayers and accessories are distributed globally through the home center channel. Contractor products are also sold through general equipment distributors outside of North America.

Raw Materials

The primary materials and components in our products are steel of various alloys, sizes and hardness; specialty stainless steel and aluminum bar stock, tubing and castings; tungsten carbide; electric and gas motors; injection molded plastics; sheet metal; forgings; powdered metal; hoses; electronic components and high performance plastics, such as polytetrafluoroethylene (PTFE). The materials and components that we use are generally adequately available through multiple sources of supply. To manage cost, we source significant amounts of materials and components from outside the U.S., primarily in the Asia Pacific region.

In 2020, our raw material and purchased component availability was sufficient, although we saw isolated instances where supply was interrupted by impacts of the COVID-19 pandemic on our suppliers. Generally we are able to find alternative suppliers to source raw materials and components for our products if interruptions persist. Pressures from tariffs, mostly on metals and electronics, and increased material prices, particularly in aluminum, stainless steel, carbon steel bar stock, electronic controls, plastics and copper, increased production cost in 2020. Although pressures from tariffs continued in 2020, we worked with our supplier base on a variety of opportunities to lessen the effect.

We endeavor to address fluctuations in the price and availability of various materials and components through adjustable surcharges and credits, close management of current suppliers, price negotiations and an intensive search for new suppliers. We have performed risk assessments of our key suppliers, and we factor the risks identified into our commodity plans.

Intellectual Property

We own a number of patents across our segments and have patent applications pending in the U.S. and other countries. We also license our patents to others and are a licensee of patents owned by others. In our opinion, our business is not materially dependent upon any one or more of these patents or licenses. Our Company also owns a number of trademarks in the U.S. and foreign countries, including registered trademarks for “GRACO,” “Gema,” several forms of a capital “G,” and various product trademarks that are material to our business, inasmuch as they identify Graco and our products to our customers.

Competition

We encounter a wide variety of competitors that vary by product, industry and geographic area. Each of our segments generally has several competitors. Our competitors are both U.S. and foreign companies and range in size. We believe that our ability to compete depends upon product quality, product reliability, innovation, design, customer support and service, specialized engineering and competitive pricing. Although no competitor duplicates all of our products, some competitors are larger than our Company, both in terms of sales of directly competing products and in terms of total sales and financial resources. We also face competitors with different cost structures and expectations of profitability, and these companies may offer competitive products at lower prices. We refresh our product line and continue development of our distribution channel to stay competitive. We also face competitors who illegally sell counterfeits of our products or otherwise infringe on our intellectual property rights. As this type of unfair competition grows or evolves, we may have to increase our intellectual property and unfair competition enforcement activities.

Environmental Protection

Our compliance with federal, state and local laws and regulations did not have a material effect upon our capital expenditures, earnings or competitive position during the fiscal year ended December 25, 2020.

Human Capital Resources

As of December 25, 2020, we employed approximately 3,700 persons. Of this total, approximately 1,400 were employees based outside of the U.S., and 1,400 were hourly factory workers in the U.S. None of our Company’s U.S. employees are covered by a collective bargaining agreement. Various national industry-wide labor agreements apply to certain employees in various countries outside of the U.S. Compliance with such agreements has no material effect on our Company or our operations.

The location of the majority of our manufacturing operations within the U.S. allows us to flex employee resources as needed to respond to changes in demand of our business. During 2020, we were able to temporarily reassign manufacturing employees to our Contractor segment from other segments to align with sales demand. Our manufacturing, product development, warehouse and administrative employees are generally located in the same or adjacent facilities, which we believe contributes to our culture of strong manufacturing, engineering and customer service capabilities.

Health, Wellness & Safety

The personal health and safety of each of our employees is of primary importance. The prevention of occupationally-induced injuries and illnesses is given precedence over operating productivity. Our Health, Wellness and Safety program is designed to increase employee engagement, reduce employee absenteeism due to illness or injury, provide healthier lifestyle choices by our employees, and reduce health risk factors for our employees.

During 2020, our experience with – and ongoing commitment to - workplace health and safety enabled us to remain operational during the COVID-19 pandemic while at the same time protecting the health and safety of our employees and workplace visitors. In response to the COVID-19 pandemic, we implemented enhanced safety and cleaning protocols, altered our manufacturing operations to allow for appropriate social distancing and hygiene, provided additional personal protective equipment to employees, provided paid time-off for employees directly impacted by COVID-19, implemented work-from-home arrangements for most office employees, and invested in modifications to factories, manufacturing cells and office space to create a safe work environment for our employees. We did not implement any workforce or pay reductions in response to the COVID-19 pandemic.

Total Rewards

Our reward programs connect all employees to the performance and success of the Company. As an employer of choice we offer pay, benefits and a work environment that attracts and retains high-performing talent. We believe that an effective compensation program must be at target of market as well as fair and equitable. Our compensation program is designed to attract and retain top talent, drive

and reward performance and enhance our reputation. Our total reward program is comprised of various elements, including base pay, variable pay, equity-based compensation for all employees, and health, welfare and retirement benefits.

Talent

To achieve our strategic objectives, it is imperative that we attract, develop and retain qualified personnel. We seek to develop talent from within our organization and supplement our workforce with external hires as necessary. This approach has helped create among our employees an in-depth understanding of our business, products, competition and customers, while also adding new employee ideas and perspectives in support of our continuous improvement initiatives.

Our executive officers responsible for setting overall strategy average nearly 26 years of tenure with us. Tenure of all employees averages nearly 11 years, reflective of our positive workplace culture. Our recruiting team uses internal and external resources to recruit highly skilled and talented workers, and we encourage and reward employee referrals for open positions.

We are committed to maintaining a culture of trust that recognizes the dignity and uniqueness of the individual. We provide equal opportunities for professional growth and advancement based on performance, qualifications, demonstrated skill and achievements. All employees are encouraged, under a continuous improvement program with financial incentives, to submit ideas to improve profitability, quality, safety and environmental practices. New employee orientations and regular ethics training are required for all employees. We complete a biennial survey of our employees to assess our culture and make improvements as necessary.

Community

We have a long history of giving back to the communities where we live and work through the volunteer efforts of our employees and the giving efforts of the Graco Foundation. The Graco Foundation's goal is to help organizations grow their ability to serve community needs through grants focused on capital projects, specific programs and technology needs. The Graco Foundation places emphasis on educational programs, especially STEM (science, technology, engineering and math) programs; human service programs promoting workforce development; and youth development programs. The Graco Foundation also supports several employee-based programs, including dollar-for-dollar gift matching, grants to support volunteerism, scholarships for children of employees, tutoring with a local middle school and an annual Paint-A-Thon that helps low-income seniors and people with permanent disabilities continue to live independently in their own homes.

Item 1A. Risk Factors

As a global manufacturer of systems and equipment designed to move, measure, control, dispense and spray fluid and powder materials, our business is subject to various risks and uncertainties. Below are risk factors that could materially and adversely affect our business, financial condition and results of operations.

COVID-19 Pandemic Risks

Coronavirus Disease 2019 (COVID-19) - The COVID-19 pandemic, the governmental responses to the pandemic, and the resulting decline in global economic activity have adversely affected our business and results of operations, and could have a material and adverse effect on our business, results of operations and financial condition in the future.

In response to the COVID-19 pandemic, federal, provincial, state, county and local governments and public health organizations and authorities around the world implemented a variety of measures intended to control the spread of the virus, including quarantines, "shelter-in-place," "stay-at-home" and similar orders, travel restrictions, school closures, business curtailments and closures, social distancing and hygiene requirements, and other measures. While there has been a loosening of some of these measures in certain areas, the ongoing pandemic and outbreaks of COVID-19 and variants of the disease in various areas has resulted in, and may continue to result in, reinstatement of these measures or implementation of new or additional measures in certain areas.

We manufacture and provide essential products and services to a variety of critical infrastructure customers around the globe. We have remained operational during the pandemic, and we intend to continue providing our products and services to our customers. However, the COVID-19 pandemic and related governmental and business responses have had, and will likely continue to have, an adverse effect on our operations, supply chains, distribution channels, and end-user customers. For example, as a result of the pandemic and various governmental orders, a significant number of our employees are working from home, and we substantially altered our manufacturing operations to allow for appropriate social distancing and hygiene, which could lead to decreased efficiency and productivity in our workforce and our operations. In our supply chain, we have experienced isolated instances of suppliers temporarily

closing their operations, delaying order fulfillment or limiting their production due to the pandemic, and we have utilized and may continue to utilize alternative supply arrangements where appropriate or necessary. This may lead to increased costs, delays, and difficulties sourcing certain products. Similarly, we have experienced isolated instances of distributors reducing or closing their operations, impacting the ability of some of our end-user customers to procure our products through our traditional distribution channels. Some of our end-user customers have deferred capital equipment purchases, and many have eliminated in-person sales meetings. In addition, trade shows, industry events and product demonstrations have been cancelled and are continuing to be cancelled, postponed or reformatted as virtual events. As a result, our selling activities and our ability to convert those activities into actual sales have been and will continue to be adversely impacted. In addition, management is focused on mitigating the effects of the COVID-19 pandemic, which has required and will continue to require a large investment of time, energy and resources.

The extent to which the continuing COVID-19 pandemic impacts us will depend on numerous evolving factors and future developments that are uncertain and that we are not able to predict, including: the severity of the virus and new variants of the virus; the duration and scope of the pandemic; the efficacy, distribution and adoption rate of vaccines; whether there are additional waves of the pandemic; whether there are continued increases or spikes in COVID-19 cases in the areas in which we or our suppliers, distributors or end-user customers operate; governmental, business, individual and other actions taken in response to the pandemic; the effect on our suppliers and distributors, and disruptions to the global supply chain; the impact on economic activity; the extent and duration of the impact on consumer and business confidence and spending; the effect on our end-user customers and their demand and buying patterns for our products and services; the effect of any closures or other changes in operations of our and our suppliers', distributors' and end-user customers' facilities; the health of and the effect on our employees and our ability to meet staffing needs in our manufacturing and distribution facilities and other critical functions, particularly if a significant number of employees become ill, are quarantined as a result of exposure, or are reluctant to show up for work; our ability to sell our products and services and provide product support, including as a result of travel restrictions, work from home requirements and arrangements, and other restrictions or changes in behavior or preferences for interactions; the effect on employee or Company healthcare costs under our self-insurance programs; restrictions or disruptions to transportation, including reduced availability of ground, sea or air transport; the ability of our distributors and end-user customers to pay for our products and services; the potential effects on our internal controls, including those over financial reporting, as a result of changes in working arrangements that are applicable to our employees and business partners; and the effect on our ability to access capital on favorable terms and continue to meet our liquidity needs, all of which are highly uncertain and cannot be predicted. Even after the COVID-19 pandemic has subsided, we may continue to experience adverse impacts to our business as a result of ongoing or new economic recession that may occur in the future. The COVID-19 pandemic could also exacerbate or trigger other risks discussed in this report, any of which could have a material and adverse effect on our business, results of operations and financial condition.

Economic, Financial and Political Risks

Economic Environment - Demand for our products depends on the level of commercial and industrial activity worldwide.

An economic downturn or financial market turmoil may depress demand for our equipment in all major geographies and markets. Economic uncertainty and volatility in various geographies may adversely affect our net sales and earnings. If our distributors and original equipment manufacturers are unable to purchase our products because of unavailable credit or unfavorable credit terms, depressed end-user demand, or are simply unwilling to purchase our products, our net sales and earnings will be adversely affected. An economic downturn may affect our ability to satisfy the financial covenants in the terms of our financing arrangements.

Currency - Changes in currency translation rates could adversely impact our revenue, earnings and the valuation of assets denominated in foreign currencies.

A significant number of routine transactions are conducted in foreign currencies. Changes in exchange rates will impact our reported sales and earnings and the valuation of assets denominated in foreign currencies. A majority of our manufacturing and cost structure is based in the U.S. In addition, decreased value of local currency may make it difficult for some of our distributors and end users to purchase products.

Political Instability - Uncertainty surrounding political leadership may limit our growth opportunities.

Domestic political instability, including government shut downs, may limit our ability to grow our business. International political instability may prevent us from expanding our business into certain geographies and may also limit our ability to grow our business. Civil disturbances may harm our business.

Pension Plans – Declines in interest rates, asset values and investment returns could significantly increase our pension costs and required pension contributions.

The Company sponsors two qualified defined benefit pension plans for certain employees and retirees of the Company. The pension plans are funded with trust assets invested in a diversified portfolio of equity, fixed income and other investments. Declines in interest rates, the market value of plan assets, and investment returns could significantly increase our net periodic pension costs and our future pension contribution requirements and adversely affect our results of operations and financial condition.

Strategic Risks

Growth Strategies and Acquisitions - Our growth strategies may not provide the return on investment desired if we are not successful in implementation of these strategies.

Making acquisitions, investing in new products, expanding geographically and targeting new industries are among our growth strategies. We may not obtain the return on investment desired if we are not successful in implementing these growth strategies. The success of our acquisition strategy depends on our ability to successfully identify and properly value suitable acquisition candidates, negotiate appropriate acquisition terms, obtain financing at a reasonable cost, prevail against competing acquirers, complete the acquisitions and integrate or add the acquired businesses into our existing businesses or corporate structure. Once successfully integrated into our existing businesses or added to our corporate structure, the acquired businesses may not perform as planned, be accretive to earnings, generate positive cash flows, provide an acceptable return on investment or otherwise be beneficial to us. We may not realize projected efficiencies and cost-savings from the businesses we acquire. We cannot predict how customers, competitors, suppliers, distributors and employees will react to the acquisitions that we make. Acquisitions may result in the assumption of undisclosed or contingent liabilities, the incurrence of increased indebtedness and expenses, and the diversion of management's time and attention away from other business matters. We make significant investments in developing products that have innovative features and differentiated technology in their industries and in niche markets. We are adding to the geographies in which we do business with third-party distributors. We cannot predict whether and when we will be able to realize the expected financial results and accretive effect of the acquisitions that we make, the new products that we develop and the channel expansions that we make.

Competition - Our success depends upon our ability to develop, market and sell new products that meet our customers' needs, and anticipate industry changes.

Our profitability will be affected if we do not develop new products and technologies that meet our customers' needs. Our ability to develop, market and sell products that meet our customers' needs depends upon a number of factors, including anticipating the features and products that our customers will need in the future, identifying and entering into new markets, and training our distributors. Changes in industries that we serve, including consolidation of competitors and customers, could affect our success. Increases in the number of competitors, the market reach of competitors, and the quality of competitive products could also affect our success. Price competition and competitor strategies could negatively impact our growth and have an adverse impact on our results of operations.

Impairment - If acquired businesses do not meet performance expectations, assets acquired could be subject to impairment.

Our total assets reflect goodwill from acquisitions, representing the excess cost over the fair value of the identifiable net assets acquired. We test annually whether goodwill has been impaired, or more frequently if events or changes in circumstances indicate the goodwill may be impaired. If future operating performance at one or more of our operating units were to fall significantly below forecast levels or if market conditions for one or more of our acquired businesses were to decline, we could be required to incur a non-cash charge to operating income for impairment. Any impairment in the value of our goodwill would have an adverse non-cash impact on our results of operations and reduce our net worth.

Major Customers - Our Contractor segment depends on a few large customers for a significant portion of its sales. Significant declines in the level of purchases by these customers could reduce our sales and impact segment profitability.

Our Contractor segment derives a significant amount of revenue from a few large customers. Substantial decreases in purchases by these customers, difficulty in collecting amounts due or the loss of their business would adversely affect the profitability of this segment. The business of these customers is dependent upon the economic vitality of the construction and home improvement markets. If these markets decline, the business of our customers could be adversely affected and their purchases of our equipment could decrease.

Variable Industries - Our success may be affected by variations in the construction, automotive, mining and oil and natural gas industries.

Our business may be affected by fluctuations in residential, commercial and institutional building and remodeling activity. Changes in construction materials and techniques may also impact our business. Our business may also be affected by fluctuations of activity in the automotive, mining and oil and natural gas industries.

Operational Risks

Global Sourcing - Risks associated with foreign sourcing, supply interruption, delays in raw material or component delivery, supply shortages and counterfeit components may adversely affect our production or profitability.

We source certain of our materials and components from suppliers outside the U.S., and from suppliers within the U.S. who engage in foreign sourcing. Long lead times or supply interruptions associated with a global supply base may reduce our flexibility and make it more difficult to respond promptly to fluctuations in demand or respond quickly to product quality problems. Changes in exchange rates between the U.S. dollar and other currencies and fluctuations in the price of commodities have impacted and may continue to impact the manufacturing costs of our products and affect our profitability. Protective tariffs, unpredictable changes in duty rates, and changes in trade policies, agreements, relations and regulations have made and may continue to make certain foreign-sourced parts no longer competitively priced. Long supply chains may be disrupted by environmental events, public health crises or other political factors. Raw materials may become limited in availability from certain regions. Port labor disputes may delay shipments. We source a large volume and a variety of electronic components, which exposes us to an increased risk of counterfeit components entering our supply chain. If counterfeit components unknowingly become part of our products, we may need to stop delivery and rework our products. We may be subject to warranty claims and may need to recall products.

Information Systems - Interruption of or intrusion into information systems may impact our business.

We rely on information systems and networks, including the internet, to conduct and support our business. Some of these systems and networks are managed by third parties. We use these systems and networks to record, process, summarize, transmit and store electronic information, and to manage or support our business processes and activities. We have implemented measures intended to secure our information systems and networks and prevent unauthorized access to or loss of sensitive data. However, these measures may not be effective against all eventualities, and our information systems and networks may be vulnerable to hacking, human error, fraud or other misconduct, system error, faulty password management or other irregularities. Cybersecurity threats are increasing in frequency, sophistication and severity. We experience cybersecurity threats from time to time, and expect to continue to experience such threats in the future. To date, we have not experienced a material cybersecurity incident. Security breaches or intrusion into our information systems or networks or the information systems or networks of the third parties with whom we do business pose a risk to the confidentiality, availability and integrity of our data, and could lead to any one or more of the following: the compromising of confidential information; manipulation, unauthorized use, theft or destruction of data; product defects or malfunctions; production downtimes and operations disruptions; litigation; regulatory action; fines; and other costs and adverse consequences. The occurrence of a security breach or an intrusion into an information system or a network, or the breakdown, interruption in or inadequate upgrading or maintenance of our information processing software, hardware or networks or the internet, may adversely affect our business, reputation, results of operations and financial condition.

Intellectual Property - Demand for our products may be affected by new entrants who copy our products or infringe on our intellectual property. Competitors may allege that our products infringe the intellectual property of others.

From time to time, we have been faced with instances where competitors have infringed or unfairly used our intellectual property or taken advantage of our design and development efforts. The ability to protect and enforce intellectual property rights varies across jurisdictions. Competitors who copy our products are prevalent in Asia. If we are unable to effectively meet these challenges, they could adversely affect our revenues and profits and hamper our ability to grow. Competitors and others may also initiate litigation to challenge the validity of our intellectual property or allege that we infringe their intellectual property. We may be required to pay substantial damages if it is determined our products infringe their intellectual property. We may also be required to develop an alternative, non-infringing product that could be costly and time-consuming, or acquire a license (if available) on terms that are not favorable to us. Regardless of whether infringement claims against us are successful, defending against such claims could significantly increase our costs, divert management's time and attention away from other business matters, and otherwise adversely affect our results of operations and financial condition.

Foreign Operations - Conducting business internationally exposes our Company to risks that could harm our business.

In 2020, approximately 46 percent of our sales were generated by customers located outside the United States. Operating and selling outside of the United States exposes us to certain risks that could adversely impact our sales volume, rate of growth or profitability. These risks include: complying with foreign legal and regulatory requirements; international trade factors (export controls, customs clearance, trade policy, trade sanctions, trade agreements, duties, tariff barriers and other restrictions); protection of our proprietary technology in certain countries; potentially burdensome taxes; potential difficulties staffing and managing local operations; and changes in exchange rates.

Catastrophic Events - Our operations are at risk of damage, destruction or disruption by natural disasters and other unexpected events.

The loss of, or substantial damage to, one of our facilities, our information system infrastructure or the facilities of our suppliers could make it difficult to manufacture product, fulfill customer orders and provide our employees with work. Flooding, tornadoes, hurricanes, unusually heavy precipitation or other severe weather events, earthquakes, tsunamis, fires, explosions, acts of war, terrorism, civil unrest or outbreaks, epidemics or pandemics of infectious diseases (such as the aforementioned COVID-19 pandemic) could adversely impact our operations.

Personnel - Our success may be affected if we are not able to attract, develop and retain qualified personnel.

Our success depends in large part on our ability to identify, recruit, develop and retain qualified personnel. If we are unable to successfully identify, recruit, develop and retain qualified personnel, it may be difficult for us to meet our strategic objectives and grow our business, which could adversely affect our results of operations and financial condition.

Legal, Regulatory and Compliance Risks

Changes in Laws and Regulations - Changes may impact how we can do business and the cost of doing business around the world.

The speed and frequency of implementation and the complexity of new or revised laws and regulations globally appear to be increasing. In addition, as our business grows and expands geographically, we may become subject to laws and regulations previously inapplicable to our business. These laws and regulations increase our cost of doing business, may affect the manner in which our products will be produced or delivered, may affect the locations and facilities from which we conduct business, and may impact our long-term ability to provide returns to our shareholders.

Anti-Corruption and Trade Laws - We may incur costs and suffer damages if our employees, agents, distributors or suppliers violate anti-bribery, anti-corruption or trade laws and regulations.

Laws and regulations related to bribery, corruption and trade, and enforcement thereof, are increasing in frequency, complexity and severity on a global basis. The continued geographic expansion of our business increases our exposure to, and cost of complying with, these laws and regulations. If our internal controls and compliance program do not adequately prevent or deter our employees, agents, distributors, suppliers and other third parties with whom we do business from violating anti-corruption laws, we may incur defense costs, fines, penalties, reputational damage and business disruptions.

Tax Rates and New Tax Legislation - Changes in tax rates or the adoption of new tax legislation may affect our results of operations, cash flows and financial condition.

The Company is subject to taxes in the U.S. and a number of foreign jurisdictions where it conducts business. The Company's effective tax rate has been and may continue to be affected by changes in the mix of earnings in jurisdictions with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, and changes in tax laws or their interpretation. If the Company's effective tax rate were to increase, or if the ultimate determination of the Company's taxes owed is for an amount in excess of amounts previously accrued, the Company's results of operations, cash flows and financial condition could be adversely affected.

Legal Proceedings - Costs associated with claims, litigation, administrative proceedings and regulatory reviews, and potentially adverse outcomes, may affect our profitability.

As our Company grows, we are at an increased risk of being a target in matters related to the assertion of claims and demands, litigation, administrative proceedings and regulatory reviews. We may also need to pursue claims or litigation to protect our interests. The cost of pursuing, defending and insuring against such matters is increasing, particularly in the U.S. Such costs may adversely affect our Company's profitability. Further, due to adverse changes in costs to insure against such matters, we have increased our self-insured retention and deductibles and procured lower coverage limits under certain policies, which may increase our risk exposure for certain types of claims and adversely affect our profitability if we are ultimately held responsible for such claims. Our businesses expose us to potential toxic tort, product liability, commercial and employment claims. Successful claims against the Company and settlements may adversely affect our results.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our facilities are in satisfactory condition, suitable for their respective uses, and are generally adequate to meet current needs. A description of our principal facilities as of February 16, 2021, is set forth in the chart below.

Facility	Owned or Leased	Square Footage	Facility Activities	Operating Segment
North America				
Indianapolis, Indiana, United States	Owned	64,000	Warehouse, office, product development and application laboratory	Industrial
Dexter, Michigan, United States	Owned	65,000	Manufacturing, warehouse, office and product development	Process
Minneapolis, Minnesota, United States	Owned	141,000	Worldwide headquarters; office and product development	Corporate, Industrial and Process
Minneapolis, Minnesota, United States	Owned	42,000	Corporate office	All segments
Minneapolis, Minnesota, United States	Owned	390,000	Manufacturing and office	Industrial and Process
Minneapolis, Minnesota, United States	Owned	87,000	Assembly	Industrial and Process
Anoka, Minnesota, United States	Owned	208,000	Manufacturing, warehouse, office and product development	Process
Rogers, Minnesota, United States	Owned	782,000	Manufacturing, office and product development	Contractor
Rogers, Minnesota, United States	Leased	323,000	Distribution center and office	All segments
North Canton, Ohio, United States	Owned	131,000	Manufacturing, warehouse, office and application laboratory	Industrial
Erie, Pennsylvania, United States	Owned	89,000	Manufacturing, warehouse, office and product development	Process
Sioux Falls, South Dakota, United States	Owned	203,000	Manufacturing and office	Industrial and Contractor
Kamas, Utah, United States	Owned	74,000	Manufacturing, office and test laboratory	Process
Fremont, California, United States	Leased	27,000	Manufacturing, office, warehouse	Process
Pompano Beach, Florida, United States	Leased	109,000	Office, assembly and warehouse	Contractor
Europe				
Maasmechelen, Belgium	Owned	210,000	EMEA headquarters, warehouse, assembly	All segments
Maasmechelen, Belgium	Leased	25,000	Office and assembly	All segments

Rödermark, Germany	Leased	41,000	Warehouse and office	Industrial
Sibiu, Romania	Leased	68,000	Manufacturing	Industrial
St. Gallen, Switzerland	Owned	82,000	Manufacturing, warehouse, office, product development and application laboratory	Industrial
St. Gallen, Switzerland	Leased	23,000	Manufacturing	Industrial
Verona, Italy	Owned	39,000	Warehouse and office	Industrial
Verona, Italy	Leased	53,000	Manufacturing and warehouse	Industrial
Coventry, United Kingdom	Owned	38,000	Office and assembly	Process
Asia Pacific				
Derrimut, Australia	Leased	22,000	Warehouse	All segments
Gurgaon, India	Leased	18,000	Office	All segments
Yokohama, Japan	Leased	19,000	Office	All segments
Shanghai, P.R.C.	Leased	80,000	Asia Pacific headquarters	All segments
Shanghai, P.R.C.	Leased	27,000	Warehouse and office	Industrial
Suzhou, P.R.C.	Owned	80,000	Manufacturing, warehouse, office and product development	All segments
Gyeonggi-do, South Korea	Leased	33,000	Office	All segments

Item 3. Legal Proceedings

Our Company is engaged in routine litigation, administrative proceedings and regulatory reviews incident to our business. It is not possible to predict with certainty the outcome of these unresolved matters, but management believes that they will not have a material effect upon our operations or consolidated financial position.

Item 4. Mine Safety Disclosures

Not applicable.

Information About Our Executive Officers

The following are all the executive officers of Graco Inc. as of February 16, 2021:

Patrick J. McHale, 59, became President and Chief Executive Officer in June 2007. He served as Vice President and General Manager, Lubrication Equipment Division from June 2003 to June 2007. He was Vice President, Manufacturing and Distribution Operations from April 2001 to June 2003. He served as Vice President, Contractor Equipment Division from February 2000 to April 2001. From September 1999 to February 2000, he was Vice President, Lubrication Equipment Division. Prior to September 1999, he held various manufacturing management positions in Minneapolis, Minnesota; Plymouth, Michigan; and Sioux Falls, South Dakota. Mr. McHale joined the Company in 1989.

David M. Ahlers, 62, became Executive Vice President, Human Resources and Corporate Communications in June 2018. From April 2010 to June 2018, he was Vice President, Human Resources and Corporate Communications. From September 2008 through March 2010, he served as the Company's Vice President, Human Resources. Prior to joining Graco, Mr. Ahlers held various human resources positions, including, most recently, Chief Human Resources Officer and Senior Managing Director of GMAC Residential Capital, from August 2003 to August 2008. He joined the Company in 2008.

Caroline M. Chambers, 56, became President, EMEA, and Executive Vice President, Information Systems in August 2020. From June 2018 to August 2020, she served as Executive Vice President, Corporate Controller and Information Systems. She also served as the Company's principal accounting officer from September 2007 to August 2020. She was Vice President, Corporate Controller and Information Systems from December 2013 to June 2018. From April 2009 to December 2013, she was Vice President and Corporate Controller. She served as Vice President and Controller from December 2006 to April 2009. She was Corporate Controller from October 2005 to December 2006 and Director of Information Systems from July 2003 through September 2005. Prior to becoming Director of Information Systems, she held various management positions in the internal audit and accounting departments. Prior to joining Graco, Ms. Chambers was an auditor with Deloitte & Touche in Minneapolis, Minnesota and Paris, France. Ms. Chambers joined the Company in 1992.

Karen Park Gallivan, 64, became Executive Vice President, General Counsel and Corporate Secretary in June 2018. She was Vice President, General Counsel and Secretary from September 2005 to June 2018. She was Vice President, Human Resources from January 2003 to September 2005. Prior to joining Graco, she was Vice President of Human Resources and Communications at Syngenta Seeds, Inc. from January 1999 to January 2003. From 1988 through January 1999, she was General Counsel of Novartis Nutrition Corporation. Prior to joining Novartis, Ms. Gallivan was an attorney with the law firm of Rider, Bennett, Egan & Arundel, L.L.P. She joined the Company in 2003.

Dale D. Johnson, 66, became President, Worldwide Contractor Equipment Division in February 2017. From April 2001 through January 2017, he served as Vice President and General Manager, Contractor Equipment Division. From January 2000 through March 2001, he served as President and Chief Operating Officer. From December 1996 to January 2000, he was Vice President, Contractor Equipment Division. Prior to becoming Director of Marketing, Contractor Equipment Division in June 1996, he held various marketing and sales positions in the Contractor Equipment Division and the Industrial Equipment Division. He joined the Company in 1976.

Jeffrey P. Johnson, 61, became President, Electric Motor Division in April 2020. From December 2018 to April 2020, he was President, New Ventures. From June 2018 to December 2018, he was President, EMEA. He served as Vice President and General Manager, EMEA from January 2013 to June 2018. From February 2008 to December 2012, he was Vice President and General Manager, Asia Pacific. He served as Director of Sales and Marketing, Applied Fluid Technologies Division, from June 2006 until February 2008. Prior to joining Graco, he held various sales and marketing positions, including, most recently, President of Johnson Krumwiede Roads, a full-service advertising agency, and European sales manager at General Motors Corp. He joined the Company in 2006.

David M. Lowe, 65, became President, Worldwide Process Division in April 2020. From June 2018 to April 2020, he was President, Worldwide Industrial Products Division. From April 2012 to June 2018, he was Executive Vice President, Industrial Products Division. From February 2005 to April 2012, he was Vice President and General Manager, Industrial Products Division. He was Vice President and General Manager, European Operations from September 1999 to February 2005. Prior to becoming Vice President, Lubrication Equipment Division in December 1996, he was Treasurer. Mr. Lowe joined the Company in 1995.

Bernard J. Moreau, 60, became President, South and Central America in June 2018. He was Vice President and General Manager, South and Central America from January 2013 to June 2018. From November 2003 to December 2012, he was Sales and Marketing

Director, EMEA, Industrial/Automotive Equipment Division. From January 1997 to October 2003, he was Sales Manager, Middle East, Africa and East Europe. Prior to 1997, he worked in various Graco sales engineering and sales management positions, mainly to support Middle East, Africa and southern Europe territories. Mr. Moreau joined the Company in 1985.

Peter J. O'Shea, 56, became President, Worldwide Industrial Products Division in April 2020. From June 2018 to April 2020, he was President, Worldwide Lubrication Equipment Division. He was Vice President and General Manager, Lubrication Equipment Division from January 2016 to June 2018. From January 2013 to December 2015, he was Vice President and General Manager, Asia Pacific. From January 2012 until December 2012, he was Director of Sales and Marketing, Industrial Products Division, and from 2008 to 2012, he was Director of Sales and Marketing, Industrial Products Division and Applied Fluid Technologies Division. He was Country Manager, Australia - New Zealand from 2005 to 2008, and from 2002 to 2005 he served as Business Development Manager, Australia - New Zealand. Prior to becoming Business Development Manager, Australia - New Zealand, he worked in various Graco sales management positions. Mr. O'Shea joined the Company in 1995.

Christian E. Rothe, 47, became President, Worldwide Applied Fluid Technologies Division in June 2018. He was Chief Financial Officer and Treasurer from September 2015 to June 2018. From June 2011 through August 2015, he was Vice President and Treasurer. Prior to joining Graco, he held various positions in business development, accounting and finance, including, most recently, at Gardner Denver, Inc. as Vice President, Treasurer from January 2011 to June 2011, Vice President - Finance, Industrial Products Group from October 2008 to January 2011, and Director, Strategic Planning and Development from October 2006 to October 2008. Mr. Rothe joined the Company in 2011.

Kathryn L. Schoenrock, 43, became Executive Vice President, Corporate Controller and the Company's principal accounting officer in August 2020. From December 2018 to August 2020, she served as Director of Corporate Finance. She served as Director of Financial Reporting from August 2012 to December 2018. Prior to joining Graco, Ms. Schoenrock served as a Senior Manager in the audit practice of Deloitte & Touche LLP from 2008 to 2012, and held various positions in the audit practice of Deloitte & Touche LLP from 2002 to 2008 and in the audit practice of Arthur Andersen LLP from 2000 to 2002. Ms. Schoenrock joined the Company in 2012.

Mark W. Sheahan, 56, became Chief Financial Officer and Treasurer in June 2018. He was Vice President and General Manager, Applied Fluid Technologies Division from February 2008 until June 2018. He served as Chief Administrative Officer from September 2005 until February 2008, and was Vice President and Treasurer from December 1998 to September 2005. Prior to becoming Treasurer in December 1996, he was Manager, Treasury Services. Mr. Sheahan joined the Company in 1995.

Timothy R. White, 51, became President, White Knight and QED Environmental Systems in August 2020. From December 2018 to August 2020, he served as President, EMEA. From August 2015 to December 2018, he was President of Q.E.D. Environmental Systems, Inc., a Graco subsidiary. He served as Director of Sales and Marketing, Applied Fluid Technologies Division, from April 2012 to August 2015. From May 2011 to April 2012, he was North American Sales Manager, Applied Fluid Technologies Division. From January 2008 until April 2011, he was Operations Director, Contractor Equipment Division. Prior to January 2008, he held various manufacturing management positions. Mr. White joined the Company in 1992.

Angela F. Wordell, 49, became Executive Vice President, Operations, and President, Worldwide Oil & Natural Gas Division in April 2020. From December 2018 to April 2020, she was Executive Vice President, Operations. From April 2017 to December 2018, she was Purchasing Director. From January 2017 to April 2017, she served as Strategic Sourcing Director. From March 2010 until January 2017, she was Operations Director, Industrial Products Division and China Factory. From February 2008 until March 2010, she was Operations Manager, Industrial Products Division. Prior to February 2008, she held various manufacturing management and engineering positions. Ms. Wordell joined the Company in 1993.

Brian J. Zumbolo, 51, became President, Asia Pacific in June 2018. From January 2016 to June 2018 he was Vice President and General Manager, Asia Pacific. From August 2007 to December 2015, he was Vice President and General Manager, Lubrication Equipment Division. He was Director of Sales and Marketing, Lubrication Equipment and Applied Fluid Technologies, Asia Pacific, from November 2006 through July 2007. From February 2005 to November 2006, he was Director of Sales and Marketing, High Performance Coatings and Foam, Applied Fluid Technologies Division. Mr. Zumbolo was Director of Sales and Marketing, Finishing Equipment from May 2004 to February 2005. Prior to May 2004, he held various marketing positions in the Industrial Equipment division. Mr. Zumbolo joined the Company in 1999.

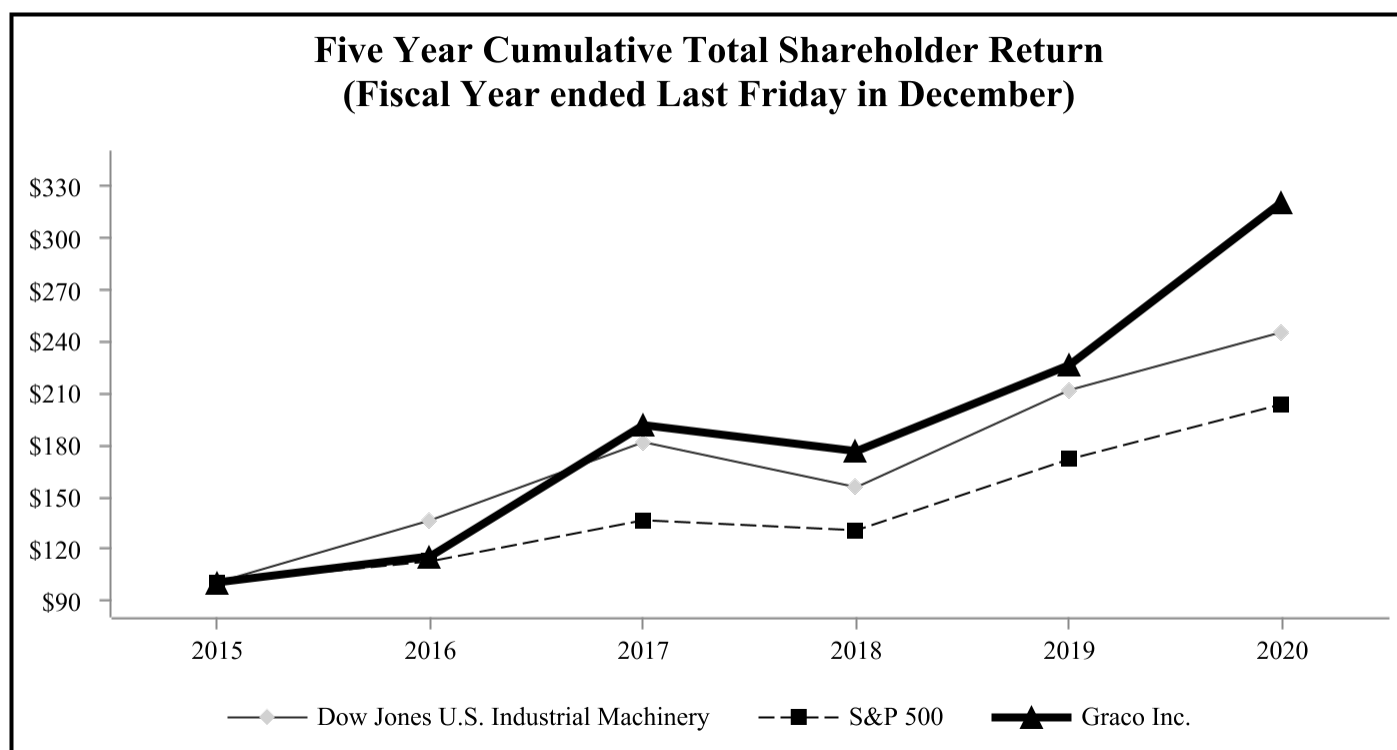
PART II

Item 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Graco Common Stock

Graco common stock is traded on the New York Stock Exchange under the ticker symbol “GGG.” As of January 14, 2021 the share price was \$75.00 and there were 168,767,073 shares outstanding and 1,799 common shareholders of record, which includes nominees or broker dealers holding stock on behalf of an estimated 113,700 beneficial owners.

The graph below compares the cumulative total shareholder return on the common stock of the Company for the last five fiscal years with the cumulative total return of the S&P 500 Index and the Dow Jones U.S. Industrial Machinery Index over the same period (assuming the value of the investment in Graco common stock and each index was \$100 on December 31, 2015, and all dividends were reinvested).



	2015	2016	2017	2018	2019	2020
Dow Jones U.S. Industrial Machinery	100	136	181	155	211	245
S&P 500	100	112	136	130	171	203
Graco Inc.	100	115	191	176	226	320

Issuer Purchases of Equity Securities

On April 24, 2015, the Board of Directors authorized the purchase of up to 18 million shares of 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 authorization, 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 stock 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
Sep 26, 2020 - Oct 24, 2020	—	\$ —	—	18,517,834
Oct 25, 2020 - Nov 21, 2020	—	\$ —	—	18,517,834
Nov 22, 2020 - Dec 25, 2020	—	\$ —	—	18,517,834

Item 6. Selected Financial Data

The following table includes historical financial data (in millions, except per share amounts):

	2020	2019	2018	2017	2016
Net sales	\$1,650.1	\$1,646.0	\$1,653.3	\$1,474.7	\$1,329.3
Net earnings	330.5	343.9	341.1	252.4	40.7
Per common share ⁽¹⁾					
Basic net earnings	\$1.97	\$2.06	\$2.04	\$1.50	\$0.24
Diluted net earnings	1.92	2.00	1.97	1.45	0.24
Cash dividends declared	0.71	0.66	0.56	0.49	0.45
Total assets	\$1,988.1	\$1,692.2	\$1,472.7	\$1,390.6	\$1,243.1
Long-term debt (including current portion)	150.0	164.3	266.4	226.0	305.7

(1) All per share data reflects the three-for-one stock split distributed on December 27, 2017.

Net earnings in 2020 included \$34 million of after-tax loss from impairment charges related to the divestiture of the Company's U.K.-based valve business.

The 2017 Tax Cuts and Jobs Act reduced the Company's 2018 effective income tax rate by approximately 10 percentage points.

Net earnings in 2016 included \$161 million of after-tax loss from impairment charges in the Company's Oil and Natural Gas reporting unit within the Process Segment.

Additional information on the comparability of results is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following Management’s Discussion and Analysis reviews significant factors affecting the Company’s consolidated results of operations, financial condition and liquidity. This discussion should be read in conjunction with our financial statements and the accompanying notes to the financial statements. Certain prior year disclosures have been revised to conform with current year reporting. The discussion is organized in the following sections:

- Overview
- Results of Operations
- Segment Results
- Financial Condition and Cash Flow
- Critical Accounting Estimates
- Recent Accounting Pronouncements

Overview

Graco designs, manufactures and markets systems and equipment used to move, measure, control, dispense and spray fluid and powder materials. The Company specializes in equipment for applications that involve difficult-to-handle materials with high viscosities, materials with abrasive or corrosive properties and multiple-component materials that require precise ratio control. Graco sells primarily through independent third-party distributors worldwide to industrial and contractor end users. Graco’s business is classified by management into three reportable segments: Industrial, Process and Contractor. Each segment is responsible for product development, manufacturing, marketing and sales of their products.

Graco’s 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. Long-term financial growth targets accompany these strategies, including our expectation of 10 percent revenue growth and 12 percent consolidated net earnings growth. We continue to develop new products in each operating division that are expected to drive incremental sales growth, as well as continued refreshes and upgrades of existing product lines. Graco has made a number of strategic acquisitions that expand and complement organically developed products and provide new market and channel opportunities.

Manufacturing is a key competency of the Company. Our management team in Minneapolis provides strategic manufacturing expertise, and is also responsible for factories not fully aligned with a single division. Our largest manufacturing facilities are in the U.S. We also manufacture some of our products in Switzerland (Industrial segment), Italy (Industrial segment), the United Kingdom (Process segment), the People’s Republic of China (“P.R.C.”) (all segments), Belgium (all segments) and Romania (Industrial segment). Our primary distribution facilities are located in the U.S., Belgium, Switzerland, United Kingdom, P.R.C., Japan, Italy, Korea, Australia and Brazil.

Economic Uncertainty

The ongoing COVID-19 pandemic and related governmental and business responses continue to have an adverse effect on our operations, supply chains, distribution channels, and end-user customers. While incoming order rates for our Industrial segment have recovered to pre-pandemic levels and our Contractor segment has seen growth in order rates, our Process segment incoming order rates have not recovered and uncertainty remains overall with respect to the near-term economic outlook.

We manufacture and provide essential products and services to a variety of critical infrastructure customers. We have remained operational during the pandemic and we intend to continue providing our products and services to our customers. Our commercial teams are focused on customer service, maintaining end-user customer contact and providing support to our distributors. Our engineering teams continue to develop and launch new products.

As a result of the pandemic and various governmental orders, a significant number of our employees are working from home, and we altered our manufacturing operations to allow for appropriate social distancing, hygiene, cleaning and disinfecting. In our supply chain, we have experienced isolated instances of suppliers temporarily closing their operations, delaying order fulfillment or limiting

their production, and we are utilizing alternative supply arrangements as needed. We have also experienced isolated instances of distributors reducing or closing their operations, impacting the ability of some of our end-user customers to procure our products through our traditional distribution channels. Some of our end-user customers have deferred capital equipment purchases, and many have eliminated in-person sales meetings. In addition, trade shows, industry events and product demonstrations have been cancelled or postponed. As a result, our selling activities and our ability to convert those activities into sales have been and we expect will continue to be adversely impacted. We will continue to manage our working capital, such as receivables and inventory, to align with customer needs and changes in demand for our products and services.

The timing and extent of the economic recovery 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. We do not expect the pandemic to have a significant effect on our liquidity as operating cash flows and available liquidity are sufficient to support operations at current order rates (see Liquidity and Capital Resources below).

Results of Operations

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

	2020	2019	2018
Net Sales	\$ 1,650.1	\$ 1,646.0	\$ 1,653.3
Operating Earnings	391.7	424.5	436.4
Net Earnings	330.5	343.9	341.1
Diluted Net Earnings per Common Share	\$ 1.92	\$ 2.00	\$ 1.97
Adjusted (non-GAAP) ⁽¹⁾ :			
Net Earnings, adjusted	335.2	325.4	326.1
Diluted Net Earnings per Common Share, adjusted	\$ 1.95	\$ 1.90	\$ 1.88

(1) Excludes impacts of impairment, excess tax benefits from stock option exercises and certain non-recurring income tax provision adjustments. See adjusted financial results below for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Multiple events in the last three years caused significant fluctuations in financial results. Operating expenses for the year included \$35 million of non-cash impairment charges related to the sale of the Company's U.K.-based valve business (Alco). The impact of the impairment on net earnings for the year was \$34 million or \$0.20 per diluted share. Excess tax benefits related to stock option exercises reduced income taxes by \$21 million in 2020, and by \$10 million in both 2019 and 2018. Other benefits from tax planning activities further reduced income taxes in 2020, 2019 and 2018. Excluding the impacts of those items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted operating earnings, earnings before income taxes, income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	2020	2019	2018
Operating earnings, as reported	\$ 391.7	\$ 424.5	\$ 436.4
Impairment	35.2	—	—
Operating earnings, adjusted	<u>\$ 426.9</u>	<u>\$ 424.5</u>	<u>\$ 436.4</u>
Earnings before income taxes, as reported	\$ 374.7	\$ 405.9	\$ 410.8
Impairment	35.2	—	—
Earnings before income taxes, adjusted	<u>\$ 409.9</u>	<u>\$ 405.9</u>	<u>\$ 410.8</u>
Income taxes, as reported	\$ 44.2	\$ 62.0	\$ 69.7
Impairment tax benefit	1.2	—	—
Excess tax benefit from option exercises	21.3	10.4	10.0
Other non-recurring tax benefit	8.0	8.1	5.0
Income taxes, adjusted	<u>\$ 74.7</u>	<u>\$ 80.5</u>	<u>\$ 84.7</u>
Effective income tax rate			
As reported	11.8 %	15.3 %	17.0 %
Adjusted	<u>18.2 %</u>	<u>19.8 %</u>	<u>20.6 %</u>
Net Earnings, as reported	\$ 330.5	\$ 343.9	\$ 341.1
Impairment, net	34.0	—	—
Excess tax benefit from option exercises	(21.3)	(10.4)	(10.0)
Other non-recurring tax benefit	(8.0)	(8.1)	(5.0)
Net Earnings, adjusted	<u>\$ 335.2</u>	<u>\$ 325.4</u>	<u>\$ 326.1</u>
Weighted Average Diluted Shares	<u>172.0</u>	<u>171.6</u>	<u>173.2</u>
Diluted Net Earnings per Share			
As reported	\$ 1.92	\$ 2.00	\$ 1.97
Adjusted	<u>\$ 1.95</u>	<u>\$ 1.90</u>	<u>\$ 1.88</u>

Components of Net Earnings as a Percentage of Sales:

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

	2020	2019	2018
Net Sales	100.0 %	100.0 %	100.0 %
Cost of products sold	48.2	47.8	46.6
Gross profit	51.8	52.2	53.4
Product development	4.4	4.1	3.8
Selling, marketing and distribution	13.4	14.2	14.9
General and administrative	8.2	8.1	8.3
Impairment	2.1	—	—
Operating earnings	23.7	25.8	26.4
Interest expense	0.7	0.8	0.9
Other expense, net	0.3	0.3	0.7
Earnings before income taxes	22.7	24.7	24.8
Income taxes	2.7	3.8	4.2
Net Earnings	20.0 %	20.9 %	20.6 %
Net Earnings, adjusted (see non-GAAP measurements above)	20.3 %	19.8 %	19.7 %

Net Sales

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

	2020	2019	2018
Americas ⁽¹⁾	\$ 996.5	\$ 960.8	\$ 926.4
EMEA ⁽²⁾	371.8	406.5	393.1
Asia Pacific	281.8	278.7	333.8
Consolidated	\$ 1,650.1	\$ 1,646.0	\$ 1,653.3

(1) North, South and Central America, including the U.S. Sales in the U.S. were \$883 million in 2020, \$841 million in 2019 and \$806 million in 2018.

(2) Europe, Middle East and Africa

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

	2020				2019			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	3%	1%	0%	4%	4%	0%	0%	4%
EMEA	(11)%	1%	1%	(9)%	7%	1%	(5)%	3%
Asia Pacific	(1)%	2%	0%	1%	(15)%	1%	(3)%	(17)%
Consolidated	(1)%	1%	0%	0%	1%	0%	(1)%	0%

Government actions in response to the COVID-19 pandemic reduced economic activity in all major geographies in 2020. Increased worldwide demand for contractor and residential painting equipment, especially in the Americas, helped offset the impact of limited activity within industrial manufacturing facilities. Sales from acquired operations increased worldwide sales by \$18 million for the year.

In 2019, sales growth in the Americas and EMEA was offset by weakness in Asia Pacific markets, particularly in automotive, in-plant manufacturing and China in general. EMEA had strong sales growth in all areas of the region except the Middle East. Demand for our products was generally positive in EMEA, with notable strength in sales of systems and contractor painting equipment, while automotive industry demand softened. In the Americas, construction markets remained favorable while manufacturing customers

became cautious regarding capital spending due to softening end-market demand and general economic uncertainty. Changes in currency translation rates decreased worldwide sales by approximately \$29 million.

Gross Profit

Gross profit margin rate for 2020 decreased compared to 2019, driven by unfavorable product and channel mix (lower high-margin Industrial segment sales combined with growth in lower-margin Contractor segment sales). Improved pricing softened the decrease in the gross profit margin rate.

Gross profit margin rates for 2019 decreased compared to 2018, driven by lower factory volume, unfavorable channel and product mix, and changes in currency translation rates. Price changes implemented early in the year offset the adverse impact of higher material costs, including tariffs.

Operating Expenses

Total operating expenses for 2020 were \$28 million higher than 2019, including the non-cash impairment charge of \$35 million. Excluding the impairment charge, total operating expenses decreased \$7 million as reductions in selling expenses offset increases in product development spending. Investment in new product development was \$72 million in 2020, up 7 percent over 2019.

Operating expenses in 2019 decreased \$11 million (2 percent) compared to 2018. Reductions in volume and earnings-based expenses more than offset increases in product development expenses. Investment in new product development was \$68 million in 2019, up 7 percent over 2018.

Operating Earnings

Operating earnings as a percentage of sales in 2020 before the non-cash impairment charge were flat to the prior year, as expense reductions offset the effect of lower margin rates.

Operating earnings in 2019 decreased 3 percent compared to 2018 as expense reductions did not fully offset the effects of lower sales and margin rates.

Other Expense

Other expense included market-based pension cost of \$5 million in 2020 and 2019, and \$8 million in 2018. Other expense also included exchange losses on net assets of foreign operations of \$2 million in 2020 and 2019, and \$3 million in 2018.

Income Taxes

The effective income tax rate for 2020 was 12 percent, down 3 percentage points from 2019. Additional foreign tax benefits and excess tax benefits related to stock option exercises were partially offset by non-deductible impairment charges.

The effective income tax rate was 15 percent for 2019, down approximately 2 percentage points from 2018. Revaluation of deferred taxes pursuant to a tax rate change in a foreign jurisdiction and an increase in non-recurring benefits from other tax planning activities drove the decrease.

Segment Results

The Company has six operating segments which are aggregated into three reportable segments: Industrial, Process and Contractor. Refer to Part I Item 1. Business, for a description of the Company's three reportable segments. Management assesses performance of segments by reference to operating earnings excluding unallocated corporate expenses and asset impairments.

The following table presents net sales and operating earnings by reporting segment (in millions):

	2020	2019	2018
Sales			
Industrial	\$ 677.7	\$ 747.4	\$ 781.0
Process	326.1	344.9	338.0
Contractor	646.3	553.7	534.3
Total	\$ 1,650.1	\$ 1,646.0	\$ 1,653.3
Operating Earnings			
Industrial	\$ 226.6	\$ 247.2	\$ 271.3
Process	64.5	76.4	68.5
Contractor	164.5	128.3	120.9
Unallocated corporate (expense) ⁽¹⁾	(28.7)	(27.4)	(24.3)
Impairment	\$ (35.2)	\$ —	\$ —
Total	\$ 391.7	\$ 424.5	\$ 436.4

(1) Unallocated corporate (expense) includes such items as stock compensation, certain acquisition transaction items, bad debt expense, charitable contributions, and certain facility expenses.

Industrial Segment

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

	2020	2019	2018
Sales			
Americas	\$ 294.4	\$ 324.3	\$ 314.9
EMEA	207.1	240.1	234.3
Asia Pacific	176.2	183.0	231.8
Total	\$ 677.7	\$ 747.4	\$ 781.0
Operating Earnings as a Percentage of Sales	33 %	33 %	35 %

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

	2020				2019			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	(9)%	0%	0%	(9)%	3%	0%	0%	3%
EMEA	(15)%	0%	1%	(14)%	7%	0%	(5)%	2%
Asia Pacific	(4)%	0%	0%	(4)%	(19)%	0%	(2)%	(21)%
Segment Total	(10)%	0%	1%	(9)%	(2)%	0%	(2)%	(4)%

In 2020, sales in the Industrial segment declined as most geographies were impacted by government actions in response to the COVID-19 pandemic that reduced economic activity and access to industrial facilities. Operating margin rate in this segment was comparable to 2019 as the favorable effects of pricing and lower product costs offset decreases in sales volume.

Industrial segment sales declined in 2019 as weakness in worldwide manufacturing markets more than offset the impact of strong finishing system sales in EMEA. Automotive project demand was down substantially, particularly in Asia Pacific, and uncertainty around trade wars caused many manufacturers to postpone factory investments. Operating margin rate in this segment decreased compared to 2018 as the favorable effects of pricing were more than offset by the adverse impacts of higher material costs, lower sales and factory volume, product and channel mix, and currency translation.

In this segment, sales in each geographic region are significant and management looks at economic and financial indicators in each region, including gross domestic product, industrial production, capital investment rates, automobile production, building construction and the level of the U.S. dollar versus the euro, the Swiss franc, the Canadian dollar, the Chinese renminbi and various other Asian currencies.

Process Segment

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

	2020	2019	2018
Sales			
Americas	\$ 206.4	\$ 222.2	\$ 215.9
EMEA	53.1	61.5	58.5
Asia Pacific	66.6	61.2	63.6
Total	\$ 326.1	\$ 344.9	\$ 338.0
Operating Earnings as a Percentage of Sales	20 %	22 %	20 %

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

	2020				2019			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	(10)%	3%	0%	(7)%	3%	0%	0%	3%
EMEA	(19)%	5%	0%	(14)%	3%	5%	(3)%	5%
Asia Pacific	(2)%	11%	0%	9%	(5)%	4%	(3)%	(4)%
Segment Total	(10)%	5%	0%	(5)%	1%	2%	(1)%	2%

Process segment sales decreased in 2020, as sales from acquired operations of \$18 million were unable to offset weakness in most markets and geographies, particularly in vehicle services, industrial lubrication and oil and natural gas markets. Operating margin rate declined 2 percentage points for the year driven by lower volume and unfavorable product and channel mix, partially offset by the impact of divested operations.

Process segment sales performance in 2019 varied by end market, with solid growth in semiconductor and environmental markets, and weakness in industrial, vehicle services and energy markets. Weakness in Asia Pacific also adversely affected Process segment sales, nearly offsetting increases in the Americas and EMEA. Sales from acquired operations contributed approximately \$7 million of growth in the Process segment. Operating margin rate for this segment improved by 2 percentage points, driven by lower volume and earnings-based costs.

Although the Americas represent the substantial majority of sales for the Process segment, and indicators in that region are the most significant, management monitors indicators such as levels of gross domestic product, capital investment, industrial production, oil and natural gas markets and mining activity worldwide.

Contractor Segment

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

	2020	2019	2018
Sales			
Americas	\$ 495.7	\$ 414.3	\$ 395.6
EMEA	111.6	104.9	100.4
Asia Pacific	39.0	34.5	38.3
Total	\$ 646.3	\$ 553.7	\$ 534.3
Operating Earnings as a Percentage of Sales	25 %	23 %	23 %

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

	2020				2019			
	Volume and Price	Acquisitions	Currency	Total	Volume and Price	Acquisitions	Currency	Total
Americas	20%	0%	0%	20%	5%	0%	0%	5%
EMEA	5%	0%	1%	6%	9%	0%	(5)%	4%
Asia Pacific	14%	0%	(1)%	13%	(6)%	0%	(4)%	(10)%
Segment Total	17%	0%	0%	17%	5%	0%	(1)%	4%

In 2020, continued strength in construction markets and increased demand from home improvement markets drove sales growth in all regions. Operating margin rate increased compared to the 2019 rate due to increased sales volume and expense leverage.

Contractor segment sales growth continued in 2019, with favorable response to new product offerings and the on-going favorable construction environment in the Americas and EMEA. Operating margin rate was consistent with the 2018 rate.

In this segment, sales in all regions are significant and management reviews economic and financial indicators in each region, including levels of residential, commercial and institutional construction, remodeling rates and interest rates. Management also reviews gross domestic product for the regions and the level of the U.S. dollar versus the euro and other currencies.

Financial Condition and Cash Flow

Working Capital. The following table highlights several key measures of asset performance (dollars in millions):

	2020	2019
Working capital	\$ 702.4	\$ 506.1
Current ratio	3.2	2.8
Days of sales in receivables outstanding	64	59
Inventory turnover (LIFO)	2.8	2.7

Higher cash and cash equivalent balances drove the increases in working capital and current ratio. Increases in accounts receivable were consistent with higher sales levels in the Contractor segment, and inventories increased to meet higher demand and service levels.

Capital Structure. At December 25, 2020, the Company's capital structure included current notes payable of \$22 million, long-term debt of \$150 million and shareholders' equity of \$1,284 million. At December 27, 2019, the Company's capital structure included current notes payable of \$8 million, long-term debt of \$164 million and shareholders' equity of \$1,025 million.

Shareholders' equity increased by \$259 million in 2020. The increase from current year earnings of \$330 million was offset by dividends of \$119 million and share repurchases of \$102 million. Increases related to shares issued, stock compensation and other comprehensive income totaled \$150 million.

Liquidity and Capital Resources. The Company had cash held in deposit accounts totaling \$379 million at December 25, 2020, and \$221 million as of December 27, 2019. The Company asserted that it will indefinitely reinvest earnings of foreign subsidiaries to support expansion of its international business. As of December 25, 2020, the amount of cash held outside the U.S. totaled \$173 million and is sufficient to fund investments abroad.

On December 15, 2016, the Company executed an amendment to its revolving credit agreement, extending the expiration date to December 15, 2021 and decreasing certain interest rates and fees. The amended agreement with a syndicate of lenders provides up to \$500 million of committed credit, available for general corporate purposes, working capital needs, share repurchases and acquisitions. The Company may borrow up to \$50 million under the swingline portion of the facility for daily working capital needs. We expect to renew our amended revolving credit agreement prior to its expiration in December 2021.

Under terms of the amended revolving credit agreement, borrowings may be denominated in U.S. dollars or certain other currencies. Loans denominated in U.S. dollars 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 bear interest at a LIBOR-based rate. The base rate is an annual rate equal to a margin ranging from zero percent to 0.75 percent, depending on the Company's cash flow leverage ratio (debt to earnings before interest, taxes, depreciation, amortization and extraordinary non-operating or non-cash charges and expenses) plus the highest of (i) the bank's prime rate, (ii) the federal funds rate plus 0.5 percent, or (iii) one-month LIBOR plus 1.5 percent. In general, LIBOR-based loans bear interest at LIBOR plus 1 percent to 1.75 percent, 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 fee on the unused amount of the loan commitments at an annual rate ranging from 0.125 percent to 0.25 percent, depending on the Company's cash flow leverage ratio.

On September 24, 2018, the Company entered into a revolving credit agreement with a sole lender that was scheduled to expire in September 2020. This revolver was amended effective January 29, 2020 to remove the expiration date, eliminate commitment fees, reduce interest rate margins and delete negative covenants regarding cash flow leverage and interest coverage ratios. This credit agreement provides up to \$50 million of committed credit, available for general corporate purposes, working capital needs, share repurchases and acquisitions. Under the terms of the revolving credit agreement, loans may be denominated in U.S. dollars or Chinese renminbi (offshore). Loans denominated in U.S. dollars bear interest, at the Company's option, at either a base rate or a LIBOR-based rate. Loans denominated in Chinese renminbi (offshore) bear interest at a LIBOR-based rate based on the Chinese offshore rate. Other terms of the revolving credit agreement are substantially similar to those of the Company's other revolving credit agreement that expires in December 2021.

On January 29, 2020, the Company entered into a master note agreement with a sole lender that expires on January 29, 2023. The note agreement sets forth certain terms on which the Company may issue, and affiliates of the lender may purchase, up to \$200 million of the Company's senior notes. Interest on the senior 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 issuance. Under terms of the note agreement, the Company is required to maintain certain financial ratios as to cash flow leverage and interest coverage similar to the requirements of its other debt agreements.

On December 25, 2020, the Company had \$598 million in lines of credit, including the \$550 million in committed credit facilities described above and \$48 million with foreign banks. The unused portion of committed credit lines was \$548 million as of December 25, 2020.

Various debt agreements require the Company to maintain certain financial ratios as to cash flow leverage and interest coverage. The Company is in compliance with all financial covenants of its debt agreements as of December 25, 2020.

Internally generated funds 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 of approximately \$115 million, including \$80 million for building projects to expand production capacity, planned dividends estimated at \$126 million, share repurchases and acquisitions. If acquisition

opportunities increase, the Company believes that reasonable financing alternatives are available for the Company to execute on those opportunities.

In December 2020, the Company's Board of Directors increased the Company's regular quarterly dividend to \$0.1875 from \$0.175 per share, an increase of 7 percent.

Cash Flow. A summary of cash flow follows (in millions):

	2020	2019	2018
Operating activities	\$ 394.0	\$ 418.7	\$ 368.0
Investing activities	(99.0)	(155.5)	(66.3)
Financing activities	(139.5)	(174.0)	(282.7)
Effect of exchange rates on cash	2.4	(0.3)	0.2
Net cash provided	<u>157.9</u>	<u>88.9</u>	<u>19.2</u>
Cash and cash equivalents at end of year	<u>\$ 378.9</u>	<u>\$ 221.0</u>	<u>\$ 132.1</u>

Cash Flows From Operating Activities. Net cash provided by operating activities was \$394 million in 2020, down \$25 million compared to 2019. Increases in working capital and a \$20 million voluntary contribution in 2020 to one of the Company's U.S. qualified defined benefit retirement plans drove the decrease. Net cash provided by operating activities was \$419 million in 2019, up \$51 million compared to 2018. A \$40 million voluntary contribution in 2018 to one of the Company's U.S. qualified defined benefit retirement plans was not repeated in 2019.

Cash Flows Used in Investing Activities. Cash flows used in investing activities totaled \$99 million in 2020, including \$71 million for capital additions and \$28 million for business acquisitions. Cash flows used in investing activities totaled \$155 million in 2019 including \$128 million for capital additions and \$27 million for business acquisitions. Cash flows used in investing activities totaled \$66 million in 2018 including \$54 million for capital additions and \$11 million for business acquisitions.

Cash Flows Used in Financing Activities. Cash flows used in financing activities totaled \$139 million in 2020 and included dividends of \$117 million and net payments from share repurchases and issuances totaling \$21 million. Cash flows used in financing activities totaled \$174 million in 2019 and included dividends of \$106 million and net payments on long-term debt and outstanding lines of credit of \$105 million (including a \$75 million prepayment of private placement debt that was due in 2020), partially offset by net proceeds from share issuances and repurchases totaling \$37 million. Cash flows used in financing activities totaled \$283 million in 2018 and included dividends of \$89 million, share repurchases of \$245 million (partially offset by net proceeds from share issuances of \$25 million) and taxes paid related to net share settlement of equity awards of \$16 million.

On April 24, 2015, the Board of Directors authorized the purchase of up to 18 million shares of 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. As of December 25, 2020, approximately 18.5 million shares remain available for purchase under the authorizations.

The Company repurchased and retired 2.3 million shares in 2020, compared to 0.2 million shares in 2019 and 5.8 million shares in 2018. The Company may continue to make opportunistic share repurchases in 2021 via open market transactions or short-dated accelerated share repurchase ("ASR") programs.

Off-Balance Sheet Arrangements and Contractual Obligations. The Company has no significant off-balance sheet debt or other unrecorded obligations other than the items noted in the following table. In addition, the Company could be obligated to perform under standby letters of credit totaling \$3 million at December 25, 2020. The Company has also guaranteed the debt of its subsidiaries for up to \$4 million. All debt of subsidiaries is reflected in the consolidated balance sheets.

As of December 25, 2020, the Company is obligated to make cash payments in connection with obligations as follows (in millions):

	Payments due by period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Debt obligations	\$ 172.2	\$ 22.2	\$ 75.0	\$ —	\$ 75.0
Interest on debt obligations	41.0	8.2	12.7	17.1	3.0
Operating leases	44.7	9.4	14.1	8.8	12.4
Service contracts	19.6	7.5	8.5	3.2	0.4
Purchase obligations ⁽¹⁾	198.0	198.0	—	—	—
Unfunded pension and postretirement medical benefits ⁽²⁾	41.8	3.5	7.7	8.3	22.3
Total	<u>\$ 517.3</u>	<u>\$ 248.8</u>	<u>\$ 118.0</u>	<u>\$ 37.4</u>	<u>\$ 113.1</u>

- (1) The Company is committed to pay suppliers under the terms of open purchase orders issued in the normal course of business. The Company also has commitments with certain suppliers to purchase minimum quantities, and under the terms of certain agreements, the Company is committed for certain portions of the supplier's inventory. The Company does not purchase, or commit to purchase, quantities in excess of normal usage or amounts that cannot be used within one year.
- (2) The amounts and timing of future Company contributions to the funded qualified defined benefit pension plans are unknown because they are dependent on pension fund asset performance and pension obligation valuation assumptions.

Critical Accounting Estimates

The Company prepares its consolidated financial statements in conformity with generally accepted accounting principles in the United States of America (“U.S. GAAP”). The Company’s most significant accounting policies are disclosed in Note A (Summary of Significant Accounting Policies) to the consolidated financial statements. The preparation of the consolidated financial statements, in conformity with U.S. GAAP, requires management to make estimates and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual amounts will differ from those estimates. The Company considers the following policies to involve the most judgment in the preparation of the Company’s consolidated financial statements.

Retirement Benefits. The measurements of the Company’s pension and postretirement medical obligations are dependent on a number of assumptions including estimates of the present value of projected future payments, taking into consideration future events such as salary increases and demographic experience. These assumptions may have an impact on the expense and timing of future contributions.

The assumptions used in developing the required estimates for pension obligations include discount rate, inflation, salary increases, retirement rates, expected return on plan assets and mortality rates. The assumptions used in developing the required estimates for postretirement medical obligations include discount rates, rate of future increase in medical costs and participation rates.

For U.S. plans, the Company establishes its discount rate assumption by reference to a yield curve published by an actuary and projected plan cash flows. For plans outside the U.S., the Company establishes a rate by country by reference to highly rated corporate bonds. These reference points have been determined to adequately match expected plan cash flows. The Company bases its inflation assumption on an evaluation of external market indicators. The salary assumptions are based on actual historical experience, the near-term outlook and assumed inflation. Retirement rates are based on experience. The investment return assumption is based on the expected long-term performance of plan assets. In setting this number, the Company considers the input of actuaries and investment advisers, its long-term historical returns, the allocation of plan assets and projected returns on plan assets. For 2021, the Company will use investment return assumptions of 6.3 percent for the larger of its two funded U.S. plans and 5.2 percent for the smaller plan, down 0.7 and 0.8 percentage point from the rates assumed for 2020, respectively. Mortality rates are based on current common group mortality tables for males and females.

At December 25, 2020, a one-half percentage point decrease in the indicated assumptions would have the following effects (in millions):

Assumption	Funded Status	Expense
Discount rate	\$ (38.6)	\$ 3.0
Expected return on assets	—	1.3

Goodwill and Other Intangible Assets. The Company performs impairment testing for goodwill annually in the fourth quarter or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company estimates the fair value of the reporting units using a present value of future cash flows calculation cross-checked by an allocation of market capitalization approach. The impairment test is performed using a two-step process. In the first step, the fair value of each reporting unit is compared with the carrying amount of the reporting unit. If the estimated fair value exceeds its carrying value, step two of the impairment analysis is not required. If the estimated fair value is less than its carrying amount, impairment is indicated and the second step must be completed in order to determine the amount, if any, of the impairment. In the second step, an impairment loss is recognized for the difference between the implied value of goodwill and the carrying value.

The Company’s primary identifiable intangible assets include customer relationships, trademarks, trade names, proprietary technology and patents. Finite lived intangibles are amortized and are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Indefinite lived intangibles are reviewed for impairment annually in the fourth quarter, or more frequently if events or changes in circumstances indicate the asset might be impaired.

A considerable amount of management judgment and assumptions are required in performing the impairment tests. Management makes several assumptions, including earnings and cash flow projections, discount rate, product offerings and market strategies,

customer attrition, and royalty rates, each of which have a significant impact on the estimated fair values. Though management considers its judgments and assumptions to be reasonable, changes in these assumptions could impact the estimated fair value.

In 2020, we completed our annual impairment testing of goodwill and other intangible assets in the fourth quarter. No impairment charges were recorded as a result of that review.

Income Taxes. In the preparation of the Company's consolidated financial statements, management calculates income taxes. This includes estimating current tax liability as well as assessing temporary differences resulting from different treatment of items for tax and financial statement purposes. These differences result in deferred tax assets and liabilities, which are recorded on the balance sheet using statutory rates in effect for the year in which the differences are expected to reverse. These assets and liabilities are analyzed regularly and management assesses the likelihood that deferred tax assets will be recoverable from future taxable income. A valuation allowance is established to the extent that management believes that recovery is not likely. Liabilities for uncertain tax positions are also established for potential and ongoing audits of federal, state and international issues. The Company routinely monitors the potential impact of such situations and believes that liabilities are properly stated. Valuations related to amounts owed and tax rates could be impacted by changes to tax codes and the Company's interpretation thereof, changes in statutory rates, the Company's future taxable income levels and the results of tax audits.

Recent Accounting Pronouncements

Refer to Note A (Summary of Significant Accounting Policies) to the Consolidated Financial Statements of this Form 10-K for disclosures related to recent accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

The Company sells and purchases products and services in currencies other than the U.S. dollar and pays variable interest rates on borrowings under certain credit facilities. Consequently, the Company is subject to profitability risk arising from exchange and interest rate movements. The Company may use a variety of financial and derivative instruments to manage foreign currency and interest rate risks. The Company does not enter into any of these instruments for trading purposes to generate revenue. Rather, the Company's objective in managing these risks is to reduce fluctuations in earnings and cash flows associated with changes in foreign currency exchange and interest rates.

The Company may use forward exchange contracts, options and other hedging activities to hedge the U.S. dollar value resulting from anticipated currency transactions and net monetary asset and liability positions. At December 25, 2020, the currencies to which the Company had the most significant balance sheet exchange rate exposure were the euro, Swiss franc, Canadian dollar, British pound, Japanese yen, Australian dollar, Chinese yuan renminbi and South Korean won. It is not possible to determine the true impact of currency rate changes; however, the direct translation effect on net sales and net earnings can be estimated. In 2020, changes in currency translation rates increased sales by approximately \$4 million and had an immaterial impact on net earnings. In 2019, changes in currency translation rates increased sales and net earnings by approximately \$29 million and \$12 million, respectively. In 2018, changes in currency translation rates increased sales and net earnings by approximately \$15 million and \$7 million, respectively.

2021 Outlook

We expect challenging end market conditions to remain in place for at least the first half of 2021 in our Industrial and Process segments as government actions continue to restrict economic activity in response to the COVID-19 pandemic. Our outlook for the Contractor segment remains positive as favorable conditions continue, and demand for our products is solid across major end markets and product categories.

At January 2021 exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2020, the movement in foreign currencies would be a benefit of approximately 2 percent on sales and 6 percent on operating earnings in 2021, with the most significant impact in the first half of the year.

The Company's backlog is not large enough to be a good indicator of future business levels. In addition to economic growth, the successful launch of new products and expanded distribution coverage, the sales outlook is dependent on many factors, including realization of price increases and stable foreign currency exchange rates.

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 this Form 10-K and our 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 factors discussed in Item 1A of this Annual Report on Form 10-K. 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 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 8. Financial Statements and Supplementary Data

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control system was designed to provide reasonable assurance to management and the board of directors regarding the reliability of financial reporting and preparation of financial statements in accordance with generally accepted accounting principles.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 25, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework* (2013).

Based on our assessment and those criteria, management believes the Company's internal control over financial reporting is effective as of December 25, 2020.

The Company's independent auditors have issued an attestation report on the Company's internal control over financial reporting. That report appears in this Form 10-K.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Graco Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Graco Inc. and subsidiaries (the “Company”) as of December 25, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 25, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 25, 2020, of the Company and our report dated February 16, 2021, expressed an unqualified opinion on those financial statements.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company’s internal control over financial reporting is a process designed 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. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota
February 16, 2021

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of Graco Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Graco Inc. and subsidiaries (the "Company") as of December 25, 2020 and December 27, 2019, the related consolidated statements of earnings, comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 25, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 25, 2020 and December 27, 2019 and the results of its operations and its cash flows for each of the three years in the period ended December 25, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 25, 2020, based on criteria established in Internal Control — Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 16, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Retirement Benefits – U.S. Pension Benefit Obligation – Refer to Note J to the financial statements

Critical Audit Matter Description

The Company has both funded and unfunded defined benefit pension plans. As of December 25, 2020, the pension benefit obligation balance was \$510.7 million. The actuarial determination of the present value of the pension obligation on an annual basis requires management to make significant assumptions related to the selection of the discount rates used in the calculation of the net present value of future pension benefits. The Company establishes the discount rate assumptions for the U.S. pension plans by reference to a yield curve published by an actuary based on yields of highly rated corporate bonds and projected plan cash flows.

Given the significance of the U.S. pension obligation and the requirement of management to make significant assumptions related to the selection of the discount rates, performing audit procedures to evaluate the reasonableness of the discount rates selected for the U.S. pension plans required a high degree of auditor judgment and an increased extent of effort, including the need to involve our actuarial specialists.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to selection of the discount rates for the U.S. pension obligation included the following, among others:

- a. We tested the effectiveness of internal controls over the valuation of the pension obligation, including management's controls over selection of the discount rates.
- b. With the assistance of our actuarial specialists, we evaluated the reasonableness of the discount rates by:
 - Evaluating the methodology utilized to select the discount rates for conformity with applicable accounting guidance.
 - Testing the source information underlying the determination of the discount rates, including the methodology used to construct the yield curve, the characteristics of the bonds underlying the yield curve analysis, and the mathematical accuracy of the calculation.
 - Developing independent estimates using external published yield curves and comparing them to the discount rates selected by management.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota

February 16, 2021

We have served as the Company's auditor since at least 1969, however, an earlier year could not be readily determined.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands, except per share amounts)

	Years Ended		
	December 25, 2020	December 27, 2019	December 28, 2018
Net Sales	\$ 1,650,115	\$ 1,646,045	\$ 1,653,292
Cost of products sold	795,178	786,289	770,753
Gross Profit	854,937	859,756	882,539
Product development	72,194	67,557	63,124
Selling, marketing and distribution	220,271	234,325	245,473
General and administrative	135,525	133,418	137,515
Impairment	35,229	—	—
Operating Earnings	391,718	424,456	436,427
Interest expense	11,280	13,110	14,385
Other expense, net	5,787	5,469	11,276
Earnings Before Income Taxes	374,651	405,877	410,766
Income taxes	44,195	62,024	69,712
Net Earnings	<u>\$ 330,456</u>	<u>\$ 343,853</u>	<u>\$ 341,054</u>
Basic Net Earnings per Common Share	\$ 1.97	\$ 2.06	\$ 2.04
Diluted Net Earnings per Common Share	\$ 1.92	\$ 2.00	\$ 1.97

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Years Ended		
	December 25, 2020	December 27, 2019	December 28, 2018
Net Earnings	\$ 330,456	\$ 343,853	\$ 341,054
Components of other comprehensive income (loss)			
Cumulative translation adjustment	46,030	1,902	(8,609)
Pension and postretirement medical liability adjustment	(645)	(33,772)	8,793
Income taxes - pension and postretirement medical liability	237	6,940	(1,799)
Other comprehensive income (loss)	45,622	(24,930)	(1,615)
Comprehensive Income	<u>\$ 376,078</u>	<u>\$ 318,923</u>	<u>\$ 339,439</u>

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 25, 2020	December 27, 2019
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 378,909	\$ 220,973
Accounts receivable, less allowances of \$4,400 and \$5,300	314,946	267,345
Inventories	285,704	273,233
Other current assets	44,242	29,917
Total current assets	1,023,801	791,468
Property, Plant and Equipment, net	350,750	325,546
Goodwill	347,603	307,663
Other Intangible Assets, net	160,669	162,623
Operating Lease Assets	37,807	29,891
Deferred Income Taxes	25,828	39,327
Other Assets	41,670	35,692
Total Assets	\$ 1,988,128	\$ 1,692,210
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	\$ 22,183	\$ 7,732
Trade accounts payable	58,305	54,117
Salaries and incentives	52,005	51,301
Dividends payable	31,636	29,235
Other current liabilities	157,260	142,937
Total current liabilities	321,389	285,322
Long-term Debt	150,000	164,298
Retirement Benefits and Deferred Compensation	184,747	182,707
Operating Lease Liabilities	29,224	24,176
Deferred Income Taxes	10,264	10,776
Other Non-current Liabilities	8,600	—
Commitments and Contingencies (Note K)		
Shareholders' Equity		
Common stock, \$1 par value; 291,000,000 shares authorized; 168,567,919 and 167,286,836 shares outstanding in 2020 and 2019	168,568	167,287
Additional paid-in-capital	671,206	578,440
Retained earnings	568,295	448,991
Accumulated other comprehensive income (loss)	(124,165)	(169,787)
Total shareholders' equity	1,283,904	1,024,931
Total Liabilities and Shareholders' Equity	\$ 1,988,128	\$ 1,692,210

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Years Ended		
	December 25, 2020	December 27, 2019	December 28, 2018
Cash Flows From Operating Activities			
Net Earnings	\$ 330,456	\$ 343,853	\$ 341,054
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	55,329	48,911	47,754
Deferred income taxes	10,747	(6,411)	15,405
Share-based compensation	25,153	26,669	25,565
Impairment	35,229	—	—
Change in			
Accounts receivable	(43,122)	8,934	(12,402)
Inventories	(13,086)	12,435	(30,719)
Trade accounts payable	6,820	(539)	(1,976)
Salaries and incentives	(2,622)	(14,069)	2,336
Retirement benefits and deferred compensation	(6,703)	13,264	(27,237)
Other accrued liabilities	(3,772)	(11,510)	7,517
Other	(394)	(2,803)	688
Net cash provided by operating activities	<u>394,035</u>	<u>418,734</u>	<u>367,985</u>
Cash Flows From Investing Activities			
Property, plant and equipment additions	(71,338)	(127,953)	(53,854)
Acquisition of businesses, net of cash acquired	(27,557)	(26,577)	(10,769)
Other	(143)	(939)	(1,624)
Net cash used in investing activities	<u>(99,038)</u>	<u>(155,469)</u>	<u>(66,247)</u>
Cash Flows From Financing Activities			
Borrowings (payments) on short-term lines of credit, net	(1,986)	(3,341)	4,931
Borrowings on long-term lines of credit	250,000	105,423	620,746
Payments on long-term debt and lines of credit	(250,000)	(207,191)	(583,212)
Common stock issued	83,438	48,250	24,634
Common stock repurchased	(102,143)	(9,482)	(244,814)
Taxes paid related to net share settlement of equity awards	(1,797)	(1,268)	(16,151)
Cash dividends paid	(116,983)	(106,443)	(88,845)
Net cash used in financing activities	<u>(139,471)</u>	<u>(174,052)</u>	<u>(282,711)</u>
Effect of exchange rate changes on cash	2,410	(358)	187
Net increase in cash and cash equivalents	157,936	88,855	19,214
Cash and Cash Equivalents			
Beginning of year	220,973	132,118	112,904
End of year	<u>\$ 378,909</u>	<u>\$ 220,973</u>	<u>\$ 132,118</u>

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive	Total
Balance December 29, 2017	\$ 169,319	\$ 499,934	\$ 181,599	\$ (127,789)	\$ 723,063
Shares issued	1,657	7,598	—	—	9,255
Shares repurchased	(5,805)	(17,140)	(224,307)	—	(247,252)
Stock compensation cost	—	21,205	—	—	21,205
Restricted stock canceled (issued)	—	(772)	—	—	(772)
Net earnings	—	—	341,054	—	341,054
Dividends declared (\$0.5575 per share)	—	—	(93,065)	—	(93,065)
Reclassified to retained earnings from AOCI	—	—	15,453	(15,453)	—
Other comprehensive income (loss)	—	—	—	(1,615)	(1,615)
Balance December 28, 2018	165,171	510,825	220,734	(144,857)	751,873
Shares issued	2,274	44,707	—	—	46,981
Shares repurchased	(158)	(490)	(6,397)	—	(7,045)
Stock compensation cost	—	23,398	—	—	23,398
Net earnings	—	—	343,853	—	343,853
Dividends declared \$0.6550 per share)	—	—	(109,199)	—	(109,199)
Other comprehensive income (loss)	—	—	—	(24,930)	(24,930)
Balance December 27, 2019	167,287	578,440	448,991	(169,787)	1,024,931
Shares issued	3,608	78,789	—	—	82,397
Shares repurchased	(2,327)	(8,047)	(91,768)	—	(102,142)
Stock compensation cost	—	22,024	—	—	22,024
Net earnings	—	—	330,456	—	330,456
Dividends declared (\$0.7125 per share)	—	—	(119,384)	—	(119,384)
Other comprehensive income (loss)	—	—	—	45,622	45,622
Balance December 25, 2020	<u>\$ 168,568</u>	<u>\$ 671,206</u>	<u>\$ 568,295</u>	<u>\$ (124,165)</u>	<u>\$ 1,283,904</u>

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Graco Inc. and Subsidiaries

Years Ended December 25, 2020, December 27, 2019 and December 28, 2018

A. Summary of Significant Accounting Policies

Fiscal Year. The fiscal year of Graco Inc. and Subsidiaries (the “Company”) is 52 or 53 weeks, ending on the last Friday in December. The years ended December 25, 2020, December 27, 2019 and December 28, 2018 were 52-week years.

Basis of Statement Presentation. The consolidated financial statements include the accounts of the parent company and its subsidiaries after elimination of intercompany balances and transactions. As of December 25, 2020, all subsidiaries are 100 percent controlled by the Company. Certain prior year disclosures have been revised to conform with current year reporting.

Foreign Currency Translation. The functional currency of certain subsidiaries is the local currency. Accordingly, adjustments resulting from the translation of those subsidiaries’ financial statements into U.S. dollars are charged or credited to accumulated other comprehensive income (loss). The U.S. dollar is the functional currency for all other foreign subsidiaries. Accordingly, gains and losses from the translation of foreign currency balances and transactions of those subsidiaries are included in other expense, net.

Accounting Estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Such estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Fair Value Measurements. The three levels of inputs in the fair value measurement hierarchy are as follows:

Level 1 – based on quoted prices in active markets for identical assets

Level 2 – based on significant observable inputs

Level 3 – based on significant unobservable inputs

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

	Level	2020	2019
Assets			
Cash surrender value of life insurance	2	\$ 19,887	\$ 17,702
Forward exchange contracts	2	16	—
Total assets at fair value		<u>\$ 19,903</u>	<u>\$ 17,702</u>
Liabilities			
Contingent consideration	3	\$ 9,454	\$ 9,072
Deferred compensation	2	5,099	4,719
Forward exchange contracts	2	—	87
Total liabilities at fair value		<u>\$ 14,553</u>	<u>\$ 13,878</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.

The Company’s policy and accounting for forward exchange contracts are described below, in Derivative Instruments and Hedging Activities.

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.

Disclosures related to other fair value measurements are included below in Impairment of Long-Lived Assets, in Note F (Debt) and in Note J (Retirement Benefits).

Cash Equivalents. All highly liquid investments with a maturity of three months or less at the date of purchase are considered to be cash equivalents.

Accounts Receivable. Accounts receivable includes trade receivables of \$302 million in 2020 and \$256 million in 2019. Other receivables totaled \$13 million in 2020 and \$11 million in 2019.

Allowance for Credit Losses.

Adoption of New Accounting Standard

In June 2016, the Financial Accounting Standards Board (FASB) issued a final standard on accounting for credit losses. The new standard is effective for the Company in fiscal 2020 and requires a change in credit loss calculations using the expected loss method. There was no significant impact on earnings or financial condition from the adoption of the new standard.

Accounting Policy

Receivables reflected in the financial statements represent the net amount expected to be collected. An allowance for credit losses is established based on expected losses. Expected losses are estimated by reviewing individual accounts, considering aging, financial condition of the debtor, recent payment history, current and forecast economic conditions and other relevant factors.

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

	2020	2019	2018
Balance, beginning	\$ 4,828	\$ 4,771	\$ 3,980
Additions (reversals) charged to costs and expenses	647	836	1,423
Deductions from reserves ⁽¹⁾	(2,732)	(858)	(899)
Other additions (deductions) ⁽²⁾	1,002	79	267
Balance, ending	<u>\$ 3,745</u>	<u>\$ 4,828</u>	<u>\$ 4,771</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.

Inventory Valuation. Inventories are stated at the lower of cost or net realizable value. The last-in, first-out (LIFO) cost method is used for valuing most U.S. inventories. Inventories of foreign subsidiaries are valued using the first-in, first-out (FIFO) cost method.

Other Current Assets. Amounts included in other current assets were (in thousands):

	2020	2019
Prepaid income taxes	\$ 22,317	\$ 13,462
Prepaid expenses and other	21,925	16,455
Total	<u>\$ 44,242</u>	<u>\$ 29,917</u>

Impairment of Long-Lived Assets. The Company evaluates long-lived assets (including property and equipment, goodwill and other intangible assets) for impairment annually in the fourth quarter, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In connection with negotiations to sell the Company's U.K.-based valve business in 2020, impairment charges of \$35 million were recorded.

We completed our annual impairment review of all long-lived assets in the fourth quarter of 2020. No further impairment charges were recorded as a result of that review. There were no impairment charges in 2019 or 2018.

Property, Plant and Equipment. For financial reporting purposes, plant and equipment are depreciated over their estimated useful lives, primarily by using the straight-line method as follows:

Buildings and improvements	10 to 30 years
Leasehold improvements	lesser of 5 to 10 years or life of lease
Manufacturing equipment	lesser of 5 to 10 years or life of equipment
Office, warehouse and automotive equipment	3 to 10 years

Goodwill and Other Intangible Assets. Goodwill has been assigned to reporting units. Changes in the carrying amounts of goodwill for each reportable segment were (in thousands):

	Industrial	Process	Contractor	Total
Balance, December 28, 2018	\$ 177,124	\$ 97,168	\$ 19,554	\$ 293,846
Additions, adjustments from business acquisitions	—	13,444	—	13,444
Foreign currency translation	(12)	385	—	373
Balance, December 27, 2019	177,112	110,997	19,554	307,663
Additions, adjustments from business acquisitions	—	29,657	—	29,657
Foreign currency translation	9,424	859	—	10,283
Balance, December 25, 2020	\$ 186,536	\$ 141,513	\$ 19,554	\$ 347,603

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

	Finite Life			Indefinite Life		Total
	Customer Relationships	Patents and Proprietary Technology	Trademarks, Trade Names and Other	Trade Names		
<u>As of December 25, 2020</u>						
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		
<u>As of December 27, 2019</u>						
Cost	\$ 186,310	\$ 20,413	\$ 1,020	\$ 61,920	\$	269,663
Accumulated amortization	(80,764)	(10,526)	(650)	—		(91,940)
Foreign currency translation	(10,412)	(885)	(73)	(3,730)		(15,100)
Book value	\$ 95,134	\$ 9,002	\$ 297	\$ 58,190	\$	162,623
Weighted average life in years	13	10	4	N/A		

Amortization of intangibles was \$16.7 million in 2020, \$15.5 million in 2019 and \$15.6 million in 2018. Estimated future annual amortization expense based on the current carrying amount of other intangible assets is as follows (in thousands):

	2021	2022	2023	2024	2025	Thereafter
Estimated Amortization Expense	\$ 17,286	\$ 17,196	\$ 16,187	\$ 14,660	\$ 14,078	\$ 19,154

The Company completed business acquisitions in 2020, 2019 and 2018 that were not material to the consolidated financial statements.

Other Assets. Components of other assets were (in thousands):

	2020	2019
Cash surrender value of life insurance	\$ 19,887	\$ 17,702
Capitalized software	2,737	2,985
Equity method investment	7,610	7,603
Prepaid pension	9,144	2,931
Deposits and other	2,292	4,471
Total	<u>\$ 41,670</u>	<u>\$ 35,692</u>

The Company has entered into contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans. These insurance contracts are used to fund the non-qualified pension and deferred compensation arrangements. The insurance contracts are held in a trust and are available to general creditors in the event of the Company's insolvency. Changes in cash surrender value are recorded in other expense, net. The cash surrender value increased \$2.2 million in 2020, \$3.4 million in 2019 and decreased \$1.8 million in 2018.

Capitalized software is amortized over its estimated useful life (generally 2 to 5 years) beginning at date of implementation.

Other Current Liabilities. Components of other current liabilities were (in thousands):

	2020	2019
Accrued self-insurance retentions	\$ 8,041	\$ 7,570
Accrued warranty and service liabilities	13,082	12,785
Accrued trade promotions	12,140	8,390
Payable for employee stock purchases	14,554	13,722
Customer advances and deferred revenue	41,689	33,138
Income taxes payable	8,564	8,706
Operating lease liabilities, current	11,178	7,690
Right of return refund liability	16,303	13,791
Other	31,709	37,145
Total	<u>\$ 157,260</u>	<u>\$ 142,937</u>

Self-Insurance. The Company is self-insured for certain losses and costs relating to product liability, workers' compensation, and employee medical benefit claims. The Company has stop-loss coverage in order to limit its exposure to significant claims. Accrued self-insurance retentions are based on claims filed, estimates of claims incurred but not reported, and other actuarial assumptions. Self-insured reserves totaled \$8.0 million as of December 25, 2020, and \$7.6 million as of December 27, 2019.

Product Warranties. 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):

	2020	2019
Balance, beginning of year	\$ 12,785	\$ 11,056
Assumed in business acquisition	155	—
Charged to expense	8,270	10,350
Margin on parts sales reversed	2,960	2,576
Reductions for claims settled	(11,088)	(11,197)
Balance, end of year	<u>\$ 13,082</u>	<u>\$ 12,785</u>

Revenue Recognition.

Accounting Policy

Revenue is recognized at a single point in time upon the satisfaction of performance obligations, which occurs when control of the good or service transfers to the customer. This is generally on the date of shipment; however certain sales have terms requiring recognition when received by the customer. In cases where there are specific customer acceptance provisions, revenue is recognized at the later of customer acceptance or shipment (subject to shipping terms). Payment terms are established based on the type of product, distributor capabilities and competitive market conditions, and do not exceed one year. Standalone selling prices are determined based on the prices charged to customers for all material performance obligations.

Variable consideration is accounted for as a price adjustment (sales adjustment). Following are examples of variable consideration that affect the Company's reported revenue. Early payment discounts are provided to certain customers and within certain regions. Rights of return are typically contractually limited and amounts are estimable. The Company records a refund liability and establishes a recovery asset for the value of product expected to be returned at the time revenue is recognized. This includes promotions when, from time to time, the Company may promote the sale of new products by agreeing to accept returns of superseded products. Provisions for sales returns are recorded as a reduction of net sales, and provisions for warranty claims are recorded in selling, marketing and distribution expenses. Historically, sales returns have been approximately 3 percent of sales. Trade promotions are offered to distributors and end users through various programs, generally with terms of one year or less. Such promotions include rebates based on annual purchases and sales growth, coupons and reimbursement for competitive products. Payment of incentives may take the form of cash, trade credit, promotional merchandise or free product. Rebates are accrued based on the program rates and progress toward the probability weighted estimate of annual sales amount and sales growth.

Additional promotions include cooperative advertising arrangements. Under cooperative advertising arrangements, the Company reimburses the distributor for a portion of its advertising costs related to the Company's products. Estimated costs are accrued at the time of sale and classified as selling, marketing and distribution expense. The estimated costs related to coupon programs are accrued at the time of sale and classified as selling, marketing and distribution expense or cost of products sold, depending on the type of incentive offered. The considerations payable to customers are deemed as broad based and are not recorded against net sales.

Shipping and handling costs incurred for the delivery of goods to customers are included in cost of goods sold. Amounts billed to customers for shipping and handling are included in net sales.

Deferred Revenues

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 \$41.7 million as of December 25, 2020 and \$33.1 million as of December 27, 2019. Net sales for the year included \$33.1 million that was in deferred revenue and customer advances as of December 27, 2019.

Practical Expedients and Exemptions

Shipping and handling activities that occur after control of the related good transfers are accounted for as fulfillment activities instead of assessing such activities as performance obligations.

Sales taxes related to revenue producing transactions collected from the customer for a governmental authority are excluded from the transaction price.

Revenue standard requirements are applied to a portfolio of contracts (or performance obligations) with similar characteristics for transactions where it is expected that the effects on the financial statements of applying the revenue recognition guidance to the portfolio would not differ materially from applying this guidance to the individual contracts (or performance obligations) within that portfolio.

Promised goods or services are not assessed as performance obligations if they are immaterial in the context of the contract with the customer. If the revenue related to a performance obligation that includes goods or services that are immaterial in the context of the contract is recognized before those immaterial goods or services are transferred to the customer, then the related costs to transfer those goods or services are accrued.

Incremental costs of obtaining a contract are generally expensed when incurred because the amortization period would be less than one year. Such costs primarily relate to sales commissions and are recorded in selling, marketing and distribution expense.

Disaggregated revenues by reporting segment and geography are disclosed in accordance with the revenue standard. See Note B, Segment Information.

Earnings Per Common Share. Basic net earnings per share is computed by dividing earnings available to common shareholders by the weighted average number of shares outstanding during the year. Diluted net earnings per share is computed after giving effect to the exercise of all dilutive outstanding option grants.

Comprehensive Income. Comprehensive income is a measure of all changes in shareholders' equity except those resulting from investments by and distributions to owners, and includes such items as net earnings, certain foreign currency translation items, changes in the value of qualifying hedges and pension liability adjustments.

Derivative Instruments and Hedging Activities. The Company accounts for all derivatives, including those embedded in other contracts, as either assets or liabilities and measures those financial instruments at fair value. The accounting for changes in the fair value of derivatives depends on their intended use and designation.

As part of its risk management program, the Company may periodically use forward exchange contracts to manage known market exposures. Terms of derivative instruments are structured to match the terms of the risk being managed and are generally held to maturity. The Company does not hold or issue derivative financial instruments for trading purposes. All other contracts that contain provisions meeting the definition of a derivative also meet the requirements of, and have been designated as, normal purchases or sales. The Company's policy is to not enter into contracts with terms that cannot be designated as normal purchases or sales.

The Company periodically evaluates its monetary asset and liability positions denominated in foreign currencies. The Company enters into forward contracts or options, or borrows in various currencies, in order to hedge its net monetary positions. These instruments are recorded at fair value and the gains and losses are included in other expense, net. The notional amounts of contracts outstanding as of December 25, 2020, totaled \$38 million. The Company believes it uses strong financial counterparties in these transactions and that the resulting credit risk under these hedging strategies is not significant.

The Company uses significant other observable inputs (level 2 in the fair value hierarchy) to value the derivative instruments used to hedge net monetary positions, including reference to market prices and financial models that incorporate relevant market assumptions. Net derivative assets are reported on the balance sheet in accounts receivable and net derivative liabilities are reported as other current liabilities. The fair market value of such instruments follows (in thousands):

	<u>2020</u>	<u>2019</u>
Foreign Currency Contracts		
Assets	\$114	\$—
Liabilities	(98)	(87)
Net Assets (Liabilities)	<u>\$16</u>	<u>\$(87)</u>

B. Segment Information

The Company has six operating segments which are aggregated into three reportable segments: Industrial, Process and Contractor.

The Industrial segment includes our Industrial Products and Applied Fluid Technologies divisions. The Industrial segment markets equipment and solutions for moving and applying paints, coatings, sealants, adhesives and other fluids. Markets served include automotive and vehicle assembly and components production, wood and metal products, rail, marine, aerospace, farm, construction, bus, recreational vehicles and various other industries.

The Process segment includes our Process, Oil and Natural Gas, and Lubrication divisions. The Process segment markets pumps, valves, meters and accessories to move and dispense chemicals, oil and natural gas, water, wastewater, petroleum, food, lubricants and other fluids. Markets served include food and beverage, dairy, oil and natural gas, pharmaceutical, cosmetics, electronics, semiconductor fabrication, wastewater, mining, fast oil change facilities, service garages, fleet service centers, automobile dealerships and industrial lubrication applications.

The Contractor segment markets sprayers for architectural coatings for painting, corrosion control, texture and line striping.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The cost of manufacturing for each segment is based on product cost, and expenses are based on actual costs incurred along with cost allocations of shared and centralized functions based on activities performed, sales or space utilization. Depreciation expense is charged to the manufacturing or operating cost center that utilizes the asset, and is then allocated to segments on the same basis as other expenses within that cost center. Reportable segments are defined by product. Segments are responsible for development, manufacturing, marketing and sales of their products. This allows for focused marketing and efficient product development. The segments share common purchasing, certain manufacturing, distribution and administration functions.

Segments information follows (in thousands):

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Net Sales			
Industrial	\$ 677,680	\$ 747,396	\$ 781,029
Process	326,105	344,930	337,953
Contractor	646,330	553,719	534,310
Total	<u>\$ 1,650,115</u>	<u>\$ 1,646,045</u>	<u>\$ 1,653,292</u>
Operating Earnings			
Industrial	\$ 226,575	\$ 247,216	\$ 271,307
Process	64,498	76,367	68,514
Contractor	164,549	128,282	120,905
Unallocated corporate (expense)	(28,675)	(27,409)	(24,299)
Impairment	(35,229)	—	—
Total	<u>\$ 391,718</u>	<u>\$ 424,456</u>	<u>\$ 436,427</u>
Assets			
Industrial	\$ 632,165	\$ 615,486	
Process	404,370	387,216	
Contractor	438,067	368,832	
Unallocated corporate	513,526	320,676	
Total	<u>\$ 1,988,128</u>	<u>\$ 1,692,210</u>	

Management assesses performance of segments by reference to operating earnings excluding unallocated corporate expenses and asset impairments. Unallocated corporate (expense) includes such items as stock compensation, certain acquisition transaction costs, bad debt expense, charitable contributions and certain facility expenses. Unallocated assets include cash, allowances and valuation reserves, deferred income taxes, certain capital and other assets.

Geographic information follows (in thousands):

	2020	2019	2018
Net Sales (based on customer location)			
United States	\$ 883,451	\$ 840,659	\$ 806,127
Other countries	766,664	805,386	847,165
Total	<u>\$ 1,650,115</u>	<u>\$ 1,646,045</u>	<u>\$ 1,653,292</u>
Long-lived Assets			
United States	\$ 301,643	\$ 268,864	
Other countries	49,107	56,682	
Total	<u>\$ 350,750</u>	<u>\$ 325,546</u>	

Sales to Major Customers. Worldwide sales to one customer in the Contractor and Industrial segments individually represented over 10 percent of the Company's consolidated sales in 2020, 2019 and 2018.

C. Inventories

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

	2020	2019
Finished products and components	\$ 133,122	\$ 132,128
Products and components in various stages of completion	83,791	86,957
Raw materials and purchased components	129,319	117,026
Subtotal	346,232	336,111
Reduction to LIFO cost	(60,528)	(62,878)
Total	<u>\$ 285,704</u>	<u>\$ 273,233</u>

Inventories valued under the LIFO method were \$150.1 million in 2020 and \$140.3 million in 2019. All other inventory was valued on the FIFO method.

In 2020, decreases in material costs, including tariffs, offset the impact of increases in certain inventory quantities and drove the LIFO reserve requirement lower. The effect of the LIFO reserve change on net earnings was not significant.

D. Property, Plant and Equipment

Property, plant and equipment were as follows (in thousands):

	2020	2019
Land and improvements	\$ 26,529	\$ 29,817
Buildings and improvements	277,449	182,195
Manufacturing equipment	340,838	320,240
Office, warehouse and automotive equipment	54,211	48,476
Additions in progress	39,354	99,476
Total property, plant and equipment	738,381	680,204
Accumulated depreciation	(387,631)	(354,658)
Net property, plant and equipment	<u>\$ 350,750</u>	<u>\$ 325,546</u>

Depreciation expense was \$37.8 million in 2020, \$32.2 million in 2019 and \$31.1 million in 2018.

E. Income Taxes

Earnings before income tax expense consist of (in thousands):

	2020	2019	2018
Domestic	\$ 289,708	\$ 294,402	\$ 310,999
Foreign	84,943	111,475	99,767
Total	<u>\$ 374,651</u>	<u>\$ 405,877</u>	<u>\$ 410,766</u>

Income tax expense consists of (in thousands):

	2020	2019	2018
Current			
Federal	\$ 11,509	\$ 39,015	\$ 27,760
State and local	3,217	3,347	3,398
Foreign	18,722	26,270	23,118
Current income tax expense	<u>33,448</u>	<u>68,632</u>	<u>54,276</u>
Deferred			
Domestic	12,856	(151)	17,058
Foreign	(2,109)	(6,457)	(1,622)
Deferred income tax expense (benefit)	<u>10,747</u>	<u>(6,608)</u>	<u>15,436</u>
Total	<u>\$ 44,195</u>	<u>\$ 62,024</u>	<u>\$ 69,712</u>

Income taxes paid were \$44.0 million in 2020, \$67.1 million in 2019 and \$58.1 million in 2018.

A reconciliation between the U.S. federal statutory tax rate and the effective tax rate follows:

	2020	2019	2018
Statutory tax rate	21 %	21 %	21 %
Tax effect of international operations	(2)	(1)	—
State taxes, net of federal effect	1	1	1
U.S. general business tax credits	(1)	(1)	(1)
Loss on sale of business	2	—	—
Stock compensation excess tax benefit	(6)	(3)	(2)
Global Intangible Low-taxed Income (GILTI)	—	1	1
Foreign Derived Intangible Income (FDII)	(3)	(3)	(2)
Pension contribution	—	—	(1)
Effective tax rate	<u>12 %</u>	<u>15 %</u>	<u>17 %</u>

Deferred income taxes are provided for temporary differences between the financial reporting and the tax basis of assets and liabilities. The deferred tax assets (liabilities) resulting from these differences were as follows (in thousands):

	2020	2019
Inventory valuations	\$ 586	\$ 966
Accrued self-insurance retentions	1,164	1,280
Accrued warranty and service liabilities	2,062	2,095
Vacation accruals	3,249	2,335
Customer allowances	3,650	3,142
Excess of tax over book depreciation and amortization	(49,377)	(38,735)
Pension benefit obligation	30,942	32,079
Postretirement medical benefit obligation	4,808	4,625
Acquisition costs	389	407
Stock compensation	11,743	13,979
Deferred compensation	2,075	1,960
Net operating loss carryforward	440	929
Deferred revenue	1,792	1,638
Other	2,041	1,851
Net deferred tax assets	<u>\$ 15,564</u>	<u>\$ 28,551</u>

Total deferred tax assets were \$67.0 million and \$68.9 million, and total deferred tax liabilities were \$51.4 million and \$40.4 million on December 25, 2020 and December 27, 2019, respectively. The difference between the deferred income tax provision and the change in net deferred income taxes is due to the change in other comprehensive income (loss) items, acquisition purchase accounting and the sale of the Company's U.K.-based valve business.

The Company files income tax returns in the U.S. federal jurisdiction, and various states and foreign jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2014.

The Company continues to assert that it will indefinitely reinvest earnings of foreign subsidiaries to support expansion of its international business. No additional income or withholding taxes have been provided for any remaining undistributed foreign earnings, as these amounts continue to be indefinitely reinvested in foreign operations. As of December 25, 2020, the amount of cash held outside the U.S. was not significant to the Company's liquidity and was available to fund investments abroad.

The Company records penalties and accrued interest related to uncertain tax positions in income tax expense. Total reserves for uncertain tax positions were not material.

F. Debt

A summary of debt follows (dollars in thousands):

	Average Interest Rate			
	December 25, 2020	Maturity	2020	2019
Private placement unsecured fixed-rate notes				
Series B	5.01%	March 2023	75,000	75,000
Series D	5.35%	July 2026	75,000	75,000
Unsecured revolving credit facility	N/A	December 2021	—	—
Unsecured revolving credit facility - CNH	3.77%	N/A	7,668	14,298
Notes payable to banks	1.11%	2021	14,515	7,732
Total debt			<u>\$ 172,183</u>	<u>\$ 172,030</u>

The estimated fair value of the fixed interest rate private placement debt was \$170 million on December 25, 2020 and \$165 million on December 27, 2019. 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.

On December 15, 2016, the Company executed an amendment to its revolving credit agreement, extending the expiration date to December 15, 2021 and decreasing certain interest rates and fees. The amended agreement with a syndicate of lenders provides up to \$500 million of committed credit, available for general corporate purposes, working capital needs, share repurchases and acquisitions. The Company may borrow up to \$50 million under the swingline portion of the facility for daily working capital needs.

Under terms of the amended revolving credit agreement, borrowings may be denominated in U.S. dollars or certain other currencies. Loans denominated in U.S. dollars 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 bear interest at a LIBOR-based rate. The base rate is an annual rate equal to a margin ranging from zero percent to 0.75 percent, depending on the Company's cash flow leverage ratio (debt to earnings before interest, taxes, depreciation, amortization and extraordinary non-operating or non-cash charges and expenses) plus the highest of (i) the bank's prime rate, (ii) the federal funds rate plus 0.5 percent, or (iii) one-month LIBOR plus 1.5 percent. In general, LIBOR-based loans bear interest at LIBOR plus 1 percent to 1.75 percent, 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 fee on the unused amount of the loan commitments at an annual rate ranging from 0.125 to 0.25, depending on the Company's cash flow leverage ratio.

On September 24, 2018, the Company entered into a revolving credit agreement with a sole lender that was scheduled to expire in September 2020. This revolver was amended effective January 29, 2020 to remove the expiration date, eliminate commitment fees, reduce interest rate margins and delete negative covenants regarding cash flow leverage and interest coverage ratios. The credit agreement provides up to \$50 million of committed credit, available for general corporate purposes, working capital needs, share repurchases and acquisitions. Under the terms of the agreement, loans may be denominated in U.S. dollars or Chinese renminbi (offshore). Loans denominated in U.S. dollars bear interest, at the Company's option, at either a base rate or a LIBOR-based rate. Loans denominated in Chinese renminbi (offshore) bear interest at a LIBOR-based rate based on the Chinese offshore rate. Other terms of this revolving credit agreement are substantially similar to those of the Company's revolving credit agreement that expires in December 2021.

On January 29, 2020, the Company entered into a master note agreement with a sole lender that expires on January 29, 2023. The note agreement sets forth certain terms on which the Company may issue, and affiliates of the lender may purchase, up to \$200 million of the Company's senior notes. Interest on the senior 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 issuance. Under terms of the note agreement, the Company is required to maintain certain financial ratios as to cash flow leverage and interest coverage similar to the requirements of its other debt agreements.

On December 25, 2020, the Company had \$598 million in lines of credit, including the \$550 million in committed credit facilities described above and \$48 million with foreign banks. The unused portion of committed credit lines was \$548 million as of December 25, 2020. In addition, the Company has unused, uncommitted lines of credit with foreign banks totaling \$30 million. Borrowing rates under these credit lines vary with the prime rate, rates on domestic certificates of deposit and the London Interbank market. The Company pays facility fees at an annual rate of up to 0.15 on certain of these lines. No compensating balances are required.

Various debt agreements require the Company to maintain certain financial ratios as to cash flow leverage and interest coverage. The Company is in compliance with all financial covenants of its debt agreements as of December 25, 2020.

Annual maturities of debt are as follows (in thousands):

	2021	2022	2023	2024	2025	Thereafter
Maturities of debt	\$ 22,183	\$ —	\$ 75,000	\$ —	\$ —	\$ 75,000

Interest paid on debt was \$11.3 million in 2020, \$13.5 million in 2019 and \$14.0 million in 2018.

G. Shareholders' Equity

At December 25, 2020, the Company had 22,549 authorized, but not issued, cumulative preferred shares, \$100 par value. The Company also has authorized, but not issued, a separate class of 3 million shares of preferred stock, \$1 par value.

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

	Pension and Postretirement Medical	Cumulative Translation Adjustment	Total
Balance, December 29, 2017	\$ (78,430)	\$ (49,359)	\$ (127,789)
Other comprehensive income (loss) before reclassifications	(196)	(8,609)	(8,805)
Amounts reclassified from accumulated other comprehensive income	7,190	—	7,190
Reclassified to retained earnings	(15,453)	—	(15,453)
Balance, December 28, 2018	(86,889)	(57,968)	(144,857)
Other comprehensive income (loss) before reclassifications	(33,938)	1,902	(32,036)
Amounts reclassified from accumulated other comprehensive income	7,106	—	7,106
Balance, December 27, 2019	(113,721)	(56,066)	(169,787)
Other comprehensive income (loss) before reclassifications	(7,852)	46,030	38,178
Amounts reclassified from accumulated other comprehensive income	7,444	—	7,444
Balance, December 25, 2020	<u>\$ (114,129)</u>	<u>\$ (10,036)</u>	<u>\$ (124,165)</u>

In connection with the Company's sale of its U.K.-based valve business in 2020, \$24 million of unrealized foreign currency translation losses recorded in accumulated other comprehensive income were reclassified to net earnings.

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.

In February 2018, FASB issued a new standard related to reclassification of certain tax effects from accumulated other comprehensive income (AOCI). The Company adopted the new standard in the first quarter of 2018. We elected to reclassify \$15.5 million from accumulated other comprehensive income to retained earnings, representing the amount of "stranded" tax effects resulting from the change in the U.S. federal tax rate and the consequent revaluation of deferred tax assets related to pension and postretirement medical expense.

H. Share-Based Awards, Purchase Plans and Compensation Cost

Stock Option and Award Plan. The Company has a stock incentive plan under which it grants stock options and share awards to directors, officers and other employees. Option price is the market price on the date of grant. Options become exercisable at such time, generally over 3 years or 4 years, and in such installments as set by the Company, and expire 10 years from the date of grant.

Restricted share awards have been made to certain key employees under the plan. The market value of restricted stock at the date of grant is charged to operations over the vesting period. Compensation cost related to restricted shares is not significant.

The Company has a stock appreciation plan that provides for payments of cash to eligible foreign employees based on the change in the market price of the Company's common stock over a period of time. Compensation cost related to the stock appreciation plan was \$2.4 million in 2020, \$3.3 million in 2019 and \$4.4 million in 2018.

Individual nonemployee directors of the Company may elect to receive, either currently or deferred, all or part of their retainer in the

form of shares of the Company's common stock instead of cash. Under this arrangement, the Company issued 15,243 shares in 2020, 15,016 shares in 2019 and 14,595 shares in 2018. The expense related to this arrangement is not significant.

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 29, 2017	13,290	\$ 21.99	7,729	\$ 18.33
Granted	1,163	44.05		
Exercised	(2,081)	18.17		
Canceled	(102)	28.59		
Outstanding, December 28, 2018	12,270	24.67	7,312	20.17
Granted	1,781	46.36		
Exercised	(1,886)	17.64		
Canceled	(53)	33.13		
Outstanding, December 27, 2019	12,112	28.91	8,231	23.75
Granted	1,400	55.26		
Exercised	(3,238)	20.81		
Canceled	(66)	41.24		
Outstanding, December 25, 2020	10,208	\$ 35.02	6,553	\$ 28.02

The following table summarizes information for options outstanding and exercisable at December 25, 2020 (in thousands, except exercise prices and contractual term amounts):

Range of Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Term in Years	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
\$10 - \$25	3,628	3.6	\$ 22.76	3,628	\$ 22.76
\$25 - \$35	2,240	5.7	29.03	1,850	28.75
\$35 - \$45	1,258	7.3	43.30	631	42.86
\$45 - \$57	3,082	8.7	50.43	444	46.89
\$10 - \$57	10,208	6.0	\$ 35.02	6,553	\$ 28.02

The aggregate intrinsic value of exercisable option shares was \$293.7 million as of December 25, 2020, with a weighted average contractual term of 4.8 years. There were approximately 10.2 million vested share options and share options expected to vest as of December 25, 2020, with an aggregate intrinsic value of \$386.1 million, a weighted average exercise price of \$35.02 and a weighted average contractual term of 6 years.

Information related to options exercised follows (in thousands):

	2020	2019	2018
Cash received	\$ 66,625	\$ 32,749	\$ 11,158
Aggregate intrinsic value	120,395	57,419	57,979
Tax benefit realized	25,000	12,000	12,000

Employee Stock Purchase Plan. Under the Company's Employee Stock Purchase Plan, the purchase price of the shares is the lesser of 85 percent of the fair market value on the first day or the last day of the plan year. Under this plan, the Company issued 399,567 shares in 2020, 397,833 shares in 2019 and 480,461 shares in 2018.

Authorized Shares. In April 2019, shareholders of the Company approved the Graco Inc. 2019 Stock Incentive Plan. The Plan provides for issuance of up to 10 million shares of Graco common stock. Shares authorized for issuance under the stock option and purchase plans are shown below (in thousands):

	Total Shares Authorized	Available for Future Issuance as of December 25, 2020
Stock Incentive Plan (2019)	10,000	8,026
Employee Stock Purchase Plan (2006)	21,000	12,896
Total	<u>31,000</u>	<u>20,922</u>

Amounts available for future issuance exclude outstanding options. Options outstanding as of December 25, 2020, include options granted under three plans that were replaced by subsequent plans. No shares are available for future grants under those plans.

Share-based Compensation. The Company recognized share-based compensation cost as follows (in thousands):

	2020	2019	2018
Share-based compensation	\$ 25,153	\$ 26,669	\$ 25,565
Tax benefit	1,700	2,100	3,500
Share-based compensation, net of tax	<u>\$ 23,453</u>	<u>\$ 24,569</u>	<u>\$ 22,065</u>

As of December 25, 2020, there was \$9.0 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of approximately 2.3 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:

	2020	2019	2018
Expected life in years	7.5	6.8	7.5
Interest rate	1.4 %	2.3 %	2.8 %
Volatility	22.0 %	24.0 %	25.5 %
Dividend yield	1.3 %	1.4 %	1.2 %
Weighted average fair value per share	\$ 12.18	\$ 11.31	\$ 12.84

Expected life is estimated based on vesting terms and exercise and termination history. Interest rate is based on the U.S. Treasury rate on zero-coupon issues with a remaining term equal to the expected life of the option. Expected volatility is based on historical volatility over a period commensurate with the expected life of options.

The fair value of employees' purchase rights under the Employee Stock Purchase 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:

	2020	2019	2018
Expected life in years	1.0	1.0	1.0
Interest rate	1.5 %	2.6 %	2.1 %
Volatility	21.9 %	22.7 %	21.3 %
Dividend yield	1.4 %	1.4 %	1.2 %
Weighted average fair value per share	\$ 11.55	\$ 11.36	\$ 10.28

I. Earnings per Share

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

	2020	2019	2018
Net earnings available to common shareholders	\$ 330,456	\$ 343,853	\$ 341,054
Weighted average shares outstanding for basic earnings per share	167,462	166,515	167,364
Dilutive effect of stock options computed based on the treasury stock method using the average market price	4,546	5,109	5,849
Weighted average shares outstanding for diluted earnings per share	172,008	171,624	173,213
Basic earnings per share	\$ 1.97	\$ 2.06	\$ 2.04
Diluted earnings per share	\$ 1.92	\$ 2.00	\$ 1.97

Anti-dilutive stock options excluded from computations of diluted earnings per share totaled 0.3 million shares in 2020 and 1.1 million shares in 2019 and 2018.

J. Retirement Benefits

The Company has a defined contribution plan, under Section 401(k) of the Internal Revenue Code, which provides retirement benefits to most U.S. employees. For all employees who choose to participate, the Company matches employee contributions at a 100 percent rate, up to 3 percent of the employee's compensation. For employees not covered by a defined benefit plan, the Company contributed an amount equal to 2.0 percent of the employee's compensation. Employer contributions totaled \$8.7 million in 2020, \$8.4 million in 2019 and \$8.0 million in 2018.

The Company's postretirement medical plan provides certain medical benefits for retired U.S. employees. Employees hired before January 1, 2005, are eligible for these benefits upon retirement and fulfillment of other eligibility requirements as specified by the plan.

The Company has both funded and unfunded noncontributory defined benefit pension plans that together cover most U.S. employees hired before January 1, 2006, certain directors and some of the employees of the Company's non-U.S. subsidiaries.

For U.S. plans, benefits are based on years of service and the highest 5 consecutive years' earnings in the 10 years preceding retirement. The Company funds annually in amounts consistent with minimum funding levels and maximum tax deduction limits.

Investment policies and strategies of the U.S. funded pension plans are based on participant demographics of each plan. For the larger of the two plans (the "Blue plan") covering active participants and retirees with higher benefit amounts, investments are based on a long-term view of economic growth and weighted toward equity securities. The primary goal of the plan's investments is to ensure that the plan's liabilities are met over time. In developing strategic asset allocation guidelines, an emphasis is placed on the long-term characteristics of individual asset classes, and the benefits of diversification among multiple asset classes. The plan invests primarily in domestic and international equities, fixed income securities, which include treasuries, highly-rated corporate bonds and high-yield bonds and real estate. Strategic target allocations for Blue plan assets are 50 percent equity securities, 37 percent fixed income securities and 13 percent real estate and alternative investments. For the smaller of the two plans (the "Gray plan") covering retirees with lower benefit amounts, investments are based on a shorter-term, more conservative outlook. The midpoints of the ranges of strategic target allocations for the Gray plan assets are 28 percent equity securities, 60 percent fixed income securities and 12 percent real estate and alternative investments.

Plan assets are held in trusts for the benefit of plan participants and are invested in various commingled funds, most of which are sponsored by the trustee. The fair values for commingled equity, fixed-income and real estate investments are measured using net asset values, which take into consideration the value of underlying fund investments, as well as the other accrued assets and liabilities of a fund, in order to determine a per share market value. Certain trustee-sponsored funds allow redemptions monthly or quarterly, with 10 or 60 days advance notice, while most of the funds allow redemptions daily. The plans had unfunded commitments to make additional

investments in certain funds totaling \$2.4 million as of December 25, 2020 and \$2.5 million as of December 27, 2019.

The Company maintains a defined contribution plan covering employees of a Swiss subsidiary, funded by Company and employee contributions. Responsibility for pension coverage under Swiss law has been transferred to a Swiss insurance company. Plan assets are invested in an insurance contract that guarantees a federally mandated annual rate of return. The value of the plan assets is effectively the value of the insurance contract. The performance of the underlying assets held by the insurance company has no direct impact on the surrender value of the insurance contract. The insurance backed assets have no active market and are classified as level 3 in the fair value hierarchy.

Assets of all plans by category and fair value measurement level were as follows (in thousands):

	Level	2020	2019
Cash and cash equivalents ⁽¹⁾	1	\$ 1,234	\$ (156)
Insurance contract	3	31,877	27,675
Investments categorized in fair value hierarchy		33,111	27,519
Equity			
U.S. Large Cap	N/A	89,003	84,330
U.S. Small/Mid Cap	N/A	20,313	9,202
International	N/A	56,761	39,240
Total equity		166,077	132,772
Fixed income	N/A	161,706	107,832
Real estate and other	N/A	12,671	35,821
Investments measured at net asset value		340,454	276,425
Total		\$ 373,565	\$ 303,944

(1) Negative cash for 2019 represents unsettled pending trades within an investment that are classified in cash and cash equivalents until settled.

The following table is a reconciliation of pension assets measured at fair value using level 3 inputs (in thousands):

	2020	2019
Balance, beginning of year	\$ 27,675	\$ 26,364
Purchases	2,255	2,151
Redemptions	(1,425)	(1,326)
Unrealized gains	3,372	486
Balance, end of year	\$ 31,877	\$ 27,675

The following provides a reconciliation of the changes in the plans' benefit obligations and fair value of assets over the periods ending December 25, 2020, and December 27, 2019, and a statement of the funded status as of the same dates (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2020	2019	2020	2019
Change in benefit obligation				
Obligation, beginning of year	\$ 449,419	\$ 371,282	\$ 30,646	\$ 27,778
Service cost	9,361	7,735	609	545
Interest cost	13,313	15,103	1,016	1,162
Actuarial loss	46,545	67,756	3,572	2,532
Benefit payments	(13,602)	(12,594)	(1,385)	(1,371)
Plan changes	(529)	—	—	—
Exchange rate changes	6,145	137	—	—
Obligation, end of year	<u>\$ 510,652</u>	<u>\$ 449,419</u>	<u>\$ 34,458</u>	<u>\$ 30,646</u>
Change in plan assets				
Fair value, beginning of year	\$ 303,944	\$ 269,253	\$ —	\$ —
Actual return on assets	58,068	44,743	—	—
Employer contributions	22,237	2,276	1,385	1,371
Benefit payments	(13,602)	(12,594)	(1,385)	(1,371)
Exchange rate changes	2,918	266	—	—
Fair value, end of year	<u>\$ 373,565</u>	<u>\$ 303,944</u>	<u>\$ —</u>	<u>\$ —</u>
Funded status	<u>\$ (137,087)</u>	<u>\$ (145,475)</u>	<u>\$ (34,458)</u>	<u>\$ (30,646)</u>

Amounts recognized in consolidated balance sheets

Non-current assets	\$ 9,144	\$ 2,931	\$ —	\$ —
Current liabilities	1,750	1,824	1,714	1,656
Non-current liabilities	144,481	146,582	32,744	28,990
Net	<u>\$ 137,087</u>	<u>\$ 145,475</u>	<u>\$ 34,458</u>	<u>\$ 30,646</u>

Changes in discount rates used to value pension obligations were the main drivers of large actuarial losses in 2020 and 2019. In the fourth quarter of 2020, the Company made a \$20 million voluntary contribution to one of its U.S. qualified defined benefit plans.

The accumulated benefit obligation as of year-end for all defined benefit pension plans was \$465 million for 2020 and \$410 million for 2019. Information for plans with an accumulated benefit obligation in excess of plan assets follows (in thousands):

	2020	2019
Projected benefit obligation	\$ 463,959	\$ 402,900
Accumulated benefit obligation	418,372	363,497
Fair value of plan assets	317,727	254,493

The components of net periodic benefit cost for the plans for 2020, 2019 and 2018 were as follows (in thousands):

	Pension Benefits			Postretirement Medical Benefits		
	2020	2019	2018	2020	2019	2018
Service cost-benefits earned during the period	\$ 9,361	\$ 7,735	\$ 8,487	\$ 609	\$ 545	\$ 636
Interest cost on projected benefit obligation	13,313	15,103	13,424	1,016	1,162	1,084
Expected return on assets	(18,814)	(17,152)	(17,447)	—	—	—
Amortization of prior service cost (credit)	294	279	279	—	—	—
Amortization of net loss (gain)	10,243	8,392	7,931	733	273	646
Settlement loss (gain)	—	—	184	—	—	—
Cost of pension plans which are not significant and have not adopted ASC 715	168	110	106	N/A	N/A	N/A
Net periodic benefit cost	<u>\$ 14,565</u>	<u>\$ 14,467</u>	<u>\$ 12,964</u>	<u>\$ 2,358</u>	<u>\$ 1,980</u>	<u>\$ 2,366</u>

Net periodic benefit cost is disaggregated between service cost presented as operating expense and other components of pension cost presented as non-operating expense. Other components of pension cost and changes in cash surrender value of insurance contracts intended to fund certain non-qualified pension and deferred compensation arrangements included in non-operating expenses totaled \$5 million in 2020, \$5 million in 2019 and \$8 million in 2018.

Amounts recognized in other comprehensive (income) loss in 2020 and 2019 were as follows (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2020	2019	2020	2019
Net loss (gain) arising during the period	\$ 8,872	\$ 40,184	\$ 3,572	\$ 2,532
Amortization of net gain (loss)	(10,243)	(8,392)	(733)	(273)
Prior service cost (credit) arising during the period	(529)	—	—	—
Amortization of prior service credit (cost)	(294)	(279)	—	—
Total	<u>\$ (2,194)</u>	<u>\$ 31,513</u>	<u>\$ 2,839</u>	<u>\$ 2,259</u>

Amounts included in accumulated other comprehensive (income) loss as of December 25, 2020 and December 27, 2019, that had not yet been recognized as components of net periodic benefit cost, were as follows (in thousands):

	Pension Benefits		Postretirement Medical Benefits	
	2020	2019	2020	2019
Prior service cost	\$ 439	\$ 1,197	\$ —	\$ —
Net loss	134,469	135,910	10,891	8,052
Net before income taxes	134,908	137,107	10,891	8,052
Income taxes	(29,274)	(29,666)	(2,396)	(1,772)
Net	<u>\$ 105,634</u>	<u>\$ 107,441</u>	<u>\$ 8,495</u>	<u>\$ 6,280</u>

Assumptions used to determine the Company's benefit obligations are shown below:

Weighted average assumptions	Pension Benefits		Postretirement Medical Benefits	
	2020	2019	2020	2019
U.S. Plans				
Discount rate	2.6 %	3.5 %	2.6 %	3.4 %
Rate of compensation increase	2.7 %	2.8 %	N/A	N/A
Non-U.S. Plans				
Discount rate	0.4 %	0.4 %	N/A	N/A
Rate of compensation increase	1.3 %	1.3 %	N/A	N/A

Assumptions used to determine the Company's net periodic benefit cost are shown below:

Weighted average assumptions	Pension Benefits			Postretirement Medical Benefits		
	2020	2019	2018	2020	2019	2018
U.S. Plans						
Discount rate	3.5 %	4.5 %	3.9 %	3.4 %	4.5 %	3.9 %
Rate of compensation increase	2.8 %	2.8 %	2.8 %	N/A	N/A	N/A
Expected return on assets	6.8 %	7.0 %	7.1 %	N/A	N/A	N/A
Non-U.S. Plans						
Discount rate	0.4 %	1.3 %	1.0 %	N/A	N/A	N/A
Rate of compensation increase	1.3 %	1.4 %	0.9 %	N/A	N/A	N/A
Expected return on assets	1.5 %	2.0 %	2.0 %	N/A	N/A	N/A

Several sources of information are considered in determining the expected rate of return assumption, including the allocation of plan assets, the input of actuaries and professional investment advisers, and historical long-term returns. In setting the return assumption, the Company recognizes that historical returns are not always indicative of future returns and also considers the long-term nature of its pension obligations.

The Company's U.S. retirement medical plan limits the annual cost increase that will be paid by the Company to 3 percent. In measuring the accumulated postretirement benefit obligation (APBO), the annual trend rate for health care costs was assumed to be 8.0 percent for 2021, decreasing each year to a constant rate of 4.5 percent for 2038 and thereafter, subject to the plan's annual increase limitation.

The Company expects to contribute \$1.8 million to its unfunded pension plans and \$1.7 million to the postretirement medical plan in 2021. The Company expects to utilize available credits to satisfy any required contributions to the funded pension plans under minimum funding requirements for 2021. Estimated future benefit payments are as follows (in thousands):

	Pension Benefits	Postretirement Medical Benefits
2021	\$ 17,370	\$ 1,714
2022	18,669	1,759
2023	19,877	1,761
2024	21,866	1,745
2025	21,102	1,742
Years 2026-2030	121,486	8,417

K. Commitments and Contingencies

Operating Lease Liabilities and Assets

The Company owns most of the assets used in its operations, but leases certain buildings and land, vehicles, office equipment and other rental assets. The Company determines if an arrangement is a lease at inception. All of the Company's current lease arrangements are classified as operating leases. The Company historically has not entered into financing leases. Operating lease assets and obligations are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease expense is recognized by amortizing the amount recorded as an asset on a straight-line basis over the lease term.

In determining lease asset value, the Company considers fixed or variable payment terms, prepayments, incentives, and options to extend, terminate or purchase. Renewal, termination or purchase options affect the lease term used for determining lease asset value only if the option is reasonably certain to be exercised. The Company generally uses its incremental borrowing rate based on information available at the lease commencement date in determining the present value of lease payments.

As of December 25, 2020, the weighted average remaining lease term was 6.3 years and the weighted average discount rate used to determine the operating lease liability was 3.1 percent. For the twelve months ended December 25, 2020, expense related to operating leases was \$11.1 million, operating lease payments included in operating cash flows totaled \$11.2 million, and non-cash additions to operating lease assets totaled \$13.2 million. Variable lease costs and short term lease costs were not significant for the twelve months ended December 25, 2020.

As of December 25, 2020, future maturities of operating lease liabilities were as follows (in thousands):

2021	\$	9,418
2022		8,369
2023		5,719
2024		4,691
2025		4,142
Thereafter		12,388
Total lease payments	\$	44,727
Present value adjustment		(4,325)
Operating lease liabilities	\$	<u>40,402</u>

Other Commitments. The Company is committed to pay suppliers under the terms of open purchase orders issued in the normal course of business totaling approximately \$139 million at December 25, 2020. The Company also has commitments with certain suppliers to purchase minimum quantities, and under the terms of certain agreements, the Company is committed for certain portions of the supplier's inventory. The Company does not purchase, or commit to purchase, quantities in excess of normal usage or amounts that cannot be used within one year. The Company estimates that the maximum commitment amount under such agreements does not exceed \$59 million.

The Company enters into contracts with vendors to receive services. Commitments under these service contracts with noncancelable terms of more than one year totaled \$7 million in 2021, \$6 million in 2022, \$3 million in 2023 and \$4 million thereafter.

In addition, the Company could be obligated to perform under standby letters of credit totaling \$3 million at December 25, 2020. The Company has also guaranteed the debt of its subsidiaries for up to \$4 million. All debt of subsidiaries is reflected in the consolidated balance sheets.

Contingencies. The Company is party to various legal proceedings arising in the normal course of business. The Company is actively pursuing and defending these matters and has recorded an estimate of the probable costs where appropriate. Management does not expect that resolution of these matters will have a material adverse effect on the Company, although the ultimate outcome cannot be determined based on available information.

L. Quarterly Financial Information (Unaudited)

Unaudited quarterly financial data is summarized below (in thousands, except per share amounts):

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
2020				
Net Sales	\$ 373,567	\$ 366,892	\$ 439,316	\$ 470,340
Gross Profit	198,631	182,529	228,953	244,824
Net Earnings	72,818	28,832	114,115	114,691
Basic Net Earnings per Common Share	\$ 0.43	\$ 0.17	\$ 0.68	\$ 0.68
Diluted Net Earnings per Common Share	0.42	0.17	0.66	0.66
Cash Dividends Declared per Common Share	0.18	0.18	0.18	0.19
2019				
Net Sales	\$ 404,870	\$ 428,328	\$ 400,555	\$ 412,292
Gross Profit	216,042	226,954	207,379	209,381
Net Earnings	86,749	88,137	84,132	84,835
Basic Net Earnings per Common Share	\$ 0.52	\$ 0.53	\$ 0.50	\$ 0.51
Diluted Net Earnings per Common Share	0.51	0.51	0.49	0.49
Cash Dividends Declared per Common Share	0.16	0.16	0.16	0.18

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of the end of the fiscal year covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended (the Exchange Act)). This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer, the Chief Financial Officer and Treasurer, and the Executive Vice President, Corporate Controller. Based upon that evaluation, they concluded that the Company's disclosure controls and procedures are effective.

Management's Annual Report on Internal Control Over Financial Reporting

The information under the heading "Management's Report on Internal Control Over Financial Reporting" in Part II, Item 8, of this 2020 Annual Report on Form 10-K is incorporated herein by reference.

Reports of Independent Registered Public Accounting Firm

The information under the headings "Reports of Independent Registered Public Accounting Firm" and "Opinion on Internal Control Over Financial Reporting" in Part II, Item 8, of this 2020 Annual Report on Form 10-K is incorporated herein by reference.

Changes in Internal Control Over Financial Reporting

During the fourth 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.

Item 9B. Other Information

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the heading “Information About Our Executive Officers” in Part I of this 2020 Annual Report on Form 10-K and the information under the heading “Board of Directors” in our Company’s Proxy Statement for its 2021 Annual Meeting of Shareholders to be held on April 23, 2021 (the “Proxy Statement”), is incorporated herein by reference.

Audit Committee Members and Audit Committee Financial Expert

The information under the heading “Committees of the Board of Directors” in our Company’s Proxy Statement is incorporated herein by reference.

Corporate Governance Guidelines, Committee Charters and Code of Ethics

Our Company has adopted Corporate Governance Guidelines and Charters for each of the Audit, Governance, and Management Organization and Compensation Committees of the Board of Directors. We have also issued a Code of Ethics and Business Conduct (“Code of Ethics”) that applies to our principal executive officer, principal financial officer, principal accounting officer, all officers, directors, and employees of Graco Inc. and all of its subsidiaries, representative offices and branches worldwide. The Corporate Governance Guidelines, Committee Charters, and Code of Ethics, with any amendments or waivers thereto, may be accessed free of charge by visiting the Graco website at www.graco.com.

Our Company intends to post on the Graco website any amendment to, or waiver from, a provision of the Code of Ethics that applies to our principal executive officer, principal financial officer, principal accounting officer, controller and other persons performing similar functions within four business days following the date of such amendment or waiver.

Delinquent Section 16(a) Reports

The information under the heading “Delinquent Section 16(a) Reports” in the Company’s Proxy Statement is incorporated herein by reference.

Item 11. Executive Compensation

The information contained under the headings “Director Compensation,” “Executive Compensation,” “Compensation Committee Interlocks and Insider Participation” and “Report of the Management Organization and Compensation Committee” in the Proxy Statement is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained under the headings “Equity Compensation Plan Information” and “Beneficial Ownership of Shares” in the Proxy Statement is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information under the headings “Related Person Transaction Approval Policy” and “Director Independence” in the Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information under the headings “Independent Registered Public Accounting Firm Fees and Services” and “Pre-Approval Policies” in the Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) The following documents are filed as part of this report:

	<u>Page</u>
(1) Financial Statements	37
(2) Financial Statement Schedule Schedule II – Valuation and Qualifying Accounts	
All financial statement schedules are omitted as the required information is inapplicable or the information is presented in the consolidated financial statements or related notes.	
(3) Management Contract, Compensatory Plan or Arrangement. (See Exhibit Index)	65
Those entries marked by an asterisk are Management Contracts, Compensatory Plans or Arrangements.	

Exhibit Index

<u>Exhibit Number</u>	<u>Description</u>
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.)
4.1	Description of Our Securities. (Incorporated by reference to Exhibit 4.1 to the Company's 2019 Annual Report on Form 10-K.)
*10.1	Graco Inc. Incentive Bonus Plan. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed September 19, 2019.)
*10.2	Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 14, 2006.)
*10.3	Graco Inc. 2010 Stock Incentive Plan. (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 11, 2010.)
*10.4	Graco Inc. 2015 Stock Incentive Plan. (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 11, 2015.)
*10.5	Graco Inc. 2019 Stock Incentive Plan. (Incorporated by reference to Appendix A to the Company's Definitive Proxy Statement on Schedule 14A filed March 13, 2019.)
*10.6	Deferred Compensation Plan (2005 Statement) as amended and restated on April 4, 2005. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the thirteen weeks ended July 1, 2005.) Second Amendment dated November 1, 2005. (Incorporated by reference to Exhibit 10.8 to the Company's 2005 Annual Report on Form 10-K.) Third Amendment adopted on December 29, 2008. (Incorporated by reference to Exhibit 10.8 to the Company's 2008 Annual Report on Form 10-K.) Second Amendment dated October 25, 2012. (Incorporated by reference to Exhibit 10.9 to the Company's 2012 Annual Report on Form 10-K.)
*10.7	Graco Restoration Plan (2005 Statement). (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 29, 2006.) First Amendment adopted December 8, 2006. (Incorporated by reference to Exhibit 10.12 to the Company's 2006 Annual Report on Form 10-K.) Second Amendment adopted August 15, 2007. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 28, 2007.) Third Amendment adopted March 27, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.) Fourth Amendment adopted December 29, 2008. (Incorporated by reference to Exhibit 10.11 to the Company's 2008 Annual Report on Form 10-K.) Fifth Amendment adopted September 16, 2010. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended September 24, 2010.) Sixth Amendment adopted February 15, 2018 (Incorporated by reference to Exhibit 10.7 to the Company's 2017 Annual Report on Form 10-K.) Seventh Amendment adopted December 6, 2018. (Incorporated by reference to Exhibit 10.6 to the Company's 2018 Annual Report on Form 10-K.)
*10.8	Graco Inc. Retirement Plan for Non-Employee Directors. (Incorporated by reference to Exhibit 10.7 to the Company's 2018 Annual Report on Form 10-K.) (Initially filed by the Company in paper form as Attachment C to Item 5 to the Company's Report on Form 10-Q for the thirteen weeks ended March 29, 1991.) First Amendment adopted on December 29, 2008. (Incorporated by reference to Exhibit 10.10 to the Company's 2008 Annual Report on Form 10-K.)
*10.9	Form of Amendment to Executive Officer and Non-Employee Director Stock Options to Permit Net Exercises, as adopted by the Board of Directors February 17, 2012. (Incorporated by reference to Exhibit 10.1 of the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2012.)
*10.10	Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Graco Inc. Amended and Restated Stock Incentive Plan (2006). (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended June 29, 2007.) Amended form of agreement for awards made to nonemployee directors in 2008. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended June 27, 2008.) Amended and restated form of agreement for awards made to nonemployee directors in 2009. (Incorporated by reference to Exhibit 10.14 to the Company's 2009 Annual Report on Form 10-K/A.)

- *10.11 Stock Option Agreement. Form of agreement used for award of nonstatutory stock options to nonemployee directors under the Graco Inc. 2010 Stock Incentive Plan in 2011. (Incorporated by reference to Exhibit 10.16 to the Company's 2010 Annual Report on Form 10-K.) Amended form of agreement for awards made to nonemployee directors commencing in 2012 (and subsequently used for awards made to nonemployee directors under the Graco Inc. 2015 Stock Incentive Plan in 2015). (Incorporated by reference to Exhibit 10.4 of the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2012.)
- *10.12 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. Amended and Restated Stock Incentive Plan (2006) in 2007. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2007.) Amended form of agreement for awards made to executive officers in 2008, 2009 and 2010. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
- *10.13 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to Chief Executive Officer under the Graco Inc. Amended and Restated Stock Incentive Plan (2006) in 2007. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2007.) Amended form of agreement for awards made to Chief Executive Officer in 2008, 2009 and 2010. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 28, 2008.)
- *10.14 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. 2010 Stock Incentive Plan in 2011. (Incorporated by reference to Exhibit 10.4 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2011.) Amended form of agreement for awards made to executive officers commencing in 2012. (Incorporated by reference to Exhibit 10.3 of the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2012.)
- *10.15 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to Chief Executive Officer under the Graco Inc. 2010 Stock Incentive Plan in 2011. (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended April 1, 2011.) Amended form of agreement for awards made to Chief Executive Officer commencing in 2012. (Incorporated by reference to Exhibit 10.2 of the Company's Report on Form 10-Q for the thirteen weeks ended March 30, 2012.)
- *10.16 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to Chief Executive Officer under the Graco Inc. 2015 Stock Incentive Plan commencing in 2016. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended March 25, 2016.)
- *10.17 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. 2015 Stock Incentive Plan commencing in 2016. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended March 25, 2016.)
- *10.18 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to nonemployee directors under the Graco Inc. 2015 Stock Incentive Plan commencing in 2016. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended June 24, 2016.)
- *10.19 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to nonemployee directors under the Graco Inc. 2019 Stock Incentive Plan commencing in 2019. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended June 28, 2019.)
- *10.20 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to Chief Executive Officer under the Graco Inc. 2019 Stock Incentive Plan commencing in 2020. (Incorporated by reference to Exhibit 10.21 to the Company's 2019 Annual Report on Form 10-K.)
- *10.21 Stock Option Agreement. Form of agreement used for award of non-incentive stock options to executive officers under the Graco Inc. 2019 Stock Incentive Plan commencing in 2020. (Incorporated by reference to Exhibit 10.22 to the Company's 2019 Annual Report on Form 10-K.)
- *10.22 Nonemployee Director Stock and Deferred Stock Program (2019 Restatement). (Incorporated by reference to Exhibit 10.3 to the Company's Report on Form 10-Q for the thirteen weeks ended June 28, 2019.)
- *10.23 Key Employee Agreement. Form of agreement used with Chief Executive Officer. (Incorporated by reference to Exhibit 10.24 to the Company's 2007 Annual Report on Form 10-K.)

- *10.24 Key Employee Agreement. Form of agreement used with executive officers other than the Chief Executive Officer. (Incorporated by reference to Exhibit 10.25 to the Company's 2007 Annual Report on Form 10-K.)
- 10.25 Executive Group Long-Term Disability Policy as revised in 1995. (Incorporated by reference to Exhibit 10.23 to the Company's 2004 Annual Report on Form 10-K.) Enhanced by Supplemental Income Protection Plan in 2004. (Incorporated by reference to Exhibit 10.28 to the Company's 2007 Annual Report on Form 10-K.)
- 10.26 Omnibus Amendment, dated June 26, 2014, amending and restating the Credit Agreement 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 July 1, 2014.) Third Amendment to Credit Agreement, dated December 15, 2016, amending the Credit Agreement 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 8-K filed December 20, 2016.) Fourth amendment to Credit Agreement, dated May 23, 2017, amending the Credit Agreement 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 10.2 to the Company's 10-Q for the thirteen weeks ended June 30, 2017.) Fifth amendment to Credit Agreement, dated April 17, 2020, amending the Credit Agreement 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 10.5 to the Company's 10-Q for the thirteen weeks ended March 27, 2020.)
- 10.27 Note Agreement, dated March 11, 2011, between Graco Inc. and the Purchasers listed on the Purchaser Schedule attached thereto, which includes as exhibits the form of Senior Notes. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed March 16, 2011.) Amendment No. 1 dated May 23, 2011. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 10-Q for the thirteen weeks ended July 1, 2011.) Amendment and Restatement No. 1 to Note Agreement dated as of March 27, 2012. (Incorporated by reference to Exhibit 10.2 to the Company's Report on Form 8-K filed April 2, 2012.) Amendment No. 2 dated as of June 26, 2014 to Note Agreement dated as of March 11, 2011. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 10-Q for the thirteen weeks ended June 27, 2014.) Amendment No. 3 dated as of December 15, 2016 to Note Agreement dated as of March 11, 2011. (Incorporated by reference to Exhibit 10.28 to the Company's 2016 Annual Report on Form 10-K.) Amendment No. 4 dated May 23, 2017 to Note Agreement dated as of March 11, 2011. (Incorporated by reference to Exhibit 10.1 to the Company's 10-Q for the thirteen weeks ended June 30, 2017.) Amendment No. 5 dated April 17, 2020 to Note Agreement dated as of March 11, 2011. (Incorporated by reference to Exhibit 10.4 to the Company's 10-Q for the thirteen weeks ended March 27, 2020.)
- 10.28 Master Note Agreement, dated January 29, 2020, between Graco Inc. and NYL Investors LLC. (Incorporated by reference to Exhibit 10.1 to the Company's Report on Form 8-K filed February 3, 2020.)
- 11 Statement of Computation of Earnings per share included in Note I on page 63
- 21 Subsidiaries of the Company
- 23 Independent Registered Public Accounting Firm's Consent
- 24 Power of Attorney
- 31.1 Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a)
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a)
- 32 Certification of President and Chief Executive Officer and Chief Financial Officer pursuant to Section 1350 of Title 18, U.S.C.
- 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).

* Management Contracts, Compensatory Plans or Arrangements.

Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of certain instruments defining the rights of holders of certain long-term debt of the Company and its subsidiaries are not filed as exhibits because the amount of debt authorized under any such instrument does not exceed 10 percent of the total assets of the Company and its subsidiaries. The Company agrees to furnish copies thereof to the Securities and Exchange Commission upon request.

Item 16. Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.

/s/ PATRICK J. MCHALE

February 16, 2021

Patrick J. McHale

President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ PATRICK J. MCHALE

February 16, 2021

Patrick J. McHale

President and Chief Executive Officer

(Principal Executive Officer)

/s/ MARK W. SHEAHAN

February 16, 2021

Mark W. Sheahan

Chief Financial Officer and Treasurer

(Principal Financial Officer)

/s/ KATHRYN L. SCHOENROCK

February 16, 2021

Kathryn L. Schoenrock

Executive Vice President, Corporate Controller

(Principal Accounting Officer)

Lee R. Mitau	Director, Chairman of the Board
Brett C. Carter	Director
Eric P. Etchart	Director
Jack W. Eugster	Director
Jody H. Feragen	Director
J. Kevin Gilligan	Director
Patrick J. McHale	Director
Martha A. Morfitt	Director
R. William Van Sant	Director
Kevin J. Wheeler	Director
Emily C. White	Director

Patrick J. McHale, by signing his name hereto, does hereby sign this document on behalf of himself and each of the above named directors of the Registrant pursuant to powers of attorney duly executed by such persons.

/s/ PATRICK J. MCHALE

February 16, 2021

Patrick J. McHale

(For himself and as attorney-in-fact)

Board of Directors

Lee R. Mitau

Chairman of the Board,
Graco Inc.
Retired Executive Vice President
and General Counsel,
U.S. Bancorp

Brett C. Carter

Executive Vice President and
Chief Customer and Innovation Officer,
Xcel Energy Inc.

Eric P. Etchart

Retired Senior Vice President,
The Manitowoc Company, Inc.

Jack W. Eugster

Retired Chairman, President
and Chief Executive Officer,
Musicland Stores Corporation

Jody H. Feragen

Retired Executive Vice President
and Chief Financial Officer,
Hormel Foods Corporation

J. Kevin Gilligan

Retired Chairman and Chief Executive Officer,
Capella Education Company

Patrick J. McHale

President and
Chief Executive Officer,
Graco Inc.

Martha A. Morfitt

President and
Chief Executive Officer,
River Rock Partners, Inc.

R. William Van Sant

Operating Partner,
TJM Capital Partners
Senior Advisor,
Yukon Partners II, LLC

Kevin J. Wheeler

Chairman, President and
Chief Executive Officer,
A. O. Smith Corporation

Emily C. White

President,
Anthos Capital

Executive Officers

Patrick J. McHale

President and
Chief Executive Officer

David M. Ahlers

Executive Vice President,
Human Resources and
Corporate Communications

Caroline M. Chambers

President, EMEA, and
Executive Vice President,
Information Systems

Karen Park Gallivan

Executive Vice President,
General Counsel and
Corporate Secretary

Dale D. Johnson

President, Worldwide
Contractor Equipment Division

Jeffrey P. Johnson

President, Electric Motor Division

David M. Lowe

President, Worldwide Process Division

Bernard J. Moreau

President, South and Central America

Peter J. O'Shea

President, Worldwide
Industrial Products Division

Christian E. Rothe

President, Worldwide
Applied Fluid Technologies Division

Kathryn L. Schoenrock

Executive Vice President,
Corporate Controller

Mark W. Sheahan

Chief Financial Officer and Treasurer

Timothy R. White

President, White Knight and
QED Environmental Systems

Angela F. Wordell

Executive Vice President, Operations, and
President, Worldwide Oil & Natural Gas Division

Brian J. Zumbolo

President, Asia Pacific

Annual Meeting

This year's Annual Meeting of Shareholders will be a virtual meeting. The meeting will commence at 1 p.m. Central Time on April 23, 2021. Shareholders can vote their shares electronically and submit questions for management during the meeting by visiting www.virtualshareholdermeeting.com/GGG2021. Please use the 16-digit control number printed on your Notice Regarding the Availability of Proxy Materials to join the annual meeting.

Corporate Inquiries

Investors may obtain the Graco Inc. 2020 Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and other reports and amendments to the reports by visiting the Graco website at www.graco.com. Requests for financial publications can also be addressed to:

Graco Inc.

Attention: Investor Relations
P.O. Box 1441
Minneapolis, Minnesota 55440-1441
USA
Or call: 612-623-6260

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www.graco.com



GRACO

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