



EMERGING ECONOMIES DRIVE GROWTH



1st Quarter 2011 Earnings Conference Call
Thursday, April 28, 2011, 10 a.m. CT



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, and Exhibit 99 to, 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 (click on “Investors”)

Telephone replay available after 2 p.m. ET, April 28, 2011

- 800-406-7325 – Conference ID #4432429
- 303-590-3030 – Conference ID #4432429, for International participants





2011 1st Quarter Financial Results

\$ millions except EPS	<u>2011</u>	<u>2010</u>	<u>Change</u>
Sales	\$ 217.7	\$ 164.7	32 %
Gross Profit	124.4	89.3	39
Rate	57.1 %	54.2 %	
Operating Expenses	67.3	56.6	19
Operating Earnings	57.1	32.7	74
Interest & Other Expenses	0.6	1.2	
Earnings Before Income Taxes	56.5	31.5	79
Income Taxes	19.2	10.9	
Net Earnings	\$ 37.3	\$ 20.6	81
Diluted Earnings Per Share	\$ 0.61	\$ 0.34	79 %



Consolidated Results

\$ millions	First Quarter		
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Sales			
Americas	\$ 116	\$ 87	33 %
Europe	53	42	27
Asia Pacific	<u>49</u>	<u>36</u>	35
Total	\$ 218	\$ 165	32
Operating Earnings	\$ 57	\$ 33	
% of sales	26%	20%	

<u>Change in % of sales</u>	<u>First Quarter</u>
2010 Operating Earnings (percentage of sales)	20 %
Translation effect	1
Product cost / mix / price	—
Unabsorbed manufacturing costs, reduction	2
Volume effect on expense leverage	<u>3</u>
2011 Operating Earnings (percentage of sales)	<u><u>26 %</u></u>



1st Quarter Summary

- First quarter sales of \$218 million and earnings of \$37 million
 - Favorable currency translation effect of \$2 million on sales, \$1 million on net earnings
- Sales increased as compared to prior year in all regions
 - Americas increased by 33 percent
 - Europe increased by 27 percent (28 percent at consistent translation rates)
 - Asia Pacific increased by 35 percent (31 percent at consistent translation rates)
- Gross profit margin as a percentage of sales of 57 percent as compared to 54 percent in the first quarter 2010
 - Higher production volumes, 2 percentage points



1st Quarter Summary

- Operating expenses were up \$11 million on higher sales but as a percentage of sales, were 3 percentage points lower than the first quarter 2010
- Tax rate of 34 percent compared to 34½ percent first quarter 2010
- Backlog increased \$6 million from year end



Cash Flow and Liquidity

- 2011 cash flow from operations of \$14 million versus \$16 million in 2010
 - Cash uses
 - Capital expenditures \$4 million
 - Dividends \$13 million
- Working capital
 - Increase in inventories \$11 million
 - Improved service levels, international distribution
 - Increase in accounts receivable \$29 million
 - Days of sales remain constant
- Private placement long-term debt \$300 million
 - First \$150 million funded in March
 - Second \$150 million scheduled to be drawn in July
- Available unused current credit lines of \$ 262 million



Acquisition of Finishing Businesses from ITW

Entered into a definitive agreement to purchase the finishing business operations of Illinois Tool Works, Inc. (ITW) on April 14, 2011.

Closing expected in third quarter, pending regulatory reviews

- \$650 million cash offer, financed through a new \$450 million revolving credit facility and private placement debt of \$300 million
- Excellent strategic fit for Graco
 - Leading equipment technologies and brands
 - Global manufacturing capabilities
 - Worldwide sales





Other Discussion Items

- Normal seasonality expected for 2011, especially in Contractor
- Material cost pressures for remainder of year
- Expenses associated with the pending acquisition are estimated to be \$5 million for second quarter and \$15 million in total
- Interest expense for second quarter, \$2 million





Industrial Equipment

\$ millions	First Quarter		
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Sales			
Americas	\$ 53	\$ 42	26 %
Europe	34	28	24
Asia Pacific	<u>36</u>	<u>27</u>	31
Total	\$ 123	\$ 97	27
Operating Earnings	\$ 45	\$ 30	
% of sales	37%	32%	

<u>Change in % of sales</u>	<u>First Quarter</u>
2010 Operating Earnings (percentage of sales)	32 %
Translation effect	—
Product cost / mix / price	—
Unabsorbed manufacturing costs, reduction	2
Volume effect on expense leverage	<u>3</u>
2011 Operating Earnings (percentage of sales)	<u><u>37 %</u></u>



Contractor Equipment

\$ millions	First Quarter		
	2011	2010	Change
Sales			
Americas	\$ 45	\$ 32	41 %
Europe	17	13	33
Asia Pacific	8	6	38
Total	\$ 70	\$ 51	38
Operating Earnings	\$ 11	\$ 5	
% of sales	16%	10%	

<u>Change in % of sales</u>	<u>First Quarter</u>
2010 Operating Earnings (percentage of sales)	10 %
Translation effect	—
Product cost / mix / price	1
Unabsorbed manufacturing costs, reduction	2
Marketing & selling cost, increase	(2)
Volume effect on expense leverage	5
2011 Operating Earnings (percentage of sales)	<u>16%</u>



Lubrication Equipment

\$ millions	First Quarter		
	<u>2011</u>	<u>2010</u>	<u>Change</u>
Sales			
Americas	\$ 18	\$ 13	39 %
Europe	2	1	55
Asia Pacific	<u>5</u>	<u>3</u>	61
Total	\$ 25	\$ 17	44
Operating Earnings	\$ 5	\$ 2	
% of sales	21%	10%	

<u>Change in % of sales</u>	<u>First Quarter</u>
2010 Operating Earnings (percentage of sales)	10 %
Translation effect	1
Product cost / mix / price	2
Unabsorbed manufacturing costs, reduction	4
Volume effect on expense leverage	<u>4</u>
2011 Operating Earnings (percentage of sales)	<u><u>21 %</u></u>



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