



Investor Presentation

February 2015

Safe Harbor



Today's presentation includes forward-looking statements that reflect management's current expectations about the Company's future business and financial performance.

These statements are subject to certain risks and uncertainties that could cause actual results to differ from anticipated results.

Factors that could cause actual results to differ from anticipated results are identified in Part 1, Item 1A of the Company's Form 10-K, and the current Quarterly Report on Form 10-Q, and also the Company's January 27, Press Release.

A vertical decorative bar on the left side of the slide, consisting of a blue background with a blurred image of a stock market ticker board showing various numbers and text in white and blue.

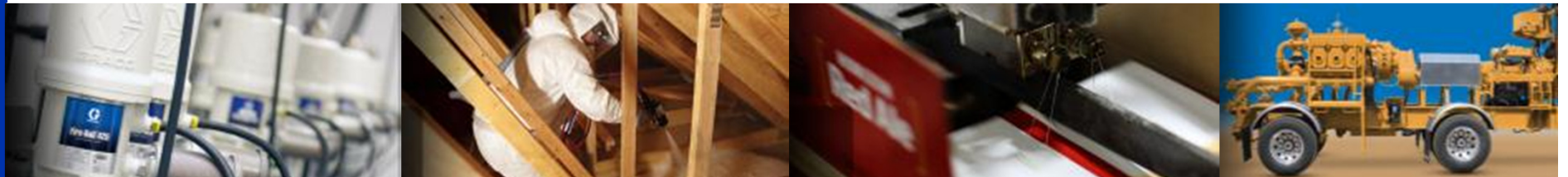
✓ Overview

- ◆ Enduring Business Model
- ◆ Strategies for Long-Term Growth
 - Invest in New Products
 - Expand Geographically
 - Target New Markets
 - Make Acquisitions
- ◆ Company Performance

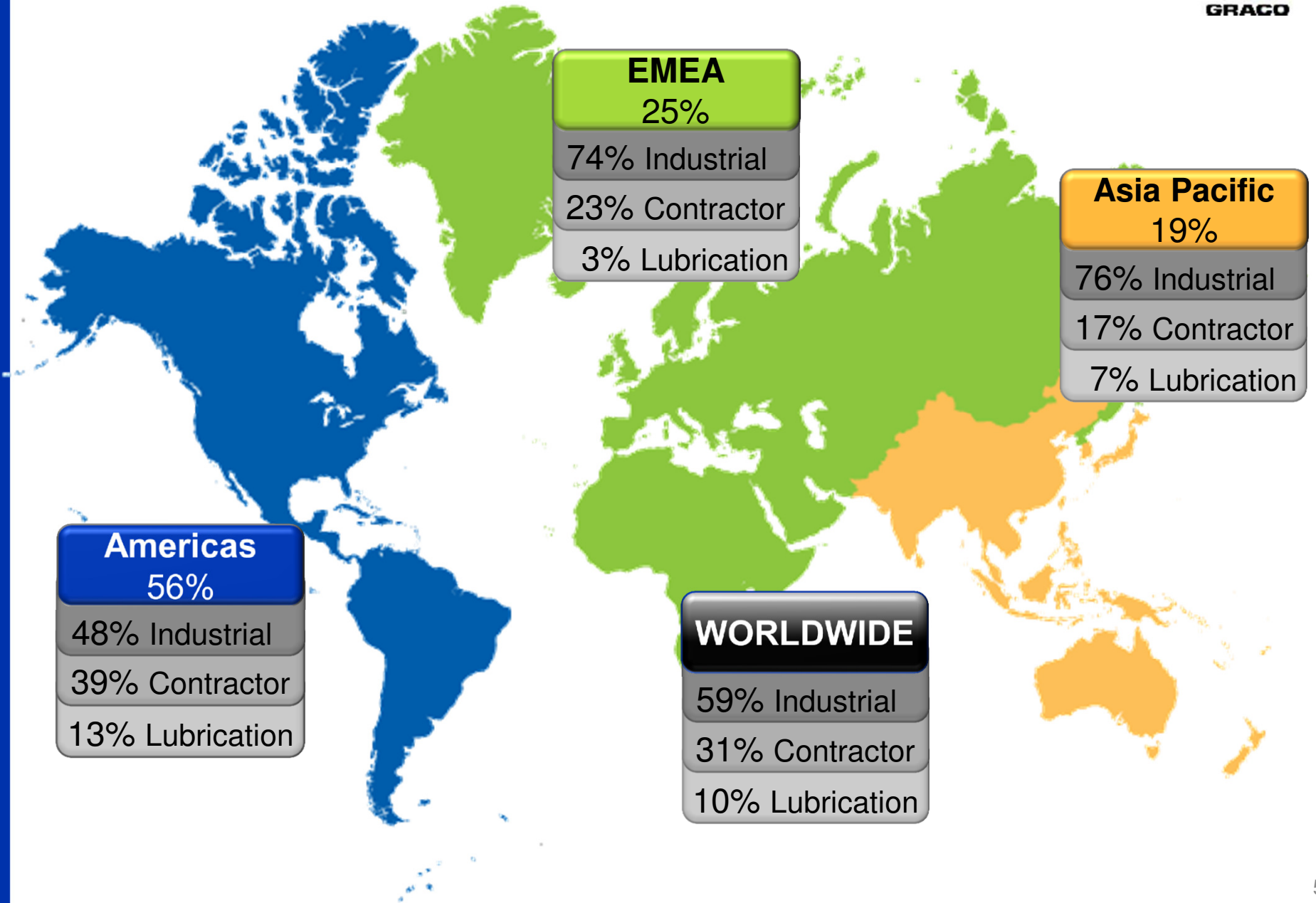


Business Overview

- Graco manufactures premium equipment to pump, meter, mix and dispense a wide variety of fluids and coatings
 - Difficult to handle materials with high viscosities
 - Abrasive and corrosive properties
 - Multiple component materials that require precise ratio control
 - Serving a broad number of end markets
- A strong business formula for sustained margin generation
 - High customer value through product differentiation
 - Manufacturing and engineering drive cost savings, reliability and quality



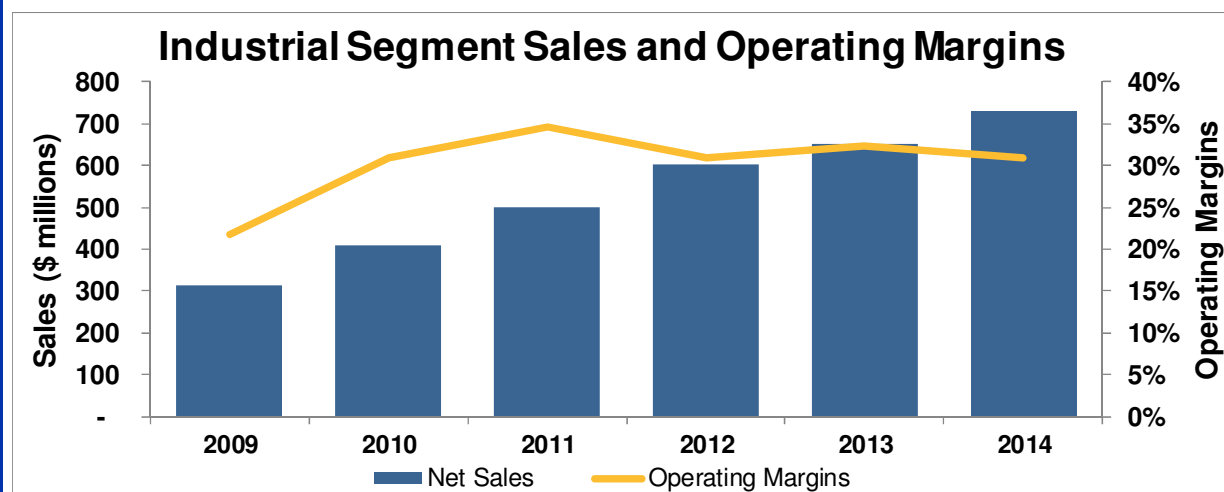
2014 Sales — \$1.221 Billion



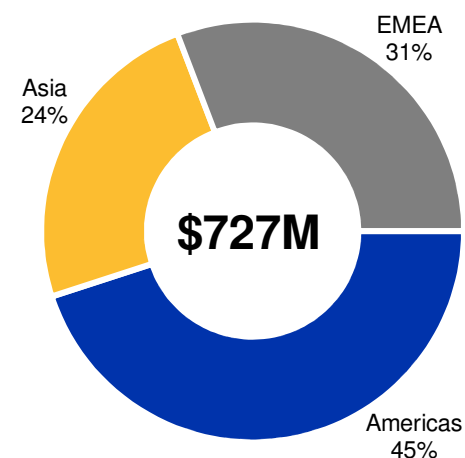


Industrial Equipment Segment

- Growth Drivers and Trends
 - Factory movements and upgrades
 - Integration of equipment with factory data and control systems
 - Reducing energy consumption
 - Material changes driving demand
- Other Representative Industry Participants
 - Exel, IDEX, IR, Dover, Wagner and Finishing Brands and regional players



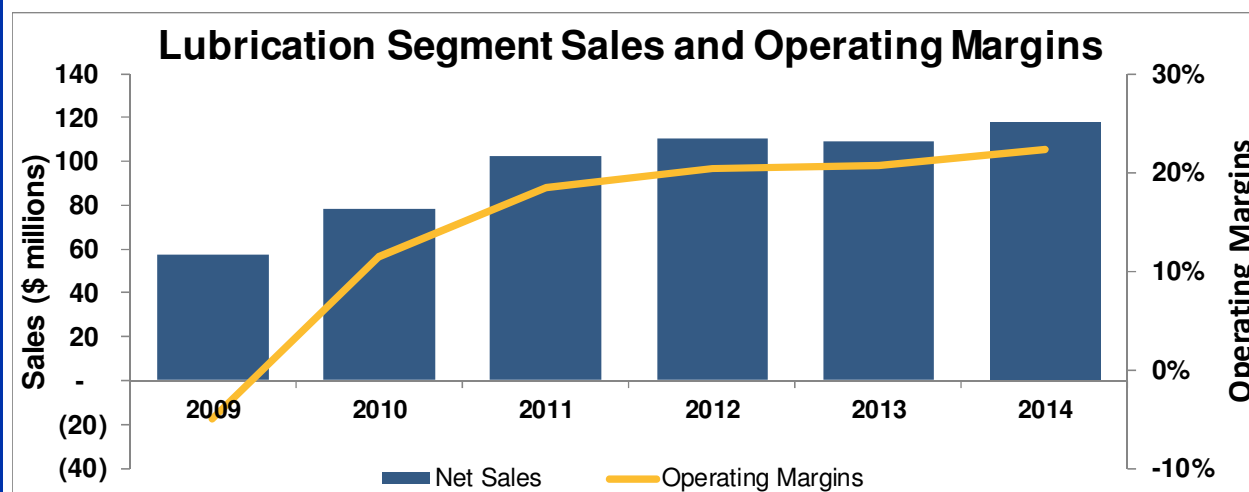
2014 Sales



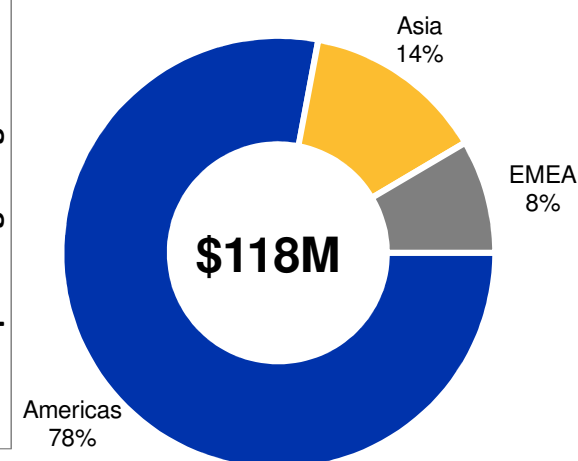


Lubrication Equipment Segment

- Growth Drivers and Trends
 - Fill product lines for a single source solution
 - Targeting competition in the industrial lubrication market
- Other Representative Industry Participants
 - Lincoln, Vogel, Bijur, Hannay, Coxreels, and regional players



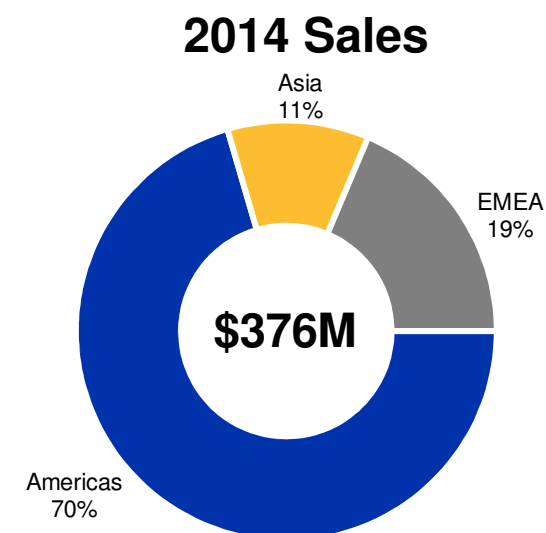
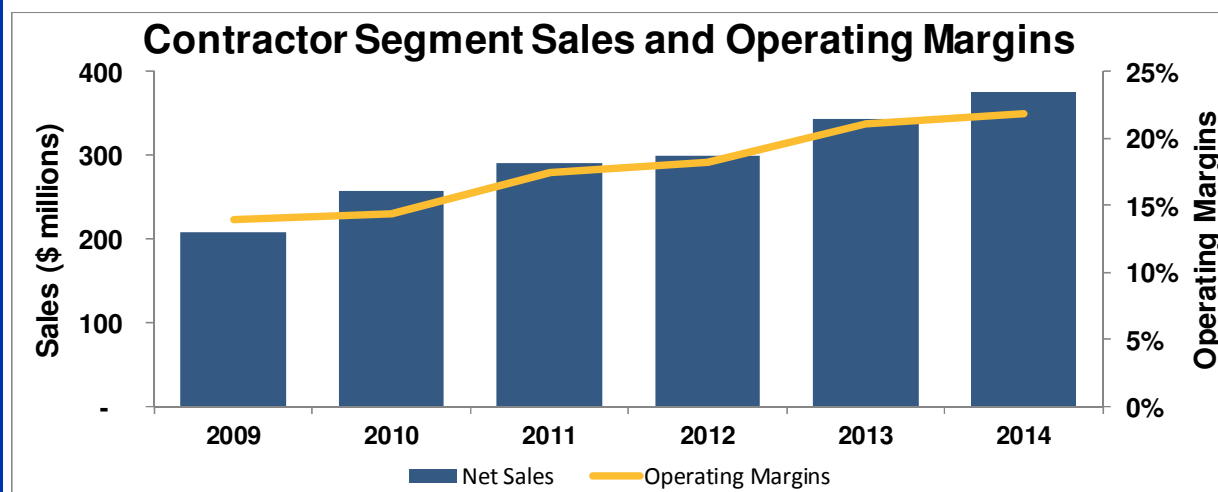
2014 Sales





Contractor Equipment Segment

- Growth Drivers and Trends
 - Conversion of end users from manual application methods to equipment is a major focus outside North America
 - Application of texture & cementitious materials
 - Entry level product & channel expansion
 - Expanding pavement maintenance product line & channel
- Other Representative Industry Participants
 - Wagner, TTI, Campbell Hausfeld, Larius, Bedford, QTech, and regional players



- ◆ Overview
- ✓ **Enduring Business Model**
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- ◆ Company Performance

High Customer Value, Strong Product Differentiation





Manufacturing and Engineering Excellence

- 80%+ of production is based in the United States
 - High-quality, efficient, engaged labor force
 - Centralization allows for leverage of overheads
 - A currency mismatch of sales to COGS exists, however
- Continuous improvement culture
 - Unique Graco cost-to-produce measurement tool
- Ongoing capital investment
 - Plant efficiency
 - Cost reductions
 - Capacity
- New product development initiatives include value engineering focus
- Low overall warranty costs





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Graco's Growth Plans and Earnings Drivers



3% - 5%

**Industrial
Production
Average
Growth
Rate**

- ▶ **Acquisitions**
- ▶ **New Product Development**
- ▶ **New Markets**
- ▶ **Global Expansion**
- ▶ **End User Conversion**

12%+

**Graco
Targeted
Earnings
CAGR**





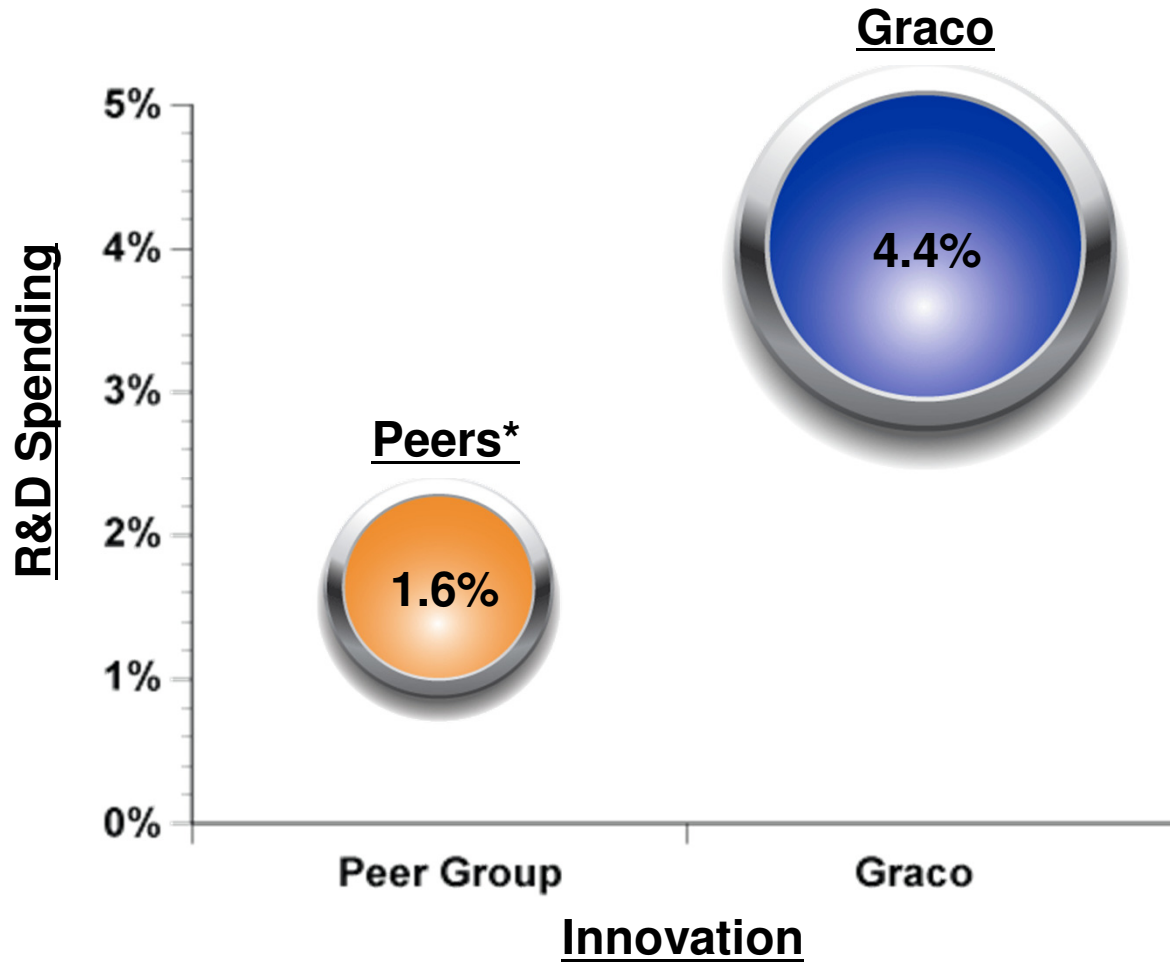
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Targeting Growth Through New Products & Markets



New Product Development Expense as a Percentage of Revenues – 2014*



* Peer average R&D spending as a percentage of revenues based on 2013 data



Contractor – Professional Airless Line Upgrade

- **Small to Midsize Electric Sprayers**
 - New ProConnect™ Quick Change Paint Pump for “On The Job” Replacement Repairs
 - NEW FastFlush™ Mode Saves Time with Easy/Fast Sprayer Clean-Up
 - NEW “Rugged Durable” look with Enhanced Motor, Control, Pump Improvements for Longer Life

Small Airless



Midsize Airless



FinishPro™ Airless





Contractor – Professional Gas Airless Upgrade

- **New Standard Series**
 - No frills, Day-In-Day-Out Performance/Reliability at an Attractive Price
- **New ProContractor Series**
 - Full Featured Heavy-Duty Performance/Reliability for “New Construction” Job Sites – Hose Reel, MaxLife® Pump, Pressure Gauge, Heavy-Duty Frame

Standard Series



ProContractor™ Series



Industrial – Therm-O-Flow® Bulk Hot Melt System



- For hot melt adhesives in 55 gal drums
- Offers fast melt rates and throughput capability two times greater than the leading competitor
- Updated to include Graco Control Architecture™
- Advanced temperature controls eliminate scorched material, material degradation & rework

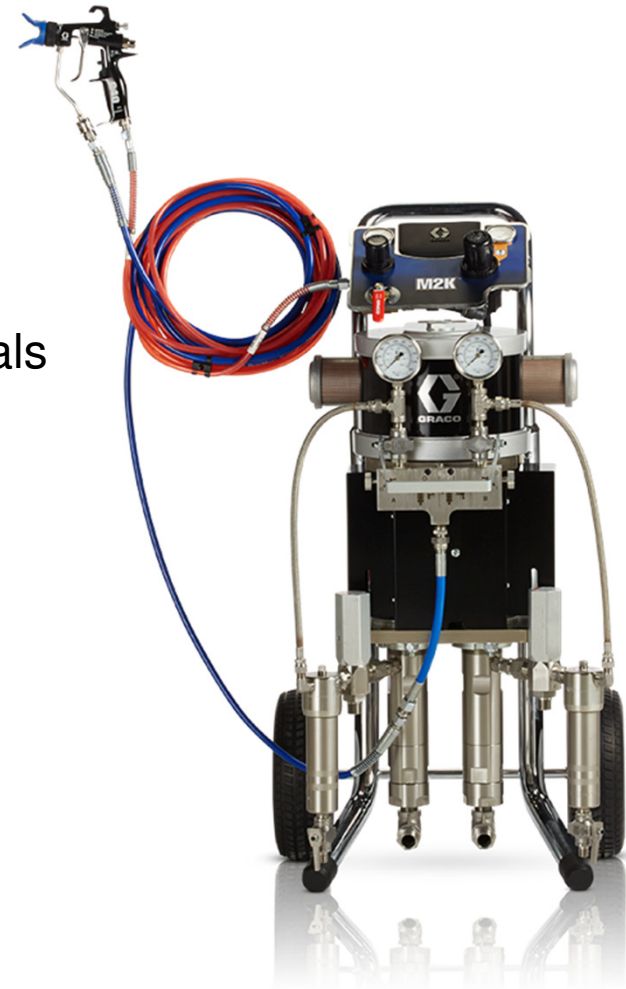


Industrial – M2K



Fixed Ratio, Entry Level Mechanical Proportioner

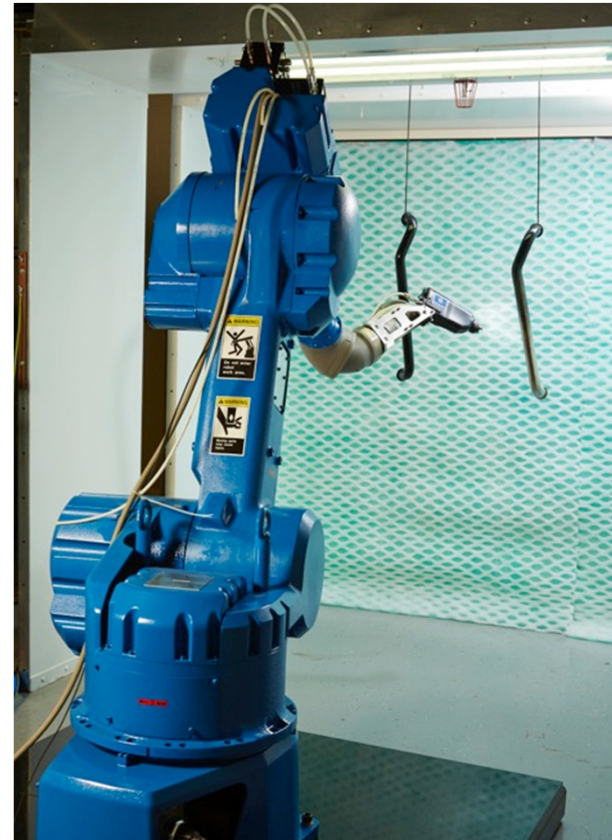
- Increases mix material accuracy to improve finish quality and reduce material waste compared to hand mixing
- Compact size makes it faster and easier to flush, saving time and disposal costs
- Ideal for lower volume two component materials





Industrial – Pro Xp™ Auto

- Increases spray performance and transfer efficiency
- 24/7 gun monitoring tracks performance
- Easily adapts to changing voltage needs
- Fits almost any system requirement
- Service reminders eliminate guesswork

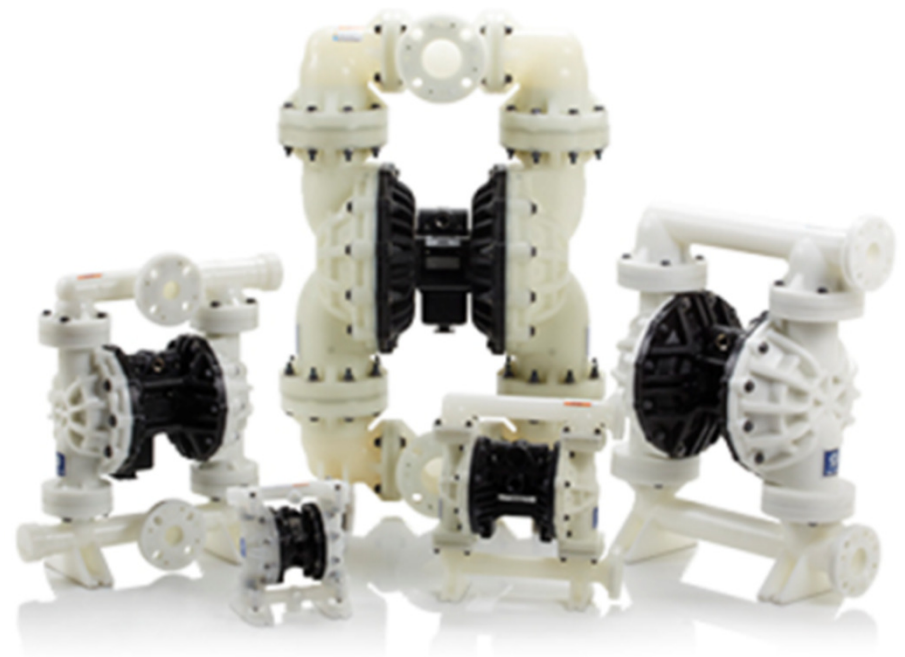




Industrial – Husky™ Poly Pumps

1.5” and 2” Poly Double Diaphragm Pumps

- Completes full line of Polypropylene and Kynar pumps for chemical applications
- Up to 30% more efficient than market leaders
- 30% increase in flow
- Reinforced frame for increased strength and smaller profiles
- Up to 5 times longer diaphragm life compared to other diaphragm pumps in its class
- Chemical pumps available in polypropylene, PVDF, SST and Hastelloy fluid sections



Lubrication – XD™ Powered Rewind Hose Reels



- **Heavy duty hose reels for dispense, transfer, & evacuation of fluids**
 - Direct Drive Motor
 - Safer for the operator, More reliable & less maintenance, Narrower footprint
 - Modular Design
 - Mix & match frames and motors, easier to stock inventory, and allows for more customization



Robust Electric and Pneumatic Motors

- Gear drive is enclosed and tucked into the spool to promote long life
- Nothing to lubricate for more efficient performance
- No exposed chains that can cause injury to the operator
- Easy change-out for less downtime in the field

Compact Hydraulic Motor

- Significantly narrower footprint fits in tighter spaces
- True 1-to-1 ratio direct drive provides more efficient operation
- Motor is protected by the spool for longer life
- No chain to lubricate





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Multimaq™ Acquired December 2014



- A manufacturer and distributor of finishing products in Brazil
- Establishes Graco's first operational presence in market
- While small, Multimaq has an existing customer base and knowledgeable sales force
- Allows us to enhance our long-term competitive position in Brazil





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Contractor TrueCoat 360

ELECTRIC AIRLESS SPRAYER



Painting just got easier – It's in the Bag!

- Spray in ANY direction, even upside down
- Handles unthinned paints and stains
- Easy cleanup – reuse or toss the bag



**JUST FILL
SQUEEZE
& SPRAY**



TrueCoat 360
ELECTRIC AIRLESS SPRAYER

\$129



TrueCoat 360 DS
DUAL SPEED ELECTRIC AIRLESS SPRAYER

\$169



TrueCoat 360 DSP
DUAL SPEED PREMIUM
ELECTRIC AIRLESS SPRAYER

\$199



NEW
TrueCoat 360 VSP
VARIABLE SPEED PREMIUM
ELECTRIC AIRLESS SPRAYER

\$259



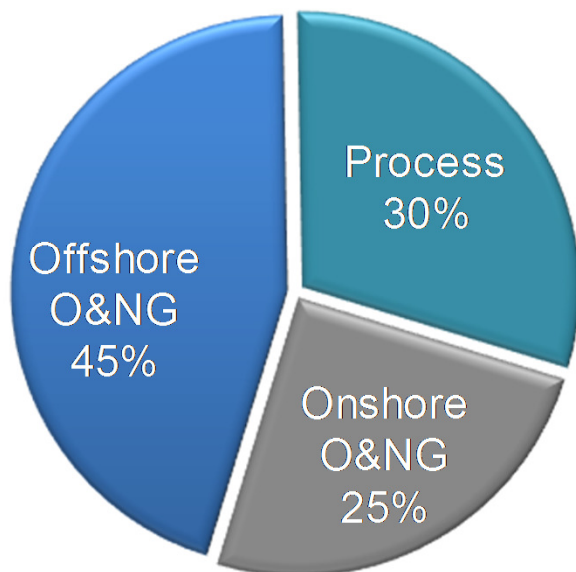
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Alco Valves Group – Acquisition of Alco™ Valves Group

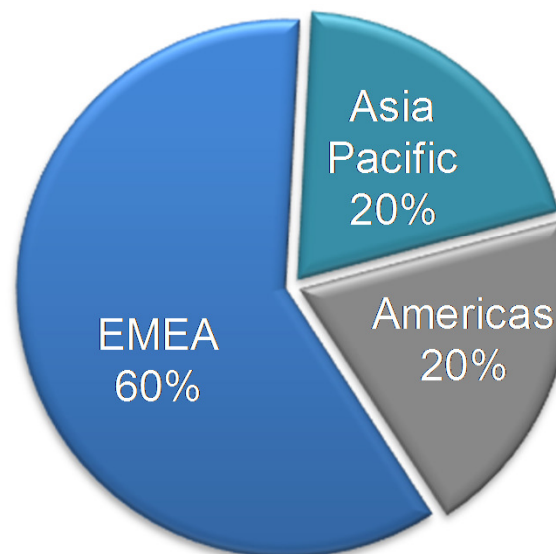


- The Alco Valves Group (Alco), a United Kingdom based manufacturer of high quality, high pressure valves used in Oil & Natural Gas (O&NG) and other industrial processes was acquired on October 1, 2014.
- Alco generated approximately £19 million of revenue in the most recent trailing twelve months. The acquisition was an all cash transaction which closed for £72 million and is subject to normal post-closing purchase price adjustments.

Sales by Application



Geographic Mix



Alco management estimates

Alco Hi-Tek™ (Oil and Gas projects)

- Double block and bleed (DBB) valves
- Chemical injection valves
- Mono-flange valves
- Piping valves



Alco Valves™ (Oil and Gas standard distributed valves)

- High pressure single valves
- Needle and ball
- Instrument manifolds
- Super alloy valves



Alco Sub-Tek™ (Sub-sea valves)

- Subsea DBB
- Subsea gate and ball valves



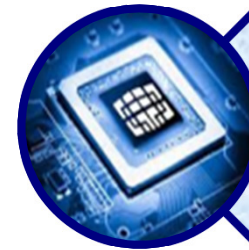
Alco Process (General industrial valves)

- Gate, ball, globe and check valves

- Adds new products and technologies to build our surface prep business
- Expands rental channel opportunities worldwide
- Manufacturing will relocate from Ontario to Minneapolis in 2015
- New product launch in Feb. 2015 – upgrading all Geo-Blaster models
 - Improved performance
 - Easier to use



- **White Knight** - Manufactures high purity and ultra-high purity fluid handling equipment used to deliver, circulate, reclaim and transport aggressive chemical fluids and slurries



**Semiconductor
Fabrication**



**Solar Panel
Fabrication**



**Flat Panel Display
/ LED / Electronics
Fabrication**



Chemical

Acquisition – High Pressure Equipment

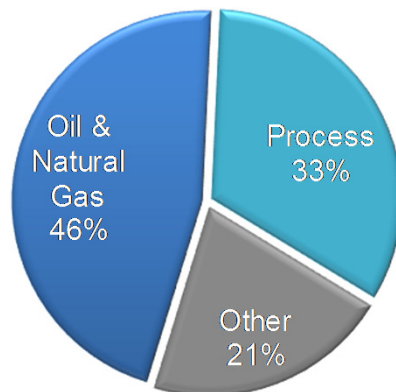


- High Pressure Equipment Company (HiP), an Erie, Pennsylvania based manufacturer of high quality, high pressure valves used in Oil & Natural Gas (O&NG) and other industrial processes was acquired on January 20, 2015

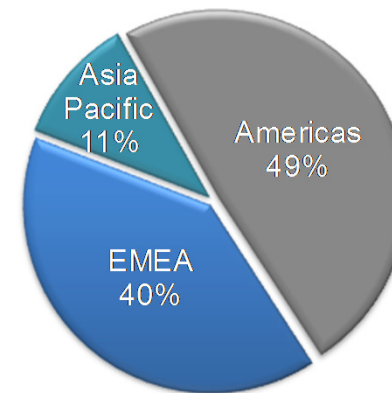


- The acquisition was an all cash transaction which closed for \$160 million and is subject to normal post-closing purchase price adjustments

Sales by Industry*



Geographic Mix*



*Management estimates



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✓ **Company Performance**



Graco Reported Q4 Results



\$ millions except EPS	Fourth Quarter		
	2014	2013	Change
Sales	\$ 306.0	\$ 271.9	13 %
Gross Profit	164.8	147.2	12 %
% of Sales	53.8 %	54.1 %	(0.3) pts
Operating Earnings	69.5	63.3	10 %
% of Sales	22.7 %	23.3 %	(0.6) pts
Net Earnings	\$ 49.0	\$ 44.7	10 %
% of Sales	16.0 %	16.5 %	(0.5) pts
Diluted Earnings Per Share	\$ 0.80	\$ 0.71	13 %
<i>Diluted Shares in Millions</i>	<i>61.0</i>	<i>62.9</i>	

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

Dividends	\$ 4	\$ 4
EPS Impact	\$ 0.07	\$ 0.06

Once the Company completes the sale of its investment, there will be no further dividends from Liquid Finishing

Q4 and Full Year 2014 Sales Data



Components of Net Sales Change

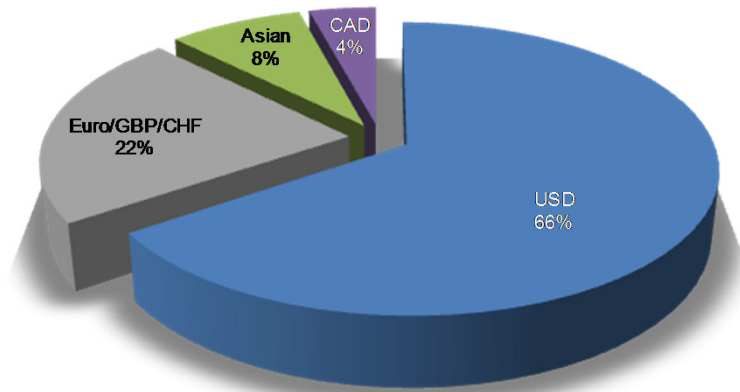
Fourth Quarter 2014

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	8 %	11 %	18 %	13 %	8 %	4 %	11 %
Acquisitions	9 %	—	—	6 %	6 %	4 %	5 %
Currency	(4)%	(2)%	(2)%	(1)%	(6)%	(3)%	(3)%
Total	13 %	9 %	16 %	18 %	8 %	5 %	13 %

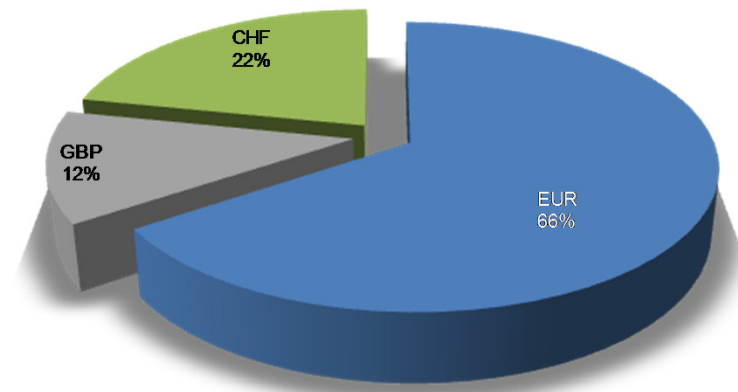
Year-to-Date 2014

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	6 %	10 %	9 %	10 %	5 %	2 %	7 %
Acquisitions	6 %	—	—	6 %	2 %	2 %	4 %
Currency	—	—	(1)%	(1)%	1 %	(1)%	—
Total	12 %	10 %	8 %	15 %	8 %	3 %	11 %

Sales by Currency 2014



Sales in European Currencies 2014



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










Notable Info from Q4 2014 Earnings Release & Call



- Capital expenditures expected to be approximately \$35 million in 2015
- 2015 annualized tax rate is projected to be approximately 32-33%
 - The Federal R&D tax credit has not been extended into 2015. If approved, the 2015 annualized tax rate is expected to be approximately 31-32%
 - Assumes no (post-tax) dividends from Liquid Finishing in 2015 and excludes gain on sale
- Unallocated corporate expenses expected to be \$10 million higher in 2015, due primarily to increased pension expenses
- At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2014, the unfavorable movement in foreign currencies would be a headwind of approximately 4% on sales and 10% on earnings
- Acquired four businesses in December 2014 and January 2015 with a combined purchase price of \$185 million. When combined with the acquisition of Alco Valves in October 2014, excluding transaction costs and charges related to inventory step-up, these acquisitions are expected to provide approximately 13 to 15 cents of accretion to EPS in 2015.

Current Environment



	Americas	EMEA	Asia Pacific
Industrial Segment	 Stable: General Industrial Challenging: Heavy Machinery	 Stable: Western Europe Challenging: Currency, Geopolitical	 Stable: General Industrial, Foam Insulation, Adhesive Dispense Challenging: Ship Building, Mining Spotty: Project Activity
Contractor Segment	 Improving: Pro Paint and General Construction, DIY	 Favorable: Northern Europe, Middle East, Africa Challenging: Currency, Geopolitical	 Favorable: Line Striping, Texture Stable: Gen Construction, Emerging Markets Challenging: Equipment Adoption Rates
Lubrication Segment	 Favorable: Industrial Lube	 Stable: Western Europe, Ind Lube Challenging: Currency, Geopolitical	 Challenging: Industrial Lubrication, Mining

Divestiture of Liquid Finishing Business Assets



- The Federal Trade Commission (FTC) issued its final Decision and Order in October requiring Graco to complete the sale of the Liquid Finishing business assets that were acquired in a larger transaction from Illinois Tool Works (ITW) in April 2012. The sale process must be completed in no more than 180 days
- Graco will continue to hold the Liquid Finishing business separate from its other businesses and maintain them as viable and competitive until a sale process is complete
 - The Liquid Finishing business assets are currently held as a cost-method investment on Graco's balance sheet and income is recognized based on dividends from current earnings
 - \$28 million (post-tax) dividends have been recognized in 2014. Once Graco completes the sale of the investment, there will be no further dividends from the Liquid Finishing business
- A definitive agreement to sell the Liquid Finishing business assets was announced on October 8, 2014
 - The \$590 million cash transaction is anticipated to close in the first half of 2015 and is subject to regulatory and other customary closing conditions
 - The divestiture is expected to be in compliance with the final Decision and Order issued by the FTC

Net Proceeds From Sale to be Approximately \$570 million



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

Priorities for the Divestiture Proceeds



- Reduce debt, as allowed under debt agreements:
 - Post-closing net debt position of approximately \$200 million
 - \$300 million in private placement debt will remain, offset by approximately \$100 million in cash
- Redeploy proceeds in strategic acquisitions
 - Immediately available capital capacity post-closing will be nearly \$600 million (including undrawn amount on the revolving line of credit)
 - Targeting flow control deals providing synergies and long-term shareholder returns, similar to the transactions Graco has closed in the last 12 months
- Continue our existing share repurchase program, which has 3 million shares remaining on the current authorization
 - Current goal: reduce outstanding diluted shares to less than 60 million

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

Long-Term Cash Deployment Priorities



Organic Growth

- ▶ International Footprint
- ▶ Product Development
- ▶ Production Capacity and Capabilities

Acquisitions

- ▶ Supplement to Organic Growth
- ▶ Leverage Our Strengths

Shareholder Return

- ▶ Dividend Payout Ratio ~30%
- ▶ Three Million Shares Remaining on Authorization

Key Investment Attributes

- Strategies that will drive long-term, above-market growth
- Premium products that provide a strong ROI for end users
- Leading industry positions
- Serves niche markets where customers are willing to purchase quality, technology-based products
- Products perform critical functions
- Consistent investments in capital and growth initiatives
- Shareholder-minded management
- Financial strength





Financial Summary Q4 2014

Appendix

Financial Results – Full Year



(\$ Millions except EPS)	2014	2013	Change
Sales	\$ 1,221.1	\$ 1,104.0	11%
Gross Profit Rate	54.6%	55.0%	
Operating Expenses	357.8	327.7	9%
Operating Earnings	308.9	279.8	10%
Net Earnings	\$ 225.6	\$ 210.8	7%
Earnings Per Share	\$ 3.65	\$ 3.36	9%

2014 Results



- Sales increased 11 percent, including 4 percentage points from acquired operations, no net impact from currency translation
- Gross profit margin of 54.6 percent, down slightly from last year
 - Non-recurring inventory-related purchase accounting effects .2 percentage point and lower margins in acquired operations .3 percentage point
 - Changes in product mix
- Operating expenses were 9 percent higher than last year
 - Expenses of acquired operations and spending on regional and product initiatives account for most of the increase
 - As a percentage of sales, total operating expenses were down ½ percentage point compared to prior year
- Backlog increased \$17 million as compared to prior year-end
- Net earnings increased by 7 percent compared to last year
- Diluted EPS \$3.65

Financial Results – Fourth Quarter



(\$ Millions except EPS)	<u>2014</u>	<u>2013</u>	<u>Change</u>
Sales	\$ 306.0	\$ 271.9	13%
Gross Profit Rate	53.8%	54.1%	
Operating Expenses	95.3	83.9	14%
Operating Earnings	69.5	63.3	10%
Net Earnings	\$ 49.0	\$ 44.7	10%
Earnings Per Share	\$ 0.80	\$ 0.71	13%

Fourth Quarter 2014 Results



- Sales increased 13 percent (16 percent at consistent currency translation rate), including 5 percentage points from acquired operations
- Gross profit margin of 53.8 percent, down slightly from last year
- Operating earnings up 10% from last year
 - Operating expenses were 14 percent higher than fourth quarter last year
 - Expenses of acquired operations and spending on regional and product initiatives account for most of the increase
 - As a percentage of sales, total operating expenses were down ½ percentage point
- Net earnings increased by 10 percent compared to second quarter last year
- Diluted EPS \$0.80



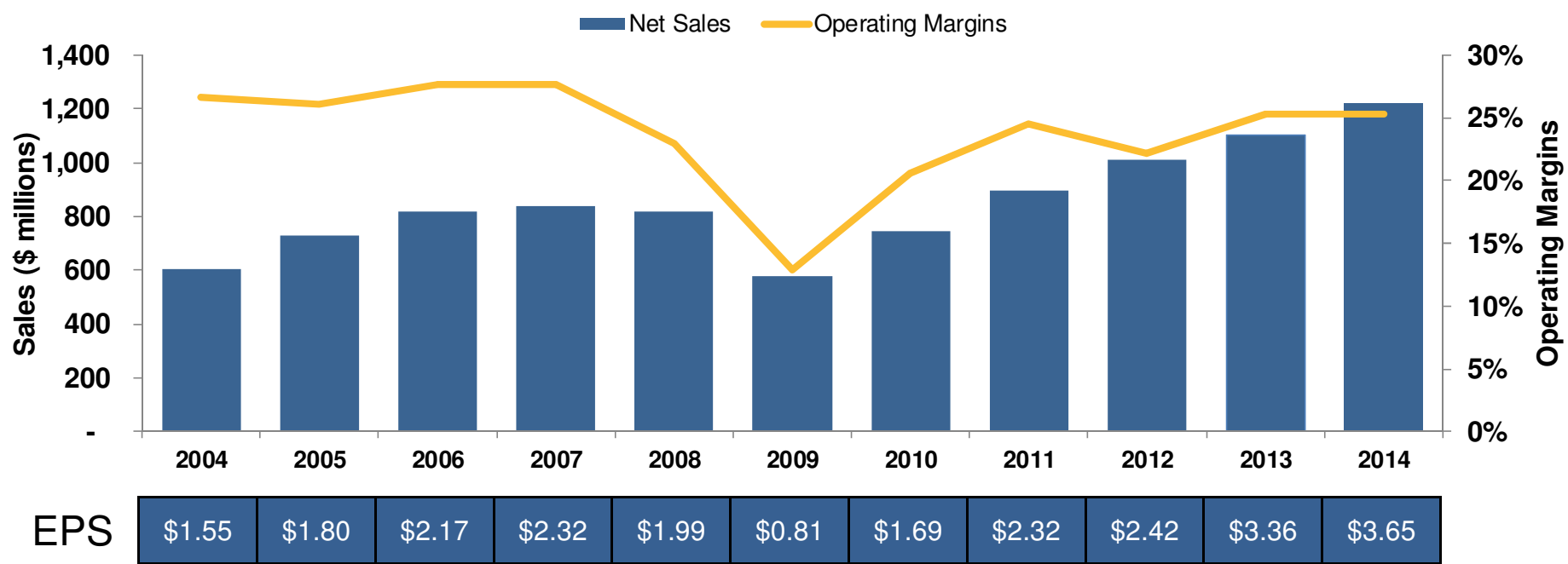
Financial Summary 2014

Appendix

Financial Performance

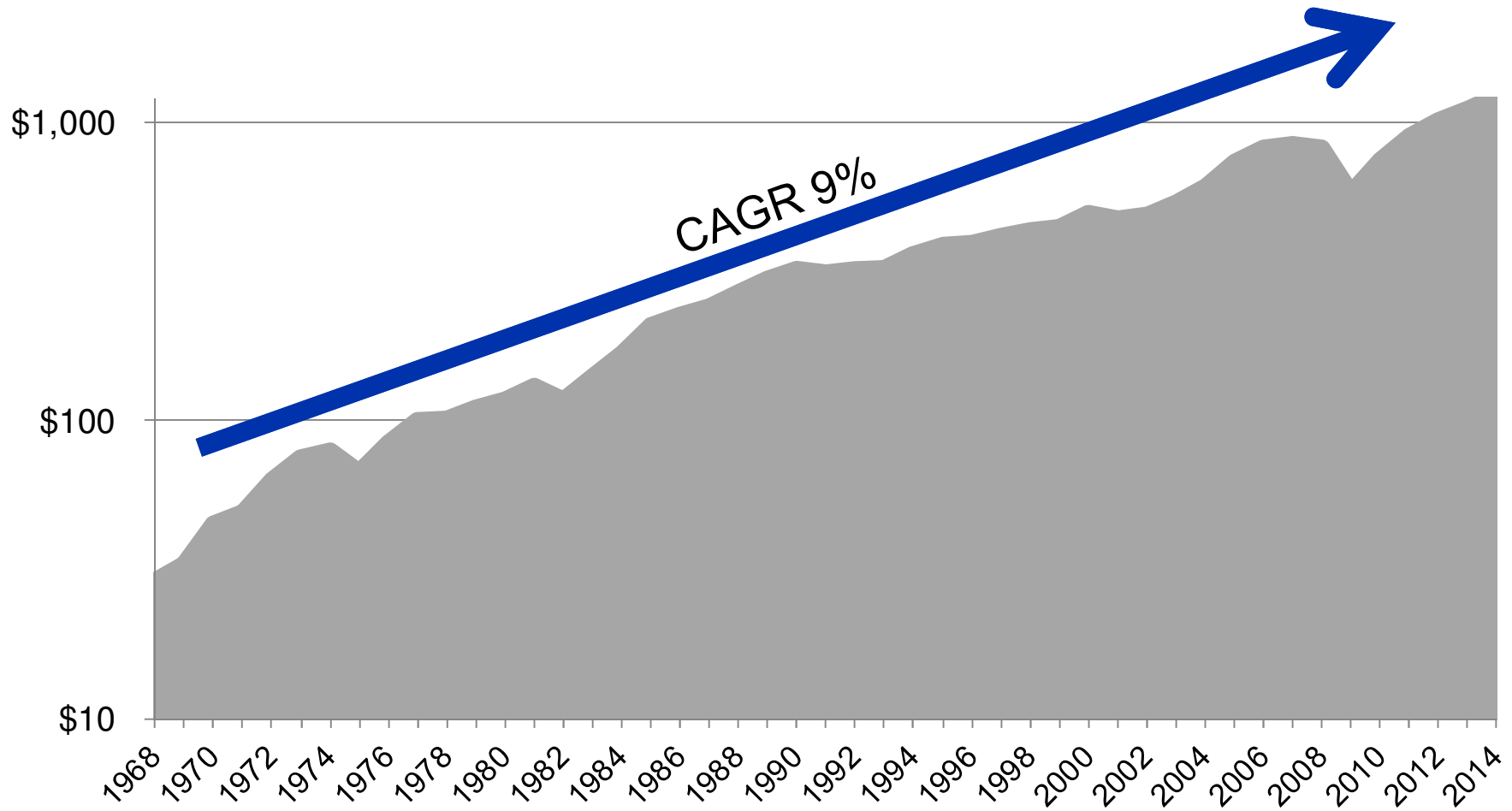


Sales and Operating Margin

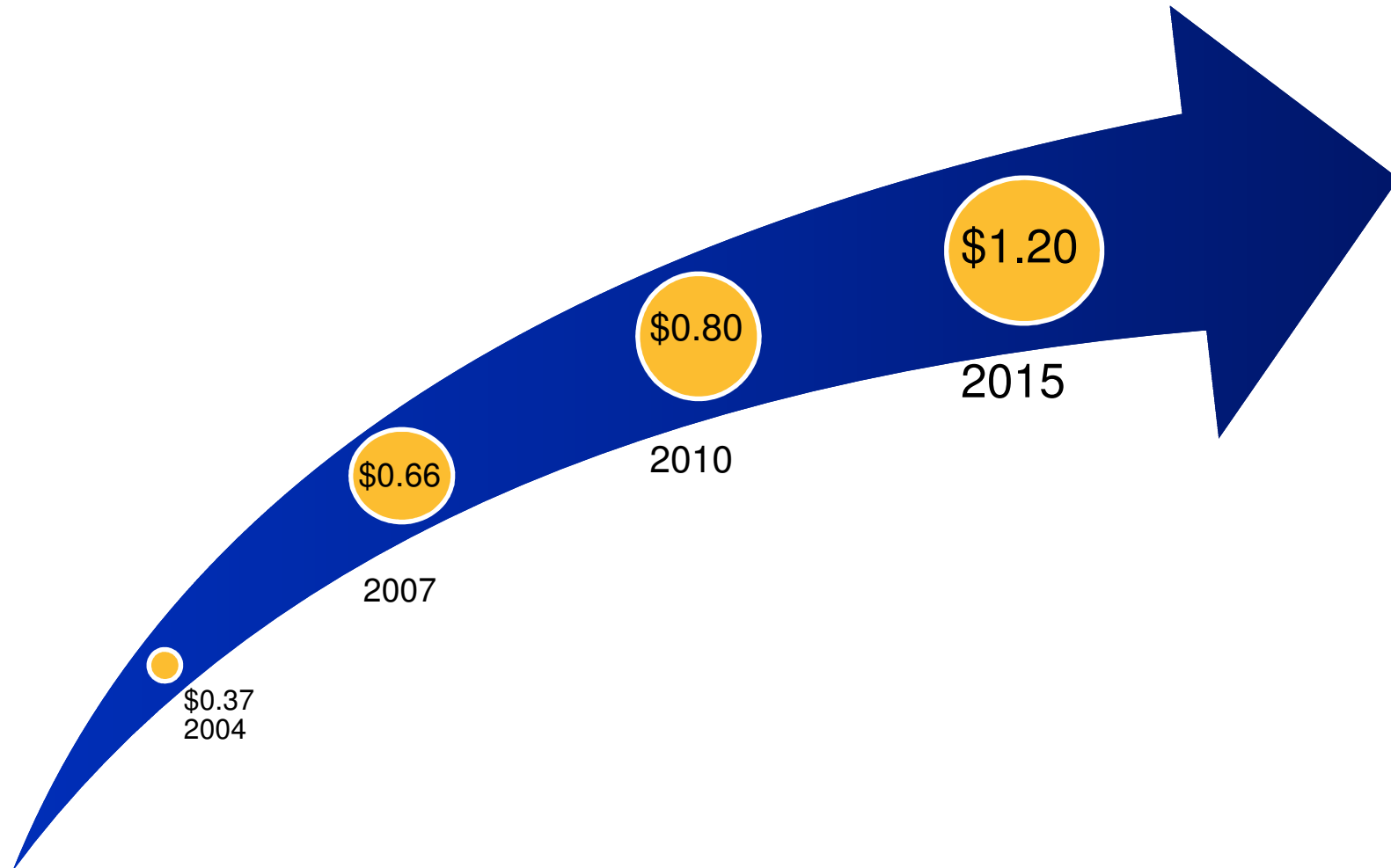




Historic Sales (\$ Millions)



Stock Dividend Growth



Strong Cash Generation



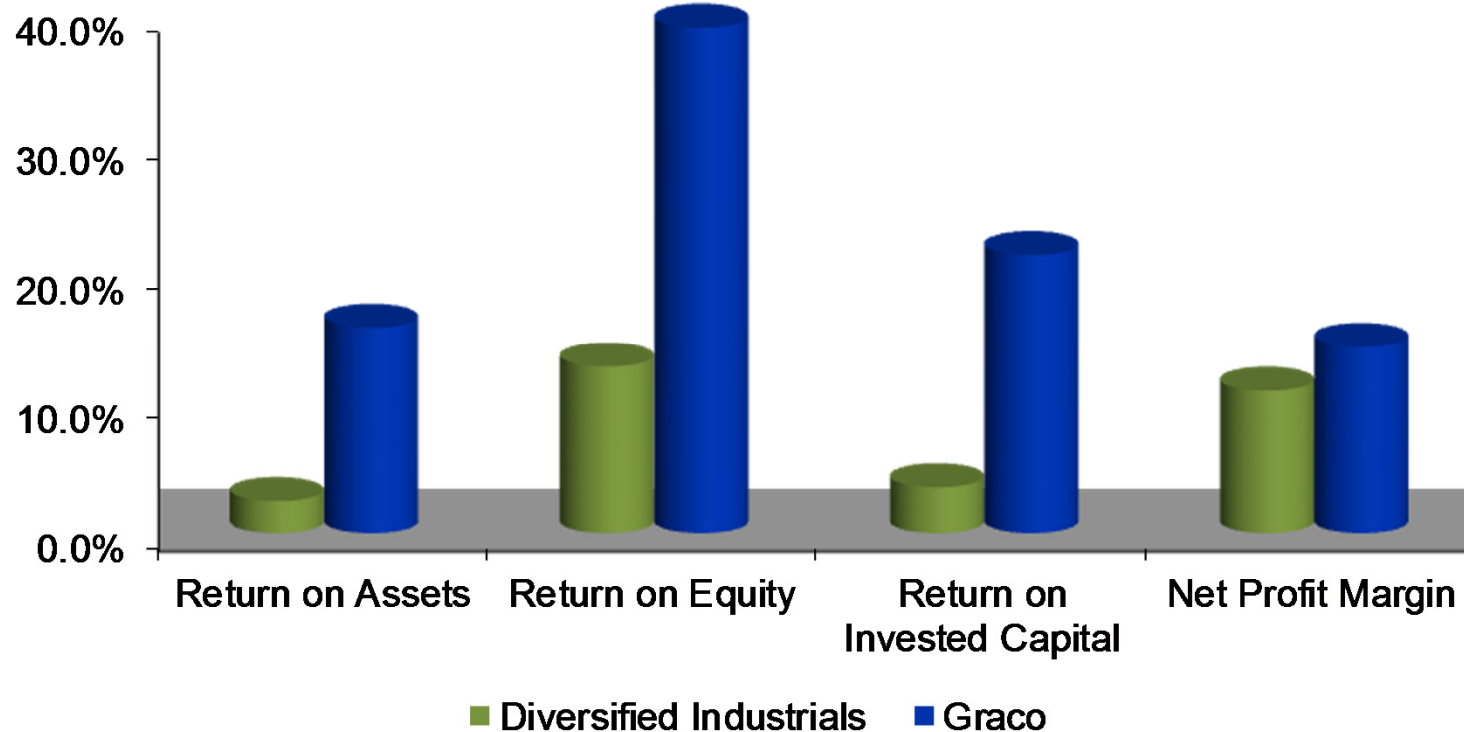
(\$ Millions)	2014	2013	2012	2011	2010	2009	2008	2007	2006
Operating Cash Flows	\$ 241	\$ 243	\$ 190	\$ 162	\$ 101	\$ 147	\$ 162	\$ 177	\$ 156
% of Net Income	107%	115%	127%	114%	98%	300%	134%	116%	104%
Capital Expenditures	31	23	18	24	17	11	29	37	34
Free Cash Flow	\$ 210	\$ 220	\$ 172	\$ 138	\$ 84	\$ 136	\$ 133	\$ 140	\$ 122

(\$ Millions)	2014	2013	2012	2011	2010	2009	2008	2007	2006
Dividends	\$ 66	\$ 61	\$ 54	\$ 51	\$ 48	\$ 45	\$ 45	\$ 43	\$ 39
Acquisitions	185	12	667	2	-	-	55	-	31
Share Repurchases *	165	26	(29)	21	11	(6)	101	206	76
	\$ 416	\$ 99	\$ 692	\$ 74	\$ 59	\$ 39	\$ 201	\$ 249	\$ 146

* Net of shares issued



Capital Efficiency – 5 Year Average



Source: Interactive Data, MSN Money



move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

www.graco.com