



1st Quarter 2016 Earnings Conference Call

April 21, 2016

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 20, 2016.

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 2 p.m. ET, April 21, 2016. The replay by telephone will be available through April 25, 2016.

- 888-203-1112 – Conference ID #4595390
- 719-457-0820 – Conference ID #4595390, for International participants

Financial Results



\$ millions except EPS	First Quarter		
	2016	2015	Change
Sales	\$ 304.9	\$ 306.5	(1)%
Gross Profit	161.8	162.1	(0)%
% of Sales	53.1 %	52.9 %	0.2 pts
Operating Earnings	60.9	65.2	(7)%
% of Sales	20.0 %	21.3 %	(1.3) pts
Held Separate Investment Income, Net	-	(29.5)	
Net Earnings	\$ 39.6	\$ 68.8	(43)%
% of Sales	13.0 %	22.5 %	(9.5) pts
Diluted Earnings Per Share	\$ 0.70	\$ 1.14	(39)%
<i>Diluted Shares in Millions</i>	56.7	60.5	

Net earnings in the first quarter of 2015 included net investment income of \$30 million from the Liquid Finishing businesses that were sold in the second quarter of 2015:

	First Quarter	
	2016	2015
Adjusted Net Earnings	\$ 39.6 M	\$ 39.1 M
Diluted EPS as adjusted	\$ 0.70	\$ 0.65

See page 5 for reconciliation of the adjusted non-GAAP financial measures to GAAP

Non-GAAP Reconciliation



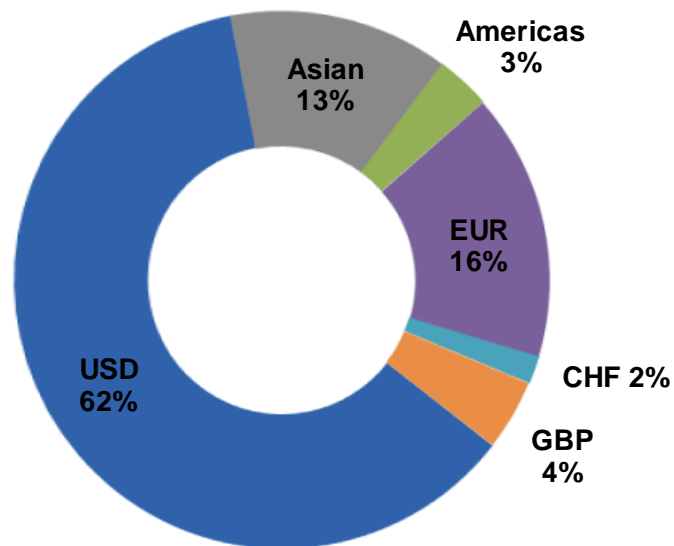
- Net earnings in the first quarter of 2015 included \$30 million (\$0.49 per diluted share) of net investment income from Liquid Finishing
- The Liquid Finishing businesses were sold in the second quarter of 2015. Second quarter 2015 net earnings included net gain on the sale of \$110 million (\$1.85 per diluted share)
- Results excluding Liquid Finishing investment income and expense provide a more consistent base of comparison of on-going results
- Calculation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

	<u>First Quarter</u>	
	<u>2016</u>	<u>2015</u>
Net earnings as reported	\$ 39.6	\$ 68.8
Held separate investment (income), net	-	(29.5)
Income tax effect on Held Separate income	-	(0.2)
Adjusted net earnings	<u>\$ 39.6</u>	<u>\$ 39.1</u>
Diluted EPS as reported	\$ 0.70	\$ 1.14
Diluted EPS as adjusted	0.70	0.65

Components of Net Sales Change First Quarter March 2016

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

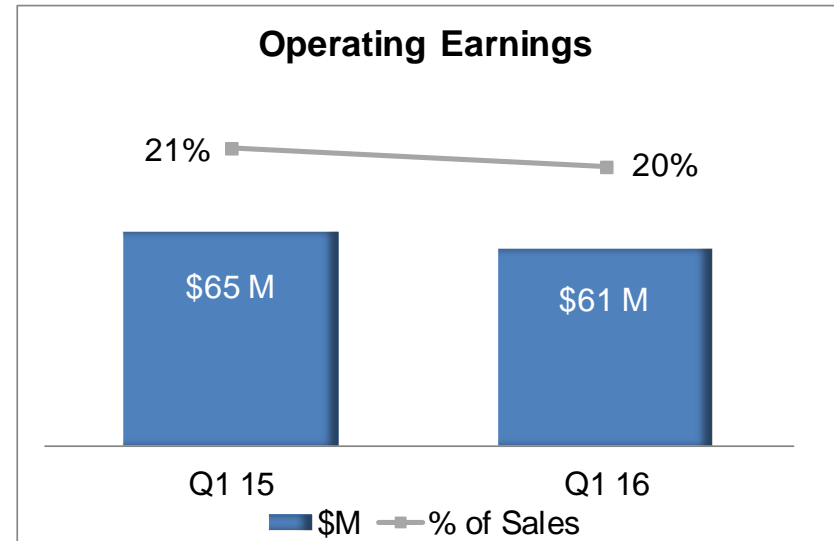
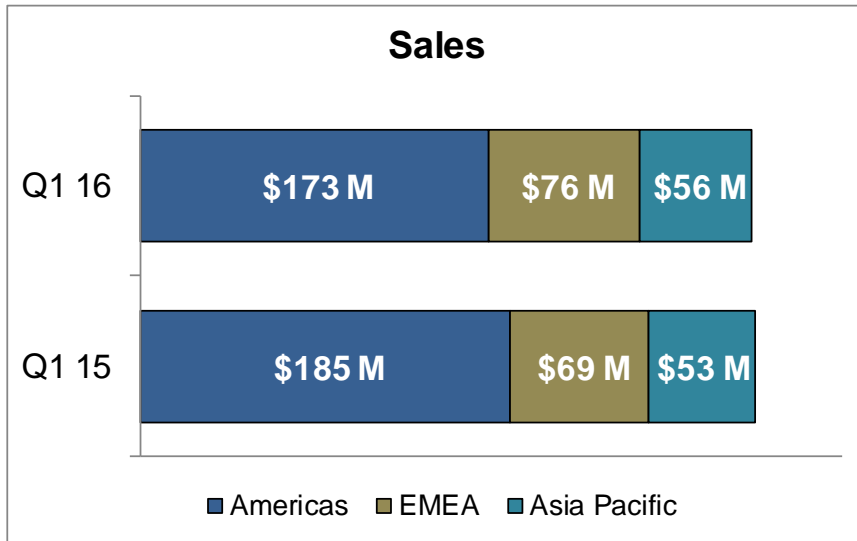
Sales by Currency 2016



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

Americas currencies
include:
CAD, BRL, MXN

First Quarter 2016 Results



- Sales decrease of 1% (at consistent currency translation rates, sales increase 1%)
 - Acquired businesses sales of \$7 million account for 2 percentage points of growth
 - Effect of currency translation rates negatively impacted sales by \$5 million
- Gross margin rate comparable to first quarter 2015
 - Favorable effects of reduced acquisition related purchase accounting and realized pricing offset the impact of lower factory volume and product mix

- Operating earnings down \$4 million from first quarter 2015, \$2 million of decrease due to currency translation; as a percentage of sales, down 1 percentage point
 - Net effect of year over year purchase accounting and acquisition costs increased operating margin 1 percentage point
 - Unallocated corporate expenses, primarily pension and stock compensation, decreased operating margin 1 percentage point
 - Expense leverage decreased operating margin 1 percentage point
- Tax rate was 31% for first quarter 2016 compared to 22% in 2015
 - 2015 rate was reduced by \$30 million in post-tax dividends from the Liquid Finishing businesses
 - 2016 rate reduced by foreign earnings taxed at a lower rate and the R&D credit which was not reinstated in Q1 2015

Operating Earnings



Change in Operating Earnings

2015 Operating Earnings (\$M and % of sales)

Translation effect

Mix, pricing and product cost

Effect of acquired businesses operations on operating earnings leverage

Effect of 2015 inventory step-up and acquisition costs, net of 2016

Incremental investment in growth initiatives

Unallocated corporate expenses (pension, stock compensation)

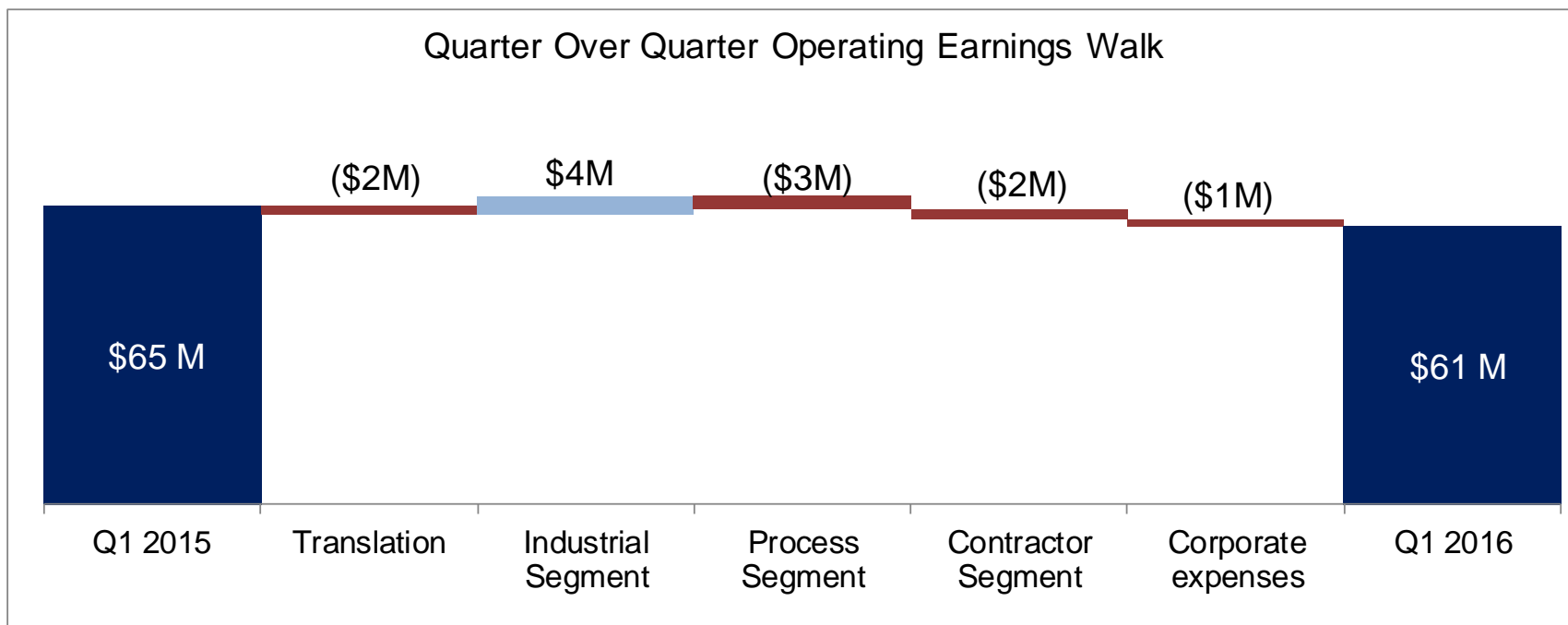
Volume effect on expense leverage

2016 Operating Earnings (\$M and % of sales)

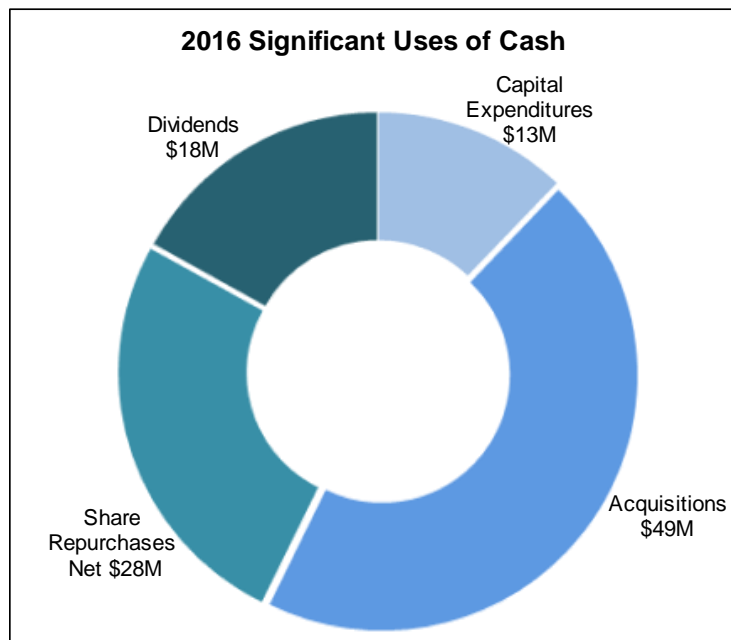
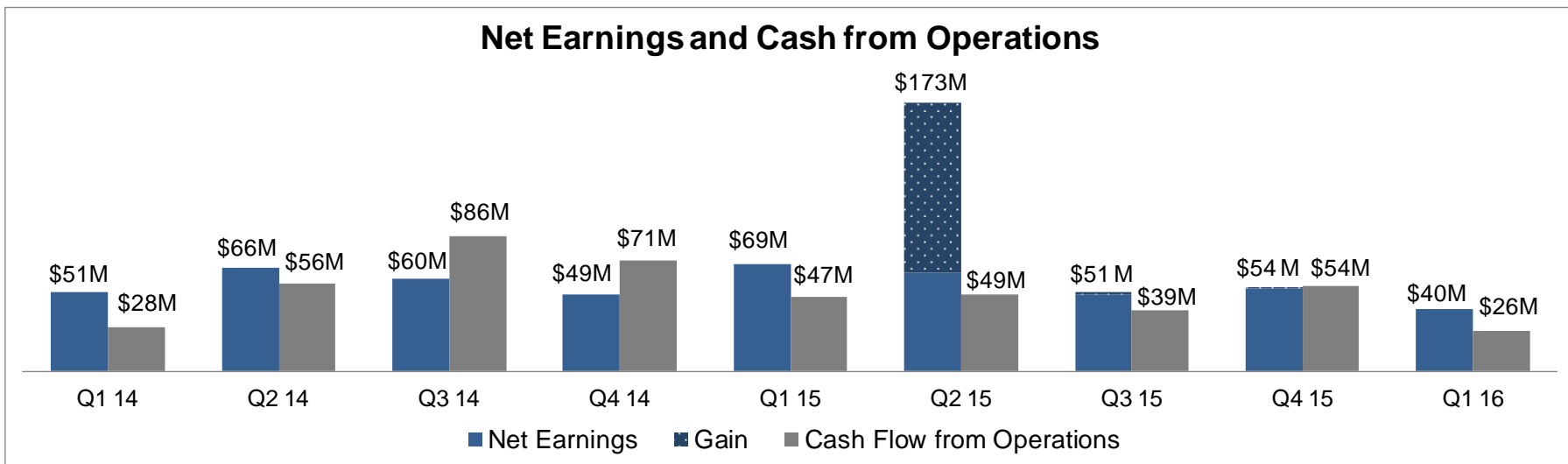
First Quarter

\$ 65	21 %
(2)	—
(2)	—
1	—
2	1
(1)	—
(1)	(1)
(1)	(1)
<u>\$ 61</u>	<u>20 %</u>

Quarter Over Quarter Operating Earnings Walk



Cash Flow and Liquidity



- Net cash provided by operating activities was \$26 million in 2016 vs. \$47 million in 2015
 - 2015 net earnings includes \$30 million in post-tax dividends from the Liquid Finishing businesses
- Repurchased 700,000 shares and issued 500,000 shares, resulting in a net cash outlay of \$28 million
 - Common stock outstanding at the end of the quarter; 55.6 million shares
- Debt, including notes payable, \$472 million; up \$64 million from year-end
 - Interest expense down \$1 million from first quarter 2015

Other Discussion Items












- Capital expenditure expectations of approximately \$40 million in 2016 do not include building expansion for the Contractor business which is nearing capacity
- Unallocated corporate expenses may vary by quarter; full year 2016 expenses are expected to be similar to 2015
- Opportunistic share repurchases may continue via open market transactions and/or short-dated accelerated share repurchase programs
- Changes in currency translation rates decreased first quarter sales and net earnings by \$5 million and \$2 million respectively. At current rates, we expect a modest currency headwind for the second quarter and an insignificant effect from currency translation for the full year
- The effective tax rate was 31% for the quarter, above the 22% rate in first quarter 2015
 - The 2015 rate benefited from the \$30 million in post-tax dividends from Liquid Finishing
 - First quarter 2016 benefited from foreign earnings taxed at lower rates than the U.S. and the R&D tax credit that was not reinstated in first quarter 2015
- The tax rate for second quarter and the full year is expected to be approximately 31%

Current 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 2016 (7%)	Sales Change Q1 2016 10%	Sales Change Q1 2016 6%	Sales Change Q1 2016 (1%)
Industrial Segment	 Sales Change Q1 2016 (4%)	 Sales Change Q1 2016 11%	 Sales Change Q1 2016 10%	Sales Change Q1 2016 3%
Contractor Segment	 Sales Change Q1 2016 (8%)	 Sales Change Q1 2016 29%	 Sales Change Q1 2016 8%	Sales Change Q1 2016 (1%)
Process Segment	 Sales Change Q1 2016 (12%)	 Sales Change Q1 2016 (12%)	 Sales Change Q1 2016 (7%)	Sales Change Q1 2016 (11%)
Full Year 2016 Outlook	Mid Single Digits	Low Single Digits	Low Single Digits	Low-to-Mid Single Digits

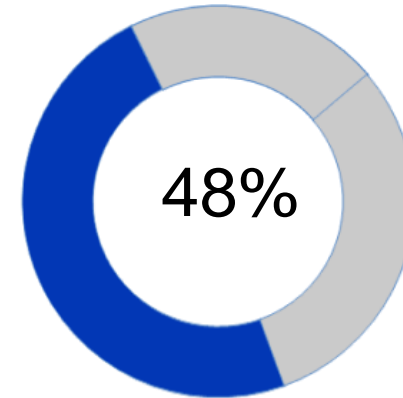
- Maintain outlook of low-to-mid single digit organic constant currency growth for the full year 2016 and expect growth in every region and reportable segment for the year
- There is some risk in the Process segment outlook for growth in 2016, reflecting continued headwinds in the oil and natural gas market

Industrial Segment Results



2016 Industrial Segment Sales as % of Graco

	First Quarter		
	2016	2015	Change
Sales (\$M)			
Americas	\$ 65	\$ 68	(4)%
EMEA	44	41	8
Asia Pacific	38	34	10
Total	\$ 147	\$ 143	3 %
Operating Earnings	\$ 46	\$ 43	7 %
% of sales	31 %	30 %	



Components of Net Sales Change

Current Environment

Q1 2016

Americas

Volume & Price	(4)%
Acquisitions	1 %
Currency	(1)%
Total	(4)%



- Improving: Residential & Non-Residential Construction
- Stable: General Industrial and Marine
- Challenging: Agriculture, Heavy Machinery, South & Central America

EMEA

Volume & Price	11 %
Acquisitions	—
Currency	(3)%
Total	8 %



- Improving: Western Europe
- Challenging: Currency and Geopolitical
- Easing: Russia Comps in 2016

Asia Pacific

Volume & Price	10 %
Acquisitions	2 %
Currency	(2)%
Total	10 %



- Stable: General Industrial, Wood and Adhesive Dispense
- Challenging: Marine, Mining
- Spotty: Project Activity

Segment Total

Volume & Price	3 %
Acquisitions	2 %
Currency	(2)%
Total	3 %



Industrial Segment Results



Change in % of sales

2015 Operating Earnings (% of sales)

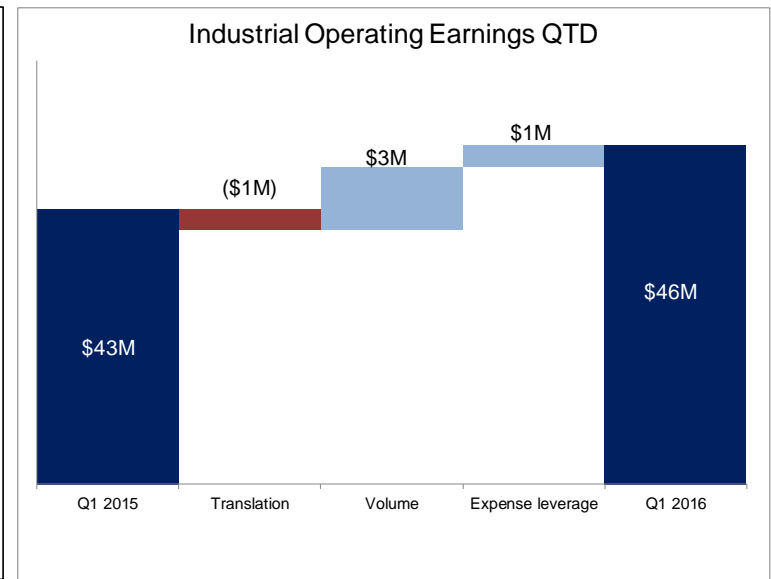
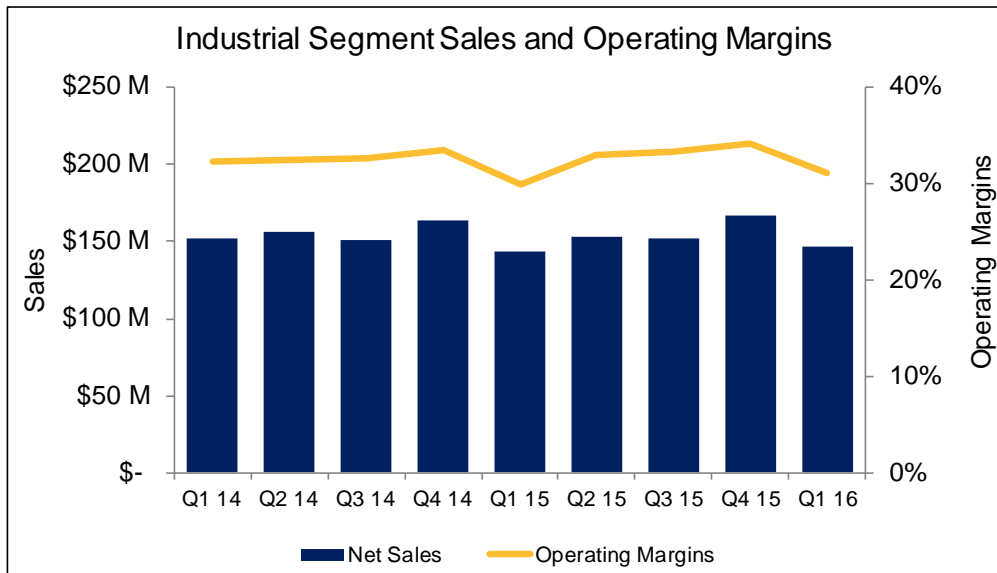
Translation effect

Expense leverage

2016 Operating Earnings (% of sales)

First Quarter

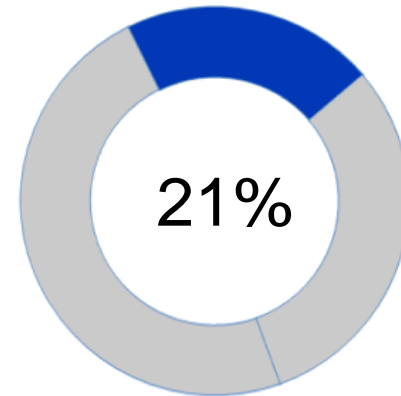
30 %
—
1
<u>31 %</u>



Process Segment Results

2016 Process Segment Sales as % of Graco

	First Quarter		
	2016	2015	Change
Sales (\$M)			
Americas	\$ 40	\$ 43	(7)%
EMEA	14	14	-
Asia Pacific	10	11	(5)
Total	\$ 64	\$ 68	(5)%
Operating Earnings	\$ 7	\$ 10	(31)%
% of sales	11 %	16 %	



Components of Net Sales Change

Current Environment

	Q1 2016
Americas	
Volume & Price	(12)%
Acquisitions	6 %
Currency	(1)%
Total	(7)%
EMEA	
Volume & Price	(12)%
Acquisitions	16 %
Currency	(4)%
Total	0 %
Asia Pacific	
Volume & Price	(7)%
Acquisitions	5 %
Currency	(3)%
Total	(5)%
Segment Total	
Volume & Price	(11)%
Acquisitions	8 %
Currency	(2)%
Total	(5)%



- Favorable: Technology and Environmental Applications
- Stable: Vehicle Services
- Challenging: Oil & Natural Gas



- Stable: Western Europe
- Challenging: Currency, Geopolitical and Oil & Natural Gas



- Stable: Process Applications
- Challenging: Mining and Oil & Natural Gas



Process Segment Results



Change in % of sales

2015 Operating Earnings (% of sales)

Translation effect

Volume, mix, cost

Effect of acquired businesses operations on operating earnings leverage

Effect of 2015 inventory step-up and acquisition costs, net of 2016

Incremental investment in growth initiatives

Expense leverage

2016 Operating Earnings (% of sales)

First Quarter

16 %

(1)

(2)

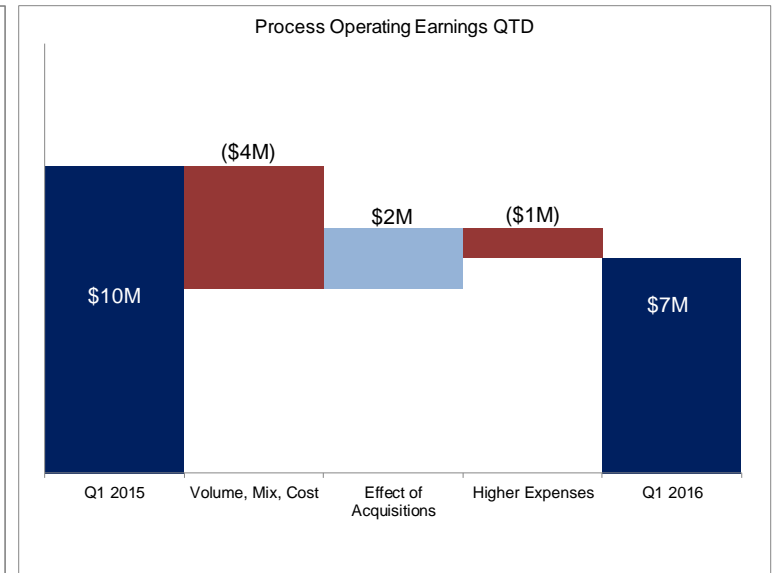
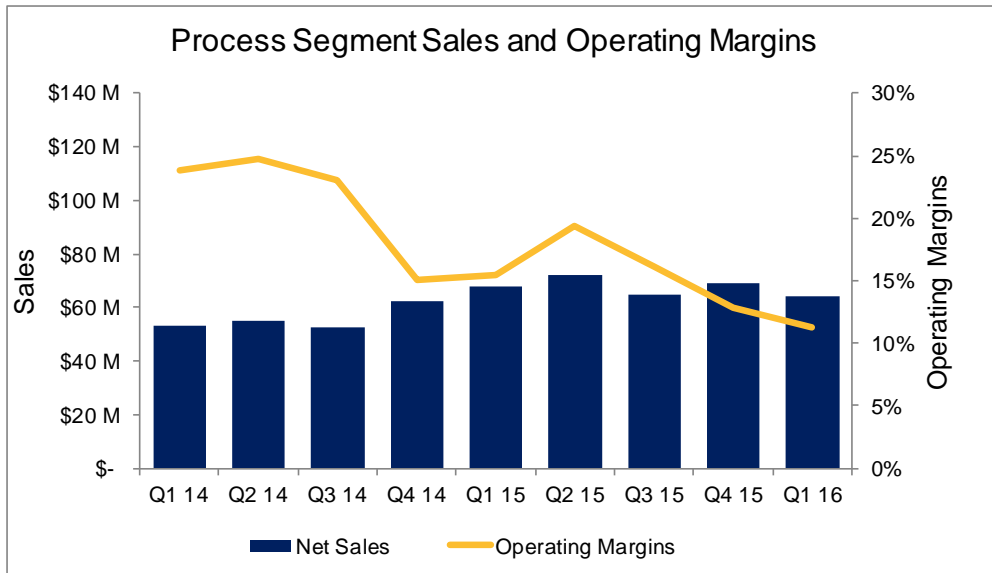
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3

(1)

(4)

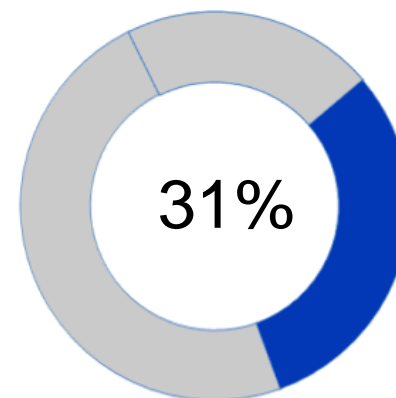
11 %



Contractor Segment Results

2016 Contractor Segment Sales as % of Graco

	First Quarter		
	2016	2015	Change
Sales (\$M)			
Americas	\$ 68	\$ 74	(8)%
EMEA	18	14	26
Asia Pacific	8	8	3
Total	\$ 94	\$ 96	(2)%
Operating Earnings	\$ 17	\$ 19	(14)%
% of sales	18 %	20 %	



Components of Net Sales Change

Current Environment

Q1 2016

Americas

Volume & Price	(8)%
Acquisitions	—
Currency	(0)%
Total	(8)%



- Long Runway: Residential & Commercial Construction
- Focus Sectors: Pro Paint, General Construction and DIY
- Challenging: Q1 Comparable

EMEA

Volume & Price	29 %
Acquisitions	—
Currency	(3)%
Total	26 %



- Favorable: Western Europe
- Challenging: Currency and Geopolitical

Asia Pacific

Volume & Price	8 %
Acquisitions	—
Currency	(5)%
Total	3 %



- Favorable: Korea
- Challenging: Gen Construction, Equipment Adoption Rates

Segment Total

Volume & Price	(1)%
Acquisitions	—
Currency	(1)%
Total	(2)%



Contractor Segment Results



Change in % of sales

2015 Operating Earnings (% of sales)

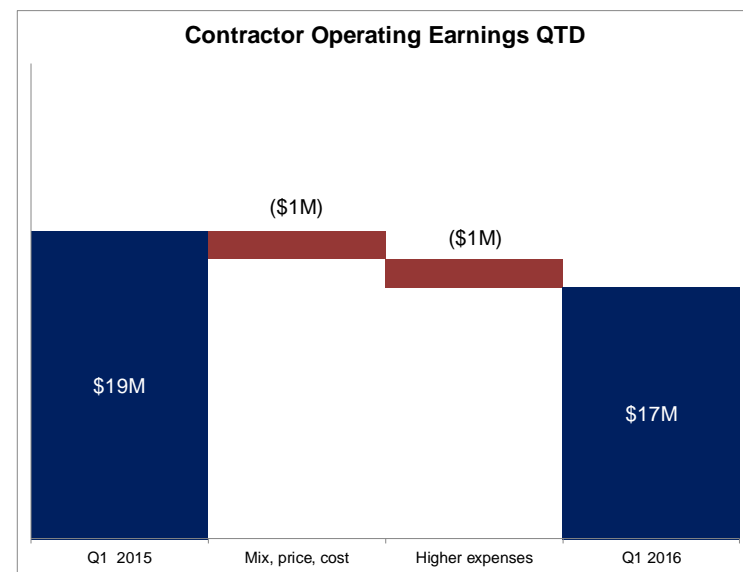
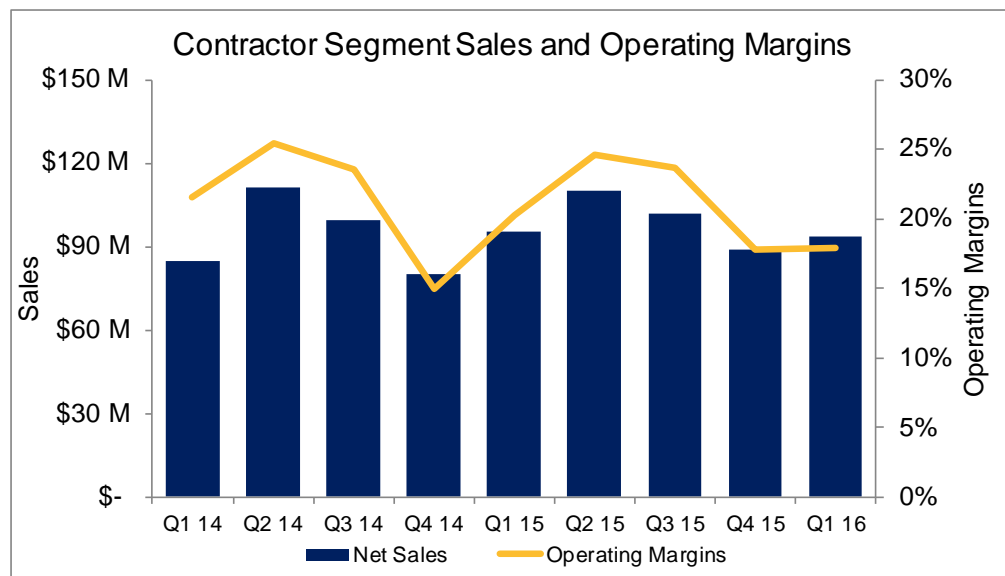
Translation effect

Expense leverage

2016 Operating Earnings (% of sales)

First Quarter

20 %
—
(2)
<u>18 %</u>





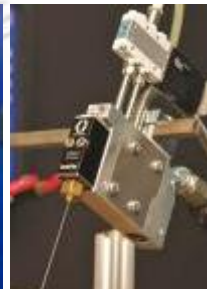
move



measure



mix



control



dispense



spray

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