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# EDITED TRANSCRIPT

GGG.N - Q1 2025 Graco Inc Earnings Call

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## OVERVIEW:

Company Summary

## CORPORATE PARTICIPANTS

**Christopher Knutson** *Graco Inc - Vice President, Controller and Chief Accounting Officer*

**Mark Sheahan** *Graco Inc - President, Chief Executive Officer, Director*

**David Lowe** *Graco Inc - Chief Financial Officer, Treasurer*

## CONFERENCE CALL PARTICIPANTS

**Deane Dray** *RBC Capital Markets - Analyst*

**Mike Halloran** *Robert W. Baird - Analyst*

**Saree Boroditsky** *Jefferies - Analyst*

**Bryan Blair** *Oppenheimer & Co. - Analyst*

**Jeff Hammond** *KeyBanc Capital Markets Inc. - Analyst*

**Andrew Buscaglia** *BNP Paribas - Analyst*

**Walter Liptak** *Seaport Global Securities - Analyst*

**Matt Summerville** *D.A. Davidson - Analyst*

## PRESENTATION

### Operator

Good morning and welcome to the first quarter conference call for Graco Inc.

If you wish to access the replay for this call, you may do so by visiting the company website at [www.graco.com](http://www.graco.com). Graco has additional information available in a PowerPoint slide presentation which is available as part of the webcast player. At the request of the company, we will open the conference up for questions and answers after the opening remarks from management.

During this call, various remarks may be made by management about their expectations, plans, and prospects for the future. These remarks constitute forward-looking statements for the purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act.

Actual results may differ materially from those indicated as a result of various risk factors including those identified in Item 1A of the company's 2024 Annual Report on Form 10-K and in Item 1A of the company's most recent quarterly report on Form 10-Q. These reports are available on the company's website at [www.graco.com](http://www.graco.com) and the SEC's website at [www.sec.gov](http://www.sec.gov).

Forward-looking statements reflect management's current views and speak only as of the time they are made. The company undertakes no obligation to update these statements in light of new information on future events.

I will now turn the conference over to Chris Knutson, Vice President, Controller, and Chief Accounting Officer.

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### **Christopher Knutson** - *Graco Inc - Vice President, Controller and Chief Accounting Officer*

Good morning, everyone, and thank you for joining our call. I'm here today with Mark Sheahan and David Lowe. I will provide a brief overview of our quarterly results before turning the call over to Mark for additional commentary.

Yesterday, Graco reported first-quarter sales of \$528 million, an increase of 7% from the first quarter of last year. Excluding acquisitions, which contributed 6% growth, sales grew 3% for the quarter. The effect of currency translation reduced sales by 2%. Reported net earnings increased 2%

to \$124 million or \$0.72 per diluted share. Excluding the impact of excess tax benefits from stock option exercises, adjusted non-GAAP net earnings were \$120 million or \$0.70 per diluted share, an increase of 8%.

The gross margin rate decreased 150 basis points in the quarter. The recurring impact of acquisitions accounted for nearly 100 basis points of the decline. Strong price realization was not enough to offset higher product costs resulting from lower factory volume, which accounted for the remaining decrease.

Operating expenses were flat in the quarter as incremental expenses from acquisitions of \$10 million or a 7% increase in total expenses were offset by savings from the One Graco initiative and timing of stock-based compensation expenses.

Operating earnings increased \$11 million or 8% during the quarter on increased sales volume. Operating earnings as a percent of sales was 27% for the quarter, which is consistent with last year. Contractor segment operating margin rate for the quarter was 24% compared to 29% for the same quarter last year, a decline of 5 percentage points. The acquisition of Corob decreased the contractor operating margin rate by 3 percentage points, with the remaining decline due primarily to lower sales and factory volume.

Interest and other were flat in the quarter. During the quarter, we recognized the gain on the sale of the former manufacturing and distribution facility in Switzerland of \$5 million. This gain was offset by currency exchange losses and lower interest income.

The adjusted effective tax rate was 20.5%, which is consistent with our expected full year tax rate of approximately 19.5% to 20.5% on an adjusted basis. Cash provided by operations totaled \$125 million, an increase of \$6 million from last year. Cash provided by operations as a percent of adjusted net earnings was 104%.

Significant year-to-date uses of cash include share repurchases of \$238 million, dividends of \$47 million, acquisition adjustments of \$10 million, and capital expenditures of \$11 million. These cash uses were offset by share issuances of \$28 million.

We repurchased 2.8 million shares totaling \$238 million during the first quarter of the year. We continue to repurchase shares in the first weeks of April, and as the market closed yesterday, we have repurchased 4.4 million shares for nearly \$360 million year to date. Based on this activity, we anticipate the average diluted shares outstanding for the full year 2025 to be approximately 170 million shares.

A few comments as we look forward to the rest of the year. Based on current exchange rates, assuming the same volumes, mix of products, and mix of business by currency as in 2024, movement in foreign currencies would have no impact on net sales or net earnings for the full year. Unallocated corporate expense remains unchanged and are projected to be \$39 million to \$42 million for the full year, or about \$11 million per quarter. Finally, we expect capital expenditures to be approximately \$50 to \$60 million in 2025.

I'll now turn the call over to Mark for further segment and regional commentary.

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Thank you, Chris. Good morning, everyone. All my comments will be on an organic constant currency basis.

Overall, the start of the year was strong. We had 7% sales growth, including a 6% contribution from Corob and 3% organic sales growth. Corob has met our expectations as we continue our integration efforts.

For the quarter, all segments and regions grew except for contractor EMEA, which experienced slower activity in the professional paint channel. Reduced foot traffic in the home center channel also contributed to a slight decline in the contractor segment, despite robust growth in the North America Pro Paint channel.

Last year, declines in our global semiconductor and China industrial businesses accounted for nearly 60% of the overall annual revenue shortfall. As expected, these businesses grew in the first quarter, driving positive results in both the industrial and the new expansion markets segments.

Incoming order activity was steady during the quarter and consistent with billing activity. Backlogs remain at normal levels across all segments. For the past six weeks, incoming order rates have been up double digits compared to the first quarter run rate. This is only one data point and it may include orders placed in advance of tariffs.

After the close of the quarter, the announced tariffs between the United States and China will have an impact on our business. China accounted for nearly 6% of our global revenue for the full year 2024 and for this quarter. In addition, nearly 6% of our cost of goods sold has China as the country of origin. Our teams are developing plans to mitigate these impacts, but these will take time to implement.

Activities we're undertaking include qualifying additional suppliers, moving component manufacturing to our US factories, and redesigning products where components are either too costly or unavailable to purchase from Chinese vendors. We have about three months of finished goods inventory in China, and about three months of components in our US manufacturing locations that will help limit our exposure in the second quarter.

We have implemented a pricing surcharge on all goods subject to tariffs shipped into China. This pricing surcharge is specifically targeted at retaliatory tariffs in China and will not affect the rest of our business in the Asia Pacific region. While we've not ruled out the possibility of additional pricing actions this year, our US-based manufacturing footprint, current inventory levels, and strong financial position gives us the opportunity to be thoughtful regarding further pricing actions.

Now turning to some commentary on our segments and regions. The contractor segment's sales declined 1% in the quarter due to continued softness in the home center business and challenging EMEA construction markets.

Pro Paint had a strong performance in North America compared to a soft quarter last year, but it was not enough to offset these declines. We also have not seen the full benefit of products launched this year as they will be introduced over the next few quarters. These upcoming releases, coupled with the successful introduction of new products last year, should position us well for the remainder of the year.

Our strategic US sourcing and manufacturing footprint will also give us an advantage in the United States versus key competitors who manufacture offshore, particularly in China. The US market represents nearly 70% of total contractor sales excluding acquisitions.

Industrial segment sales increased 5% with growth in all regions. Powder finishing system sales saw strong activity in Asia Pacific compared to a soft first quarter last year, while liquid finishing systems had steady performance across other regions. Vehicle services performed well as companies continue to make investments in their service and repair shops. Increased volume in the industrial segment drove incremental margins of nearly 100% for the quarter.

Sales in the expansion market segments increased by 12% with positive momentum in the semiconductor market, which we started seeing at the end of last year. The environmental businesses also grew for the fourth consecutive quarter with robust activity in the groundwater testing and analyzer, gas analyzer categories.

Moving to our outlook, we are maintaining our full year revenue guidance of low-single-digit growth on an organic constant currency basis. Evolving trade policies and tariffs with China have created economic uncertainty that could negatively impact our full year revenue guidance by approximately 1% to 2%. We're closely monitoring developments and we'll adjust our strategy if necessary.

Despite these near-term challenges, Graco remains strongly positioned for long-term success as we continue to execute our proven growth strategies and invest in our businesses.

That concludes our prepared remarks. Operator, we're ready for questions.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Deane Dray, RBC Capital Markets.

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### Deane Dray - RBC Capital Markets - Analyst

Thank you. Good morning, everyone. I appreciate all the detail you've provided on the tariff situation and maybe just to start there with some clarifications. The first, just for this quarter, it sounded like you did benefit from some pre-positioning by customers like a pre-buy that was reflected in that six weeks of orders.

So just clarify there how much that you might have benefited and did you all preposition your shelf inventory? That comment about the three months of finished goods that has already been positioned in China, was that above what you would have typically done? So maybe start there, please.

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### Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, so I think that -- I don't know that we saw a lot of order activity in the quarter itself. Most of the real dramatic tariff impact and announcements came out after the quarter ended, but I would say that the six-week calculation that I quoted in terms of our booking rates being up double digits, there likely was some ordering ahead going on there that influenced those numbers. It's hard for us to exactly quantify what that amount is.

In China itself, we always have inventory over there and we have proactively moved some of the inventory into the non-bonded status, which basically means that if you do that before, I think, May 13, then those items will not be subject to these new retaliatory tariffs in China. So we did take some more proactive action there just to get that stuff in there.

And of course we had, stuff on the water as well that's going over there that we will move into non-bonded status once we get it into China. We do think that we have enough inventory over there to last us for a few months. We're obviously working closely with our Chinese distributors to make sure they understand what we have available and to the extent that they want to order products from the United States, at least now they're going to be subject to the retaliatory tariffs.

And again, we'll be working on a case by cases with our channel partners to do what we think is best there. And hopefully over the next few months, things cool down a little bit and the 145% tariffs come down to a more reasonable level. That's what we're hopeful happens.

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### Deane Dray - RBC Capital Markets - Analyst

That's really helpful. So now let's talk about how you've sized the impact, and there's a couple takes here. One is the 6% COGS from China. That's kind of the same neighborhood of a number of the manufacturers that we cover. So that's close to expectations there. What sort of mitigation efforts are going on now?

And what's interesting and maybe this reflects your predominantly US manufacturing footprint, most of the company is talking about an impact on COGS for the tariffs. You've taken the tack to say 1 to 2 percentage points of revenue impact. So how'd you land on the revenue impact? Any kind of just rough math, how you backed into that, and what do you think the tariff is doing on the COGS side for China specifically?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah, good questions. I mean, the 1% to 2% really was our comment on China, the China impact. That's kind of what we think it is for this year for 2024. If we look at what we did there last year and what we think we're going to be able to do there this year, given our inventory position and other things, we think it's going to be about a 1% to 2% headwind.

What's really hard to quantify for us is, are there going to be tariff impacts outside of the US-China connection and will we actually benefit in some cases? Because we do have our US footprint here in some of our key end markets like contractor as we laid out in the opening remarks, 70% of their businesses here, and we are a US-based manufacturer and we know that some of the competition does source a lot of materials from Asia Pacific and China.

We didn't factor any of that in. There could be some upside. Really, the 1 to 2 percentage is really what we think is going to happen with China. On the cost of goods sold side again, we do have inventory here that we will use up before we start buying and paying 145% tariffs. We have our teams looking at alternative sources. We actually have our engineering teams looking at can we redesign some of the products, such that we may not need to import things from China.

We might be able to import here locally or we might actually be able to vertically integrate some of the things that we're currently buying from there. So we have a lot of activity going on. I've been really impressed with the professionalism and the diligence that our purchasing team and our manufacturing teams are taking.

We didn't feel like it was appropriate just to slap surcharges on everywhere. We want our teams to do work and they're doing that work and I think that has paid off for us and as of right now, we feel like it's a manageable situation.

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**Operator**

Mike Halloran, Baird.

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**Mike Halloran** - Robert W. Baird - Analyst

So just some clarifying comments in there then. So when I think about this at the end of the day, maybe a weird way to put it, but what are you functionally trying to manage to here with how you're taking care of the actions? Certainly seems like a balance of servicing customers and managing to the demand levels and trying to avoid demand degradation through incremental pricing.

But I guess what I'm asking is when you look at margin profile, margin dollars, what are you trying to solve? Like what's the equation priority wise from your perspective and how are you thinking about puts and takes as far as that goes, if that makes sense?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Well, it's never an easy environment at any given time, but this in particular with all the volatility makes it even more challenging. I think that an overriding approach that our team has had here in the short term is essentially that we believe that this stuff will become a lot more clearer over the next three months than it is here today. And so taking a real quick reaction could potentially be an overreaction and given the strong posture that we have and the good presence that we have with our customers and our brand, we really feel like being patient and taking our time and making sure that we fully understand how things are going to play out before we do things makes a lot of sense.

We've run the math on worst case scenarios. Of course, the math doesn't look real good but we have our teams working hard to try to minimize the impact of that and as I've said, a few times now it isn't going to happen overnight. We do have plenty of inventory. I also remind people that we are a global company. We have a global supply chain where we have global footprint.

We have facilities in Italy, we have them in India, we have them in China, we're starting one up in Vietnam this year. So we do have the ability to flex things around if need be. We certainly don't want to lose customers, particularly in places like China where we've developed really strong good relations and it's a balance to make sure that we try to maintain those during what is clearly a very challenging situation for not only Graco but all industrial companies.

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**Mike Halloran** - *Robert W. Baird - Analyst*

So it's a thought process? Just to make sure I understand that you've given yourself a short-term buffer between some of the surcharges and the inventory you've built internally as well as all the mitigation actions you're taking. And that kind of buffers the 2Q. And then as you get through the quarter, clarity emerges then you respond appropriately to whatever that clarity is.

And if we don't get clarity, then maybe respond anyways to mitigate the back half through pricing or whatever else. I mean, is that the thought process? You're just buying yourself time?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

I think you said it well. I think that again, we have pricing power, we can pull the lever if we need to, but we don't feel like at this point that we really -- that that's the right thing to do given all the volatility and uncertainty that's there. And we have the ability to weather the storm here for the first few months. I don't think it's really going to impact our results that much in Q2.

But for sure by the end of Q2, we should have a much clearer picture on things like do we need to raise prices?

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**Mike Halloran** - *Robert W. Baird - Analyst*

Okay, great, thank you. And then follow-up question just to make sure, when you talk about that 1% to 2% that is just in China, I mean that's just the impact on what revenue could look like in the China region, correct? Not --

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yes.

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**Mike Halloran** - *Robert W. Baird - Analyst*

Okay, that's all. Thank you.

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**Operator**

Saree Boroditsky, Jefferies.

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**Saree Boroditsky** - *Jefferies - Analyst*

Hi, thanks for taking the question. Maybe just kind of moving to margins, industrial margins. Obviously, very solid in the quarter. Can you just talk about what drove some of that increase as it was higher than your normal incrementals on volume?

**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Well, I think some of it had to do with -- obviously, they had revenue growth after a handful of quarters where we didn't have that. And as the revenue came back, it came back on a lower expense base because of some of the actions that we took with respect to the One Graco initiative that launched in the late third quarter, early fourth quarter last year. So you put those two things together along with decent margin performance on the gross margin line. It really led to that really nice 100% incremental margin in the quarter.

David, I don't know if you --

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**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

I would just say that although we have pretty good profit margins across the large basket of the industrial business, some of the particular areas that were strong in the quarter for us included automotive and within that, specifically liquid finishing which tends to be a very good incremental margin product line for us. Also, we saw uptick in demand in products like sanitary pumps and some of the big pumps that serve the needs of the mining market were pretty strong.

So you could say that the areas of the markets that were particularly strong were drawing on particularly good product lines from us.

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**Saree Boroditsky** - Jefferies - Analyst

That's helpful. And then maybe just a larger picture, you mentioned the strength, I think on the powder coating side, but would just be curious to see how customers are thinking about some of the larger project activity and investments?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah, we had good growth in our Gema powder business in Q1. I think they had growth pretty much across the board in a lot of the different product categories, but for sure, I think that their manual and spare parts business really drove a lot of that increase. It wasn't so much project based.

As I sit here today, I haven't heard of any project cancellations, from that team. I guess we'll see how things play out, but they're off to a great start and they have a lot of backlog from business that they booked in the last year. They feel pretty confident that they're going to have a nice year for us.

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**Saree Boroditsky** - Jefferies - Analyst

Thank you. Appreciate the color.

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**Operator**

Bryan Blair, Oppenheimer.

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**Bryan Blair** - Oppenheimer & Co. - Analyst

I was hoping you could offer a little more detail, color at least on pre versus post tariff implementation order trends across segments and geographies? I know that's a relatively short time period and to get a sense of underlying demand, there's some smoothing effect and no doubt the playing field will change going forward. So a lot of moving parts.

But just curious if you would call anything out in terms of significant changes in trend relative to typical seasonality or your team's expected demands?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah, I think what I would say is that the order intake in Q1 was again pretty consistent with what the revenue was for the business. So after that, the six-week number that I mentioned during the opening remarks of double digit most likely did include some of the impact from customers that were trying to get in front of any tariffs that might apply to critical products. I don't know that it was that meaningful.

But for sure, over the last, let's call the month of April, we haven't seen any real degradation in our order trends and we'll see how it plays out for the remainder of the year. But as I sit here right now, it doesn't feel like things are going to be dramatically different than maybe what we saw in Q1 in terms of order activity.

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**Bryan Blair** - Oppenheimer & Co. - Analyst

Okay, appreciate the color. And maybe offer a bit more of an update on Corob integrations, deal performance in the early going? And then I respect the early days here, but very interested to know whether there's traction in introducing Corob to major North American customers and helping the brand establish market presence in the US channel?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah, it's early days, but our contractor team is really closely engaged with the Corob team to make sure that we capitalize on the relationship that Graco has with some of the larger customers that purchase that equipment. And I think here in the first few months, it's been more of the introductory meetings, getting people to know each other, introducing the technology, making sure that customers understand some of the differences between Corob and its competitors.

And then also making sure that the customers understand that it is part of Graco now and that they can come to expect really good customer support, technical service, warranty, all the things that come along with purchasing a Graco product. So we're pretty happy with the progress that the team is making. As you said, it's early days, so I'm not going to point to any specific victories at this point.

No surprises, it's probably been -- the way I would characterize our experience with the company so far, everything that they said that they would do, they've done. Our teams are working really well together, the revenue is coming in the way that we expected it to and really retaining that revenue in year one in any deal is job one because there can be some disruption sometimes when a company is acquired and we made it very clear to our teams that in terms of activities and where the top priority is, it's keep the revenue and let's see if we can grow it by establishing some of these incremental relationships that we know are going to be there over a long-term basis.

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**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

I would just add that on maybe the less exciting side but important side of integration on the financial side, I think both Chris and I would say that for us, a relatively substantial size transaction, we're building up the reporting and control mechanisms and we feel very good about what we've done so far and get really excellent support from our new colleagues at Corob.

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**Operator**

Jeff Hammond, KeyBanc Capital Markets Inc.

**Jeff Hammond** - KeyBanc Capital Markets Inc. - Analyst

Appreciate the color on China and the focus there. Can you maybe just speak more broadly to where else you use as a big source, sourcing or countries, and then vice versa where you're doing considerable export where, there'd be some retaliatory tariffs, maybe not to the extent, but still some tariffs? Might be helpful.

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah, I'm sure that David and Chris could probably do a better job of giving you some details maybe after the call in terms of major sourcing, but I would say that China's probably at the top of the list in terms of a country where we source the largest amount of materials outside of the United States. And we did, like every other company, run the math, let's just say, on this 10% tariff that all imports are being subject to now in the United States.

And I would just tell you it's very minimal. It's not a meaningful number for us. Now of course, if those ratchet up to larger percentages, that math might change, but at least as far as things stay right now, when you think about us and the tariff impact on our cost of goods sold, you should really be thinking about China.

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**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

And I would just add to that because I think that's exactly the point. Maybe it also is an explaining thing, the way we talk about the impact of tariff is different perhaps than some of the other companies you follow, and it goes to the fact that at least with where we stand today in the case of most of the tariffs, that really isn't the big story.

The big story is what would happen to demand certainly in a market like China if the kinds of tariffs that we're looking at stay in place and heaven forbid that became more the norm in some of the other places, the top line would be the story. I think it's reflective of the fact that we have this 80%-plus percent US manufacturing footprint.

And as Mark touched on, even on the market demand side, yes, there's some obvious downsides with potential tariffs from our trading partners. On the other hand, there's some upside, too, not just perhaps a made in the USA preference, but our ability to get products. Most of our products in the hands of our domestic customers without a lot of change in our product cost structure.

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**Jeff Hammond** - KeyBanc Capital Markets Inc. - Analyst

Okay, that's really helpful. And the contractor, I think you mentioned the professional paint channel being weak and it's been choppy for some time. Just wondering what you're hearing from the customer base there just in general kind of given one uncertainty and just kind of the incremental weakness in housing here more recently?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah, just to clarify Jeff, in North America here, the professional channel is actually up nicely for us. It was really the home center channel that we experienced pressure, and that's kind of what drove the overall number down for contractor in North America and then outside of Europe, I think, is a region where we have seen some of the professional products pull back a little bit compared to a year ago.

Obviously, we're well positioned to be there in the event that the housing data gets better, and we're hopeful that that happens. There's a ton of factors that go into that, but notwithstanding the things that we can't control like that, we do feel really good about the stuff that we have under way that we can manage and that is our new products that we're launching, our good, strong relationships and trying to gain more market share from existing customers that we have and doing a good job of maintaining those, not only by maybe not moving our prices in a case like we're in right now, but also continue to deliver world-class customer service and support, which I think really does resonate with people in times like this.

So who knows what's going to happen macro wise. I think that if it rolls out the way that everyone hopes it does and we start building houses here again in North America and there's more housing activity where our business is, we're really well positioned to capitalize on that both on the top line and on the bottom line.

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**Jeff Hammond** - *KeyBanc Capital Markets Inc. - Analyst*

Great. Thank you.

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**Operator**

Andrew Buscaglia, BNP Paribas.

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**Andrew Buscaglia** - *BNP Paribas - Analyst*

Hey, good morning, guys. So I hate to be a dead horse, but on the tariff side, I'm wondering, you guys have such great pricing power historically. And I'm wondering, in contractor specifically, how you perceive that pricing power when you have certain customers, certain large customers, the Sherwin-Williams comes to mind.

Just where you might not have as easy as time passing that pricing along, can you talk about that dynamic? Just how you view your pricing powers specifically in that segment?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I would probably just refer back a couple of years ago when inflation was going crazy and we did have to go to those customers and ask for price increases along with virtually everyone else and a lot of those customers were also passing price increases off on their customers as well. And they understood, they get it, they want to see the data. We're transparent, we share it with them.

So I really don't think we would have any major issues if we had to do that. But I will say that I also believe that if we don't have to do that because we are a US based company, that could put us in a really nice position with those customers too, vis a vis companies that are importing things and assembling them in the US and then needing to have higher prices because of the tariffs that they're facing.

So we'll see how it plays out. I like where we are as a company. I like our position, particularly with respect to this particular market. And again, we'll see how things play out.

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**Andrew Buscaglia** - *BNP Paribas - Analyst*

Yeah, okay. And you talked about some of your end markets. I'm wondering if you could specifically talk about your expansion markets which grew for the first time in a while, and I think some of that may be a function of easy comps. But anything incrementally you're seeing there? And I'm wondering if you're starting to see the effects of the reorganization helping, I don't know, drive some incremental demand going forward?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, it was a really nice quarter for expansion markets. They were kind of up across the board, up 12 overall. America's up 9, Europe, up 4, AP, up, I think, 29 or something like that. But in general, good demand across all the different product groups, White Knight, our semiconductor business did start to rebound toward the end of last year. We saw some of those orders coming in the first quarter so that really helped us out.

Our environmental business also saw decent growth and kind of nice across the board. They did have a tough year last year, so some of that is an easy comp. But nonetheless, I think it's doing well. In terms of One Graco, this is the one group where we really put these businesses together and we asked the teams to do a couple things.

One, look for opportunities to leverage across the businesses that are in the portfolio, but also look for some adjacent spaces for us to expand into through our M&A strategy. And so I would say that One Graco cost out initiatives really didn't impact this group. Most of that was impactful more on the industrial side of our business, which again going back to the 100% incremental margins, I think it showed up there and then to a lesser extent, on the contractor side.

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**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

Yeah, I would just add more tactically on One Graco, these are early days, but we have had several reports of what I would call of existing Graco distributors expanding their product line activity. For example, a process distributor in Asia getting involved with the sealants adhesive side of the business, a finishing distributor moving into some other product categories. And so from -- I call it the working with channel partners that are already significant channel partners and leveraging that.

I think that we're putting some of the building blocks in place. At the Street level, which of course, One Graco has always been about long-term growth. We've had some encouraging reports inside the plant, and I have an attachment for the liquid finishing business because I spent a lot of time in that business and a couple of our sales guys who go into large manufacturers.

One just recently got out of a large agricultural equipment company, has sold a lot of finishing equipment in the factory and was able to present a new automation lube product line to factory management. We don't have the order yet because big decisions like that in a factory take time, but we have several data points, and these are the on-the-ground end user activities that I'm pretty optimistic will drive real business for us that in the past with our very narrow focus, we just wouldn't have gotten.

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**Andrew Buscaglia** - BNP Paribas - Analyst

Okay, that's great color. Thanks.

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**Operator**

Walter Liptak, Seaport Global Securities.

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**Walter Liptak** - Seaport Global Securities - Analyst

Hi, good morning. This is Walt Liptak with Seaport. Wanted to ask about the contractor business in Asia. The volume of [Plus 1] looked pretty good to me. I think that had been weaker.

I wonder if you could talk about the trend there and was this the sort of a thing where you're doing more import into China or finished products where you could have more of a headwind later in the year?

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

Yeah, I think the AP in general for contractor up 35%, but only 1% volume and price, and I think that that was really mostly driven by a pretty good business over in Australia, New Zealand, offsetting more of a sluggish environment in places like China.

**Walter Liptak** - *Seaport Global Securities - Analyst*

Okay, all right, great. Going back to the tariff issues, when you guys think about some of the longer-term mitigation things like reshoring or vertically integrating some of that China supply, I guess one question is how much of that is electronics and things that you might not be able to duplicate that easily and you have to resort to pricing?

And then, at what point do you have the confidence that the tariffs that we'll be living with for a while and you can make investments into your own vertical integration or into new suppliers?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I kind of like where we sit with our strong US manufacturing base here. I wouldn't want to have to try to invest a bunch of capital to replicate that if I was somebody trying to avoid the tariffs, so I think we sit pretty well there. We do have a factory in China as I mentioned, so we are looking at ways that maybe we can utilize that a little bit more for the Chinese market and maybe perhaps for exporting more into the Asia Pacific region than what we've done historically.

Our teams are working pretty hard at that stuff. For sure, there's likely a subset of the cost of goods sold that is China right now and we're looking at ways that we can potentially find other sources for those types of components. And again, our teams are working really hard on that as well. I don't know what the tariff situation is going to be tomorrow, let alone three months from now or by the end of the year, but again I think we're hopeful that the temperatures cool off a little bit and that the current level is the worst that is going to be out there.

And hopefully, we see some progress and that would cause some of those activities I mentioned to maybe take a different form than what we're looking at right now.

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**Walter Liptak** - *Seaport Global Securities - Analyst*

Okay, all right, great. And then maybe the last one for me, you talked a little bit about April and it sounds like April so far is okay, which is a little bit surprising to me because I thought that you would have -- there was more of a pause going on. I wonder if there's anything anecdotally that you can tell me about, projects and timing or just how your customers are thinking about the projects that they've thought about doing for this year?

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I think we thought it was good to share the data, but when you start to really try to figure out exactly what's going on, we probably aren't going to be able to give you a whole lot there. It is what it is, I think that it's probably better than what some people would have expected it to be, and we thought it was a relevant data point to share with you guys, and we'll just see how things play out here over the next couple of months.

I do think that in the end, a lot of this has to do with confidence and it's hard to get confident when you don't know which way the world is going to tilt. So hopefully over the next month or so, we get a little bit more consistency and people know the playing field that they're on and that I think will go a long way toward giving people more confidence than maybe what they've had in the last couple of weeks.

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**David Lowe** - *Graco Inc - Chief Financial Officer, Treasurer*

I think that's exactly right. While we are certainly what you would consider to be a short cycle company, our customers, especially in the industrial area, are not short cycle buyers. The companies that maybe are pulling trigger, have been pulling trigger in March or April. I'm talking about large manufacturers, automotive, aerospace, farm and construction, and so forth. Internally, they've been working on these projects for nine months a year, even longer, and so they're at the final stage of making a decision and a lot of people have been involved.

It would be a little surprising to me if they just pulled the pin because of some disruptive news. Now I guess the converse for that is, as Mark alluded to, if we're playing with uncertainty or approximate levels of uncertainty like we felt like we've experienced the last month, that could have consequences later in the year or next year, but it's a little too early to say that everything is shaken up.

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**Walter Liptak** - *Seaport Global Securities - Analyst*

Okay, great. I appreciate that insight. Thank you.

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**Operator**

Matt Summerville, D.A. Davidson.

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**Matt Summerville** - *D.A. Davidson - Analyst*

So I just want to get back to the view that there may be a little bit of buy-ahead activity. Are you seeing that uniformly across the businesses and product lines? Or is this relegated to maybe a few key areas inside the company that sort of surge if you want to call it that you've seen in order activity in April thus far? And then I will follow-up.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, no, I think it's kind of been across the board, obviously, our distributors in China would have loved for us to ship them product at the prices that were in existence before these tariffs kicked in and we made it really clear that surcharges, they're going to have to cover so. And that was not included in any of the order activity that I quoted earlier, so I think it's kind of just across the board.

Of course, we are heading into the key buying season for the contractor business, so that can influence things a little bit too.

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**Matt Summerville** - *D.A. Davidson - Analyst*

Got it. And then just as a follow-up, maybe a little bit more detailed commentary obviously bought Corob a few months ago, but what you're seeing from an M&A standpoint and if the level of buyback activity we've seen year to date out of Graco is suggestive of anything having to do with M&A. So talk about the funnel action ability, things like that.

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**Mark Sheahan** - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I'll talk about the funnel. David, handle the share buyback. The funnel's good. I think we've really done a nice job. As I said before, building a pipeline of companies that we're very interested in acquiring. I think that there's activity happening all the time. I think our teams are much more engaged and understand how deploying capital into businesses like Corob can help make Graco a larger, more profitable, more meaningful company for our customers.

I think that we're very encouraged by what we see in the pipeline. And of course, M&A is always a bit of a wild card but I feel really good about the prospects for us being able to not only execute and transact deals, but also our ability to deliver really good performance on the companies that we've acquired. So we're building that M&A muscle and it's exciting.

David, share buyback?

**David Lowe** - Graco Inc - Chief Financial Officer, Treasurer

I think overall, we also feel good about our recent repurchase activity during 2025 and the prices that we've acquired our Graco shares. I think it's worth noting that considering the share -- the small number of relatively small number of shares purchased in '24 and in the current year, we've taken care of about three years of normal share creep.

Certainly though, with all of that said, we remain opportunistic as the market offers buyers attractive price points from time to time, as you all well know. Our strong financial position and proven cash generation capacity offers us the flexibility to aggressively invest in our business, to pursue acquisitions along the lines that Mark just talked about, as well as direct our cash flow towards our shareholders with both dividends and buybacks throughout a cycle.

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**Matt Summerville** - D.A. Davidson - Analyst

Thank you, guys.

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**Operator**

If there are no further questions, I will now turn the conference over to Mark Sheahan.

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**Mark Sheahan** - Graco Inc - President, Chief Executive Officer, Director

All right, well, thank you all for participating. We're off to a good start here, at Graco. We have great business and we're continuing to push with our strategic initiatives and look forward to chatting with you next quarter. Have a great day. Thank you.

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**Operator**

This concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.

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