



3rd Quarter 2014 Earnings Conference Call

October 23, 2014

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 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

Telephone replay will be available after 1 p.m. CT, October 23, 2014. The replay by telephone will be available through October 27, 2014

- 888-203-1112 – Conference ID #9078737
- 719-457-0820 – Conference ID #9078737, for International participants

Financial Results



\$ millions except EPS	Third Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
Sales	\$ 302.6	\$ 277.0	9 %	\$ 915.1	\$ 832.1	10 %
Gross Profit	165.8	150.9	10 %	502.0	460.3	9 %
% of Sales	54.8 %	54.5 %	0.3 pts	54.9 %	55.3 %	(0.4) pts
Operating Earnings	78.9	69.7	13 %	239.5	216.4	11 %
% of Sales	26.1 %	25.2 %	0.9 pts	26.2 %	26.0 %	0.2 pts
Net Earnings	\$ 59.6	\$ 56.1	6 %	\$ 176.5	\$ 166.1	6 %
% of Sales	19.7 %	20.3 %	(0.6) pts	19.3 %	20.0 %	(0.7) pts
Diluted Earnings Per Share	\$ 0.97	\$ 0.89	9 %	\$ 2.85	\$ 2.65	8 %
<i>Diluted Shares in Millions</i>	61.5	63.0		62.0	62.7	

Includes dividends (post-tax) from Liquid Finishing Businesses held separate:

Dividends	\$ 9	\$ 9	\$ 24	\$ 24
EPS Impact	\$ 0.15	\$ 0.14	\$ 0.39	\$ 0.38

Dividend income will cease when investment is sold

Financial Results



Components of Net Sales Change

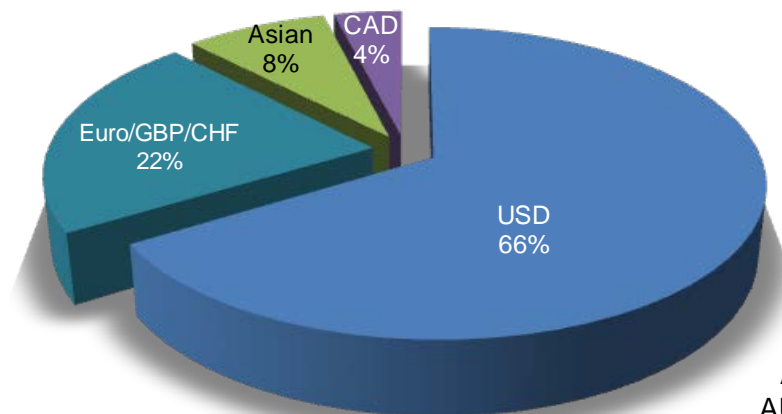
Third Quarter 2014

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	4 %	7 %	6 %	6 %	3 %	5 %	6 %
Acquisitions	6 %	—	—	6 %	—	1 %	3 %
Currency	1 %	—	—	—	1 %	1 %	—
Total	11 %	7 %	6 %	12 %	4 %	7 %	9 %

Year-to-Date September 2014

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	5 %	10 %	7 %	10 %	5 %	1 %	6 %
Acquisitions	5 %	—	—	5 %	—	1 %	3 %
Currency	1 %	—	(1)%	(1)%	3 %	—	1 %
Total	11 %	10 %	6 %	14 %	8 %	2 %	10 %

Sales by Currency YTD September 2014

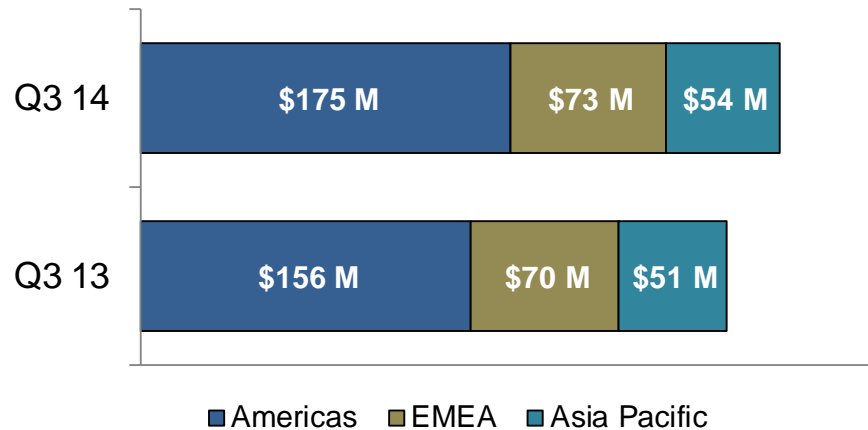


Asian currencies include:
AUD, CNY/RMB, KRW, JPY

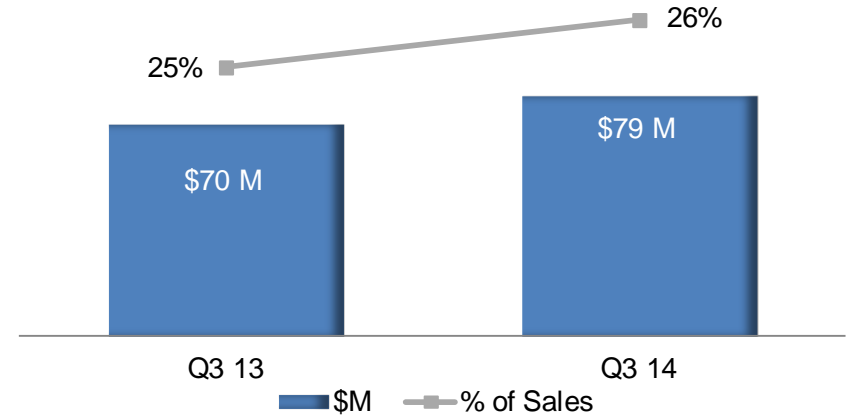
Third Quarter 2014 Results



Sales



Operating Earnings



- Sales increase of 9%

Volume/Price, 6%

Acquisitions, 3%

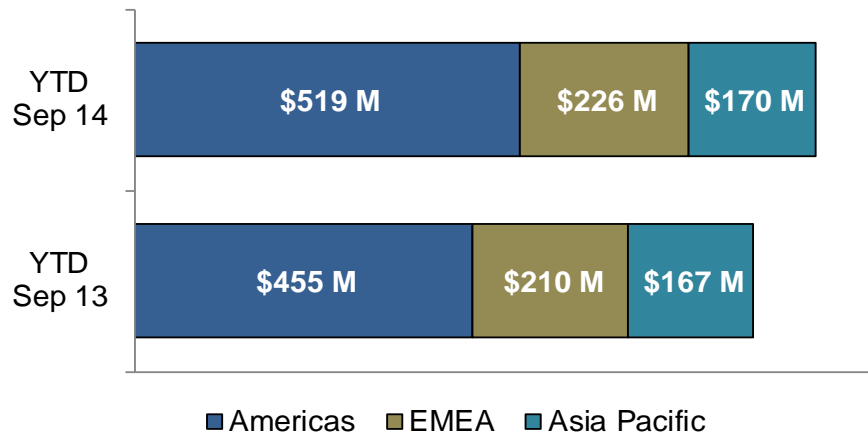
- Gross margin rate up slightly from third quarter 2013
- Operating earnings up \$9 million; as a percentage of sales up 1 percentage point from third quarter 2013
 - Acquired businesses contributed \$2 million to operating earnings
 - Operating expenses, as percentage of sales, down ½ percentage point compared to Q3 2013
 - Incremental expense investment in region and product expansion \$3 million

- Interest expense \$5 million consistent with third quarter 2013
- Liquid Finishing dividend \$9 million (post-tax), the same as third quarter 2013. Dividend income will cease when the investment is sold
- Tax rate of 28% is higher than third quarter 2013 rate of 24%
 - 2013 includes impact of additional benefit from U.S. business credits and deductions
 - R&D credit not reinstated for 2014

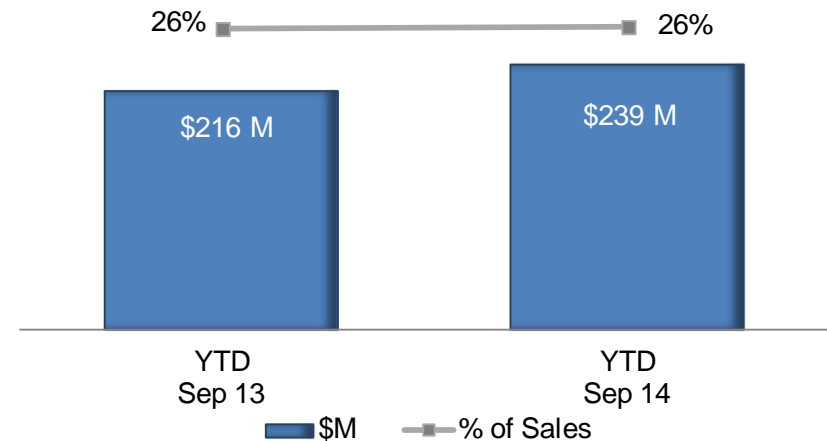
September 2014 Year-to-Date Results



Sales



Operating Earnings



- Sales increase of 10%

Volume/Price, 6% Acquisitions, 3% FX, 1%

- Gross margin rate down slightly from 2013
 - Purchase accounting and lower margin for acquisitions impacted consolidated margin by 0.3 percentage point
 - Changes in product mix
- Operating earnings up \$23 million; as a percentage of sales is consistent with 2013
 - Acquired businesses contributed \$3 million to operating earnings
 - Operating expenses, as percentage of sales, down ½ percentage point from 2013
 - Incremental expense investment in region and product expansion \$6 million

- Interest expense \$14 million consistent with 2013
- Liquid Finishing dividend \$24 million (post-tax), the same as 2013. Dividend income will cease when the investment is sold
- Tax rate of 29% is higher than 2013 rate of 27%
 - 2013 reduced by effect of R&D tax credit reinstated retroactive to the beginning of 2012
 - R&D credit not reinstated for 2014

Operating Earnings



Change in Operating Earnings

2013 Q3 Operating Earnings (\$M and % of sales)

Translation effect

Volume, mix, cost, price

Effect of acquired businesses on operating earnings leverage

Incremental investment in regional and product expansion

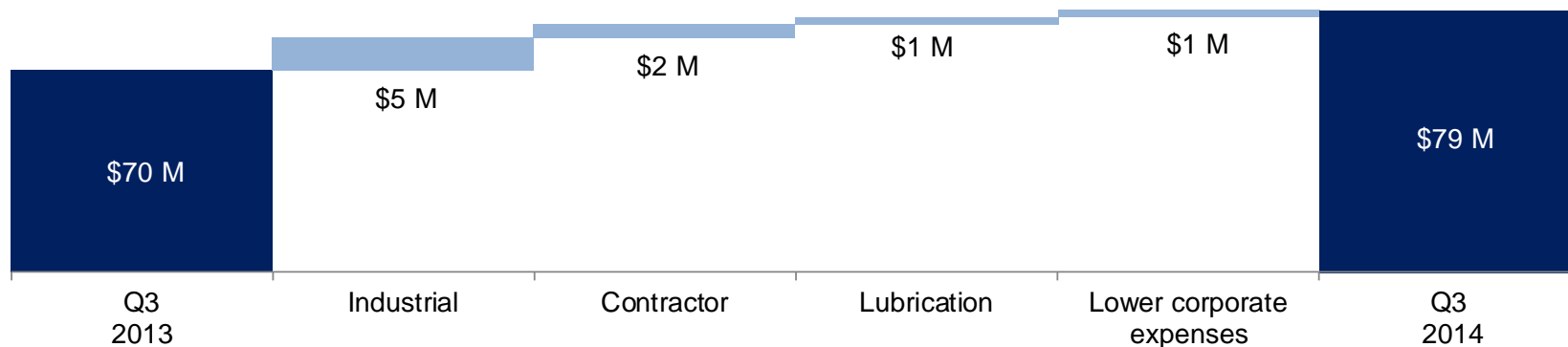
Pension cost decrease

Expense leverage

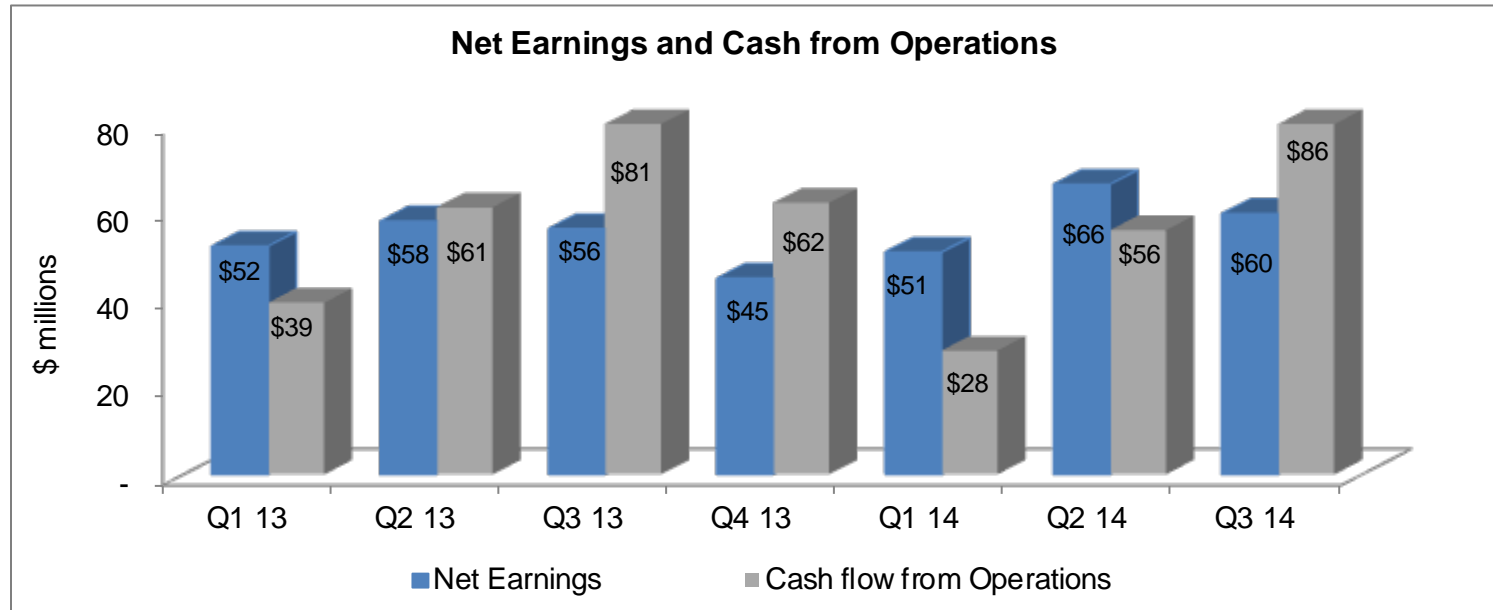
2014 Q3 Operating Earnings (\$M and % of sales)

	Third Quarter		Year-to-Date	
2013 Q3 Operating Earnings (\$M and % of sales)	\$ 70	25 %	\$ 216	26 %
Translation effect	—	—	1	—
Volume, mix, cost, price	10	—	26	—
Effect of acquired businesses on operating earnings leverage	2	—	3	—
Incremental investment in regional and product expansion	(3)	(1)	(6)	(1)
Pension cost decrease	2	1	5	—
Expense leverage	(2)	1	(6)	1
2014 Q3 Operating Earnings (\$M and % of sales)	<u>\$ 79</u>	<u>26 %</u>	<u>\$ 239</u>	<u>26 %</u>

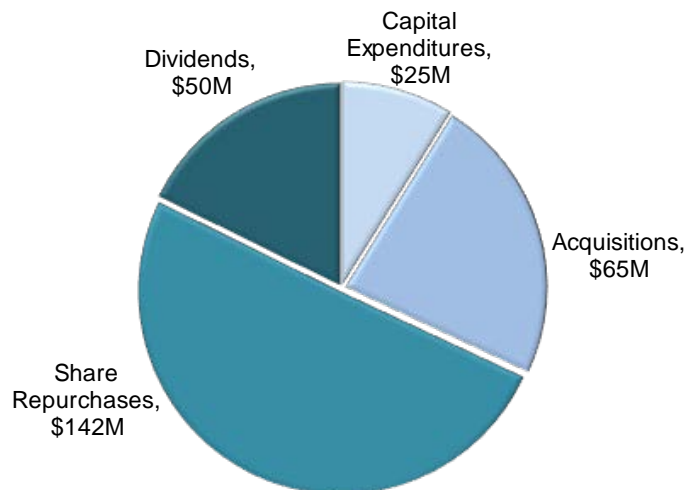
Quarter Over Quarter Operating Earnings Walk



Cash Flow and Liquidity



YTD September 2014 Significant Uses of Cash



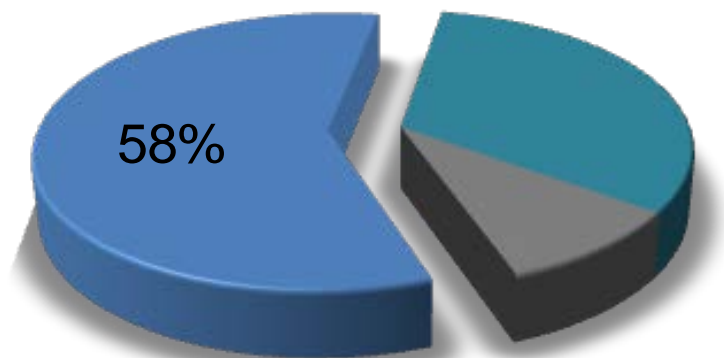
- 2014 year-to-date cash flow from operations \$170 million versus \$181 million in 2013
 - Increase in accounts receivable is \$8 million higher than Q3 2013, in line with volume growth; days sales outstanding consistent with 2013
- Long-term debt \$509 million, up \$100 million from year-end
 - Interest expense \$14 million, consistent with 2013
- Liquid Finishing dividends (post-tax) \$24 million, the same as 2013
 - Dividend income will cease when the investment is sold

Other Discussion Items



- Capital expenditures expected to be approximately \$30 million in 2014
- The tax rate is expected to be approximately 30-31% for the fourth quarter and 29% for the year, excluding any impact from the sale of the Liquid Finishing business
 - Assumes \$4 million (post-tax) dividends from Liquid Finishing for the quarter and \$28 million for the year; the same as 2013
 - Assumes the Federal R&D tax credit will not be reinstated in 2014. If renewed, the annual benefit is expected to be approximately \$3 million or 1 percentage point on the tax rate
- Share repurchases have continued; current outstanding shares less than 60 million

Industrial Equipment Results



September 2014 YTD Industrial Segment Sales as % of Consolidated



Sales (\$M)	Third Quarter			Year-to-Date		
	2014*	2013	Change	2014*	2013	Change
Americas	\$ 79	\$ 69	14 %	\$ 240	\$ 205	17 %
EMEA	54	52	5	164	152	8
Asia Pacific	41	36	15	128	123	4
Total	\$ 174	\$ 157	11 %	\$ 532	\$ 480	11 %
Operating Earnings	\$ 55	\$ 49	11 %	\$ 168	\$ 156	7 %
% of sales	32 %	32 %		32 %	33 %	

* Includes sales from acquired businesses of \$9M QTD and \$26M YTD

Industrial Equipment Results



Change in % of sales

2013 Q3 Operating Earnings (percentage of sales)

Translation effect

Mix, product cost and pricing

Effect of acquired businesses on operating earnings leverage

Incremental investment in regional and product expansion

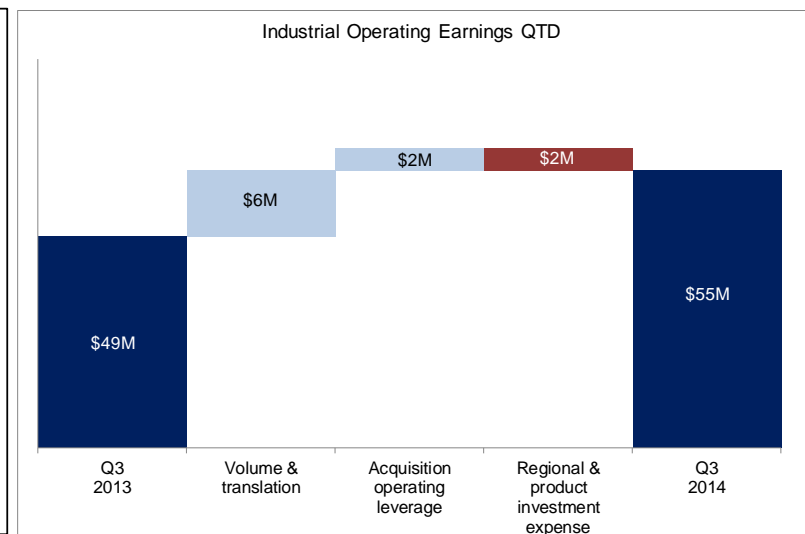
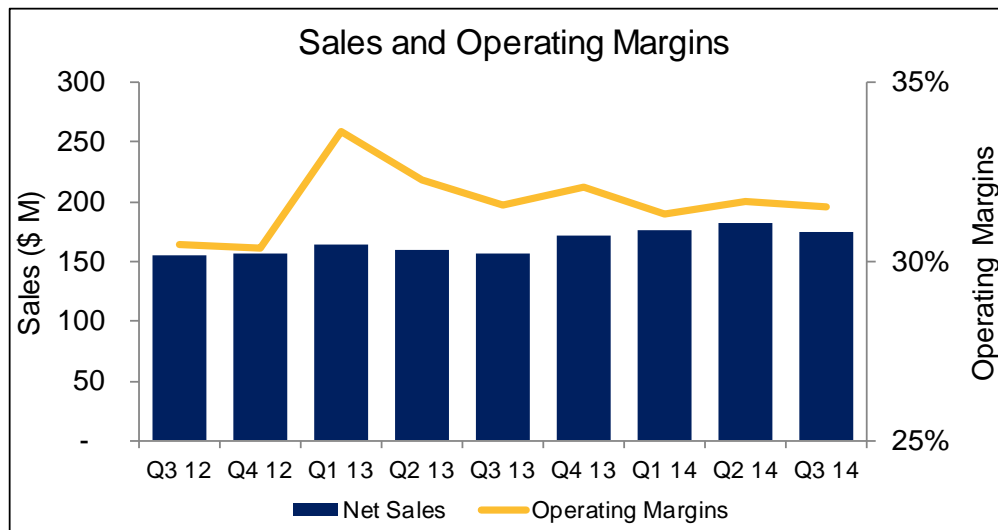
Expense leverage

2014 Q3 Operating Earnings (percentage of sales)

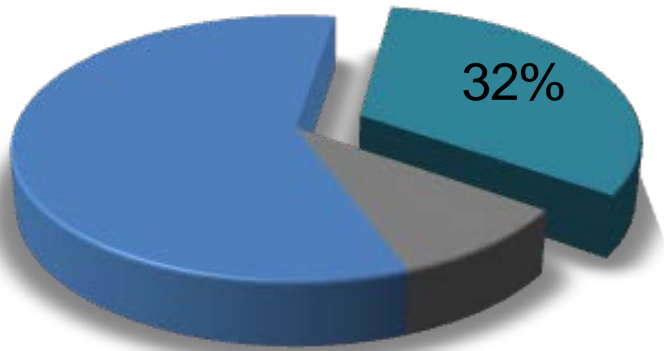
Third Quarter

Year-to-Date

32 %	33 %
—	—
1	—
(1)	(1)
(1)	(1)
1	1
32 %	32 %



Contractor Equipment Results



September 2014 YTD Contractor Sales as % of Consolidated



Sales (\$ M)	Third Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
Americas	\$ 74	\$ 67	10 %	\$ 211	\$ 188	12 %
EMEA	16	17	(2)	54	51	6
Asia Pacific	9	9	1	30	30	1
Total	\$ 99	\$ 93	7 %	\$ 295	\$ 269	10 %
Operating Earnings	\$ 23	\$ 21	9 %	\$ 70	\$ 62	12 %
% of sales	23 %	23 %		24 %	23 %	

Contractor Equipment Results



Change in % of sales

2013 Q3 Operating Earnings (percentage of sales)

Translation effect

Product mix

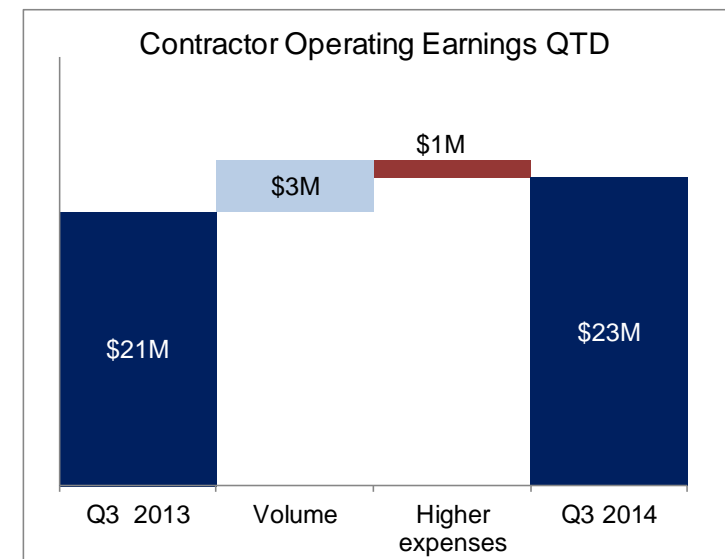
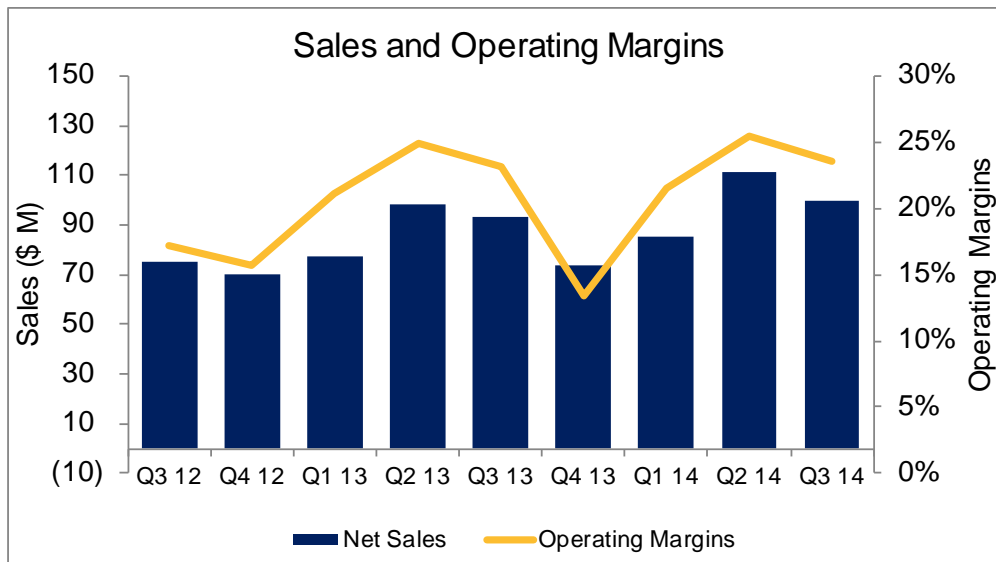
Expense leverage

2014 Q3 Operating Earnings (percentage of sales)

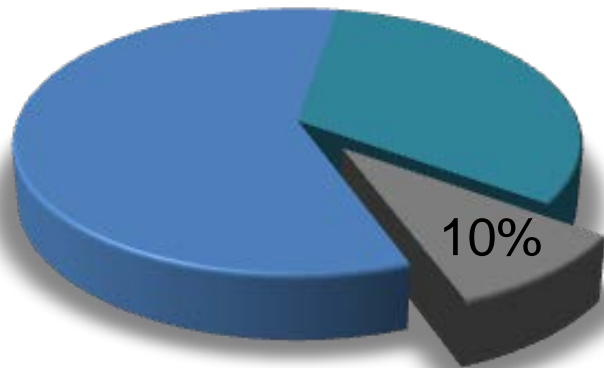
Third Quarter

Year-to-Date

23 %	23 %
—	—
(1)	(1)
1	2
<u>23 %</u>	<u>24 %</u>



Lubrication Equipment Results



September 2014 YTD Lubrication Sales as % of Consolidated



Sales (\$ M)	Third Quarter			Year-to-Date		
	2014	2013	Change	2014	2013	Change
Americas	\$ 23	\$ 20	13 %	\$ 67	\$ 61	10 %
EMEA	3	2	27	8	8	1
Asia Pacific	3	5	(33)	12	14	(10)
Total	\$ 29	\$ 27	6 %	\$ 87	\$ 83	6 %
Operating Earnings	\$ 6	\$ 5	16 %	\$ 20	\$ 17	15 %
% of sales	22 %	20 %		23 %	21 %	

Lubrication Equipment Results



Change in % of sales

2013 Q3 Operating Earnings (percentage of sales)

Translation effect

Pricing, mix and product cost

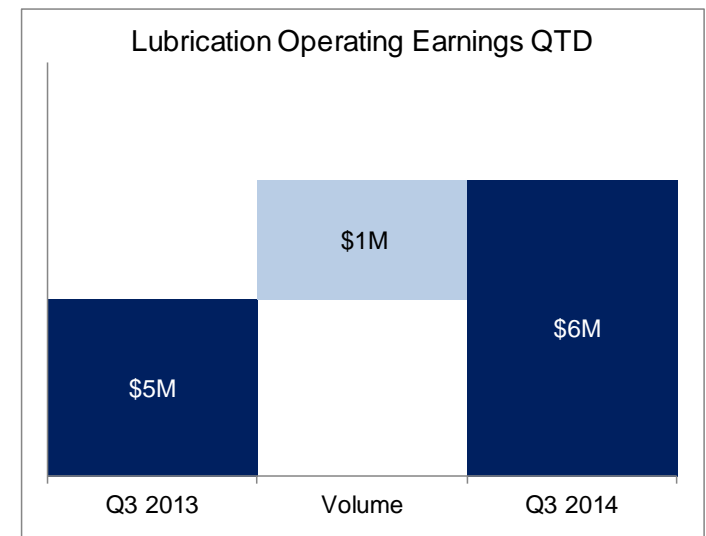
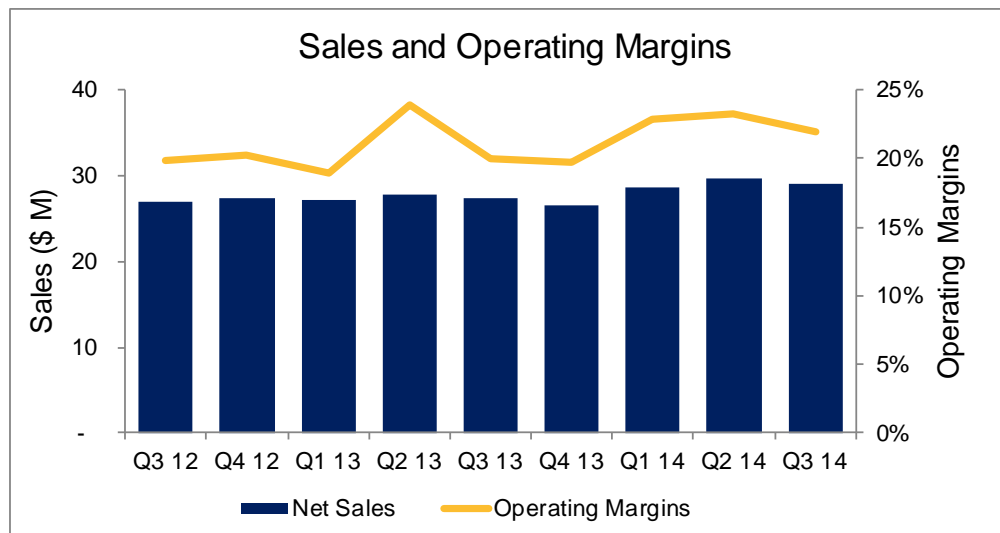
Expense leverage

2014 Q3 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

20 %	21 %
—	—
1	1
1	1
<u>22 %</u>	<u>23 %</u>



Divestiture of Liquid Finishing Business Assets



- The Federal Trade Commission (FTC) issued its final Decision and Order in October requiring Graco to complete the sale of the Liquid Finishing business assets that were acquired in a larger transaction from Illinois Tool Works (ITW) in April 2012. The sale process must be completed in no more than 180 days
- Graco will continue to hold the Liquid Finishing business separate from its other businesses and maintain them as viable and competitive until a sale process is complete
 - The Liquid Finishing business assets are currently held as a cost-method investment on Graco's balance sheet and income is recognized based on dividends from current earnings
 - \$24 million (post-tax) dividends have been recognized year-to-date 2014. Once Graco completes the sale of the investment, there will be no further dividends from the Liquid Finishing business
- A definitive agreement to sell the Liquid Finishing business assets was announced on October 8, 2014
 - The \$590 million cash transaction is anticipated to close no later than the first quarter of 2015 and is subject to regulatory and other customary closing conditions
 - The divestiture is expected to be in compliance with the final Decision and Order issued by the FTC

Net Proceeds From Sale to be Approximately \$570 million



- The all-cash sale price for the Liquid Finishing business assets is \$590 million, subject to normal post-closing adjustments
- Net proceeds from the sale are expected to be approximately \$570 million
 - The difference between the purchase price and the net proceeds is due to:
 - Tax expense related to the expected gain on the sale
 - Cash balances in the held separate businesses
 - May be distributed in form of dividends or purchase price adjustment
 - Dividends may occur in a period different than the period in which the sale closes
 - Transaction costs, including investment banker and legal fees



Priorities for the Divestiture Proceeds

- Reduce debt, as allowed under debt agreements:
 - Post-closing net debt position of nearly zero
 - \$300 million in private placement debt will remain, offset by a nearly equal amount in cash
- Redeploy proceeds in strategic acquisitions
 - Immediately available capital capacity post-closing will be nearly \$800 million (including undrawn amount on the revolving line of credit)
 - Targeting flow control deals providing synergies and long-term shareholder returns, similar to the transactions Graco has closed in the last 12 months
- Continue our existing share repurchase program, which has 3 million shares remaining on the current authorization
 - Current goal: reduce outstanding diluted shares to less than 60 million

The Company will be patient and disciplined with near-term capital deployment to maximize long-term shareholder value.

Acquisition of Alco Valves Group

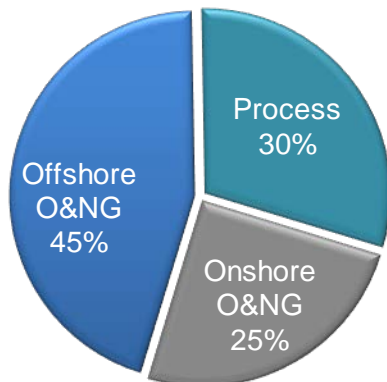


- The Alco Valves Group (Alco), a United Kingdom based manufacturer of high quality, high pressure valves used in Oil & Natural Gas (O&NG) and other industrial processes was acquired on October 1, 2014
 - Double block-and-bleed, gate, needle, ball valves

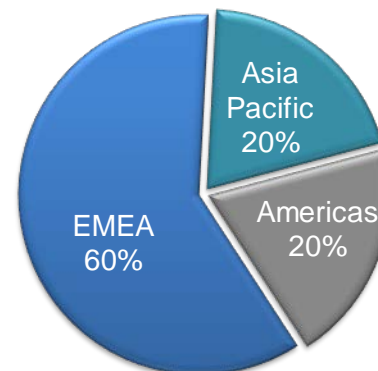


- Alco generated approximately £19 million of revenue in the most recent trailing twelve months. The acquisition was an all cash transaction which closed for £72 million and is subject to normal post-closing purchase price adjustments

Sales by Application



Geographic Mix



Alco management estimates



move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

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