



# 1<sup>st</sup> Quarter 2015 Earnings Conference Call

*April 23, 2015*

# Safe Harbor



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

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

Factors that could cause actual results to differ from anticipated results are identified in Part 1, Item 1A of the Company's Form 10-K, and Item 1A of the current Quarterly Report on Form 10-Q.

# Conference Call Logistics



The release, accompanying slides and replay web cast are available online at [www.graco.com/ir](http://www.graco.com/ir)

Telephone replay will be available after 2 p.m. ET, April 23, 2015. The replay by telephone will be available through April 27, 2015

- 888-203-1112 – Conference ID #1366681
- 719-457-0820 – Conference ID #1366681, for International participants

# Financial Results



\$ millions except EPS	First Quarter		
	2015	2014	Change
Sales	\$ 306.5	\$ 290.0	6 %
Gross Profit	162.1	159.3	2 %
% of Sales	52.9 %	54.9 %	(2.0) pts
Operating Earnings	65.2	74.7	(13)%
% of Sales	21.3 %	25.8 %	(4.5) pts
Net Earnings	\$ 68.8	\$ 50.7	36 %
% of Sales	22.5 %	17.5 %	5.0 pts
Diluted Earnings Per Share	\$ 1.14	\$ 0.81	41 %
<i>Diluted Shares in Millions</i>	60.5	62.4	
Includes investment income, net, from Liquid Finishing business held separate:			
Investment income, net	\$ 29.7	\$ 3.8	
EPS Impact	\$ 0.49	\$ 0.06	

- Subsequent to the end of Q1, the sale of the Liquid Finishing business assets was completed; proceeds from the sale will be included in Q2
- Changes in currency translation rates reduced sales by approximately \$13M, or 4 percentage points, and reduced net earnings by approximately \$4M, or 14 percentage points

# Financial Results

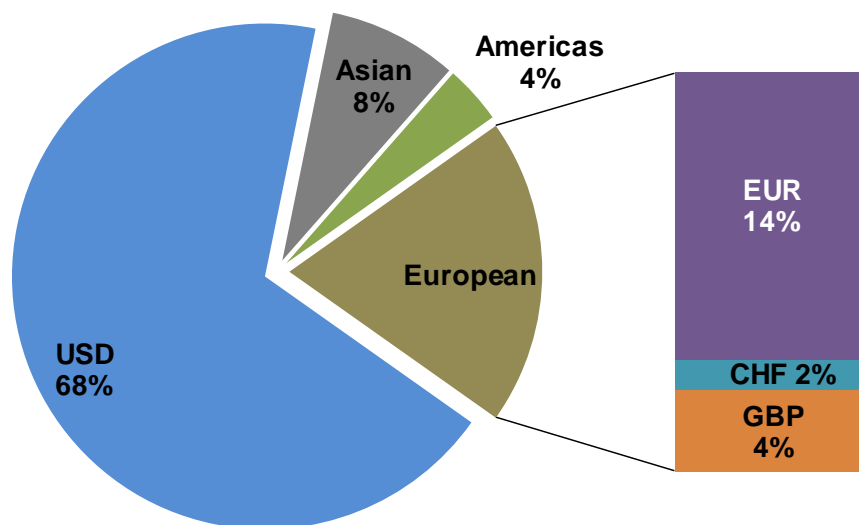


## Components of Net Sales Change

First Quarter 2015

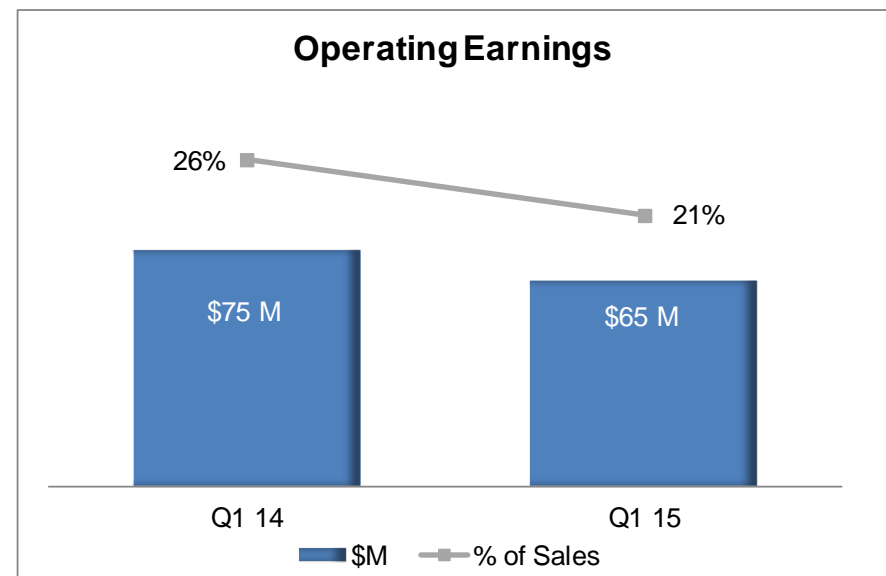
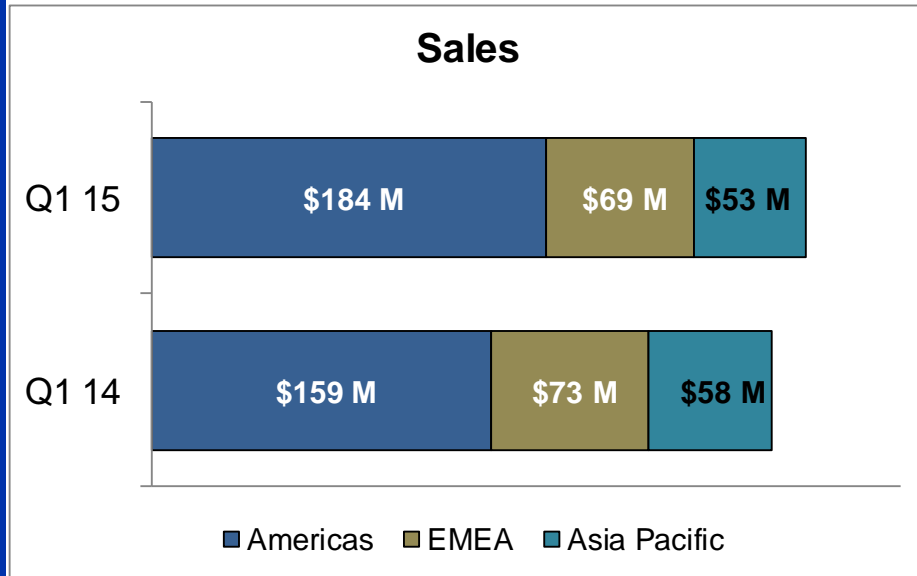
	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(1)%	5 %	16 %	12 %	—	(10)%	5 %
Acquisitions	—	27 %	—	5 %	8 %	4 %	5 %
Currency	(5)%	(4)%	(4)%	(1)%	(14)%	(3)%	(4)%
Total	(6)%	28 %	12 %	16 %	(6)%	(9)%	6 %

## Sales by Currency YTD March 2015



Asian currencies include:  
AUD, CNY/RMB, KRW, JPY  
Americas currencies include:  
CAD, BRL

# First Quarter 2015 Results



- Sales increase of 6% (10% at consistent currency translation rates)
  - Acquired businesses sales of \$15 million account for 5 percentage points of growth
- Gross margin rate down 2 percentage points from first quarter 2014
  - Currency translation reduced gross margin 1 percentage point
  - Purchase accounting (net, 2015 & 2014) impacted consolidated margin by ½ percentage point
  - Product and channel mix
- Operating earnings down \$9.5 million, 5 percentage points lower than first quarter 2014. The decrease as a percentage of sales includes:
  - Currency headwinds, 2 percentage points
  - Acquisitions, 1 percentage point
  - Incremental investment in regional and product expansions, 1 percentage point
  - Unallocated corporate expenses, mostly pension, stock compensation, and the new central distribution warehouse, 1 percentage point

- Interest expense \$5 million, comparable to 2014
- Liquid Finishing dividend \$30 million (post-tax), \$4 million first quarter 2014
- Tax rate of 22% is lower than first quarter 2014 rate of 31%
  - 2015 reduced by effect of additional \$26 million dividend income (post-tax) from Liquid Finishing

# Operating Earnings



## Change in Operating Earnings

2014 Q1 Operating Earnings (\$M and % of sales)

Translation effect

Volume effect on gross margin

Effect of acquired businesses on operating earnings leverage

Effect of inventory step-up, net, and acquisition costs for acquired businesses

Incremental investment in regional and product growth initiatives

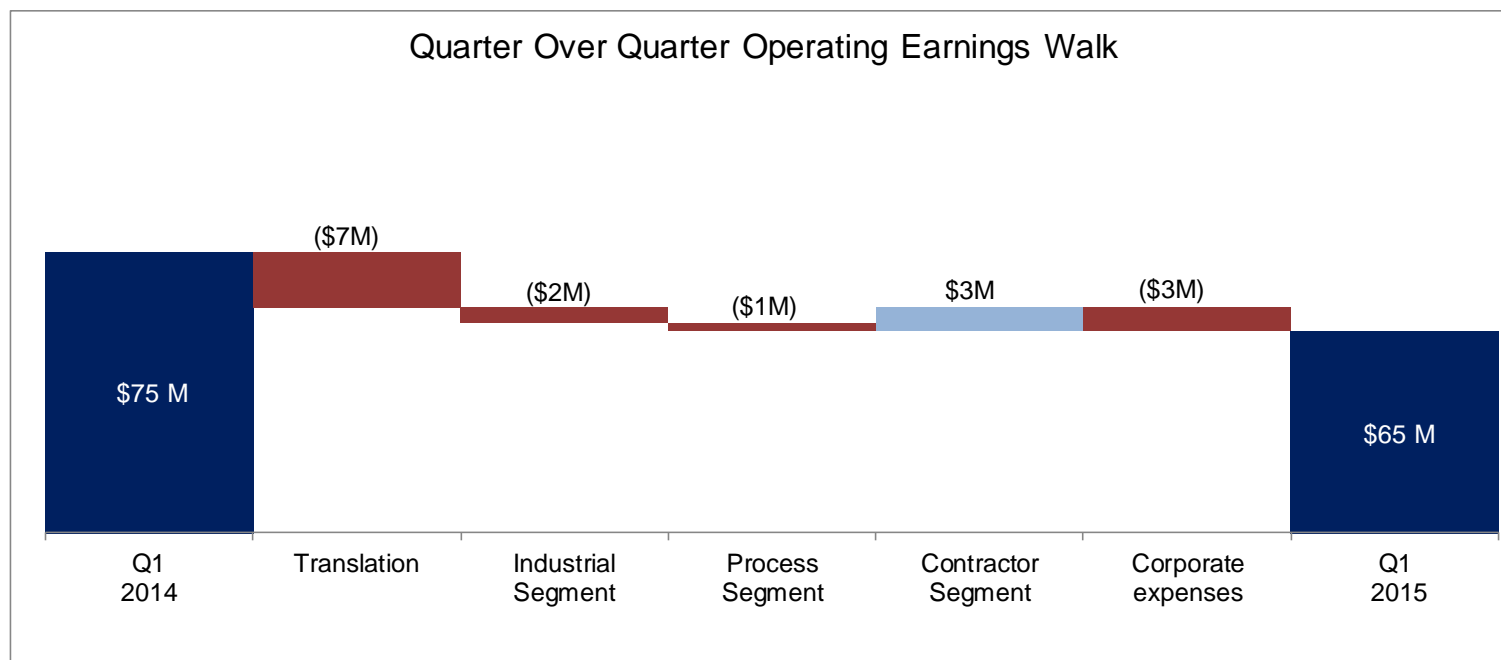
Increased unallocated corporate expenses (pension, stock compensation, CDC)

Volume effect on expense leverage

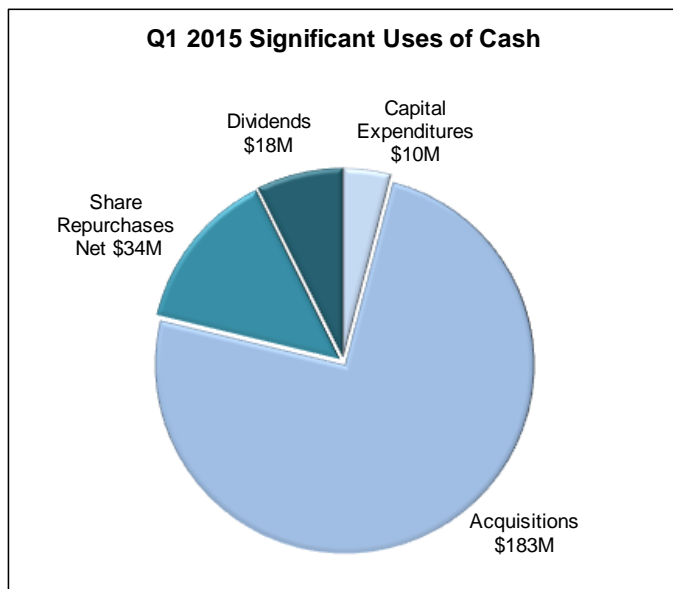
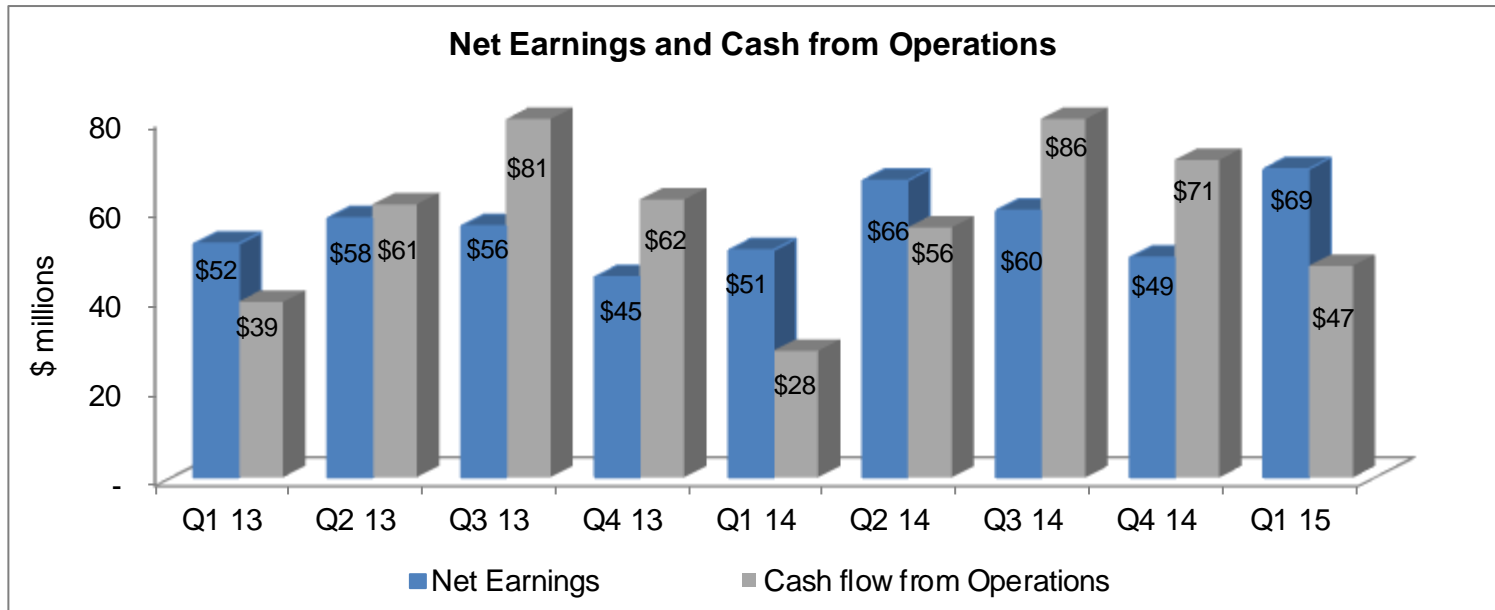
2015 Q1 Operating Earnings (\$M and % of sales)

First Quarter

\$ 75	26 %
(7)	(2)
7	—
3	—
(3)	(1)
(2)	(1)
(2)	(1)
(6)	—
<u>\$ 65</u>	<u>21 %</u>



# Cash Flow and Liquidity



- 2015 cash flow from operations \$47 million versus \$28 million in 2014
  - Increase in accounts receivable and inventory higher than 2014; acquisitions and increased business activity
- Debt, including notes payable, \$819 million; up \$200 million from 2014
  - Repaid approximately \$500 million of debt subsequent to quarter-end
  - Interest expense \$5 million, comparable to first quarter 2014
- Liquid Finishing dividends (post-tax) \$30 million, compared to \$4 million first quarter 2014



# Change in Segment Reporting



- During Q1, the Company revised the presentation of our financial reporting segments into the follow three segments:
  - Industrial Segment, includes Industrial Products and Applied Fluid Technologies divisions
  - Process Segment, includes Process, Oil and Natural Gas, and Lubrication divisions
  - Contractor Segment remains unchanged
- Change aligns the types of products offered and markets served within the segments

## 2014 Reportable Segments

### Contractor Segment

- Professional grade handheld paint sprayers
- Architectural paint, stain and lacquer sprayers
- Pavement marking and grinding equipment

### Industrial Segment

- Proportioning systems
- Protective coatings and foam sprayers
- Adhesives dispensing equipment
- Liquid and powder application pumps
- Circulating and paint supply sprayers

### Lubrication Segment

- Vehicle servicing equipment
- Metered and non-metered dispense for oil, grease, or automotive fluids
- Industrial lubrication equipment

### Contractor Segment

### Industrial Segment

### Process Segment

## 2015 Reportable Segments

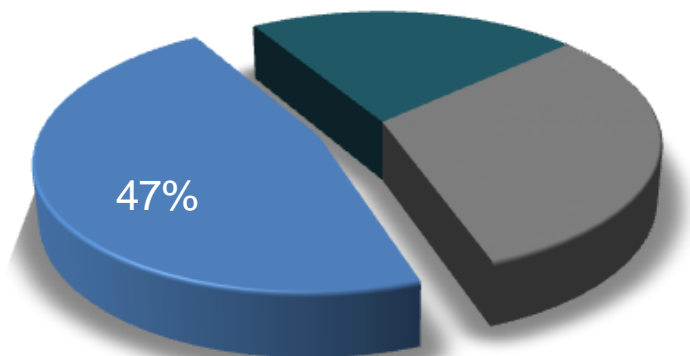
- Prior year segment information has been restated to conform to 2015 reporting
  - See Appendix

## Other Discussion Items

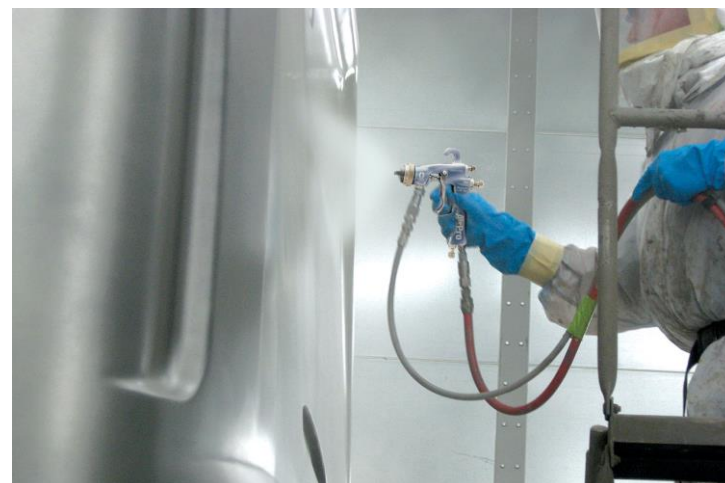


- Capital expenditures expected to be approximately \$30-40 million in 2015
- Tax rate for second quarter is expected to be approximately 33%; for the year approximately 32-33%
  - Second quarter and annual rate assumes no dividends, and excludes the impact of the sale of the Liquid Finishing business
  - Assumes the Federal R&D tax credit will not be reinstated in 2015
- Share repurchases have continued into 2015; goal of weighted average diluted shares outstanding less than or equal to 60 million shares

# Industrial Segment Results



March 2015 YTD Industrial Segment Sales  
as % of Consolidated Sales



Sales (\$M)	First Quarter		
	2015*	2014	Change
Americas	\$ 68	\$ 66	3 %
EMEA	41	47	(14)
Asia Pacific	34	39	(11)
<b>Total</b>	<b>\$ 143</b>	<b>\$ 152</b>	<b>(6)</b>
Operating Earnings	\$ 43	\$ 49	(13)
% of sales	30 %	32 %	

## Components of Net Sales Change

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	3 %	(1)%	(8)%	(1)%
Acquisitions	1 %	—	—	—
Currency	(1)%	(13)%	(3)%	(5)%
<b>Total</b>	<b>3 %</b>	<b>(14)%</b>	<b>(11)%</b>	<b>(6)%</b>

\*Includes sales from acquired businesses of \$0.8M

# Industrial Segment Results



## Change in % of sales

2014 Q1 Operating Earnings (percentage of sales)

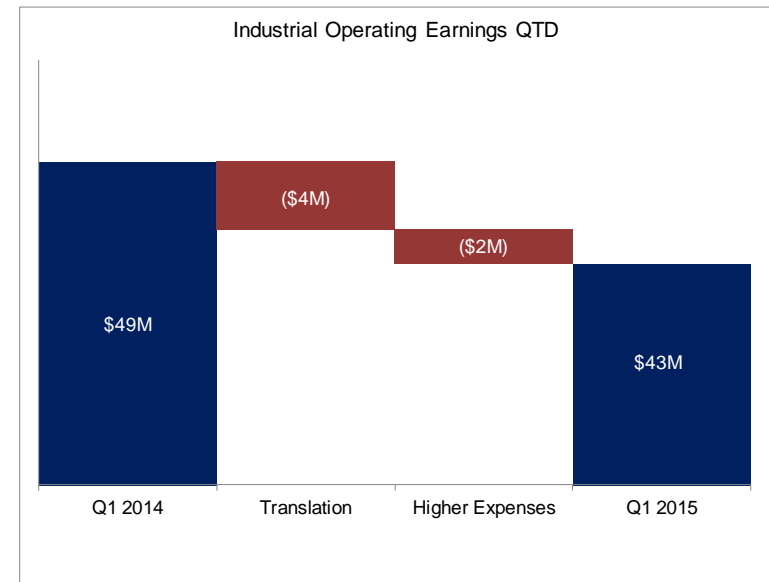
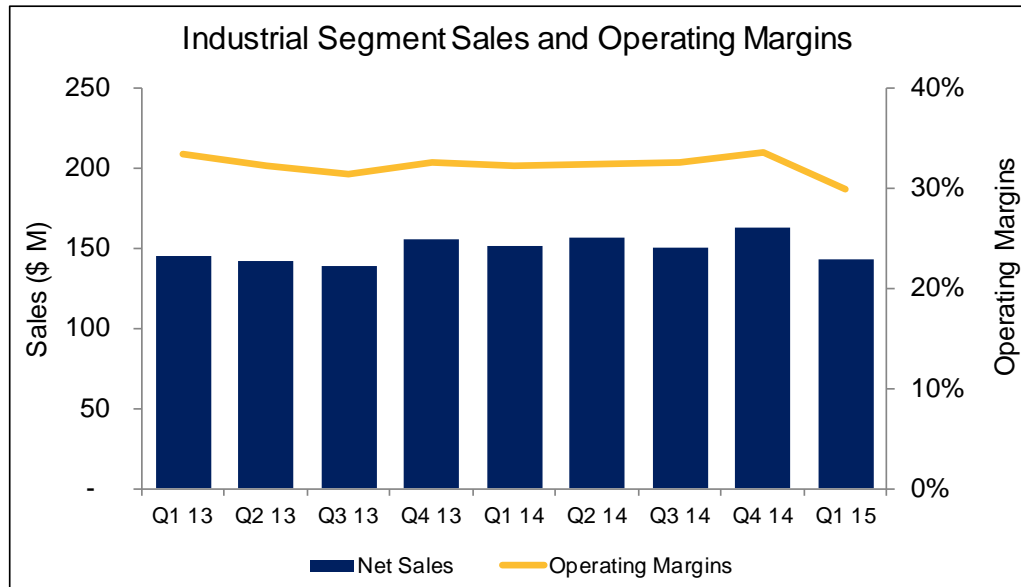
Translation effect

Unfavorable expense leverage

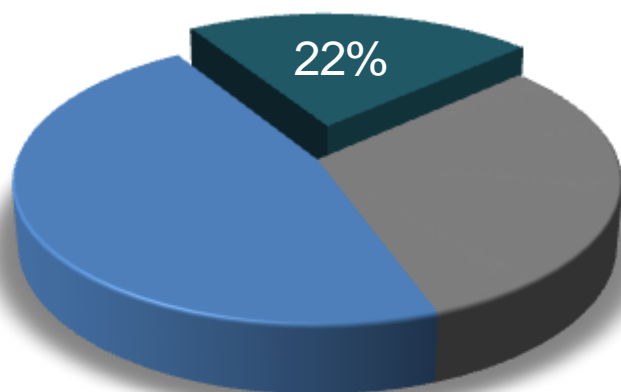
2015 Q1 Operating Earnings (percentage of sales)

## First Quarter

32 %
(1)
(1)
<u>30 %</u>



# Process Segment Results



March 2015 YTD Process Segment Sales  
as % of Consolidated Sales



Sales (\$M)	First Quarter		Change
	2015*	2014	
Americas	\$ 43	\$ 35	24 %
EMEA	14	9	48
Asia Pacific	11	9	20
<b>Total</b>	<b>\$ 68</b>	<b>\$ 53</b>	<b>28</b>
Operating Earnings	\$ 10	\$ 13	(17)%
% of sales	16 %	24 %	

## Components of Net Sales Change

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	5 %	6 %	(1)%	5 %
Acquisitions	20 %	58 %	26 %	27 %
Currency	(1)%	(16)%	(5)%	(4)%
<b>Total</b>	<b>24 %</b>	<b>48 %</b>	<b>20 %</b>	<b>28 %</b>

\*Includes sales from acquired businesses of \$14M

# Process Segment Results



## Change in % of sales

2014 Q1 Operating Earnings (percentage of sales)

Translation effect

Effect of acquired businesses on operating earnings leverage

Effect of inventory step-up and acquisition costs, net of 2014 costs

Incremental investment in regional and product growth initiatives

2015 Q1 Operating Earnings (percentage of sales)

## First Quarter

24 %

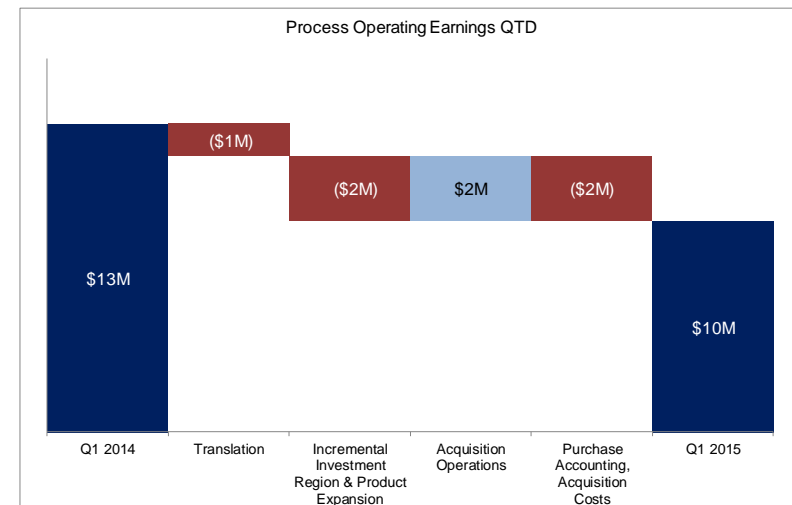
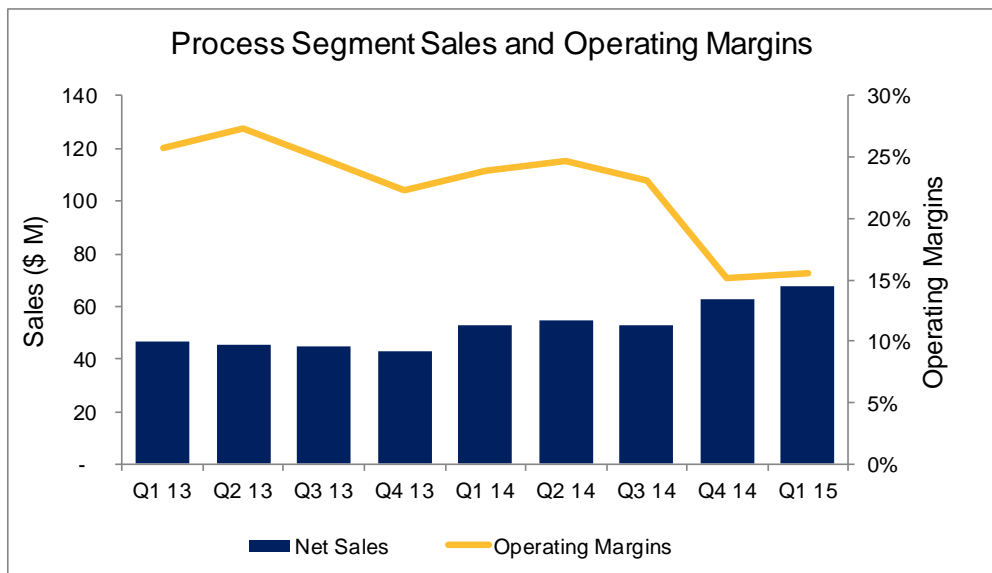
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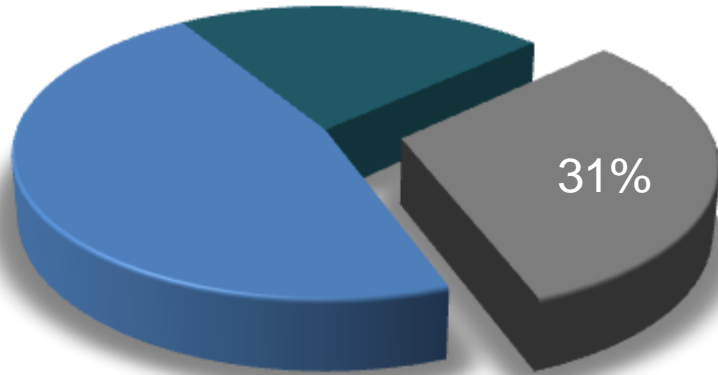
(4)

(3)

16 %



# Contractor Segment Results



March 2015 YTD Contractor Segment Sales as % of Consolidated Sales



Sales (\$M)	First Quarter		Change
	2015	2014	
Americas	\$ 74	\$ 59	27 %
EMEA	14	16	(15)
Asia Pacific	8	10	(26)
<b>Total</b>	<b>\$ 96</b>	<b>\$ 85</b>	<b>12 %</b>
Operating Earnings	\$ 19	\$ 18	6 %
% of sales	20 %	21 %	

## Components of Net Sales Change

	Americas	EMEA	Asia Pacific	Segment Total
Volume and Price	27 %	(2)%	(23)%	16 %
Acquisitions	—	—	—	—
Currency	—	(13)%	(3)%	(4)%
<b>Total</b>	<b>27 %</b>	<b>(15)%</b>	<b>(26)%</b>	<b>12 %</b>

# Contractor Segment Results



## Change in % of sales

2014 Q1 Operating Earnings (percentage of sales)

Translation effect

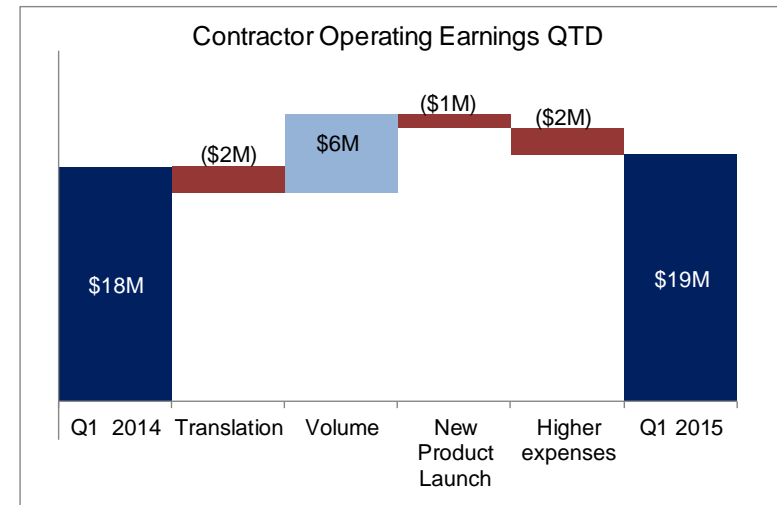
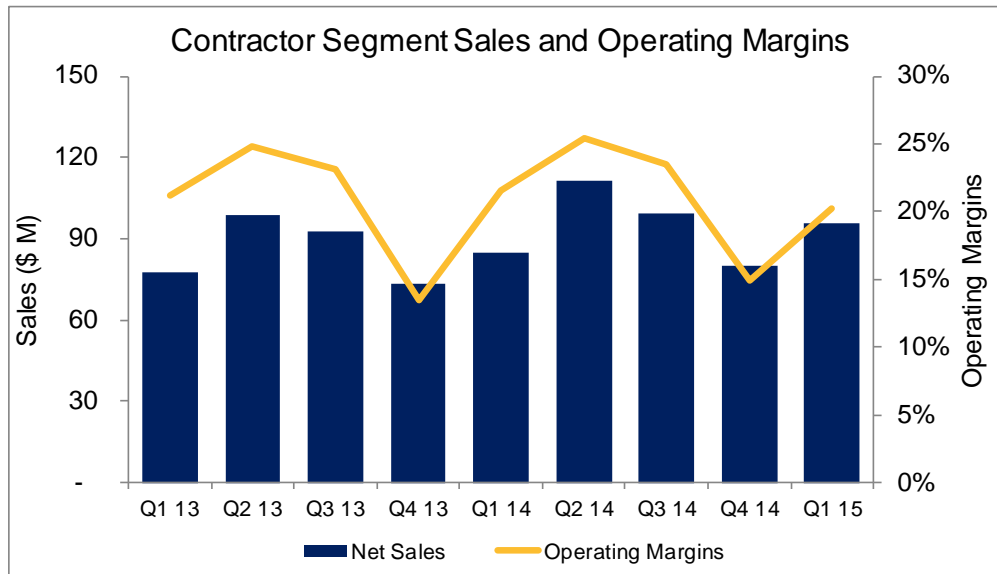
New product launch

Expense/volume leverage

2015 Q1 Operating Earnings (percentage of sales)

## First Quarter

21 %
(1)
(1)
1
<u>20 %</u>





# Divestiture of Liquid Finishing Business Assets



- In March 2015, the FTC approved the Company's application to sell the Liquid Finishing business assets
- On April 1, 2015 the sale was completed in a \$590 million cash transaction, subject to customary post-closing adjustments
- Net proceeds from the sale are expected to be approximately \$580 million, which includes \$30 million of dividends received in Q1



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**1<sup>st</sup> Quarter 2015 Earnings**

**Conference Call**

**Appendix**

*April 23, 2015*

# New Segment Reporting – Historical Financial Information



<b>Segment Results (in millions):</b>	1Q15	2014	4Q14	3Q14	2Q14	1Q14	2013	4Q13	3Q13	2Q13	1Q13	2012	2011
<b>Sales</b>													
Industrial	\$ 143.3	\$ 622.5	\$ 163.3	\$ 150.5	\$ 156.6	\$ 152.1	\$ 581.5	\$ 155.3	\$ 139.0	\$ 142.3	\$ 144.9	\$ 534.5	\$ 435.4
Process	67.7	223.1	62.6	52.7	54.8	53.0	180.0	43.1	45.1	45.2	46.6	179.2	169.2
Contractor	95.5	375.5	80.1	99.4	111.1	84.9	342.5	73.5	92.9	98.5	77.6	298.8	290.7
Total	\$ 306.5	\$1,221.1	\$ 306.0	\$ 302.6	\$ 322.5	\$ 290.0	\$1,104.0	\$ 271.9	\$ 277.0	\$ 286.0	\$ 269.1	\$1,012.5	\$ 895.3
<b>Operating Earnings</b>													
Industrial	\$ 42.9	\$ 203.9	\$ 54.7	\$ 49.2	\$ 50.9	\$ 49.1	\$ 188.6	\$ 50.7	\$ 43.7	\$ 45.8	\$ 48.4	\$ 165.9	\$ 153.5
Process	10.5	47.8	9.5	12.2	13.5	12.6	45.2	9.7	11.2	12.3	12.0	42.8	39.1
Contractor	19.4	81.9	12.0	23.3	28.3	18.3	72.3	9.9	21.5	24.5	16.4	54.3	50.6
Unallocated Corporate (expense)	(7.6)	(24.7)	(6.7)	(5.8)	(6.9)	(5.3)	(26.3)	(6.9)	(6.7)	(7.4)	(5.3)	(38.3)	(23.7)
Total	\$ 65.2	\$ 308.9	\$ 69.5	\$ 78.9	\$ 85.8	\$ 74.7	\$ 279.8	\$ 63.4	\$ 69.7	\$ 75.2	\$ 71.5	\$ 224.7	\$ 219.5
<b>Assets</b>													
Industrial	\$ 546.9	\$ 548.8	\$ 548.8	\$ 550.5	\$ 572.4	\$ 566.3	\$ 560.3	\$ 560.3	\$ 542.2	\$ 539.3	\$ 531.7	n/a	n/a
Process	489.8	304.9	304.9	183.5	182.5	182.5	113.3	113.3	114.9	111.3	113.8	n/a	n/a
Contractor	209.9	176.8	176.8	185.3	187.8	173.7	152.3	152.3	166.4	169.7	160.4	n/a	n/a
Unallocated Corporate	521.2	514.3	514.3	508.5	514.2	508.1	501.3	501.3	508.4	520.2	527.4	n/a	n/a
Total	\$ 1,767.8	\$1,544.8	\$1,544.8	\$1,427.8	\$1,456.9	\$1,430.6	\$1,327.2	\$1,327.2	\$1,331.9	\$1,340.5	\$1,333.3	n/a	n/a
<b>Industrial Results (dollars in millions):</b>	1Q15	2014	4Q14	3Q14	2Q14	1Q14	2013	4Q13	3Q13	2Q13	1Q13	2012	2011
<b>Sales</b>													
Americas	\$ 67.8	\$ 272.9	\$ 72.4	\$ 65.3	\$ 69.4	\$ 65.8	\$ 246.9	\$ 64.2	\$ 61.6	\$ 63.0	\$ 58.1	\$ 233.1	\$ 194.1
EMEA	41.0	196.0	50.5	48.5	49.4	47.6	184.1	49.5	45.9	44.2	44.5	162.7	113.6
Asia Pacific	34.5	153.6	40.4	36.7	37.8	38.7	150.5	41.6	31.5	35.1	42.3	138.7	127.7
Total	\$ 143.3	\$ 622.5	\$ 163.3	\$ 150.5	\$ 156.6	\$ 152.1	\$ 581.5	\$ 155.3	\$ 139.0	\$ 142.3	\$ 144.9	\$ 534.5	\$ 435.4
Operating Earnings as a Percentage of Sales	30%	33%	33%	33%	33%	32%	32%	33%	31%	32%	33%	31%	35%
<b>Process Results (dollars in millions):</b>	1Q15	2014	4Q14	3Q14	2Q14	1Q14	2013	4Q13	3Q13	2Q13	1Q13	2012	2011
<b>Sales</b>													
Americas	\$ 42.9	\$ 146.4	\$ 39.5	\$ 36.2	\$ 36.2	\$ 34.5	\$ 111.5	\$ 27.6	\$ 27.4	\$ 27.8	\$ 28.7	\$ 109.5	\$ 98.0
EMEA	13.9	38.5	11.8	8.2	9.1	9.4	32.0	7.3	7.8	8.7	8.2	30.1	29.8
Asia Pacific	10.9	38.2	11.3	8.3	9.5	9.1	36.5	8.2	9.9	8.7	9.7	39.6	41.4
Total	\$ 67.7	\$ 223.1	\$ 62.6	\$ 52.7	\$ 54.8	\$ 53.0	\$ 180.0	\$ 43.1	\$ 45.1	\$ 45.2	\$ 46.6	\$ 179.2	\$ 169.2
Operating Earnings as a Percentage of Sales	16%	21%	15%	23%	25%	24%	25%	23%	25%	27%	26%	24%	23%
<b>Contractor Results (dollars in millions):</b>	1Q15	2014	4Q14	3Q14	2Q14	1Q14	2013	4Q13	3Q13	2Q13	1Q13	2012	2011
<b>Sales</b>													
Americas	\$ 74.2	\$ 265.2	\$ 53.8	\$ 73.7	\$ 79.2	\$ 58.5	\$ 236.8	\$ 48.3	\$ 67.1	\$ 69.9	\$ 51.5	\$ 194.0	\$ 184.0
EMEA	13.9	70.3	16.2	16.4	21.3	16.4	66.8	16.1	16.6	18.0	16.1	64.2	67.8
Asia Pacific	7.4	40.0	10.1	9.3	10.6	10.0	38.9	9.1	9.2	10.6	10.0	40.6	38.9
Total	\$ 95.5	\$ 375.5	\$ 80.1	\$ 99.4	\$ 111.1	\$ 84.9	\$ 342.5	\$ 73.5	\$ 92.9	\$ 98.5	\$ 77.6	\$ 298.8	\$ 290.7
Operating Earnings as a Percentage of Sales	20%	22%	15%	23%	25%	22%	21%	13%	23%	25%	21%	18%	17%

# New Segment Reporting – Historical Financial Information



## Components of Net Sales Change

	1Q15			
	Industrial	Process	Contractor	Total
Volume and Price	-1%	5%	16%	5%
Acquisition	0%	27%	0%	5%
Currency	-5%	-4%	-4%	-4%
Total	-6%	28%	12%	6%

	1Q14				2Q14				3Q14				4Q14				2014			
	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total
Volume and Price	3%	4%	9%	5%	7%	6%	12%	8%	5%	3%	7%	6%	8%	19%	11%	11%	5%	8%	10%	7%
Acquisition	1%	11%	0%	3%	1%	15%	0%	4%	3%	14%	0%	3%	1%	28%	0%	5%	2%	17%	0%	4%
Currency	1%	-1%	0%	0%	2%	0%	1%	1%	0%	0%	0%	0%	-4%	-2%	-2%	-3%	0%	-1%	0%	0%
Total	5%	14%	9%	8%	10%	21%	13%	13%	8%	17%	7%	9%	5%	45%	9%	13%	7%	24%	10%	11%

	1Q13				2Q13				3Q13				4Q13				2013			
	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total	Industrial	Process	Contractor	Total
Volume and Price	-4%	1%	8%	1%	1%	1%	20%	7%	1%	3%	24%	8%	10%	0%	5%	7%	3%	1%	14%	6%
Acquisition	29%	0%	0%	14%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	0%	6%	0%	0%	3%
Currency	0%	0%	0%	0%	0%	-1%	0%	0%	0%	-1%	0%	0%	1%	-1%	0%	0%	0%	-1%	1%	0%
Total	25%	1%	8%	15%	1%	0%	20%	7%	1%	2%	24%	8%	11%	-1%	5%	7%	9%	0%	15%	9%