



3rd Quarter 2019 Earnings Conference Call

October 24, 2019

Safe Harbor



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

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

Factors that could cause actual results to differ from anticipated results are identified in Item 1A of the Company's Form 10-K, and Item 1A of the most recent Quarterly Report on Form 10-Q and also the Company's Earnings Release dated October 23, 2019.

Conference Call Logistics

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The release, accompanying slides and replay webcast are available online at www.graco.com/ir

Telephone replay will be available after 2 p.m. ET, October 24, 2019. The replay by telephone will be available through 2 p.m. ET, October 28, 2019.

- ▶ 888-203-1112 – Conference ID #9444495
- ▶ 719-457-0820 – with the same conference ID #, for international participants

Financial Results

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Statement of Earnings	Third Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
\$ in millions except per share amounts						
Sales	\$ 401	\$ 416	(4)%	\$ 1,234	\$ 1,247	(1)%
Gross Profit	207	221	(6)%	650	674	(3)%
% of Sales	51.8 %	53.2 %	(1.4) pts	52.7 %	54.0 %	(1.3) pts
Operating Earnings	103	115	(10)%	320	340	(6)%
% of Sales	25.8 %	27.6 %	(1.8) pts	26.0 %	27.3 %	(1.3) pts
Net Earnings	\$ 84	\$ 93	(9)%	\$ 259	\$ 267	(3)%
% of Sales	21.0 %	22.3 %	(1.3) pts	21.0 %	21.4 %	(0.4) pts
Diluted Earnings Per Share	\$ 0.49	\$ 0.54	(9)%	\$ 1.51	\$ 1.54	(2)%
<i>Diluted Shares in Millions</i>	171.8	173.0		171.6	174.0	
<i>Net Earnings, Adjusted (1)</i>	\$ 77	\$ 86	(10)%	\$ 243	\$ 253	(4)%
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.45	\$ 0.50	(10)%	\$ 1.42	\$ 1.45	(2)%

(1) Net earnings and diluted earnings per share for 2019 and 2018 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 18 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Sales



Components of Net Sales Change

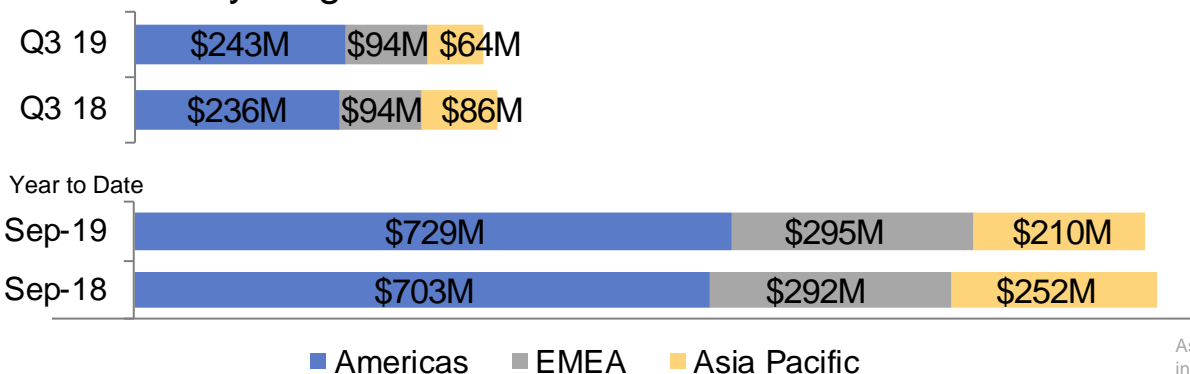
Third Quarter September 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(9)%	(2)%	5 %	3 %	2 %	(25)%	(3)%
Acquisitions	0 %	2 %	0 %	0 %	2 %	1 %	1 %
Currency	(2)%	(1)%	(1)%	0 %	(4)%	(2)%	(2)%
Total	(11)%	(1)%	4 %	3 %	(0)%	(26)%	(4)%

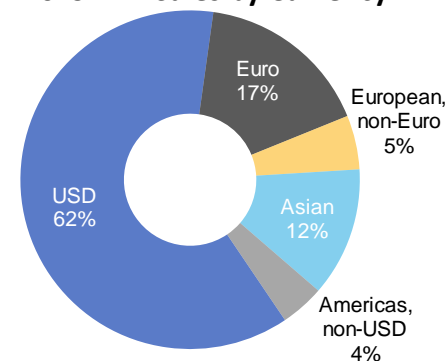
Year-to-Date September 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(2)%	3 %	4 %	4 %	5 %	(13)%	1 %
Acquisitions	0 %	1 %	0 %	0 %	1 %	0 %	0 %
Currency	(3)%	(1)%	(2)%	0 %	(5)%	(3)%	(2)%
Total	(5)%	3 %	2 %	4 %	1 %	(16)%	(1)%

Sales by Region



2019 YTD Sales by Currency



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

Operating Earnings

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Change in Operating Earnings

2018 Operating Earnings (\$M and % of sales)

Translation effect

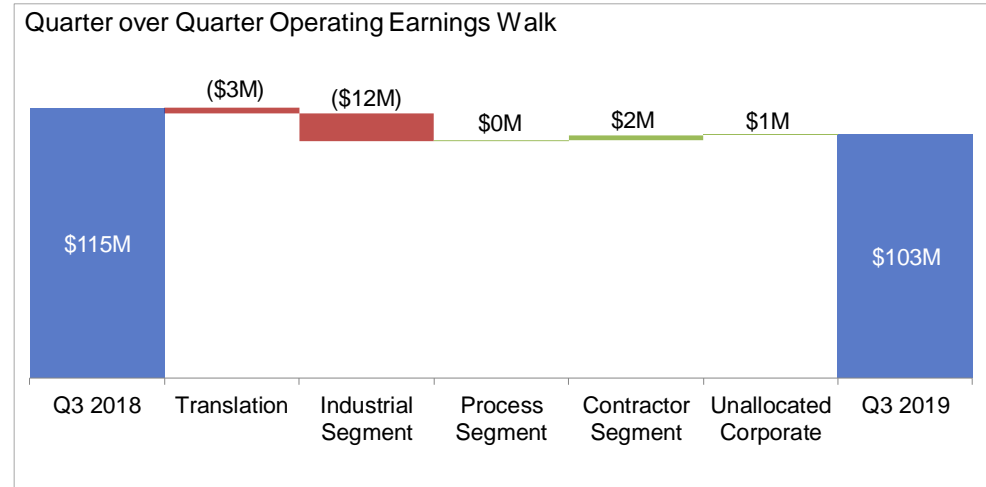
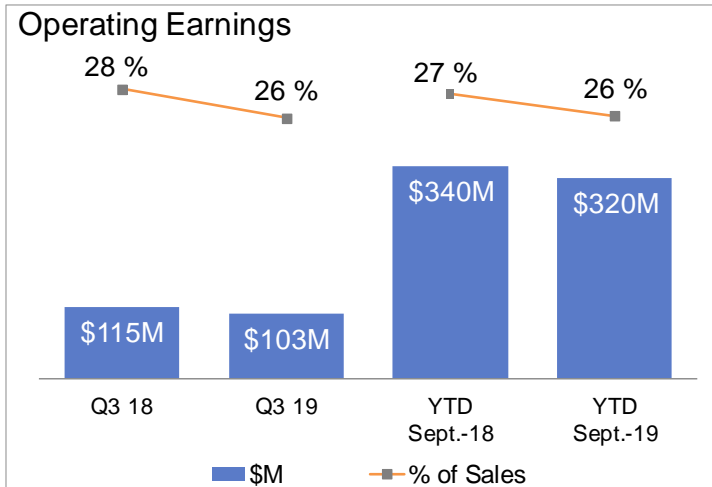
Price and cost, product and channel mix

Unallocated corporate expense, stock compensation

Volume effect on expense leverage

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

Third Quarter		Year-to-Date	
\$ 115	28 %	\$ 340	27 %
(3)	0	(14)	0
(11)	(1)	(4)	(1)
1	0	(2)	0
1	(1)	0	0
\$ 103	26 %	\$ 320	26 %



Third Quarter 2019

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Sales	<ul style="list-style-type: none">▶ Sales decrease of 4% in the quarter, down 2% at consistent currency rates<ul style="list-style-type: none">▪ Acquired businesses sales of \$2 million account for 1 percentage point of growth
Gross Margin	<ul style="list-style-type: none">▶ Rate down 1.4 percentage points from third quarter 2018<ul style="list-style-type: none">▪ Unfavorable factory volumes as well as unfavorable channel and product mix impacting gross margin rate▪ Unfavorable effect of currency translation▪ Realized pricing offset the dollar value of adverse impact of higher material costs
Operating Earnings	<ul style="list-style-type: none">▶ Decreased \$11 million, or 10%, from third quarter 2018<ul style="list-style-type: none">▪ Currency translation rates decreased operating earnings by approximately \$3 million▪ Lower gross margin rates partially offset by expense leverage and lower stock compensation
Other Expense	<ul style="list-style-type: none">▶ Comparable to 2018<ul style="list-style-type: none">▪ Lower exchange losses on net assets of foreign operations offset by higher pension costs
Taxes	<ul style="list-style-type: none">▶ The effective tax rate for the quarter was 13%, down 1 percentage point from third quarter last year<ul style="list-style-type: none">▪ Decrease due primarily to a tax rate change in a foreign subsidiary and related revaluation of deferred taxes

September 2019 Year to Date

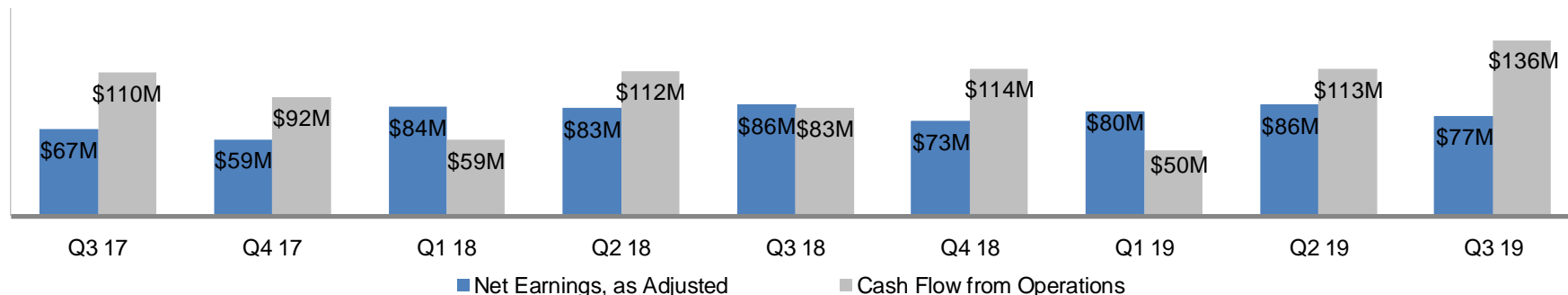
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Sales	<ul style="list-style-type: none">▶ Modest underlying growth was offset by currency translation rates compared to last year. Sales up 1 percent at consistent currency rates<ul style="list-style-type: none">▪ Acquired businesses had no significant impact
Gross Margin	<ul style="list-style-type: none">▶ Rate down 1.3 percentage points from 2018<ul style="list-style-type: none">▪ Unfavorable factory volumes as well as unfavorable channel and product mix impacting gross margin rate▪ Unfavorable effect of currency translation driving nearly a third of the decrease▪ Realized pricing offset the dollar value of adverse impact of higher material costs
Operating Earnings	<ul style="list-style-type: none">▶ Decreased \$20 million, or 6%, from 2018<ul style="list-style-type: none">▪ Currency translation rates decreased operating earnings by approximately \$14 million▪ Lower gross margin rates and higher stock compensation
Other Expense	<ul style="list-style-type: none">▶ Decreased \$4 million<ul style="list-style-type: none">▪ Primarily lower exchange losses on net assets of foreign operations
Taxes	<ul style="list-style-type: none">▶ The effective tax rate for the year to date was 15%, down 1 percentage point from the comparable period last year<ul style="list-style-type: none">▪ Decrease due to a tax rate change in a foreign subsidiary and related revaluation of deferred taxes as well as additional net benefit from U.S. tax reform related provisions

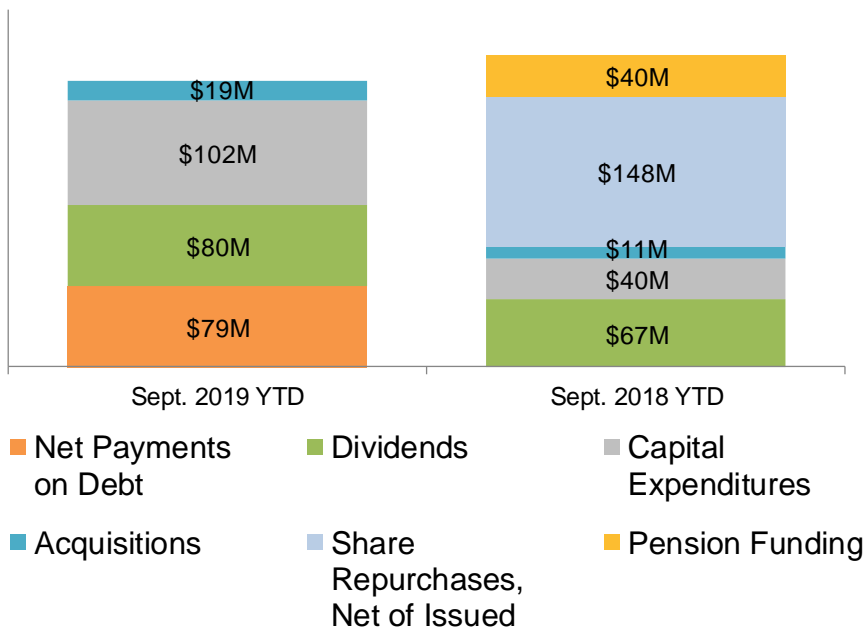
Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operations



Significant Uses of Cash



- ▶ Net cash provided by operating activities was \$299 million in 2019 vs. \$254 million in 2018
- ▶ Capital expenditures of \$102 million, including building expansion projects to increase production and distribution capacity
- ▶ Debt, including notes payable, was \$197 million - down from \$277 million in December 2018
 - During third quarter, prepaid \$75 million of private placement debt
 - Interest expense comparable to 2018 for the quarter and the year to date
- ▶ Shares issued exceeds shares repurchased in 2019
- ▶ No pension contribution in 2019. Third quarter 2018, the Company made a \$40 million voluntary contribution to a U.S. pension plan

Other Discussion Items










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Cap Ex	<ul style="list-style-type: none">▶ Capital expenditure expectations of approximately \$35 million in 2019, excluding brick and mortar. Current estimate of 2019 building projects to increase production and distribution capacity is approximately \$100-\$105 million<ul style="list-style-type: none">▪ Additional building project investments of approximately \$60 million anticipated between 2020 and 2022
Expenses	<ul style="list-style-type: none">▶ Unallocated corporate expenses in 2019 are expected to be approximately \$30 million
Factory Volume	<ul style="list-style-type: none">▶ At current production levels, unfavorable factory volume in the fourth quarter could negatively impact gross margin rates by 75-80 basis points
Shares	<ul style="list-style-type: none">▶ During third quarter, we repurchased approximately 60,000 shares. We may make opportunistic repurchases going forward
Currency	<ul style="list-style-type: none">▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2018, the unfavorable movement in foreign currencies would be a headwind of approximately 2% on sales and 4% on earnings in 2019
Taxes	<ul style="list-style-type: none">▶ Excluding any impact from excess tax benefits related to stock option exercises and any one time items, the effective tax rate is expected to be between 20% and 21% for the fourth quarter and for the full year

2019 Environment and Outlook



Constant currency basis and excluding acquisitions completed in the prior 12 months

	Americas	EMEA	Asia Pacific	Total
Current Environment	Sales Q3 2019 3% YTD 2019 4%	Sales Q3 2019 2% YTD 2019 5%	Sales Q3 2019 (25%) YTD 2019 (13%)	Sales Q3 2019 (3%) YTD 2019 1%
Industrial Segment	Environment Downgraded  Sales Q3 2019 (1%) YTD 2019 3%	Environment Unchanged  Sales Q3 2019 (1%) YTD 2019 4%	Environment Downgraded  Sales Q3 2019 (28%) YTD 2019 (16%)	Sales Q3 2019 (9%) YTD 2019 (2%)
Process Segment	Environment Downgraded  Sales Q3 2019 2% YTD 2019 5%	Environment Unchanged  Sales Q3 2019 6% YTD 2019 6%	Environment Downgraded  Sales Q3 2019 (24%) YTD 2019 (6%)	Sales Q3 2019 (2%) YTD 2019 3%
Contractor Segment	Environment Unchanged  Sales Q3 2019 6% YTD 2019 4%	Environment Unchanged  Sales Q3 2019 8% YTD 2019 8%	Environment Downgraded  Sales Q3 2019 (10%) YTD 2019 (7%)	Sales Q3 2019 5% YTD 2019 4%
Full Year 2019 Outlook	Outlook Lowered Flat to low single-digit	Outlook Unchanged Mid-single-digit	Outlook Lowered Double-digit decline	Outlook Lowered Flat

Given the sharp decline in Asia Pacific and slowing in our Industrial and Process businesses in the Americas, we are lowering our full-year 2019 worldwide outlook to flat revenue on a constant currency organic basis.

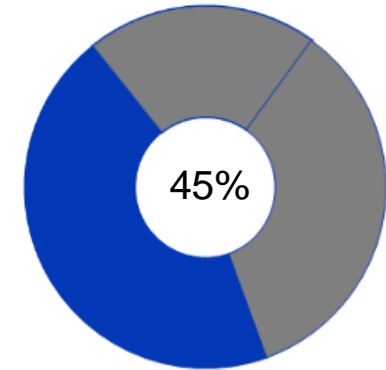
Industrial Segment Results

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\$ in millions

	Third Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 78	\$ 79	(1)%	\$ 239	\$ 232	3 %
EMEA	55	58	(5)	173	175	(1)
Asia Pacific	42	59	(29)	141	175	(19)
Total	\$ 175	\$ 196	(11)%	\$ 553	\$ 582	(5)%
Operating Earnings	\$ 57	\$ 71	(19)%	\$ 187	\$ 207	(10)%
% of sales	33 %	36 %		34 %	36 %	

2019 YTD Industrial Segment Sales as % of Graco



Components of Net Sales Change Environment

	Third Quarter	Year-to-Date
Americas		
Volume & Price	(1)%	3 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	(1)%	3%
EMEA		
Volume & Price	(1)%	4 %
Acquisitions	0 %	0 %
Currency	(4)%	(5)%
Total	(5)%	(1)%
Asia Pacific		
Volume & Price	(28)%	(16)%
Acquisitions	0 %	0 %
Currency	(1)%	(3)%
Total	(29)%	(19)%
Segment Total		
Volume & Price	(9)%	(2)%
Acquisitions	0 %	0 %
Currency	(2)%	(3)%
Total	(11)%	(5)%



- Stable: General industrial, truck & trailer, wood
- Challenging: Automotive, agricultural



- Stable: General industrial
- Challenging: Automotive, truck & trailer, developing economies



- Challenging: Macro environment
- Particularly challenging: Automotive, marine, China, project activity

Industrial Segment Results

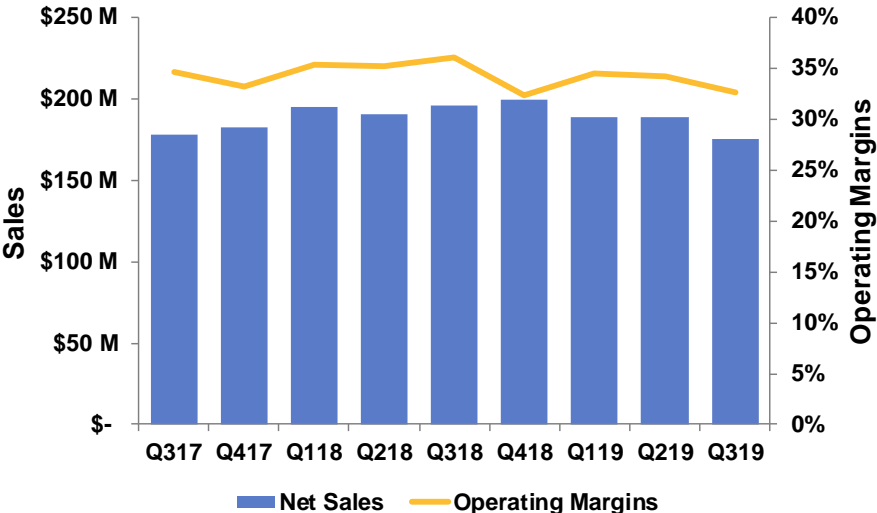


Change in % of sales

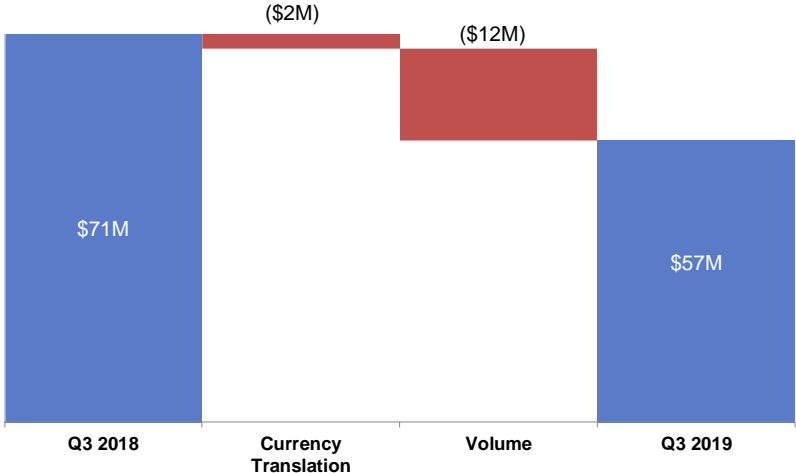
- 2018 Operating Earnings (% of sales)
- Translation effect
- Product cost, channel and product mix
- Volume effect on expense leverage
- 2019 Operating Earnings (% of sales)

	Third Quarter	Year-to-Date
2018 Operating Earnings (% of sales)	36 %	36 %
Translation effect	0	(1)
Product cost, channel and product mix	(1)	(1)
Volume effect on expense leverage	(2)	0
2019 Operating Earnings (% of sales)	<u>33 %</u>	<u>34 %</u>

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



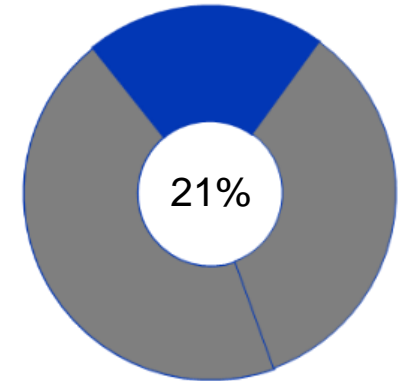
Process Segment Results

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\$ in millions

	Third Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 55	\$ 54	3 %	\$ 167	\$ 160	5 %
EMEA	15	14	12	46	43	5
Asia Pacific	14	17	(23)	43	47	(8)
Total	\$ 84	\$ 85	(1)%	\$ 256	\$ 250	3 %
Operating Earnings	\$ 18	\$ 18	2 %	\$ 57	\$ 53	8 %
% of sales	22 %	21 %		22 %	21 %	

2019 YTD Process Segment Sales as % of Graco



Components of Net Sales Change Environment

	Third Quarter	Year-to-Date
Americas		
Volume & Price	2 %	5 %
Acquisitions	1 %	0 %
Currency	0 %	0 %
Total	3 %	5 %
EMEA		
Volume & Price	6 %	6 %
Acquisitions	10 %	3 %
Currency	(4)%	(4)%
Total	12 %	5 %
Asia Pacific		
Volume & Price	(24)%	(6)%
Acquisitions	3 %	1 %
Currency	(2)%	(3)%
Total	(23)%	(8)%
Segment Total		
Volume & Price	(2)%	3 %
Acquisitions	2 %	1 %
Currency	(1)%	(1)%
Total	(1)%	3 %



• Stable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications, chemical, onshore oil & natural gas



• Favorable: Environmental
• Stable: Western Europe, chemical, technology, sanitary
• Challenging: Offshore oil & natural gas



• Challenging: Macro environment

Process Segment Results



Change in % of sales

2018 Operating Earnings (% of sales)

Translation effect

Product cost, channel and product mix

Volume effect on expense leverage

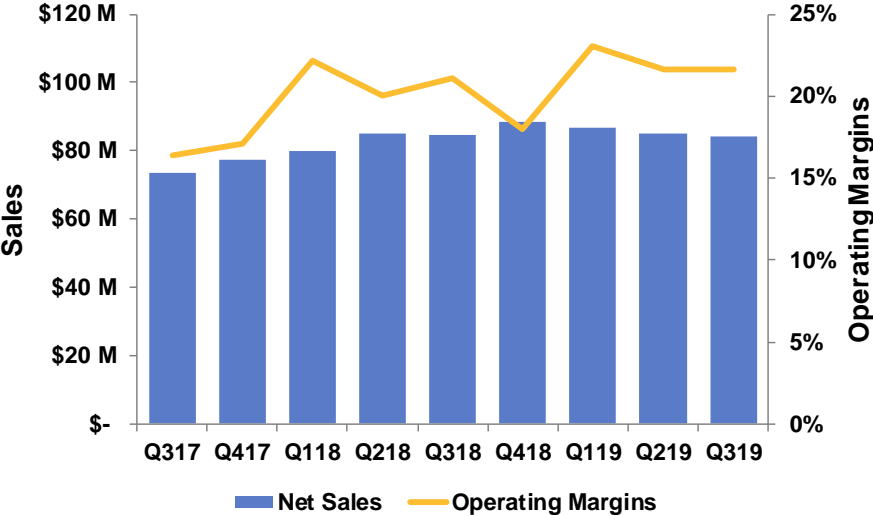
2019 Operating Earnings (% of sales)

Third Quarter

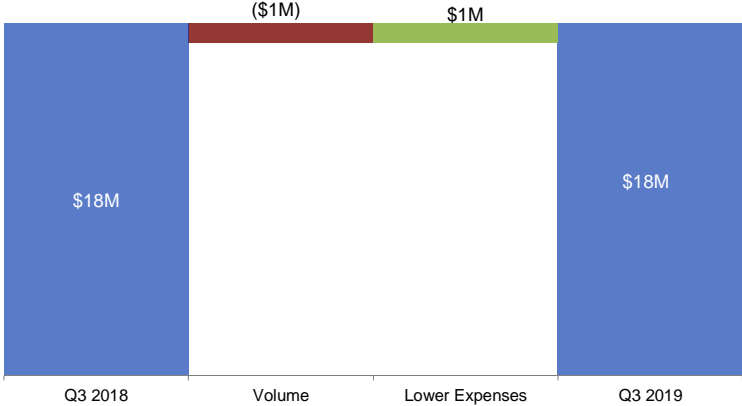
Year-to-Date

21 %	21 %
0	0
(1)	0
2	1
<u>22 %</u>	<u>22 %</u>

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



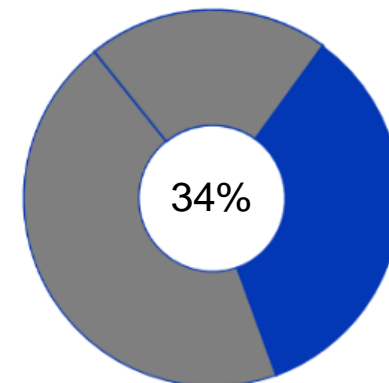
Contractor Segment Results

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\$ in millions

	Third Quarter		Change	Year-to-Date		Change
	2019	2018		2019	2018	
Sales						
Americas	\$ 110	\$ 104	6 %	\$ 322	\$ 311	3 %
EMEA	23	23	4	77	75	3
Asia Pacific	8	9	(14)	26	30	(11)
Total	\$ 141	\$ 136	4 %	\$ 425	\$ 416	2 %
Operating Earnings	\$ 34	\$ 33	4 %	\$ 101	\$ 103	(2)%
% of sales	24 %	24 %		24 %	25 %	

2019 YTD Contractor Segment Sales as % of Graco



Components of Net Sales Change Environment

	Third Quarter	Year-to-Date
Americas		
Volume & Price	6 %	4 %
Acquisitions	0 %	0 %
Currency	0 %	(1)%
Total	6 %	3 %
EMEA		
Volume & Price	8 %	8 %
Acquisitions	0 %	0 %
Currency	(4)%	(5)%
Total	4 %	3 %
Asia Pacific		
Volume & Price	(10)%	(7)%
Acquisitions	0 %	0 %
Currency	(4)%	(4)%
Total	(14)%	(11)%
Segment Total		
Volume & Price	5 %	4 %
Acquisitions	0 %	0 %
Currency	(1)%	(2)%
Total	4 %	2 %



- Stable: Residential and commercial construction
- Focus Sectors: Pro paint, general construction, DIY



- Stable: Western Europe, DIY
- Challenging: 2018 comparables



- Stable: Australia
- Challenging: General construction, equipment adoption rates, local competition

Contractor Segment Results

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Change in % of sales

2018 Operating Earnings (% of sales)

Translation effect

Product cost, channel and product mix

Volume effect on expense leverage

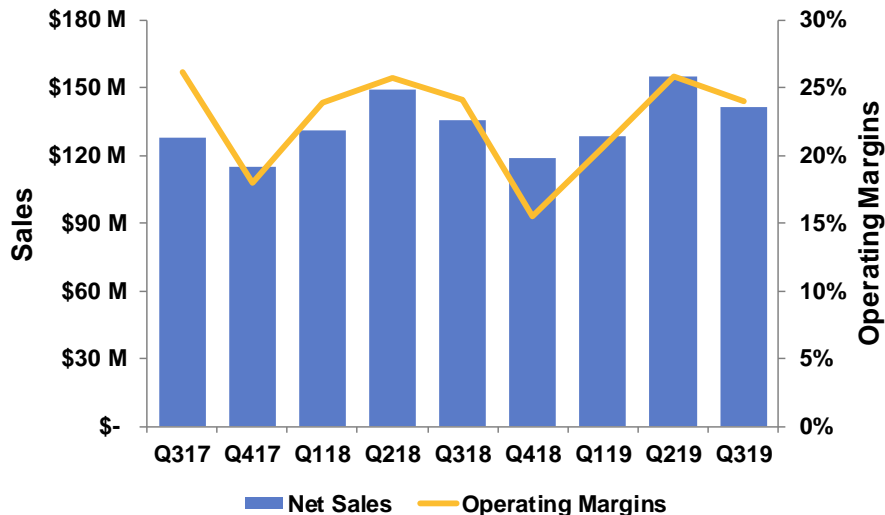
2019 Operating Earnings (% of sales)

Third Quarter

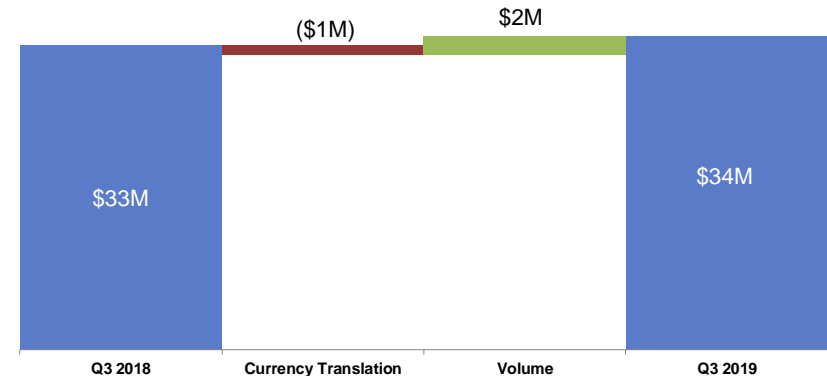
Year-to-Date

24 %	25 %
0	(1)
(1)	(1)
1	1
<u>24 %</u>	<u>24 %</u>

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD



Financial Results Adjusted for Comparability

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

Non-GAAP Reconciliation \$ in millions except per share amounts	Third Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Income taxes, as reported	\$ 12.7	\$ 15.4	(18)%	\$ 46.3	\$ 53.4	(13)%
Excess tax benefit from option exercises	0.7	1.9		8.1	9.8	
Other non-recurring tax benefit	6.0	5.0		7.5	5.0	
Income taxes, adjusted	<u>\$ 19.4</u>	<u>\$ 22.3</u>	(13)%	<u>\$ 61.9</u>	<u>\$ 68.2</u>	(9)%
Effective income tax rate						
As reported	13.1%	14.2%		15.2%	16.6%	
Adjusted	20.0%	20.6%		20.3%	21.2%	
Net earnings, as reported	\$ 84.1	\$ 92.7	(9)%	\$ 259.0	\$ 267.3	(3)%
Excess tax benefit from option exercises	(0.7)	(1.9)		(8.1)	(9.8)	
Other non-recurring tax benefit	(6.0)	(5.0)		(7.5)	(5.0)	
Net earnings, adjusted	<u>\$ 77.4</u>	<u>\$ 85.8</u>	(10)%	<u>\$ 243.4</u>	<u>\$ 252.5</u>	(4)%
Weighted Average Diluted Shares, in millions	171.8	173.0		171.6	174.0	
Diluted Earnings per Share						
As reported	\$ 0.49	\$ 0.54	(9)%	\$ 1.51	\$ 1.54	(2)%
Adjusted	\$ 0.45	\$ 0.50	(10)%	\$ 1.42	\$ 1.45	(2)%



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