



1st Quarter 2019 Earnings Conference Call

April 25, 2019

Safe Harbor

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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 April 24, 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, April 25, 2019. The replay by telephone will be available through April 29, 2019.

- ▶ 888-203-1112 – Conference ID #3050476
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Financial Results

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Statement of Earnings

\$ in millions except per share amounts

	First Quarter		
	2019	2018	Change
Sales	\$ 405	\$ 406	0 %
Gross Profit	216	222	(3)%
% of Sales	53.4 %	54.7 %	(1.3) pts
Operating Earnings	105	112	(6)%
% of Sales	25.8 %	27.5 %	(1.7) pts
Net Earnings	\$ 87	\$ 86	1 %
% of Sales	21.4 %	21.0 %	0.4 pts
Diluted Earnings Per Share	\$ 0.51	\$ 0.49	4 %
<i>Diluted Shares in Millions</i>	170.9	175.6	
<i>Net Earnings, Adjusted (1)</i>	\$ 80	\$ 84	(5)%
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.47	\$ 0.48	(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 20 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Sales

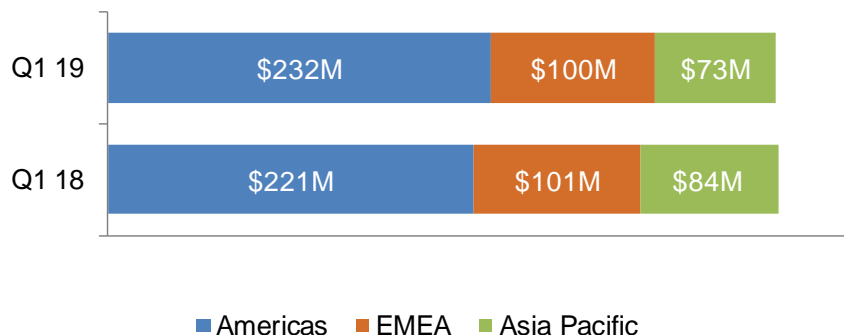


Components of Net Sales Change

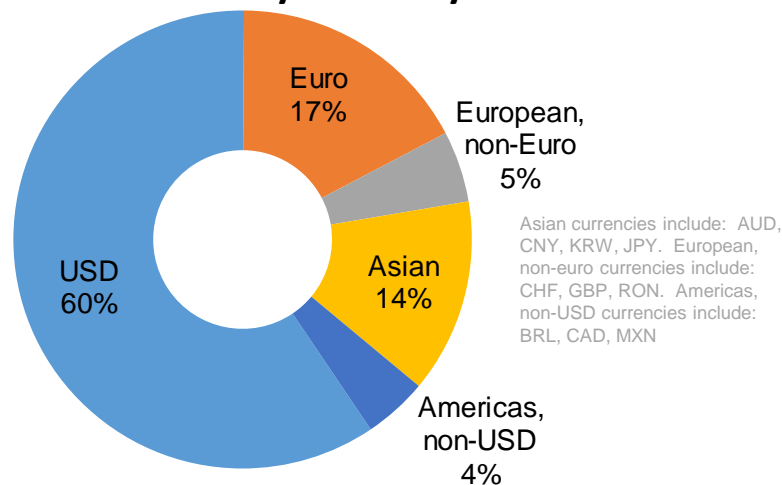
First Quarter 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	0 %	10 %	0 %	5 %	5 %	(8)%	2 %
Acquisitions	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(3)%	(1)%	(2)%	0 %	(7)%	(4)%	(2)%
Total	(3)%	9 %	(2)%	5 %	(2)%	(12)%	0 %

Sales by Region



2019 Sales by Currency

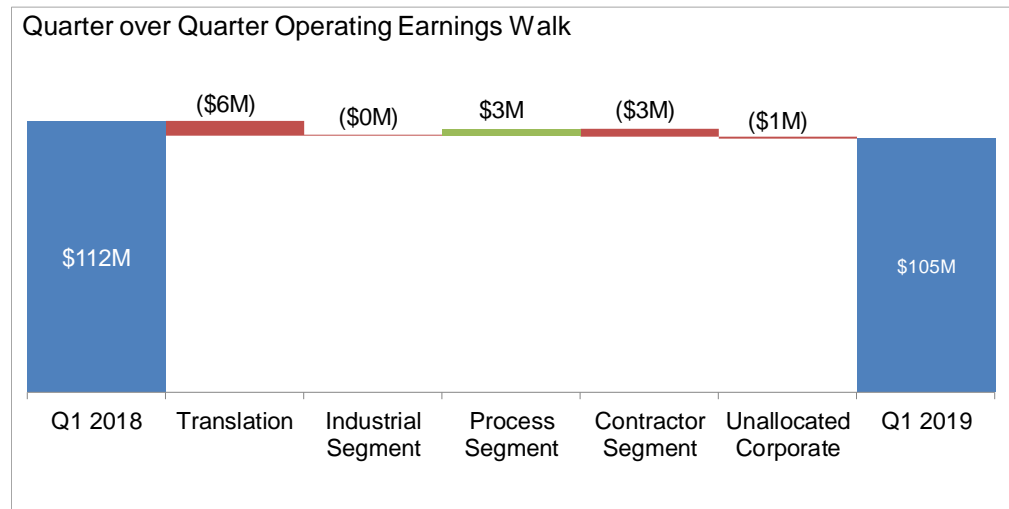
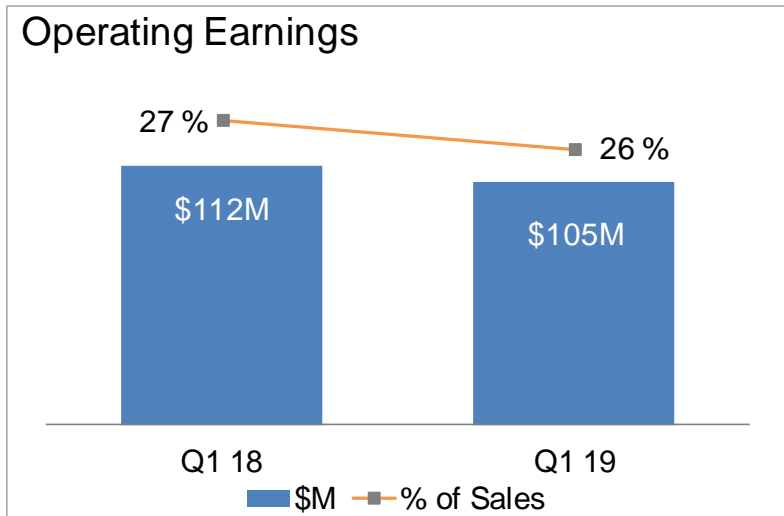


Operating Earnings



- 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)

First Quarter	
\$ 112	27 %
(6)	0
2	(1)
(1)	0
(2)	0
\$ 105	26 %



First Quarter 2019

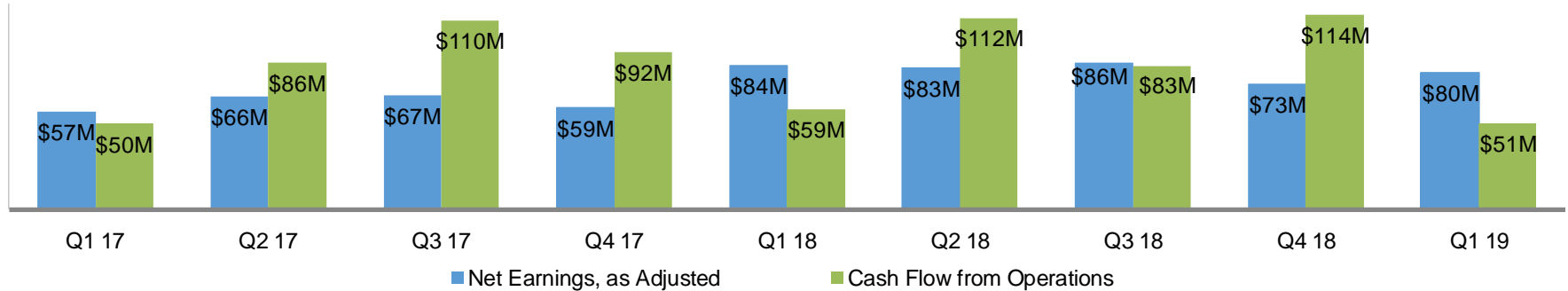
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Sales	▶ Modest underlying growth was offset by currency translation rates compared to last year
Gross Margin	▶ Rate down 1.3 percentage points from first quarter 2018 <ul style="list-style-type: none">▪ Unfavorable effect of currency translation driving half of the decrease, realized pricing partially offset adverse impacts of higher material costs and unfavorable channel and product mix
Operating Earnings	▶ Decreased \$7 million, or 6%, from first quarter 2018 <ul style="list-style-type: none">▪ Currency translation rates decreased operating earnings by approximately \$6 million▪ Higher unallocated corporate expenses, primarily stock compensation▪ Increases in underlying sales volume offset by unfavorable expense leverage, primarily product development
Other Expense	▶ Decreased \$1 million, lower market-based pension costs partially offset by exchange losses on net assets of foreign operations
Taxes	▶ The effective tax rate for the quarter was 14%, down 6 percentage points from first quarter last year <ul style="list-style-type: none">▪ Decrease due primarily to an increase in excess tax benefits related to stock option exercises and non-recurring tax benefits from other tax planning activities

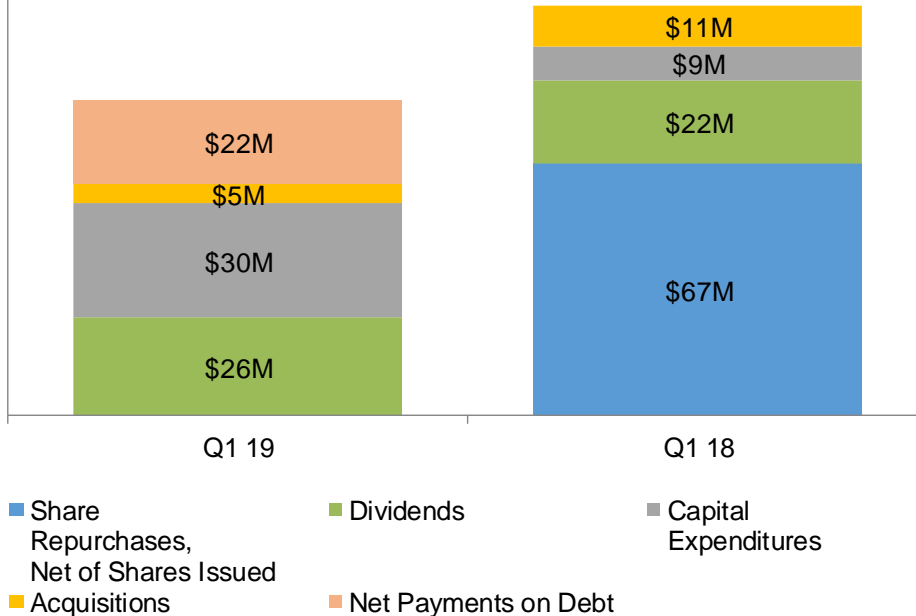
Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operations



Significant Uses of Cash



- ▶ Net cash provided by operating activities was \$51 million in 2019 vs. \$59 million in 2018
- ▶ Capital expenditures of \$30 million, including building expansion projects to increase production and distribution capacity
- ▶ Debt, including notes payable, was \$256 million - down \$21 million from December 2018
 - Reclass current portion of long-term debt, \$75 million
 - Interest expense up \$0.3 million from 2018
- ▶ No shares repurchased in first quarter 2019
 - \$2.4 million of 2018 repurchases settled in the first quarter 2019

Other Discussion Items










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Cap. Ex.	<ul style="list-style-type: none">▶ Capital expenditure expectations of approximately \$40 million in 2019, excluding brick and mortar. Current estimate of 2019 building projects to increase production and distribution capacity is approximately \$110-\$115 million<ul style="list-style-type: none">▪ Additional building project investments of approximately \$35 million anticipated in 2020 - 2021
Expenses	<ul style="list-style-type: none">▶ Unallocated corporate expenses in 2019 are expected to be approximately \$31 million
Shares	<ul style="list-style-type: none">▶ During first quarter 2019, we made no share repurchases. 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 on 2019 of approximately 1% on sales and 3% on earnings, with the greatest headwind in the first two quarters<ul style="list-style-type: none">▪ Second quarter 2019 headwind could be as much as 2% on sales and 4% on earnings
Taxes	<ul style="list-style-type: none">▶ The effective tax rate for the second quarter and the full year is expected to be between 20% - 21%, excluding any impact from excess tax benefits related to stock option exercises
Tariffs & Materials	<ul style="list-style-type: none">▶ Incremental impact of tariffs and higher material costs expected to be approximately \$21 million, excluding tariff increase from 10% to 25% of \$5 million currently on hold

2019 Environment and Outlook



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

	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Change Q1 2019 5%	Sales Change Q1 2019 5%	Sales Change Q1 2019 (8%)	Sales Change Q1 2019 2%
Industrial Segment	Environment Unchanged  Sales Change Q1 2019 10%	Environment Unchanged  Sales Change Q1 2019 3%	Environment Unchanged  Sales Change Q1 2019 (14%)	Sales Change Q1 2019 0%
Process Segment	Environment Unchanged  Sales Change Q1 2019 12%	Environment Unchanged  Sales Change Q1 2019 9%	Environment Unchanged  Sales Change Q1 2019 6%	Sales Change Q1 2019 10%
Contractor Segment	Environment Unchanged  Sales Change Q1 2019 (2%)	Environment Unchanged  Sales Change Q1 2019 5%	Environment Unchanged  Sales Change Q1 2019 9%	Sales Change Q1 2019 0%
Full Year 2019 Outlook	Outlook Unchanged Mid Single-digit	Outlook Unchanged Mid Single-digit	Outlook Lowered Low Single-digit	Outlook Unchanged Mid Single-digit

The Company continues to target mid single-digit organic sales growth on a constant currency basis, and growth in all reportable segments and regions for the full-year 2019

Industrial Segment



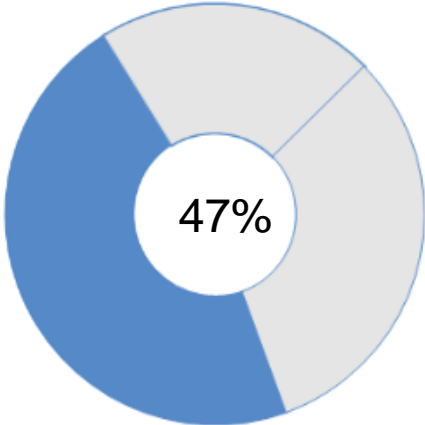
Industrial Segment Results



Sales

\$ in millions	First Quarter		Change
	2019	2018	
Americas	\$ 81	\$ 74	9 %
EMEA	58	60	(4)
Asia Pacific	50	61	(18)
Total	\$ 189	\$ 195	(3)%
Operating Earnings	\$ 65	\$ 69	(6)%
% of sales	34 %	35 %	

2019 Industrial Segment Sales as % of Graco



Components of Net Sales Change

	First Quarter
Americas	
Volume & Price	10 %
Acquisitions	0 %
Currency	(1)%
Total	9 %
EMEA	
Volume & Price	3 %
Acquisitions	0 %
Currency	(7)%
Total	(4)%
Asia Pacific	
Volume & Price	(14)%
Acquisitions	0 %
Currency	(4)%
Total	(18)%
Segment Total	
Volume & Price	0 %
Acquisitions	0 %
Currency	(3)%
Total	(3)%

Environment

- Favorable: General industrial
- Stable: Automotive, truck & trailer, wood
- Stable: General industrial, truck & trailer,
- Challenging: Automotive, developing economies
- Favorable: General industrial, alternative energy
- Stable: Automotive, construction
- Challenging: Marine
- Spotty: Project activity

Industrial Segment Results

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Change in % of sales

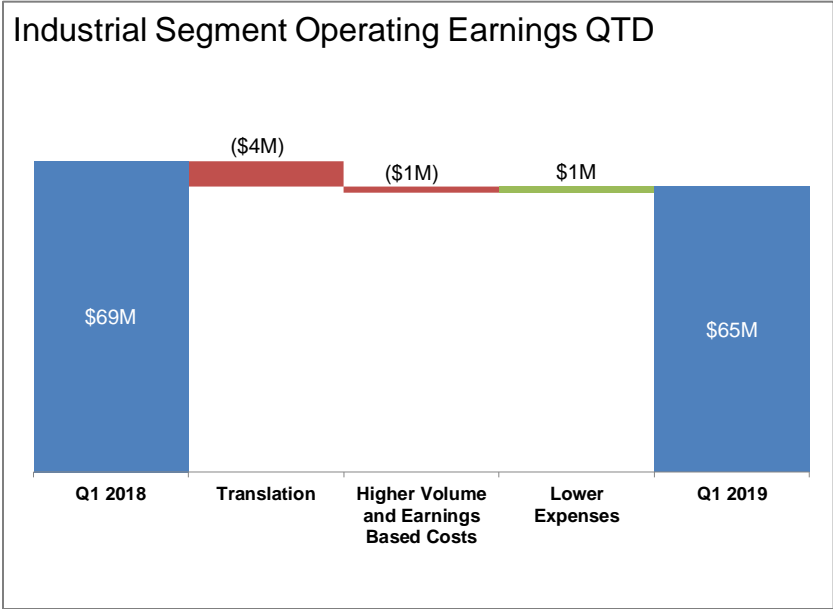
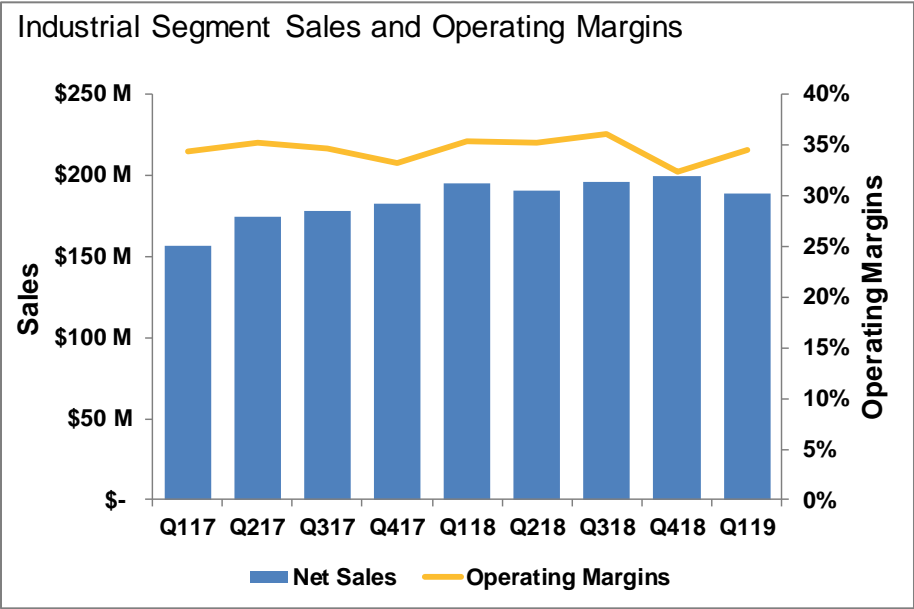
2018 Operating Earnings (% of sales)

Translation effect

2019 Operating Earnings (% of sales)

First Quarter

35 %
(1)
<u>34 %</u>



Process Segment

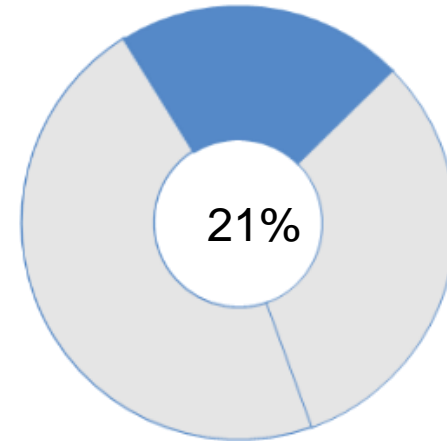


Process Segment Results

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Sales

\$ in millions	First Quarter		Change
	2019	2018	
Americas	\$ 57	\$ 51	11 %
EMEA	16	15	5
Asia Pacific	14	14	2
Total	\$ 87	\$ 80	9 %
Operating Earnings	\$ 20	\$ 18	13 %
% of sales	23 %	22 %	

2019 Process Segment Sales as % of Graco



Components of Net Sales Change

	First Quarter
Americas	
Volume & Price	12 %
Acquisitions	0 %
Currency	(1)%
Total	11 %
EMEA	
Volume & Price	9 %
Acquisitions	1 %
Currency	(5)%
Total	5 %
Asia Pacific	
Volume & Price	6 %
Acquisitions	0 %
Currency	(4)%
Total	2 %
Segment Total	
Volume & Price	10 %
Acquisitions	0 %
Currency	(1)%
Total	9 %

Environment



- Favorable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications
- Stable: Chemical
- Improving: Onshore oil & natural gas



- Favorable: Technology, sanitary, environmental
- Stable: Western Europe, chemical
- Challenging: Offshore oil & natural gas



- Favorable: Technology
- Stable: Process applications, mining

Process Segment Results

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Change in % of sales

2018 Operating Earnings (% of sales)

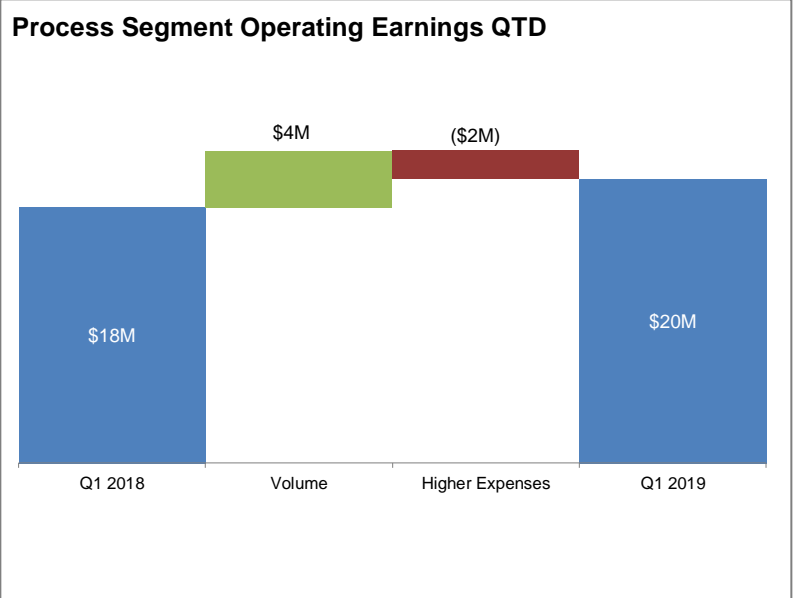
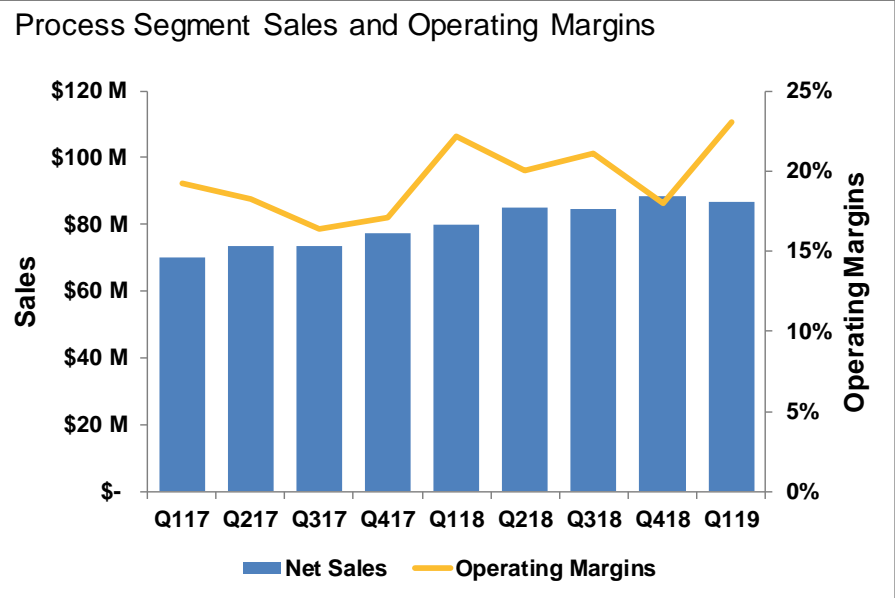
Translation effect

Expense leverage

2019 Operating Earnings (% of sales)

First Quarter

22 %
0
1
<u>23 %</u>





Contractor Segment



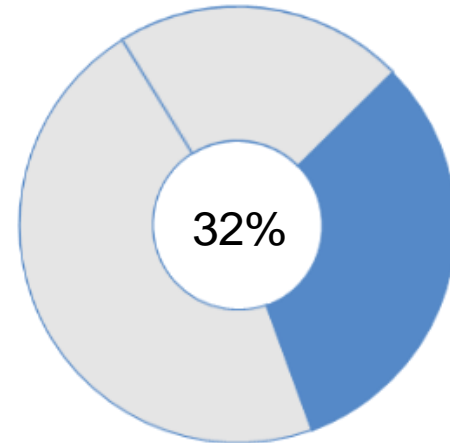
Contractor Segment Results

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Sales

\$ in millions	First Quarter		Change
	2019	2018	
Americas	\$ 94	\$ 96	(2)%
EMEA	26	26	(2)
Asia Pacific	9	9	4
Total	\$ 129	\$ 131	(2)%
Operating Earnings	\$ 27	\$ 31	(16)%
% of sales	21 %	24 %	

2019 Contractor Segment Sales as % of Graco



Components of Net Sales Change

First Quarter

Americas	
Volume & Price	(2)%
Acquisitions	0 %
Currency	(0)%
Total	(2)%
EMEA	
Volume & Price	5 %
Acquisitions	0 %
Currency	(7)%
Total	(2)%
Asia Pacific	
Volume & Price	9 %
Acquisitions	0 %
Currency	(5)%
Total	4 %
Segment Total	
Volume & Price	0 %
Acquisitions	0 %
Currency	(2)%
Total	(2)%

Environment



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



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



- Stable: Australia, SE Asia, pavement products
- Challenging: General construction, equipment adoption rates, local competition

Contractor Segment Results

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Change in % of sales

2018 Operating Earnings (% of sales)

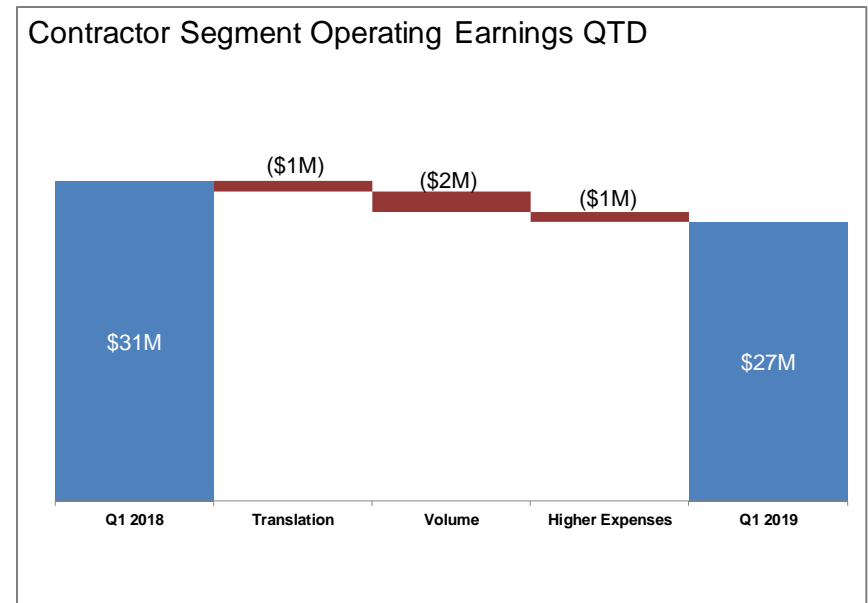
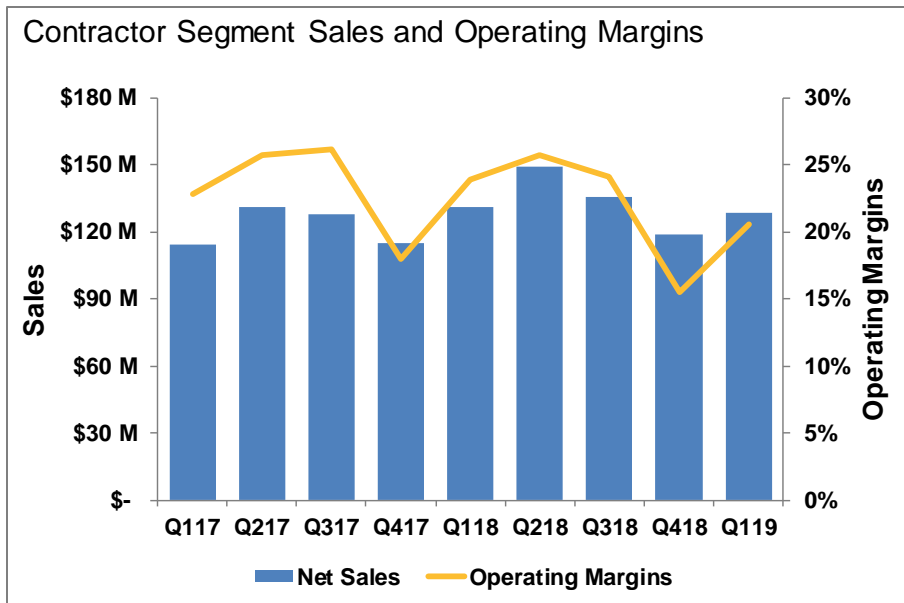
Translation effect

Volume, channel and product mix, product cost

2019 Operating Earnings (% of sales)

First Quarter

24 %
(1)
(2)
<u>21 %</u>



Financial Results Adjusted for Comparability

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Certain items have caused fluctuation in the Company's financial results. Excluding the impact 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	First Quarter		Change
	2019	2018	
Income taxes, as reported	\$ 14.0	\$ 21.9	(36)%
Excess tax benefit from option exercises	5.1	1.4	
Other non-recurring tax changes	1.5	-	
Income taxes, adjusted	<u>\$ 20.6</u>	<u>\$ 23.3</u>	(12)%
Effective income tax rate			
As reported	14%	20%	
Adjusted	20%	22%	
Net earnings, as reported	\$ 86.7	\$ 85.5	1 %
Excess tax benefit from option exercises	(5.1)	(1.4)	
Other non-recurring tax changes	(1.5)	-	
Net earnings, adjusted	<u>\$ 80.1</u>	<u>\$ 84.1</u>	(5)%
Weighted Average Diluted Shares, in millions	170.9	175.6	
Diluted Earnings per Share			
As reported	\$ 0.51	\$ 0.49	4 %
Adjusted	\$ 0.47	\$ 0.48	(2)%



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