



# **3<sup>rd</sup> Quarter 2018 Earnings Conference Call**

October 25, 2018

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 24, 2018.

# Conference Call Logistics

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

Telephone replay will be available after 2 p.m. ET, October 25, 2018. The replay by telephone will be available through October 29, 2018.

- ▶ 888-203-1112 – Conference ID #7187523
- ▶ 719-457-0820 – with the same conference ID #, for International participants

# Financial Results



Statement of Earnings	Third Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
\$ in millions except per share amounts						
Sales	\$ 416	\$ 380	10 %	\$ 1,247	\$ 1,100	13 %
Gross Profit	221	204	9 %	674	594	13 %
% of Sales	53.2 %	53.7 %	(0.5) pts	54.0 %	54.0 %	0.0 pts
Operating Earnings	115	101	13 %	340	289	17 %
% of Sales	27.6 %	26.7 %	0.9 pts	27.3 %	26.3 %	1.0 pts
Net Earnings	\$ 93	\$ 75	23 %	\$ 267	\$ 216	24 %
% of Sales	22.3 %	19.9 %	2.4 pts	21.4 %	19.6 %	1.8 pts
Diluted Earnings Per Share	\$ 0.54	\$ 0.43	26 %	\$ 1.54	\$ 1.24	24 %
<i>Diluted Shares in Millions</i>	173.0	174.6		174.0	173.8	
<i>Net Earnings, Adjusted (1)</i>	\$ 86	\$ 67	29 %	\$ 253	\$ 190	33 %
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.50	\$ 0.38	32 %	\$ 1.45	\$ 1.09	33 %

(1) Net earnings and diluted earnings per share for 2018 and 2017 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.

# Financial Results



## Components of Net Sales Change

### Third Quarter September 2018

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	5 %	15 %	5 %	8 %	3 %	10 %	7 %
Acquisitions	5 %	1 %	1 %	1 %	6 %	6 %	3 %
Currency	0 %	(1)%	0 %	(1)%	0 %	(2)%	0 %
<b>Total</b>	<b>10 %</b>	<b>15 %</b>	<b>6 %</b>	<b>8 %</b>	<b>9 %</b>	<b>14 %</b>	<b>10 %</b>

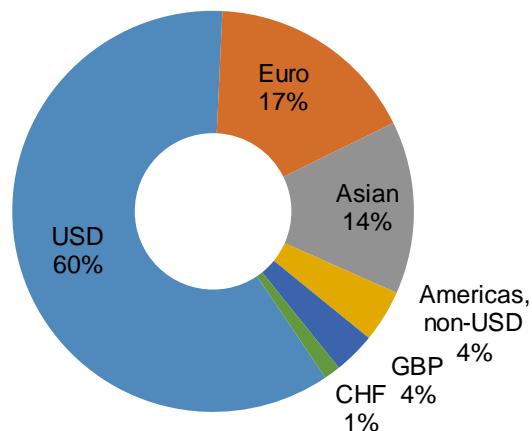
### Year-to-Date September 2018

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	6 %	12 %	9 %	9 %	3 %	13 %	8 %
Acquisitions	5 %	1 %	1 %	1 %	6 %	5 %	3 %
Currency	3 %	2 %	1 %	0 %	7 %	3 %	2 %
<b>Total</b>	<b>14 %</b>	<b>15 %</b>	<b>11 %</b>	<b>10 %</b>	<b>16 %</b>	<b>21 %</b>	<b>13 %</b>

## 2018 Sales by Currency

Asian currencies include:  
AUD, CNY, KRW, JPY

Americas currencies include:  
BRL, CAD, MXN

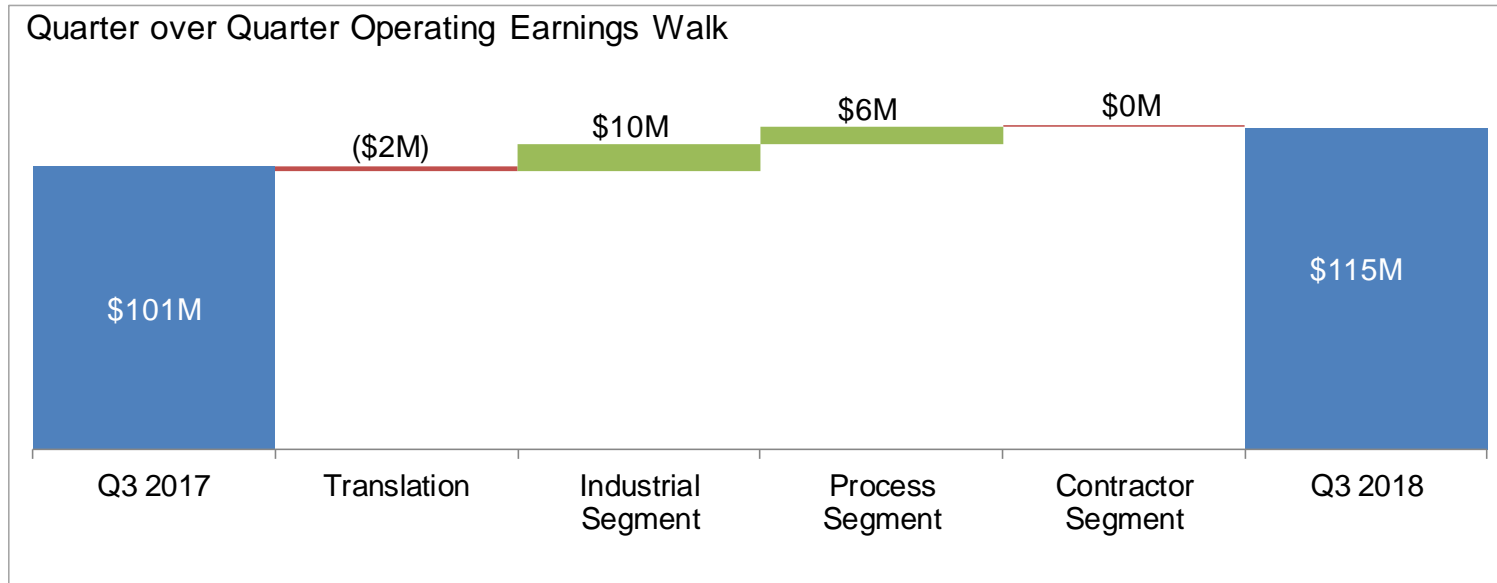


# Operating Earnings



## Change in Operating Earnings

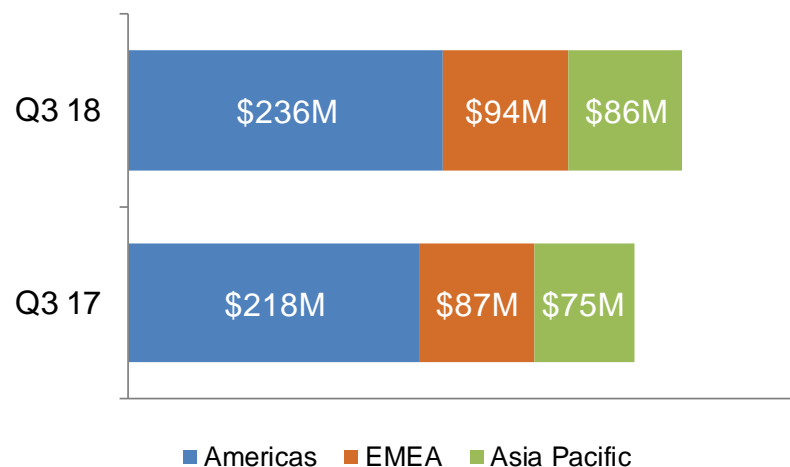
	Third Quarter		Year-to-Date	
2017 Operating Earnings (\$M and % of sales)	\$ 101	27 %	\$ 289	26 %
Translation effect	(2)	0	12	1
Volume, product and channel mix, price and cost	17	0	58	0
Effect of acquired business operations and acquisition costs, net	2	0	4	0
Share-based compensation	0	0	(3)	0
Increase in sales and earnings-based costs	0	0	(6)	(1)
Volume effect on expense leverage	(3)	1	(14)	1
2018 Operating Earnings (\$M and % of sales)	<u>\$ 115</u>	<u>28 %</u>	<u>\$ 340</u>	<u>27 %</u>



# Third Quarter 2018 Results

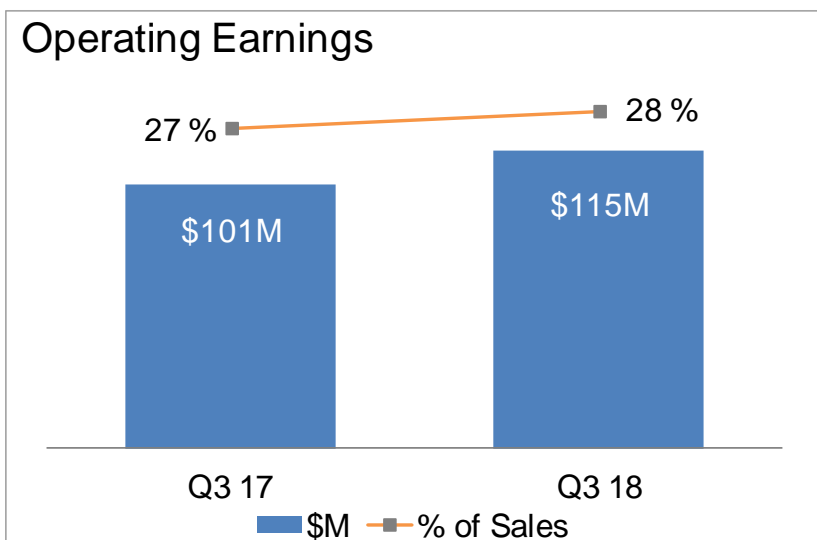


## Sales



- ▶ Sales increase of 10%
  - Currency translation rates did not have a significant effect on sales for the quarter
  - Acquired businesses sales of \$12 million account for 3 percentage points of growth
- ▶ Gross margin rate down 0.5 percentage point from third quarter 2017
  - Lower average gross margin rates of acquired operations reduced the gross margin rate. Realized pricing and favorable product and channel mix offset the impact of higher costs, including tariffs
- ▶ Operating earnings are up \$14 million, or 13%, from third quarter 2017
  - Higher sales volume and acquisitions, net of acquisition related costs, driving increase
  - Currency translation rates decreased operating earnings by approximately \$2 million
  - Volume effect on expense leverage increased operating earnings as a percentage of sales by 1 percentage point
- ▶ Other expense increased \$2 million mostly due to exchange losses on net assets of foreign operations
- ▶ The effective tax rate for the quarter was 14%, down 8 percentage points from third quarter last year
  - 2018 rate benefited approximately 10 percentage points from U.S. federal income tax reform legislation compared to 2017
  - The income tax rate for the quarter was approximately 21% excluding excess tax benefits related to stock option exercises and the benefit from a \$40 million contribution to the pension plan

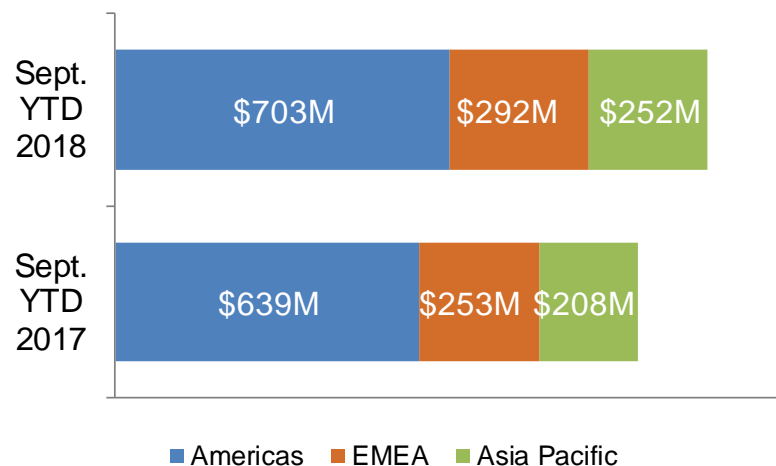
## Operating Earnings



# September Year to Date 2018 Results

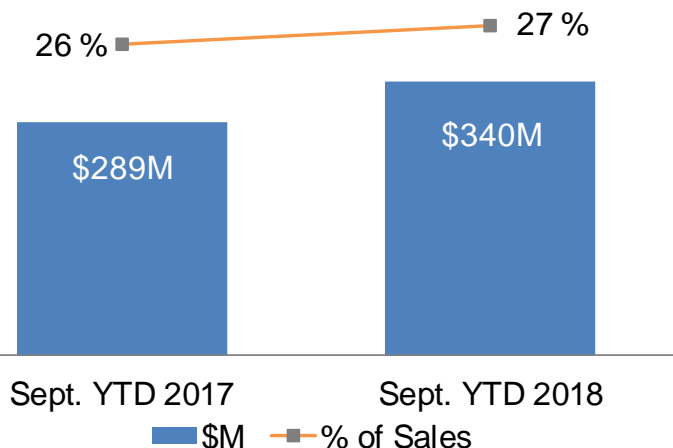


## Sales



- ▶ Sales increase of 13%
  - Favorable effect of currency translation rates increased sales by approximately \$20 million, 2 percentage points
  - Acquired businesses sales of \$34 million account for 3 percentage points of growth
- ▶ Gross margin rate comparable to 2017
  - Realized pricing and the favorable effect of currency translation rates offset the effect of lower average gross margin rates of acquired operations (including \$2 million of purchase accounting related to inventory valuation), unfavorable product and channel mix and higher material costs
- ▶ Operating earnings are up \$51 million, or 17%, from 2017
  - Higher sales volume, positive impact of currency translation, acquired operations and a reduction in acquisition costs drove increase
  - Higher sales and earnings-based costs reduced operating earnings by \$6 million
  - Share-based compensation increased expenses \$3 million
  - Volume effect on expense leverage increased operating earnings as a percentage of sales by 1 percentage point
- ▶ Other expense increased \$5 million due primarily to exchange losses on net assets of foreign operations
- ▶ The effective tax rate for the year to date was 17%, down 4 percentage points from last year
  - 2018 rate benefited approximately 9 percentage points from U.S. federal income tax reform legislation compared to 2017
  - The income tax rate for the year to date was approximately 21% excluding excess tax benefits related to stock option exercises and the benefit from a \$40 million contribution to the pension plan

## Operating Earnings

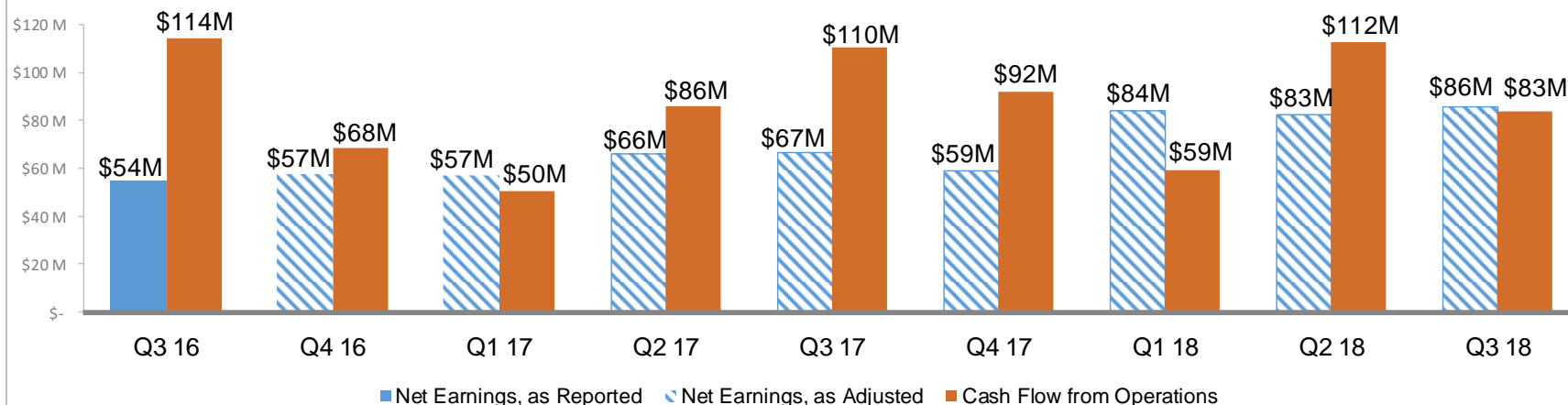




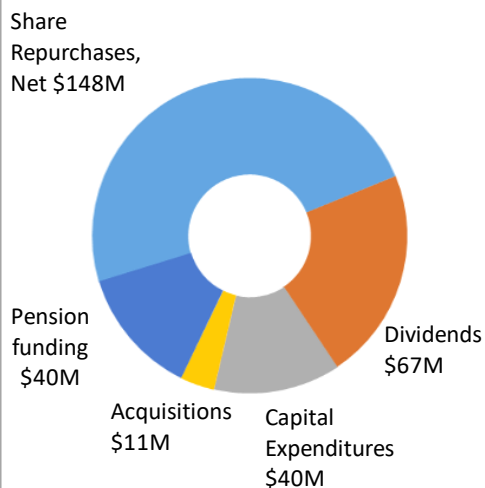
# Cash Flow and Liquidity



## Net Earnings, as Adjusted, and Cash from Operations



## 2018 Significant Uses of Cash



See Q3 2018 non-GAAP reconciliation on page 18

- ▶ Net cash provided by operating activities was \$254 million in 2018 vs. \$246 million in 2017
- ▶ The Company made a \$40 million voluntary contribution to a U.S. pension plan during third quarter compared to a \$20 million pension contribution in third quarter last year
- ▶ Debt, including notes payable, was \$270 million - up \$38 million from year end
  - Interest expense down \$1.4 million from September 2017
- ▶ Share repurchases, net of shares issued, totaled \$148 million

# Other Discussion Items

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- ▶ Excluding bricks and mortar, capital expenditure expectations are approximately \$35 million in 2018. Current estimate of 2018 building projects to increase production and distribution capacity is approximately \$40 million. Additional building project investments of \$100-\$120 million expected over the next two years
- ▶ Unallocated corporate expenses in 2018 are expected to be approximately \$27 million
- ▶ Through September, we repurchased 3.5 million shares of stock and are making opportunistic repurchases going forward
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2017, the movement in foreign currencies would increase sales approximately 1% and increase earnings approximately 2% for the full year. We expect unfavorable currency translation in the second half of the year to nearly offset favorable impact in the first half
- ▶ The effective tax rates for fourth quarter and the full year are expected to be approximately 21% and 20%, respectively, excluding any impact from excess tax benefits related to stock option exercises
- ▶ Tariffs are currently estimated to have an unfavorable effect of as much as 50 to 75 basis points on the fourth quarter 2018 gross margin rate

# Current Environment and Outlook



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

	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Growth Q3 2018 8% YTD 2018 9%	Sales Growth Q3 2018 3% YTD 2018 3%	Sales Growth Q3 2018 10% YTD 2018 13%	Sales Growth Q3 2018 7% YTD 2018 8%
Industrial Segment	Environment Unchanged  Sales Growth Q3 2018 5% YTD 2018 5%	Environment Downgraded  Sales Growth Q3 2018 2% YTD 2018 2%	Environment Unchanged  Sales Growth Q3 2018 9% YTD 2018 11%	Sales Growth Q3 2018 5% YTD 2018 6%
Contractor Segment	Environment Unchanged  Sales Growth Q3 2018 8% YTD 2018 9%	Environment Downgraded  Sales Growth Q3 2018 1% YTD 2018 7%	Environment Unchanged  Sales Growth Q3 2018 (9%) YTD 2018 7%	Sales Growth Q3 2018 5% YTD 2018 9%
Process Segment	Environment Unchanged  Sales Growth Q3 2018 11% YTD 2018 13%	Environment Unchanged  Sales Growth Q3 2018 11% YTD 2018 (1%)	Environment Unchanged  Sales Growth Q3 2018 32% YTD 2018 25%	Sales Growth Q3 2018 15% YTD 2018 12%
Full Year 2018 Outlook	Outlook Unchanged <b>Mid-to-High Single-digit</b>	Outlook Unchanged <b>Mid-single-digit</b>	Outlook Raised <b>High Single-digit to Low Double-digit</b>	Outlook Unchanged <b>Mid-to-High Single-digit</b>

We are holding to our outlook of mid-to-high single-digit organic sales growth on a constant currency basis for the full year 2018.

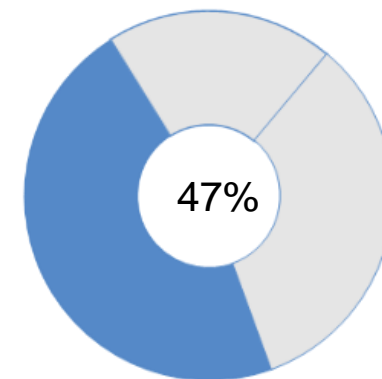
# Industrial Segment Results



## Sales

\$ in millions	Third Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 79	\$ 75	5 %	\$ 232	\$ 220	6 %
EMEA	58	52	12	175	146	20
Asia Pacific	59	51	15	175	144	21
<b>Total</b>	<b>\$ 196</b>	<b>\$ 178</b>	<b>10 %</b>	<b>\$ 582</b>	<b>\$ 510</b>	<b>14 %</b>
Operating Earnings	\$ 71	\$ 62	14 %	\$ 207	\$ 177	17 %
% of sales	36 %	35 %		36 %	35 %	

## 2018 Industrial Segment Sales as % of Graco



## 2018 Components of Net Sales Change

## Current Environment

	Third Quarter	Year-to-Date
<b>Americas</b>		
Volume & Price	5 %	5 %
Acquisitions	0 %	0 %
Currency	0 %	1 %
<b>Total</b>	<b>5 %</b>	<b>6 %</b>
<b>EMEA</b>		
Volume & Price	2 %	2 %
Acquisitions	10 %	11 %
Currency	0 %	7 %
<b>Total</b>	<b>12 %</b>	<b>20 %</b>
<b>Asia Pacific</b>		
Volume & Price	9 %	11 %
Acquisitions	8 %	7 %
Currency	(2)%	3 %
<b>Total</b>	<b>15 %</b>	<b>21 %</b>
<b>Segment Total</b>		
Volume & Price	5 %	6 %
Acquisitions	5 %	5 %
Currency	0 %	3 %
<b>Total</b>	<b>10 %</b>	<b>14 %</b>



- Favorable: Construction markets
- Stable: Automotive, general industrial, truck & trailer
- Challenging: South America



- Favorable: Aerospace
- Stable: Western Europe, general industrial, truck & trailer, automotive
- Challenging: Geopolitical, Middle East



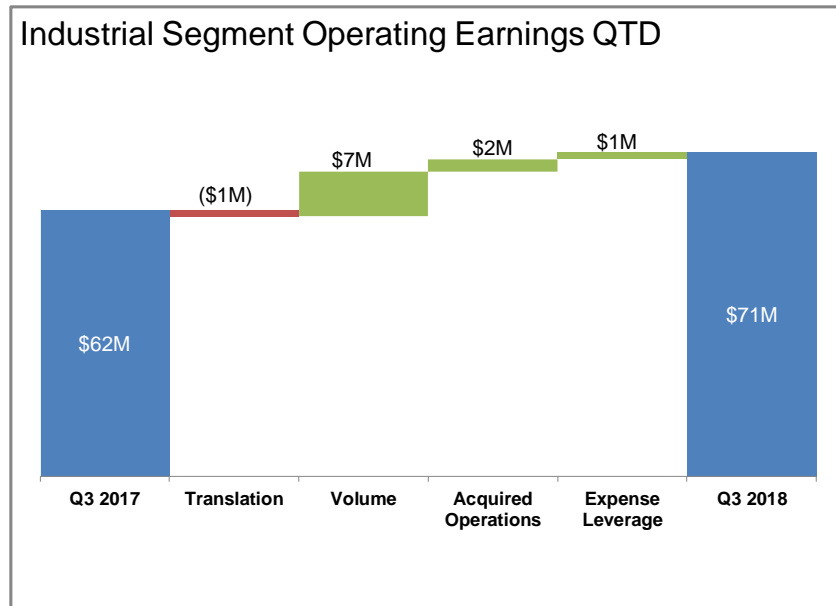
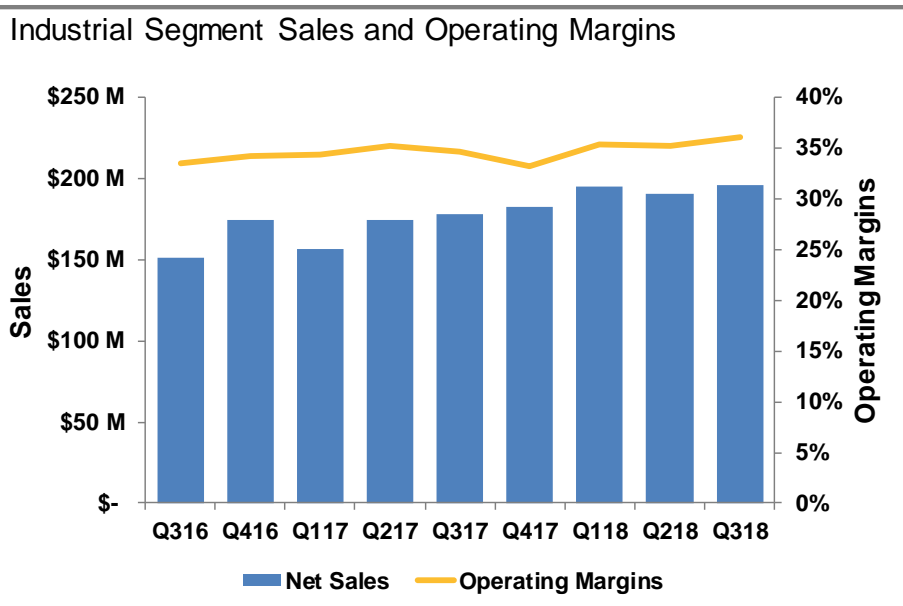
- Favorable: Automotive, general industrial
- Stable: Construction
- Challenging: Marine
- Spotty: Project activity



# Industrial Segment Results



Change in % of sales	Third Quarter	Year-to-Date
2017 Operating Earnings (% of sales)	35 %	35 %
Translation effect	0	1
Product and channel mix, volume, price	1	1
Effect of acquired business operations	(1)	(1)
Expense leverage	1	0
2018 Operating Earnings (% of sales)	<u>36 %</u>	<u>36 %</u>



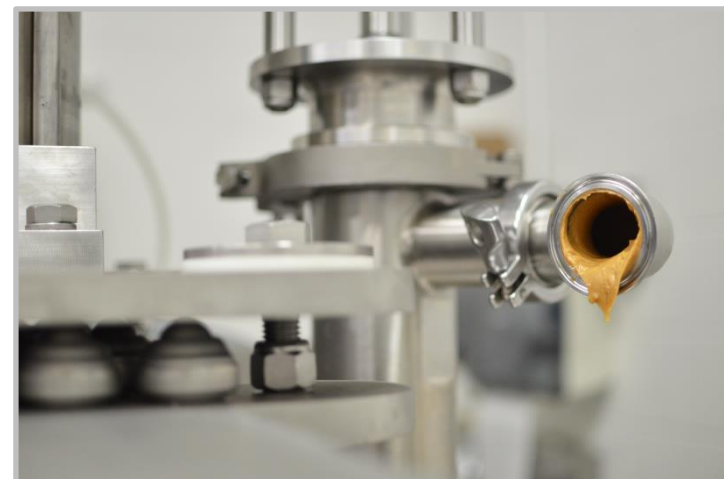
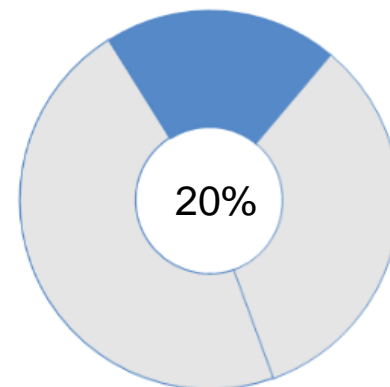
# Process Segment Results



## Sales

\$ in millions	Third Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 54	\$ 48	12 %	\$ 160	\$ 139	15 %
EMEA	14	13	11	43	41	5
Asia Pacific	17	13	30	47	37	28
<b>Total</b>	<b>\$ 85</b>	<b>\$ 74</b>	<b>15 %</b>	<b>\$ 250</b>	<b>\$ 217</b>	<b>15 %</b>
Operating Earnings	\$ 18	\$ 12	48 %	\$ 53	\$ 39	35 %
% of sales	21 %	16 %		21 %	18 %	

## 2018 Process Segment Sales as % of Graco



## 2018 Components of Net Sales Change

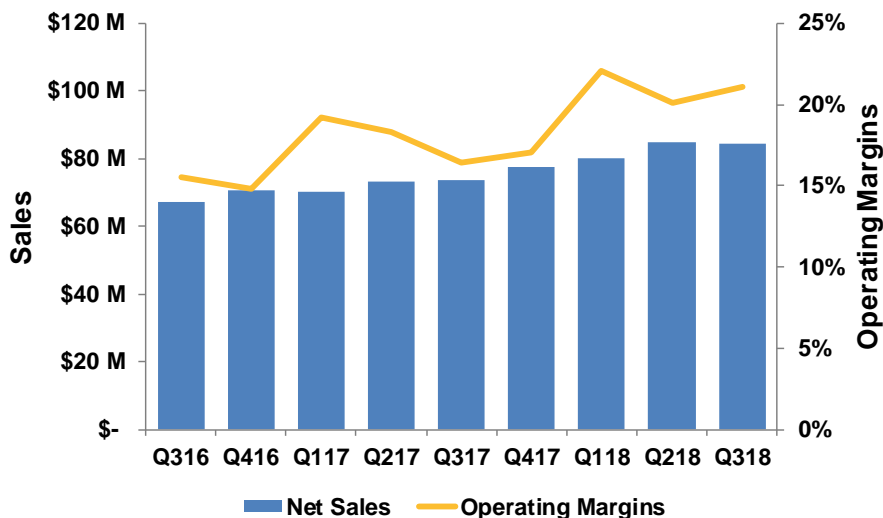
	Third Quarter	Year-to-Date	Current Environment
<b>Americas</b>			
Volume & Price	11 %	13 %	<ul style="list-style-type: none"> <li>Favorable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications</li> <li>Improving: Onshore oil &amp; natural gas</li> </ul>
Acquisitions	1 %	1 %	
Currency	0 %	1 %	
<b>Total</b>	<b>12 %</b>	<b>15 %</b>	
<b>EMEA</b>			
Volume & Price	11 %	(1)%	<ul style="list-style-type: none"> <li>Favorable: Technology, sanitary</li> <li>Stable: Chemical, environmental</li> <li>Challenging: Offshore oil &amp; natural gas, geopolitical</li> </ul>
Acquisitions	0 %	1 %	
Currency	0 %	5 %	
<b>Total</b>	<b>11 %</b>	<b>5 %</b>	
<b>Asia Pacific</b>			
Volume & Price	32 %	25 %	<ul style="list-style-type: none"> <li>Favorable: Technology</li> <li>Stable: Process applications</li> <li>Improving: Mining</li> </ul>
Acquisitions	1 %	1 %	
Currency	(3)%	2 %	
<b>Total</b>	<b>30 %</b>	<b>28 %</b>	
<b>Segment Total</b>			
Volume & Price	15 %	12 %	
Acquisitions	1 %	1 %	
Currency	(1)%	2 %	
<b>Total</b>	<b>15 %</b>	<b>15 %</b>	

# Process Segment Results

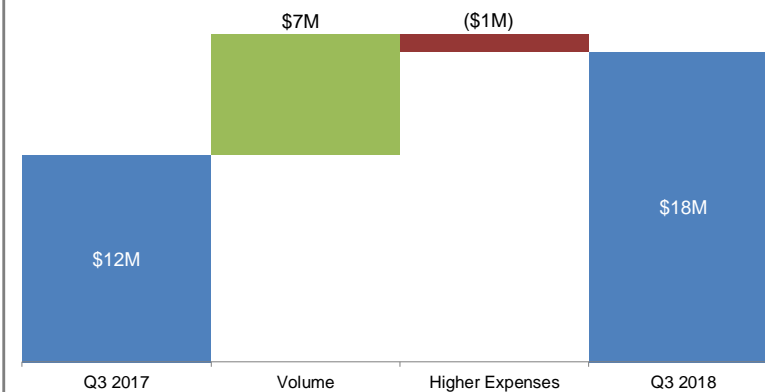


Change in % of sales	Third Quarter	Year-to-Date
2017 Operating Earnings (% of sales)	16 %	18 %
Translation effect	0	0
Volume, channel and product mix, price and cost	2	1
Increase in sales and earnings-based costs	(1)	(1)
Expense leverage	4	3
2018 Operating Earnings (% of sales)	<u>21 %</u>	<u>21 %</u>

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD





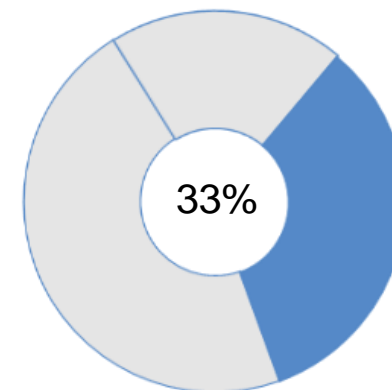
# Contractor Segment Results



## Sales

\$ in millions	Third Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
Americas	\$ 104	\$ 95	9 %	\$ 311	\$ 280	11 %
EMEA	23	22	1	75	66	14
Asia Pacific	9	11	(12)	30	27	9
<b>Total</b>	<b>\$ 136</b>	<b>\$ 128</b>	<b>6 %</b>	<b>\$ 416</b>	<b>\$ 373</b>	<b>11 %</b>
Operating Earnings	\$ 33	\$ 33	(2)%	\$ 103	\$ 93	10 %
% of sales	24 %	26 %		25 %	25 %	

## 2018 Contractor Segment Sales as % of Graco



## 2018 Components of Net Sales Change

## Current Environment

	Third Quarter	Year-to-Date
<b>Americas</b>		
Volume & Price	8 %	9 %
Acquisitions	2 %	2 %
Currency	(1)%	0 %
<b>Total</b>	<b>9 %</b>	<b>11 %</b>
<b>EMEA</b>		
Volume & Price	1 %	7 %
Acquisitions	0 %	0 %
Currency	0 %	7 %
<b>Total</b>	<b>1 %</b>	<b>14 %</b>
<b>Asia Pacific</b>		
Volume & Price	(9)%	7 %
Acquisitions	0 %	0 %
Currency	(3)%	2 %
<b>Total</b>	<b>(12)%</b>	<b>9 %</b>
<b>Segment Total</b>		
Volume & Price	5 %	9 %
Acquisitions	1 %	1 %
Currency	0 %	1 %
<b>Total</b>	<b>6 %</b>	<b>11 %</b>



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



- Favorable: Western Europe, DIY
- Challenging: Geopolitical, 2017 comparables



- Favorable: SE Asia, Australia
- Stable: Pavement products
- Challenging: General construction, equipment adoption rates



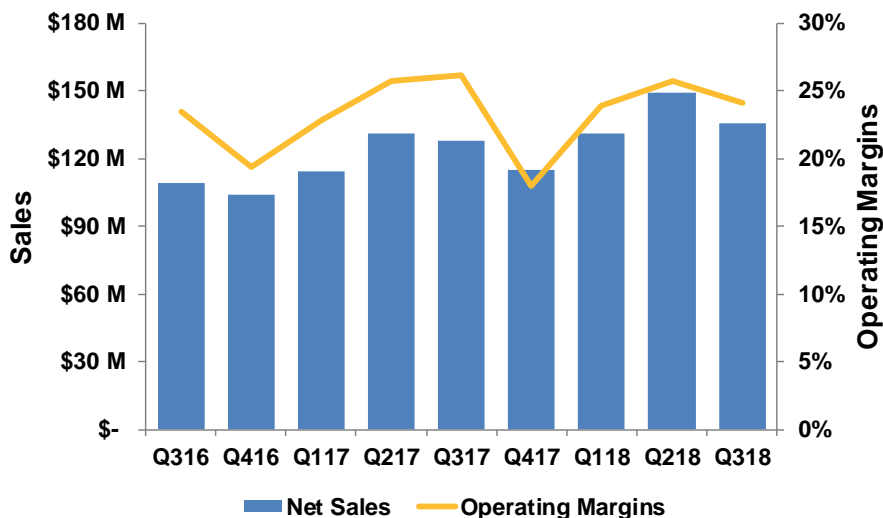


# Contractor Segment Results

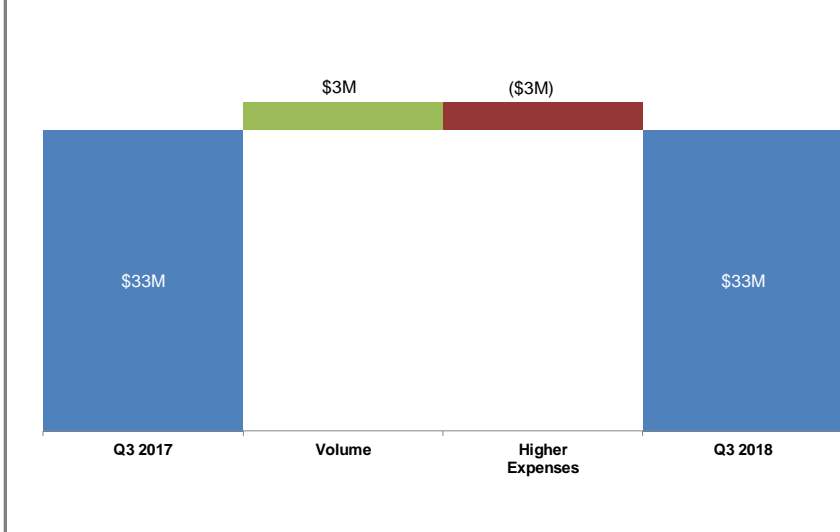


Change in % of sales	Third Quarter	Year-to-Date
2017 Operating Earnings (% of sales)	26 %	25 %
Translation effect	0	1
Product and channel mix, volume, product cost	(1)	0
Increase in sales and earnings-based costs	0	(1)
Expense leverage	(1)	0
2018 Operating Earnings (% of sales)	<u>24 %</u>	<u>25 %</u>

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD



# Financial Results Adjusted for Comparability



Tax benefits related to stock option exercises and the effects of certain tax provision adjustments have caused fluctuation in the Company's effective tax rate. Excluding the impact of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective tax rates, net earnings and diluted earnings per share follows:

Non-GAAP Reconciliation	Third Quarter			Year-to-Date		
	2018	2017	Change	2018	2017	Change
\$ in millions except per share amounts						
Income taxes, as reported	\$ 15.4	\$ 20.9	(27)%	\$ 53.4	\$ 57.6	(7)%
Excess tax benefit from option exercises	1.9	3.2	(42)%	9.8	20.5	(52)%
Tax provision adjustments	5.0	5.5		5.0	5.5	
Income taxes, adjusted	<u>\$ 22.3</u>	<u>\$ 29.6</u>	(25)%	<u>\$ 68.2</u>	<u>\$ 83.6</u>	(18)%
Effective income tax rate						
As reported	14.2%	21.7%		16.6%	21.0%	
Adjusted	20.6%	30.8%		21.2%	30.5%	
Net earnings, as reported						
Net earnings, as reported	\$ 92.7	\$ 75.5	23 %	\$ 267.3	\$ 216.0	24 %
Excess tax benefit from option exercises	(1.9)	(3.2)	(42)%	(9.8)	(20.5)	(52)%
Tax provision adjustments	(5.0)	(5.5)		(5.0)	(5.5)	
Net earnings, adjusted	<u>\$ 85.8</u>	<u>\$ 66.8</u>	29 %	<u>\$ 252.5</u>	<u>\$ 190.0</u>	33 %
Weighted Average Diluted Shares, in millions						
	173.0	174.6		174.0	173.8	
Diluted Earnings per Share						
As reported	\$ 0.54	\$ 0.43	26 %	\$ 1.54	\$ 1.24	24 %
Adjusted	\$ 0.50	\$ 0.38	32 %	\$ 1.45	\$ 1.09	33 %



move

measure

mix

control

dispense

spray

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