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OVERVIEW:

Company Summary

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Saree Boroditsky *Jefferies - Analyst*

Matthew Summerville *D.A. Davidson & Company - Analyst*

Jeffrey Hammond *KeyBanc Capital Markets Inc. - Analyst*

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PRESENTATION

Operator

Good morning, and welcome to the Third Quarter Conference Call for Graco Inc. If you wish to ask access the replay for this call, you may do so by visiting the Company's website at 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 question and answers after 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 purpose of the Safe Harbor provisions of the Private Security Litigation Reform Act. Actual results may differ materially from those indicated as a result of various risk factors, including those identified in Item one a. of the company's 2023 Annual Report on Form 10 K and in Item one a. of the Company's most recently quarterly report on Form 10 Q. These reports are available on the Company's website at www.graco.com and the SEC's website at 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 obligations to update these statements in light of new information or future events. I will now turn the conference over to Christopher Knutson, Executive Vice President, Corporate Controller.

Christopher Knutson - Graco Inc - Executive Vice President, Corporate Controller

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 third-quarter sales of \$519 million, a decrease of 4% from the same quarter last year. Reported and adjusted net earnings decreased 8% to \$122 million or \$0.71 per diluted share. Excluding the impact of excess tax benefits from stock option exercises, the impairment charge and contingent consideration adjustment recorded in the third quarter of 2023, adjusted non-GAAP net earnings per share decreased 7%. The effect of currency translation had no significant impact on sales or net earnings for the quarter, the gross margin rate increased 50 basis points in the quarter. Realized pricing was more than enough to offset sales volume declines occurring in all segments. While product costs were lower for the first nine months of the year, they were a headwind in the quarter as our production volumes primarily in contractor have decline. We expect these headwinds to continue for the remainder of the year. Total operating expenses increased \$9 million or 7% in the quarter, mainly due to new product development spending, growth initiatives and other corporate items, including the relocation to a new distribution center. Reductions in volume and earnings based expenses of \$3 million, partially offset this increase. Gross margin rate improvement was unable to offset lower sales volumes and increased expenses during the quarter, resulting in an operating margin rate of 28%, a decline of 2% points from the same period last year. The Process segment operating margin rate decreased 4% points to 27% due to the impacts of higher spending and decreased volumes compared to the third quarter last year. Interest and

other benefits increased \$4 million during the quarter, driven primarily by lower interest expense as our long-term debt was repaid in 2023 in addition to increased interest income on cash held. The adjusted effective tax rate was 19%, which is consistent with our expected full-year tax rate of approximately 19.5% to 20.5% on an as-adjusted basis. Cash provided by operations totaled \$436 million for the year, a decrease of \$55 million from last year, driven mostly by inventory purchases related to new product launches, timing of estimated tax payments and lower net earnings. Cash provided by operations as a percent of reported net earnings is 116% for the year. Significant year to date uses of cash included repurchases of 399,000 shares for \$31 million, dividends of \$129 million and capital expenditures of \$93 million, of which \$60 million related to facility expansion projects. These cash uses were offset by share issuances of \$45 million. A few comments as we look forward to the remainder of the year. Based on current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2023, movement in foreign currencies would have no impact on net sales or net earnings for the full year. Our full year estimates for unallocated corporate expense and capital expenditures remain unchanged and can be found in the conference call slide deck on Page 10. Finally, effective January first, 2025, we will move to a global customer centric operating structure with four business divisions, Industrial, Powder, Expansion markets and Contractor. At that time, our regional teams, which previously operated independently, will be integrated into the business divisions. The current Industrial and Lubrication Equipment divisions, along with the Process Transfer equipment business that is part of the Process division, will be combined to form the new global Industrial division. The Powder division, which is currently structured as a global business, will continue to operate as it does today and will combine with the Industrial division to form the Industrial reporting segment. The new Expansion markets division will focus on driving inorganic growth in new or adjacent markets. Our existing environmental, semiconductor, high pressure valves and electric motors businesses, together with select future ventures and acquisitions will reside within this newly formed division and reporting segment. The contractor division will be restructured to serve the needs of our global customers and will remain unchanged as a reporting segment relative to prior periods. We will report financial results under these new segments for the first quarter of 2025. We will provide recast segment financial information in connection with our fourth quarter earnings release as supplemental information. I'll now turn the call over to Mark for further segment and regional commentary.

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

Thank you, Chris, and good morning, everyone. I'd like to begin by discussing our recent announcements. In September, we announced our one Graco initiative focused on driving global growth, greater profitability and operational efficiencies. Starting in 2025, Graco will adopt a new global structure with the commercial focus, enabling our sales, marketing and engineering teams to focus squarely on revenue growth. This new customer centric approach focuses on segments with similar needs, helping us scale more easily as we grow and enhance our customer experience. The strategy builds on the success of our powder coating business and aligns well with the integration of protective coatings and spray foam businesses into the contractor division a few years ago. The new structure also strengthens our ability to pursue M&A opportunities through both our legacy divisions and the newly created Expansion Markets division, enabling us to target significant acquisitions in current and adjacent markets. As we establish our new market oriented global structure over the coming months, I have full confidence in our experienced leadership team and dedicated employees to navigate this change successfully. During the quarter, we also announced the acquisitions of PCT systems and Corob. PCT systems, which provides mega Sonic and ultrasonic wet cleaning systems complements our existing high purity chemical delivery equipment used in semiconductor and electronics production. Although the PCT acquisition closed during the quarter, it did not have a material impact on quarterly results. We also reached a definitive agreement to acquire Corob a global leader in high tech dispensing and mixing solutions for paints and coatings. This acquisition enhances our strong position in the growing paint and coating machinery manufacturing category within the contractor division, while expanding our global manufacturing footprint. We expect the Corob acquisition to close in the fourth quarter, and the combined annual revenue of these acquisitions is nearly \$130 million. Were very optimistic about these opportunities and confident in our ability to leverage the complementary strengths of these businesses to drive growth and create value for our customers and shareholders. Moving on to our financial performance, all of my comments will be on an organic constant currency basis. Sales in the third quarter were down 4%, with declines in all segments except Industrial, which was flat. Industrial finishing system sales in the Americas and EMEA offset steep declines in Asia Pacific, especially China. Declines continued in the Process segment with weakness noted in the semiconductor and mining markets. New product introductions in the contractor segment have been well received and global protective coatings markets are strong. The decrease in China revenue across the industrial and process segments accounted for more than 90% of the overall revenue decline in the quarter and over 60% year to date. This represents broad-based weakness and overcapacity across key end markets, including automotive, batteries, solar, semiconductor and electronics. Incoming order rates in the third quarter continued to be difficult worldwide all major product categories, with the exception of our Powder Finishing business, saw order rates declined compared to the second quarter of this year. Weak demand continued in the Asia Pacific region, especially in China. These reductions have been consistent throughout the year. Demand in North America also softened during the quarter

impacting all segments. In contrast, over the past six weeks, our consolidated global incoming order rates have shown improvement compared to the same period last year, experiencing 11% growth. This double-digit increase is primarily driven by both the industrial and process segments. While this is a relatively short time period, it gives us optimism for the remainder of the year. Now turning to some commentary on our segments. Contractor sales were down 1% in the third quarter. Protective Coatings grew across all regions, but it wasn't enough to offset softness in the pro paint and home center channels. Asia Pacific was a bright spot as the container market showed continued improvement after minimal activity last year. Response to new products continues to be favorably received and inventory levels within the channel are considered normal. We have additional new products targeted to be launched prior to the end of the year, which should also have some positive impact for the fourth quarter. Industrial sales were flat in the quarter as strong finishing system sales in both North America and EMEA were offset by heavy declines in Asia Pacific. Revenue in the Americas was higher for the second quarter in a row led by the timing of finishing system sales, along with increased activity across the liquid finishing and sealants and adhesive businesses. The team remains positive as quoting activity remains stable. However, CapEx investments are being delayed as end users are taking a wait-and-see approach. Moving on to the process segment, sales were down 12% compared to the same quarter last year, primarily due to continued weakness in the semiconductor and mining markets, along with a slowdown in vehicle service business. The decline in sales volume is the primary driver of the decrease in profitability with decremental margins of nearly 60% for the quarter. Moving on to our outlook. Overall conditions remain challenging as we continue to experience soft demand trends in many of our core markets. We're encouraged by the increased order activity so far in the fourth quarter and we have confidence in our new product lineup. However, it's still too early to know if these order rates will continue to the end of the year. As a result, we're maintaining our full year revenue guide of low single digit decline on an organic constant currency basis. That concludes our prepared remarks. Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. The question and answer session will begin at this time. (Operator Instructions) Hi. First question is going to come from the line of Deane Dray with RBC Capital Markets. Please proceed.

Deane Dray - RBC Capital Markets - Analyst

Thank you. Good morning, everyone. Maybe we could start with the usual tour by end market and by region. Obviously more of a focus on APAC that 90% data point where the shortfall was. That's kind of what's going on there. Ground level. I do notice, there's no change in the traffic light chart, you're already at red lights in APAC for industrial and process. So maybe start with that tour end market and region and where the surprises were.

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

Yeah we were red and couldn't make it any more red and it's been flashing that way for awhile for us. China sales, we wanted to highlight that because we really do feel like that has been the main area where our businesses experienced the softness this year, again the Q3 China sales were down about \$10 million for industrial and process. And the total AP sales were down \$11.2 million. So really all of the decline is coming in those two camps within China and kind of the same story on a year-to-date basis. If you look across the end markets there, for sure, automotive is down compared to last year. The construction area is actually up a little bit for us because of what we've got going on in the container industry, so CED actually grew, which was nice to see. But really all of the other big markets in China, whether it's mining, battery production, solar, electronics they're all experiencing headwinds this year compared to what we've had in the past. Positively in Japan seems to be doing pretty well, Korea is hanging in there, and we're also seeing growth in India. So it really is kind of a China story. I think we need to get through the end of the year here. And then hopefully we can grow off of a lower base there.

Deane Dray - RBC Capital Markets - Analyst

And how about the other regions

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

Europe is hanging in there pretty well across really across all of the different product categories. We had decent activity in industrial, process and contractor. So on an overall basis, while our revenues were down compared to a year ago. Kind of that low single digit decline really doesn't cause us a whole lot of concern. We did see nice activity in North America, really driven by some of the larger projects that we had on the finishing systems side of the business that freed up in the quarter that we're able to deliver and get customer recognition for. So I would probably characterize as the North America market seems decent, Europe ok and Asia-Pacific market has been really challenging for us.

Deane Dray - RBC Capital Markets - Analyst

That's good and U.S.?

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

Yes. I mean, North America really is primarily U.S.

David Lowe - Graco Inc - Chief Financial Officer, Treasurer

on that, I would say in talking with our teams here in here in North America, they've called out over recent months good activity in defense. Solar market, interestingly here in North America, which is soft in Asia, despite the challenges in the industry aerospace, electronics and even automotive in both the legacy in the EV manufacturers are pretty good markets for us.

Deane Dray - RBC Capital Markets - Analyst

Good. And then just as a follow up Mark, you and I talked about this at our RBC Industrials Conference a few weeks ago, just the genesis of the re-segmentation. The why now how did you land in these four categories and from is it still too early to talk about where and how the growth can be? You'd see some sort of improvement? And just where and how would you be measuring those benefits?

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

Yes. So I think the genesis was really this spring when our team got together and looked at some of the data and really figured out that we weren't growing as much organically as we thought that we could. And we felt like some of the structural barriers that we have put up as a team and the silos by creating divisions that have their own factories and their own marketing teams and their own engineering teams and approaching our channel partners individually versus trying to leverage as a one, Graco approach was really what we started with. We commissioned a group of leaders that were not direct reports of mine, but these were our high potential people within multiple business and regional units to take a look at the structure and come back with some recommendations. And after a few iterations with my team as well as the Board of Directors really landed on the one, Graco will approach. I think it will result in some efficiencies just in terms of our ability to target customers with the entire product line versus on a division-by-division basis. And will also up reorient us a little bit more towards looking at the key customer constituencies and a number of our business units. It's interesting because the end users, the customers in process, industrial and LED in a lot of cases are very similar. You go into a factory in your dealing with the guys that's actually running the machine. You're dealing with the factory manager. You're dealing with an engineer, you're dealing with procurement people and being able to go in with a one Graco approach with the full product line, we think is going to have a lot of value versus having multiple teams interact with those that with those customers as well. So it's not going to flip a switch overnight. And as I think I told, you no, structure is perfect, but we really do believe that after running the current playbook for more than 20 years, it was time to take a fresh approach. And we're all excited about the prospects that the one Graco will have.

Deane Dray - RBC Capital Markets - Analyst

Yes, that's great color and best of luck. Thank you.

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

Thanks.

Operator

One moment for our next question. Our next question comes from the line of Michael Halloran with Baird & Co., Inc. Your line is open. Please go ahead.

Michael Halloran - Robert W. Baird & Co., Inc. - Analyst

Good morning, everyone. So couple of questions. Just kind of following up on last. You know it at the end of the day, the seems more the restructuring you're doing here seems more like a driver for growth in the past. You've talked about tenants that 5.5% kind of growth, maybe adding 5% kind of growth last cycle being able to maybe add an incremental point of growth to that. Is that really with the goal here is from a loose quantification? And then secondarily, is there a margin benefit that you think you're going to drive from this as well with how you're moving things around globally?

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

Yes, for sure. Growth is the driver behind this. Again, as I said, our team got together and we look at the numbers that we felt like we could just do a better job. And so that was kind of the genesis of this change that we're going through. I guess the other piece that I didn't mention is that we also created a new group called expansion markets that will be not only managing some of the businesses that we've acquired over the last few years, but will also be looking for adjacent markets that are near those businesses and new sandboxes that we might potentially play in and as a company, I really felt like we didn't have anybody at Graco that was focused on that. And I think that there are other areas outside of our current businesses that we can play in on the M&A front. And so we'll be doing some work there as well, I think gives us maybe a better chance at being able to put points on the board from an M&A standpoint. Our divisions are still going to look at the stuff that they have always looked at. Our pipelines look pretty good there, but having that group, looking at those things, I think is going to be a change compared to what we've had in the past. In terms of efficiencies, yes, there will be some I think for now what we're doing is we're working through the details of what the new structures are going to look like. We're going to hit the ground running on January first that I think we'll be ready to talk about efficiencies and what we have expect to see after we're done with the work most likely when we make our year-end announcement and talk with you guys at that point, we don't have specifics yet that I'm comfortable sharing with you, but we are looking to drive both top line and bottom line growth with some of these moves.

Michael Halloran - Robert W. Baird & Co., Inc. - Analyst

Makes sense. And then kind of a two fold question here. First, you know, obviously we're late in the year here. So your guidance you can kind of get some implied growth for the fourth quarter here, but it's a pretty wide range. So the first question is basically, are we talking about a fourth quarter growth rate than is similar to this low single digit guidance for the full year? And then related, could you just put what's going on with the backlog in the orders in context and help us understand how that's flowing through things as it sits here?

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

Yeah, I think the guide is pretty consistent with what we've had now for a couple of quarters. I guess where we're targeting the low single digit constant currency revenue decline. So you guys can do the math on that, but I think it would play out that that's likely what you're going to see in

Q4, what we saw in Q3 and kind of the year to date number as well. We have experienced quite a bit of backlog reduction. I remember in our backlog was \$450 million and now it's \$230 so we're at the point where we're back to I call it a normal business for the Graco, mostly book and ship with a couple of exceptions, one being our powder coating business where we do have some backlog there. And then our are some of our longer term projects in the industrial side as well. But in terms of where we're at on backlog, I think we're at a point now where we should expect to see this number kind of hang in there going forward, barring any kind of crazy stuff like we had a couple of years ago where everybody was placing all kinds of orders. So it does create some headwind for us as you know, I'm sure when you look at 2023 versus 2024, that backlog came down in 2023, it's come down in 2024, but not quite as much as we look at 2024 and a 2025. If we're assuming that were at normal levels, we won't have this built-in reduction in backlog. So we factor all that into the guide that we give you guys were comfortable with it at this point, and we hope that we're able to hit it by the end of the year. And then as we get to 2025, obviously, we'll update our outlook that point.

Michael Halloran - *Robert W. Baird & Co., Inc. - Analyst*

Thanks, Mark. Appreciate it.

Operator

Thank you. And one moment for our next question. Next question is going to come from the line of Saree Boroditsky with Jefferies. Your line is open. Please go ahead.

Saree Boroditsky - *Jefferies - Analyst*

Hi, good morning. And the gross margin performance was really strong in the quarter up year over year despite the lower volumes. Can you just talk about the contribution of price cost or other productivity drivers that help offset that lower factory volumes?

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

Well, I think at this is David. I think the starting point is certainly the effectiveness we've had in realized pricing really now for two full years because we did our interim adjustments, I think in the middle of 2022 and one of the consistencies and our favorable price cost relationship since has been what we've achieved and pricing. Admittedly, the increases we saw in the second half of 2022 and all of 2023 were a bit more dramatic than what we're seeing today. But it's been consistent and it's been consistent across all business units and regions. And so I think pricing has been the hero. In terms of the cost structure, and Chris can correct me if I am straying a bit. Input costs have leveled out, but they certainly have not declined to levels that we saw in any meaningful way in periods prior to 2020, 2021 and in earlier periods. So we are working with a higher cost structure, both for input cost, labor and on the energy and other things. But we're covering those. I think a may be more recent development that has an impact on us is some less ability to absorb all of factory overhead because of the decline in unit volumes that we touched on in our opening comments. But with that said, the overall price cost has remained positive

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

I'm pretty happy with the factory performance, given the fact that we've had volume declines actually have the margins go up. I would say that we are locked and loaded from a production standpoint and our ability to react when volumes do pick up. We feel like the businesses is in great shape. And once we get the volume growth the leverage is going to be really nice to see.

Saree Boroditsky - *Jefferies - Analyst*

You mentioned incoming orders over the last six weeks, I believe 11% and with growth in industrial and process. Could you just kind of dive into that a bit. What markets or regions are driving us? And then as you think about North America industrials, you mentioned the timing of finishing sales. It just seems at odds with commentary on the CapEx pause. Could you just help us understand what's driving the strong demand brand?

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

Yes. I think the growth in orders over the last six weeks, again, pretty short time period have been broad-based with the exception of Asia, which is still challenging to us. So and we want to just point out that it was mostly in the Industrial and Process segments, which have been the ones that have been really creamed this year when it comes to the declines that we've seen in that in that particular region. So I wouldn't read too much into it other than we thought it was an interesting data point to share with you. We want to be as transparent as possible and hopefully give you a little bit more confidence in our full year revenue guide of down low single digits for the full year. When it comes to the North America industrial business, we did we were able to recognize some larger project activity that was previously booked after customer sign-off, particularly in the in the Powder industry. And so that really did help drive growth. If you were to sort of strip that out, you would probably see something similar in North America, industrial, what we're seeing in Europe from a total demand standpoint, it that's helpful.

Saree Boroditsky - *Jefferies - Analyst*

Appreciate the color. Thank you.

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

Yes,

Operator

thank you. And one moment for our next question. Next question is going to come from the line of Matthew Summerville with D.A. Davidson. Your line is open. Please go ahead.

Matthew Summerville - *D.A. Davidson & Company - Analyst*

Thanks. Within the Process business, it looks like the decrements have been worsening on a year-to-date basis. Is there some something else that may be falling off there when you look at sequentially how that business performed? Just help me understand a little bit of both puts and takes from the top and bottom line.

Christopher Knutson - *Graco Inc - Executive Vice President, Corporate Controller*

Matt, this is Chris. Looking at that business, the decremental have been tough for the whole year. I would say what we do see within that business in particular is when we do see volumes fall off in almost all of the factory locations, it really does impact the decrements pretty hard across the board. Earlier in the year, we may have had some benefits from one of our factories having volume, which could have offset some of the costs and some of the other locations. But what we're seeing now is pretty broad-based across all of the different business units, which is driving that decremental margin.

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

Yes. I think the only thing I would add is that as we've kind of rolled the year here a little bit, we have seen a little bit more weaker activity in our lubrication businesses, which are really nicely profitable. And so when I look at like Q1, Q2 versus Q3 the revenues there who have come down a little bit sequentially through those quarters. The other big one obviously is the semiconductor business, which is way down from year ago, but the bookings are starting to pick up there as anticipated with the with the pickup that everyone's predicting for 2025.

David Lowe - Graco Inc - Chief Financial Officer, Treasurer

I should leave well enough along that all add that the two points Mark mentioned also ties once again into the whole Asia Pacific arena, where semiconductor where there's a lot of activity in region and the ongoing softness there has been no secret and is pretty dramatic. And in the lubrication space, the mining markets, not just in China, but even in the Southeast, Asia are a significant portion of that business. So when those markets are soft, I'd say, especially in region, you see that flow through the process segment.

Matthew Summerville - D.A. Davidson & Company - Analyst

Got it. And then just as a follow up I'm wondering if you can talk about Corob for a moment. What is historical organic growth rate of that business look like and what is their US presence today? And how are you thinking about being able to leverage your sort of big box relationships here, just generically, call them to maybe bring Cororb presence to the market or lift their presence in the local market? Thank you.

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

Yes, I appreciate the question. Given that we haven't closed the deal, I'm a little bit limited in what I can say but what I will say, okay. Here's what I like about the business. Number one, we understand the technology its metering, it's mixing, it's tinting. It's stuff that Graco knows how to do pretty well. We also do like the overlap on the customers. Some of their big customers are Graco customers. I think their presence outside of North America is much bigger than it is in North America. And we are hopeful that they can help us out in the Asia-Pacific region with some of the contacts they have like Asian Paints and that we can potentially leverage our good relationships at the home center customers that we have and the other larger professional channel customers that we have as well. So I think there are some revenue synergies there that we are hopeful to get. In terms of their growth, historically it's kind of been in that low to mid single digits. So it's not too dissimilar from what Graco has in terms of organic growth through a cycle. So I think that we feel we feel pretty good about that. Lastly, what I'll say is that they have really good production in Italy and they also have a footprint in India, production-wise that we like. And that is an area that we've thought about expanding into for Graco to expand our presence in India from a production standpoint, given the activity that's happening there. So this gives us a footprint immediately to do that and to experiment with it, it's a little bit lower risk than if we had planted a flag somewhere or did that on our own. So I think we're excited about that as well.

Matthew Summerville - D.A. Davidson & Company - Analyst

Great. Thanks, Mark. Thank you.

Operator

And one moment for our next question. Our next question comes from the line of Jeffrey Hammond with KeyBanc Capital Markets. Your line is open. Please go ahead.

Jeffrey Hammond - KeyBanc Capital Markets Inc. - Analyst

Hey, good morning, guys. Just I'm wondering, I guess as you talk to customers and you take kind of the last six weeks of orders, anything that sticks out that starts to feel better and kind of gets you out of this rut. I think you mentioned Asia still particularly challenged, but just any any kind of green shoots?

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

Yes. I think that there's obviously a lot of uncertainty out there these days and not anything you guys don't know with all these wars going and elections and other things. So I think that there's still a fairly cautious mindset when it comes to our channel partners and end users when they're thinking about making capital type of investments. So again, we thought the data point was interesting. I do think that we're starting to anniversary maybe some of the comps that we've had over the last couple of years. As I mentioned earlier, our backlogs now are kind of at levels where you would have expected them to be on a normalized basis. And so as those backlogs have come down, obviously, customers start to reorder. And hopefully, we've seen sort of a bottoming out here and we can start to see some improvement off of what been a couple of tough years.

David Lowe - Graco Inc - Chief Financial Officer, Treasurer

I guess I would add that Mark touched on the fact that the six weeks is not a very long, very long period, and this is more anecdotal. But just in conversation just in a recent conversation, taking a look at our EMEA space businesses that have been okay thus far this year, for example, on the protective coating part of the contractor business, especially the portion of the markets that serves energy and some of the support infrastructure in the Middle East has remained strong. We have been seeing my expectations as somebody who's based in Europe years ago always is a little low on the industrial side, but there has been a fairly steady drumbeat of regular business, including the automotive markets. And finally, even in the process space, which has been struggling a bit there has been some recent order activity that is more encouraging than what we have seen earlier in the year.

Jeffrey Hammond - KeyBanc Capital Markets Inc. - Analyst

Okay. And then just I appreciate the color on the one Graco and the new segment. But if we look maybe a more technical on the segment changes, can you just walk through sounds like contractors unchanged and then we're moving a business or two from process into the industrials. Is it that simple.

Christopher Knutson - Graco Inc - Executive Vice President, Corporate Controller

I think the way that you look at it, the way that it is today, Jeff, we have our industrial division and our power division. They'll still stay in the Industrial Group we will move our lubrication and a portion of our Process division into that industrial group and the remaining business, will break out and create the expansion markets area, which is the semiconductor, the high pressure valves and the environmental businesses.

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

Yes, the only the only comment I'll make, Jeff, is that yes, for sure, it's just exactly as Chris described.

But historically, we've operated our regions on a matrix basis where they had a separate P&L and they would make decisions based on what they thought was best for the region. We're moving into global structures where our industrial business will now manage a global P&L and they'll be able to make those decisions based on the opportunities they see. The same thing on the contractor side were kind of knocking down the matrixes, and we're going to be running global businesses, which we're excited about. It's worked really well for us with GEMA, and we think that moving to that approach with Graco will be beneficial as well.

Jeffrey Hammond - KeyBanc Capital Markets Inc. - Analyst

And maybe just last one on M&A pipeline behind the two deals, and would you expect that particularly more focus is going to be in this expansion markets? Or do you think you're still looking pretty broad-based?

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

Well, our pipeline that we have has been built up historically by the divisions. So if I look at the pipeline, I've got about 100 companies in there that we are talking to and active. I kind of ones that we would consider acquiring if they became available. And so we have good momentum there. And I think the market is a little more favorable today than it was a year ago. And so I'm hopeful that we will see some activity coming from that pipeline that we've already got. Expansion markets to the extent that we've got businesses already there, they have names in the pipeline that they will pursue. But in addition to that, we're also going to challenge that group, by doing more research outside of our existing markets and find some spaces that maybe our divisions have looked at and see if there's opportunities for Graco or to expand into those as well. We don't have any targets. But I do feel really good about the fact that now we're going to have a group that is charged with that kind of a responsibility beyond just looking at things that are really closely adjacent to us.

Jeffrey Hammond - KeyBanc Capital Markets Inc. - Analyst

Okay. Appreciate it. Mark.

Operator

Thank you. And one moment for our next question. Next question is going to come from the line of Andrew Buscaglia with BNP Paribas. Your line is open. Please go ahead.

Andrew Buscaglia - BNP Paribas - Analyst

I wanted to touch on within contractor, you got these new products with new product cycle rolling out. We haven't seen much acceptance from it yet. It seems like you're saying you're there's more products coming out of Q4. Is that informing our guide that you guys maintaining your guidance? Do you see anything in your orders that you see greater sales in that area?

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

Well, I think we've done really well with our new products. So I would say that they've driven a lot of incremental revenue in a market that's not been great. So I mean, if you look at the macro factors in the housing market in North America, for example, there's still flashing kind of red yellow signs. And the fact that were we were flat through the first six months in Contractor and were flat in Q3 I think it's been fairly consistent. It's always hard for us to know exactly what would our revenue have been if we didn't have the new products but we all feel like if we didn't have those new products, you would see different numbers than what we've reported. As we get into Q4, I think it's not going to be like a big step change. We are excited about some of the products that are coming out in Q4, but I don't know that they're going to have a meaningful impact over a 13 week time period. And yes, that definitely did inform our decision on what we wanted to do for the guide for the full year. Okay.

Andrew Buscaglia - BNP Paribas - Analyst

Yes. Hey, Mark, you're talking more about the interesting kind of M&A Are we really looking into like brand new end market you don't play and yet that are maybe not less correlated with what you guys do or is it a brand-new product real-world that you're trying to get into that seems like a slight change versus the past.

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

There is a change, and we'll see how it unfolds here. But I mean, yes, there's a lot of fluid handling opportunities in markets that Graco doesn't play in and that we've got a lot of expertise there that we can bring. We've got great engineers. We know how to manufacture stuff. We've got a global footprint. We have customers that have some of those needs that we don't really address today. So we'll be challenging our teams to run the numbers, look at the opportunities and see if there's anything for us there that we haven't really looked at in the past.

Andrew Buscaglia - BNP Paribas - Analyst

Thank you.

Operator

Thank you. (Operator instructions). Our next question is going to come from the line of Walter Liptak with Seaport Global Securities LLC. Your line is open. Please go ahead.

Walter Liptak - Seaport Global Securities LLC - Analyst

Hi, thanks. Good morning, everyone. So wanted to ask a follow-up on China. You talked about the industrial and process having some headwinds in the \$10 million some falloff in industrial and process. So I guess the question, what do we what are we thinking about like with their quoting and their funnels? What does it take to get the China business. Are we looking for macro things like the government stimulus that's going on? Or how should we think about sort of them near term outlook?

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

Yes. I think there's been a little bit of overcapacity built over there in the last couple of years. So I think there's some catch up that's going on. As I look at what's happening in our end markets is really kind of across the board and most of the big ones. It's not like it's limited to any one particular thing. If you look at semiconductor that down, automotive was down batteries down. I do feel like over the last few years, they've built a lot of capacity, What's going to change hopefully, at some point we get to equilibrium level. And then business conditions are a little bit better for us in China, but we've had over the last 12 months or so. I don't think that the stimulus is going to have a meaningful impact in the short term. We'll see what happens, but we certainly haven't seen that so far in our results.

Walter Liptak - Seaport Global Securities LLC - Analyst

Okay, great. It's been a couple of quarters that we've been talking about China now. So that is going to be more of the same you think until we get easier comps in the back half of next year or were known to the comps get easier?

David Lowe - Graco Inc - Chief Financial Officer, Treasurer

Well, I would say that on the comment about overcapacity is right and here's where you have to go from I think generalizing about the economy to specific markets. As an old industrial guy I'm hopeful that there's still going to be lots of interesting investments. I believe this in battery, electric vehicle and some of the traditional markets where we've been. There are certain markets, for example, the construction sector that would suggest there could be a downturn that could go on for quite a while. If you believe some of the reports that have come out in recent months where you have millions of units that have been constructed that are empty. And I think that could play, that's going to take more than a liquidity program to drive the kind of confidence, confidence that our sort of end users are going to need to make big investments in that space.

Walter Liptak - *Seaport Global Securities LLC - Analyst*

Okay, great. And then on the on the new segmentation and was great focused on growth. Can you give us an idea of what the expansion markets with the growth rate you think might look like?

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

Well, the organic growth of those segments isn't going to be vastly different from the organic growth than, Graco, there's a little more volatility in there with the semiconductor that you'll see from quarter to quarter. But again, the trends there right now that to be pretty favorable. The real, you know, piece that I can't answer is the inorganic side. And hopefully, again, the team does work that's going to take time. We're going to be disciplined when it comes up, deploying our capital. But over time, we're hopeful that that will become a more meaningful piece of the overall Graco equation.

Walter Liptak - *Seaport Global Securities LLC - Analyst*

Okay, great. And as you've gone through this process, could there be divestitures that shake out from it? Are you feeling pretty good about all the P & L that are with your business?

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

We like what we got, but obviously, our team will be looking at all different opportunities and what makes sense. And right now, there's and there's no obvious things that we think we need to get rid of.

Walter Liptak - *Seaport Global Securities LLC - Analyst*

Okay. Thanks You.

Operator

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

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

All right. Well, that wraps it up for today. Appreciate everybody dialing in this morning and look forward to seeing you here in Q4 and during next quarter's call.

Operator

Thank you all for participating and have a nice day. All parties may now disconnect.

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