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OVERVIEW:

Company Summary

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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. 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 2023 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 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 obligation to update these statements in light of new information or future events.

I will now turn the conference over to Chris Knutson, Executive Vice President, Corporate Controller.

Christopher D. Knutson - *Graco Inc. - Executive VP, Corporate Controller & Principal 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 $492 million, a decrease of 7% from the first quarter of last year. Reported net earnings decreased 5% to $122 million or $0.71 per diluted share. Excluding the impact of excess tax benefits from stock option exercises, adjusted non-GAAP net earnings were $113 million or $0.65 per diluted share, a decrease of 12%. The effect of currency translation had no significant impact on sales or net earnings for the quarter.

The gross margin rate increased 30 basis points in the quarter. Strong price realization and lower product costs were more than enough to offset unfavorable product and channel mix from the Industrial and Contractor segments.

Total operating expenses increased $5 million or 4% in the quarter, mainly due to higher stock-based compensation and additional investment in new product development. Gross margin rate improvement was not enough to offset sales volume declines and increased operating expenses during the quarter, resulting in operating margin rate decline of 260 basis points.

Interest and other expenses decreased $7 million during the quarter, driven primarily by higher interest income on cash held and lower interest expense as our long-term debt was repaid in 2023. The adjusted effective tax rate was 19.8%, 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 $119 million, an increase of $28 million from last year, driven mostly by favorable changes in working capital items, more than offsetting lower net earnings. Cash provided by operations as a percent of adjusted net earnings was 105%. Significant year-to-date uses of cash include dividends of $43 million and capital expenditures of $37 million, including $30 million of facility expansion projects. These cash uses were offset by share issuances of $41 million.

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 2023, movement in foreign currencies would have no impact on net sales, and a 1 percentage point unfavorable impact on net earnings for the full year.

Finally, 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 9.

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

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Thank you, Chris. Good morning, everyone. All of my comments this morning will be on an organic constant currency basis. We began the year softer than expected with revenue declines across all segments, driven by weakness in semiconductor, process transfer equipment, liquid finishing, and sealant and adhesive systems sales.

Contractor North America also started the year slow, but as the quarter progressed, our incoming order rates improved. Despite these challenges, both our lubrication and powder equipment finishing systems grew during the quarter. And regionally, EMEA Contractor improved with robust sales in spray foam and protective coatings, along with an improved Pro paint channel.

Volume declines put some pressure on margins in the quarter, but we were happy with the resilience in our gross margin rate, reflecting positive price/cost relationships, while maintaining operating margins for each segment at or greater than 29%.

At the end of the quarter, our consolidated backlog was $285 million, which is $5 million higher than at the beginning of the year, but was $65 million below the first quarter of last year. The increase resulted from the improving incoming order trends we saw at the end of the quarter, which have extended into April.

Now turning to some commentary about our segments. The Contractor segment was down 6% against a strong first quarter comp last year. EMEA was a bright spot with strong Pro paint, spray foam and protective coatings markets. North America was heavily impacted by the timing of this year's new product releases, which will primarily be in the second quarter. Feedback from the channel has been positive, and we're excited to start shipping orders of these products as they're fully released.

Incoming order rates steadily improved as the quarter progressed, which gives us optimism that we can rebound from the soft start and see some growth. Backlog was up $10 million compared to the end of last year. Operating margins held up at 29% despite the lower sales volumes.

The Industrial segment declined 5% during the quarter. We continue to have weakness in the Asia Pacific construction markets and had a slow start globally in the liquid finishing and sealant and adhesive systems businesses. Powder coatings systems sales were strong, but were not enough to offset these declines.

The battery, alternative energy, packaging and e-mobility markets remain positive, and we have generally seen good quoting activity in our key end markets. Operating margins were impacted by the overall decrease in sales volume, revenue mix and higher product development spending.

Moving to the Process segment. Sales were down 10% compared to the same quarter last year. This segment is coming off of 3 years of strong results with broad-based growth across all product categories. During this period, operating earnings grew from 21% in the first quarter of 2020 to 29% this quarter despite the softer sales volume. We continue to see growth in the quarter for the lubrication business, but that was more than offset by a decline in both semiconductor and process transfer equipment sales.

Our semiconductor backlog is decent as we did see order rates improve as we exited the quarter and into the first few weeks of April. We are experiencing shipping delays of products headed into China due to enhanced license requirements. While order rates have improved, we do expect continued headwinds in semiconductor products for the remainder of the year.

Moving to our outlook. January and February bookings were lower than the same period last year. However, bookings for March and the first 3 weeks of April are up nicely, resulting in flat year-to-date orders. This supports our outlook despite the 7% revenue decline in the quarter. In addition, our new products, especially in Contractor, are exciting and should provide incremental sales when compared to 2023.

Our teams are fully engaged and remain focused on delivering another year of growth in sales and earnings. We are reaffirming our full year revenue guidance of low single-digit growth on an organic constant currency basis.

That concludes the prepared remarks. I'll turn it over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes from Deane Dray with RBC Capital Markets.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

I appreciate the prepared remarks. You touched on the quarterly progression, which improved throughout the quarter and by month. So maybe kind of give us some color there. And you tied that to your confidence in being able to reaffirm the guidance. So just take us through the context of that progression. How much can the new products contribute in the second quarter?

And then just maybe David has got some comments on this. Having -- despite that falloff, that gross margin was actually up, is really encouraging. So give us some context there.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, I'll start and let David chime in on the margin, or Chris as well. Obviously, we had a slow start to the year. January bookings were down. February bookings were down. March, we saw a little bit of a pickup, so we're in positive territory in March. And here, at least for the first few weeks of April, we're up very nicely. So as I said in the opening comments, even though we're down 7% in terms of our revenue, our orders in-house through the end of last week are actually flat with last year.

The products are pretty exciting in CED. I've been around here for a long time, 29 years. I don't really remember a time when we were as excited about the releases that we got coming out this year. Maybe when we went into the Home Center in the early 2000s, would be another time when there was a lot of excitement. But we're really encouraged by some of the feedback that we've gotten from customers in a couple of different areas.

You might remember, last year, we launched a product called QuickShot. And it was a gun that was actually solenoid and electronically activated versus a mechanical activated gun that's pretty common in the airless equipment industry. QuickShot, I think we did tens of millions of dollars of revenue last year with that product.

And we're now taking that technology, and we're going to run it through our entire airless line, and it's also compatible with all of our competitors' airless equipment as well. So if a contractor wants to have the performance of QuickShot, they're going to be able to have that for their -- with whatever kind of airless equipment they have. Of course, we hope it's Graco.

We've also launched a whole new line of electric motors in CED that are in our products that are quieter and they have higher performance than motors that we had previously. These are Graco designed and manufactured motors. They're specifically designed in manufacturing for airless painting, and nobody else in the world has those. And the feedback has been really good.

A couple of really cool new products coming on in the flooring area, where in the past people would be mixing with -- in the buckets and then putting stuff on the floor. We've got units now that are going to be doing that on the fly with variable ratio. And feedback from our channel partners has been really positive.

So I really feel very good about the traction that we hope to see on the new product side. Of course, the economy is always a bit of a wildcard. But even if the economy is a little bit sluggish in homebuilding and some of the contractor markets, these are going to be great products for many, many years to come.

David, I'll let you talk about the gross margins.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

All right. Thank you. I appreciate the opportunity to comment on the gross margin because the premise of the question, I was struck by some of the same -- by the results, we're in a pretty significant -- in a softer environment than we had expected going into the year, gross and operating margins by segment held up pretty well. And price realization has played a role across the business units. Units have done a good -- the segments have done a good job on price.

And probably more importantly, both price and cost dynamics were favorable for the quarter across the business segments. And I -- we have to go back a long time before I could make a claim like that.

So profitability across those units did hold up. The segments did hold up pretty well. And I remain hopeful that we're going to see, certainly on the pricing side, continued respectable realization. And we track our input costs carefully. And at the moment, while they still remain elevated, in several cases they have come off peak.

Deane Michael Dray - *RBC Capital Markets, Research Division - MD of Multi-Industry & Electrical Equipment & Analyst*

That's really helpful. And I realize I had asked a multipart first question, so I'll just keep my follow-up very specific. Which of the end markets, the positive and the negative, were the biggest swing factors? So just -- I think semiconductor, it sounded like, was one of the negatives. But what would you be highlighting?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Well, I think for the quarter, and really for the year, we anticipated a pullback in semiconductor, which kind of tracks the industry. You might remember, over the last couple of years, we had a bunch of orders or a lot of backlog. And we've worked off a lot of that. I think we still have some backlog, but it's not where it was before.

The pundits are all predicting that it's going to pick up in the latter half of the year, I guess we'll see. But that one really wasn't unexpected. I would say that the weakness in the process transfer pumps and some of our industrial equipment markets, at least to start the year, were below what we had expected them to be. And as we kind of wrapped up the quarter into April, it does look like we're starting to see a little bit of green shoots there in both of those camps.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Maybe I would just add a couple of other segments that people have touched on as being -- having some respectable momentum. I know you like industry references. Here in North America, some of our salespeople have cited activity and projects coming down the pike in defense and on the solar side. And our Europe, Middle East team has also called out good project activity, especially in the protective coating space. And of course, the underlying stability in the price of oil probably helps demand in that market.

Operator

Our next question comes from Mike Halloran with Baird.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

So just kind of following up on this then, the order side and the end market commentary, I certainly understand the order strength that you've mentioned, Mark, through -- picking up through March, April. Is that optimism reflected in customer conversations, channel feedback, et cetera?

I suppose what I'm getting at here is, you've got a relatively choppy backdrop kind of holistically with a lot of moving pieces around a lot of different markets. There's a chance you get more episodic demand trends month-to-month.

Curious, therefore, if you think there's a chance that that's part of what's going on and if there's anything in the channel that would support that. Or is there just real synergy between what people are telling you, where the order rates are coming in and given where inventory levels are and everything?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

It's hard for us to really know exactly what's going on because we're in so many different markets around the world and a lot of different niches. But if I were to characterize what we saw happening throughout the quarter, it's really as simple as it started off very slow and we started to see a pickup. There are some areas within the segments that are stronger than others, and I think we tried to highlight, I would say, that the Contractor business, in particular, feels like it's on much firmer footing than it was when we started off the year.

Asia is still pretty weak, in particular China, as there's just not as much capital flowing into there. The construction markets have been tough. We are starting to see a little bit of a pickup there in the container industry where they're starting to build containers again, but that's not going to be enough to really change the game there. And of course, China is like the big thing for our business if China catches the cold, everyone gets sick.

So all in all, I'm probably more optimistic than pessimistic at this point, but we'll see because we're not the greatest at forecasting these short-cycle businesses.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

No, that makes sense. And then 2 more here. One, just the timing of some of these product launches, are these gradual through the year or do a lot of them start hitting in the second quarter?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Most of them will launch here in Q2. For sure, by the end of Q2, is what our target plans are at this point.

Michael Patrick Halloran - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research & Senior Research Analyst*

That makes sense. And so does that essentially mean that front half, a little slower growth, even accounting for the 2Q is probably lower growth than the rest of the year is the thought process?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Well, Q2, I think, is -- we will see the ramp up on the new product side. We have seen, at least for the first 3 weeks here, order rates that would indicate that we should see some decent business and perhaps even growth in Q2, who knows? But it does feel better than it did for sure a couple of months ago.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes. And I would add that the area that we are talking about primarily on the new products is the Contractor channel. And of course, you've heard us say before that that's without a doubt, our most developed, most sophisticated channel. The products have been presented to their buying and marketing organizations. And when those products are, in fact, launched, we'll be able to ship because they will want them in their product lineup for the spring and summer projects.

Operator

Our next question comes from Saree Boroditsky with Jefferies.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

So just sticking with Contractor, I believe one of your major customers noted that spare equipment was actually up mid-single digits in the quarter. So could you just help us understand the difference there versus the decline you saw?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. I think if -- it's always -- we don't really know what would be the quick answer. But I do believe that at the end of last year, there was some inventory build that they did with respect to our equipment. I think there's a difference between their out-the-door sales and what we saw for orders. And again, as we kind of work through the end of the quarter, I think that dynamic started to shift in our favor.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

And so I guess just following up on that, inventory levels there, I guess, are normal at this point?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

And then I know the decrementals in your business can be high when volume is lower, but Industrial margins declined probably more than we would have expected. So just any thoughts on what drove this? And how do we think about this trend for the remainder of the year?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. Part of it was mix. I think we noted that our powder equipment business was actually up and our legacy Industrial businesses were down. And there is a difference in the margin rates of those 2 groups, those 2 categories. And then, obviously, in addition to that, we had different product mixes going on in different areas.

And within our legacy businesses, there was a little bit of a ramp-up in product development spending here in the first quarter because they're also going to be launching products here in Q2. And so from last year's first quarter, there was a little bit of a spike on the spending side.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

And I'll just add one more. I appreciate all the color on some of the new products. You mentioned these new products adding to sales starting in the second quarter. But could you just help size that opportunity, maybe looking at historical performance when you put in a new product, especially in Contractor, like what does that lead to from an outperformance perspective?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes. We really don't get into details on how much incremental we get from our new products, but we're happy with the investments generally and they do drive incremental business for us. Of course, we have internal estimates that we use to justify projects and what we think the revenues might be. But to be honest with you, until they actually hit the market, we just really don't know.

But I will just -- getting back to my comments earlier, I would say that this particular slate of new products that we have coming out in CED, from somebody who's been here for a long time, is pretty exciting and should move the needle if everything else stays consistent.

Operator

Our next question comes from Joe Ritchie with Goldman Sachs.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

So maybe just following on that new product discussion. I'm just curious when you're thinking about this and hitting the shelves of some of the big box channel, is there a stock in effect that you're contemplating as well? Or is this just -- you would just expect end market demand for the product to be good?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

I mean for sure, once we launch a product, if it's a good product, they're going to want to have it in stock. So there's going to be a stock-in that happens just naturally, particularly with respect to the CED products. But I also believe that these are some pretty smart people that run these businesses, and so they're not going to overstock.

They're going to stock what they think the demand is going to be. So we might see a little bit of a bump, but then the sell-through for these products should be strong enough where I wouldn't expect to see a big pullback, let's say, later in the year because they did a big ramp up, if that helps.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes, I would agree with that, and I would just add that the days -- the times that we experienced maybe over the last 18 months to 2 years where maybe some of the large box stores ordered a little bit extra because they were fairly concerned about deliveries and supply chain challenges and such, that's not what we're talking about here. There won't be -- there shouldn't be that effect now.

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

We do have one really interesting product going into the Home Center that I can talk about because we have released it. It's called Cordless Connect, where you can take a cordless drill and put an attachment onto it and turn it into a paint sprayer. And we think that the -- Home Center is going to love it. And so that one was released recently. It's called Cordless Connect. You guys can look at it on our website, if you'd like. But that could be a nice product for the Home Center.

Joseph Alfred Ritchie - *Goldman Sachs Group, Inc., Research Division - VP & Lead Multi-Industry Analyst*

I'll definitely take that one out, 2 for 1. But -- so Mark, I guess, with these new products that are -- that you're introducing, I would imagine that the pricing is pretty good as well. How does this -- does this change how you guys are thinking about pricing across the portfolio this year?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Well, typically, when we launch a new product, we've -- if it's an upgrade of an existing product, we've redesigned it to take some cost out, or just better and more efficient at it, I wouldn't say that there's any large incremental pricing on these products, but I would say the margin rates as a whole are consistent with what you would see across the CED businesses.

Operator

Our next question comes from Matt Summerville with D.A. Davidson.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Just back to the new products for a second, Mark. Do you consider this more of -- and maybe the answer is both, but do you consider this more of a refresh of existing product lines or an opportunity where you're adding brand-new tools to a contractor's tool belt? And along those lines, are you gaining shelf space or are you cannibalizing shelf space?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, it's a good question. I would say it's a mixed bag. So like the Cordless Connect product that I just talked about, you're adding something to someone's tool belt that they didn't have before. Bringing that QuickShot technology, which you can again find on our website and having that be able to be used by all the airless sprayers in the world, that's also another tool that you would add that a contractor doesn't currently have access to today.

The XT, which is our new airless electric motor that Graco has designed and is built specifically for airless sprayers, that's an upgrade. That's taking an existing product and just making it better by putting that technology into it.

On the HPCF side of the equation, the flooring units, some of our protective coating units, contractors are doing that work today, but we're bringing them a better tool to get the job done, giving them variable ratio capability, giving them the ability to get away from having to do some hand mixing, making them more productive and making them more efficient.

Really everything that, that group does in CED when they launch a product is to bring more tools and a better experience to their customers when it comes to the materials that they got to apply.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Research Analyst*

Then as a follow-up, maybe can you sort of touch on whether or not you're seeing much in the way of anything from a momentum standpoint when it comes to your M&A funnel pipeline? Has actionability changed? I mean, obviously, you're sitting here with $600 million in cash and practically no debt. So how should we kind of be thinking about capital deployment from here?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Yes, I feel pretty good about our pipeline. I brought in an M&A guy a couple of years ago, and we've been working the pipeline hard. The teams have been very thoughtful in the names that are on our list. And we have been active in communicating our intentions with some of the more substantial targets that we have. The proof is always getting the things done. But I do feel, at least internally, in terms of what Graco is doing, I feel really good about our prospects.

The market, David, Chris might have a better view of this, but from what I've read and what I've heard, the market for deals is a little bit more favorable now than what it has been at least over the last 6 to 12 months.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes. I would add -- yes, that's my impression talking with our internal team and cross-checking with some smart people on the outside. We see an increase in, I'll call it, marketing activity, from teasers to blue books, and there's speculation out there. Again, you guys think about this a lot more than I do, but there's speculation out there that we're -- we are -- where we are at in many private equity portfolios, where they're at in their cycle now, it's not unreasonable to expect them to bring some of their merchandise to market, and big picture, long term, that could be an opportunity for us.

And also touching on our team and the work, that Mark alluded to, that they're doing, increased activity of reaching out and initiating contacts and relationships with companies directly. And that's been really one of the important things we want this group to do. Not that there's anything wrong with auctions, but exclusive discussions can sometimes generate some very interesting opportunities.

So the proof is in the results, not in the good intentions, but I see what we're doing and I think it is a series of steps in a good direction.

Operator

Our next question comes from Jeff Hammond with KeyBanc.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Just on -- I guess the contractor seems to make the most sense in terms of new product introductions and timing. But anything you're seeing in terms of bigger orders or systems that would have gotten just pushed out from 1Q to 2Q that would kind of lend itself to the weaker 1Q and maybe a better 2Q?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Nothing that comes to my mind. I guess if you look at the overall backlog that we had as a company starting the year and where we ended up at the end of the quarter, it was up just slightly, and I think it was mostly due to the orders that came in at the end of the quarter. There were -- no one is really pushing out anything in terms of orders or systems, at least that I'm aware of.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. And then I guess within -- I mean, you're saying low single digits. But given the slow start, is there any kind of bias within that? Or as you look at the regions, do you say, hey, North America and EMEA feel about right and Asia feels weaker? Just any kind of change within that just given the slow start?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Well, I would just go back to kind of what I said before. For sure, our ability to forecast is handicapped a lot by the fact that we're a very short-cycle business. And any one region in a 13-week period could look really good, and then the next one, they may not look quite so good. The way I look at it, we're 13 laps into a 52-lap race, and we haven't changed the tires yet on the car. So I think that there's plenty of year left here. All business units, all regions are pushing hard toward growth, and we'll do our best to make that happen.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Yes, I would just add, if you take a look at the outlook chart with the colors on it, you can get kind of a sense of where we see -- are feeling okay about the opportunities with greenish in the industrial segment and in the Americas as well as I think some possibilities in that Contractor space, for all the reasons that Mark touched on. I'm hopeful that we will continue to see some respectable momentum in the European market, the EMEA market for Contractor.

And I think you can get a flavor for how we have equalized the colors in Asia Pacific. Definitely concerns there across the board. We do have some bright spots there, too. But the size of China, and some of the things that we've seen in construction and industrial and in process markets and other things, at least at the moment, at the 13th week lap, gives us a little more caution there than in the other parts of the world.

Operator

(Operator Instructions)

Our next question comes from Walt Liptak with Seaport Research.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Thanks for the color on the monthly cadence. And just a follow-up on that. I think we kind of knew going into the quarter that things could be a little bit weaker and the comp would be a little bit tougher. But is there something like postmortem that you looked at and said, okay, China was weaker or industrial was weaker in the U.S.? And if you did that, what was it and why?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Well, I would kind of say what I think we said earlier, which is essentially that we started out slower than we thought we would, particularly in some of the industrial product categories and also some of the pumping equipment that goes into factories that we call process transfer equipment. These are like diaphragm pumps that have a lot of different applications.

And that wasn't just limited to the Asia Pacific region. That was, I would say, our expectation would have been higher for those product categories in all of the regions than what we actually experienced. And if you have an idea of what the cause of that is, send me a note, because it just seemed like it was a general slowdown compared to what we thought we would have to start off the year. The good news, of course, is that things seem to get more on firm footing here. And as we kind of work through the quarter, things look a little bit better to us.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. Yes. That's great. And in Europe, the Europe numbers looked pretty good, considering everything in Europe. And so I wonder, was that related to the powder business? I think that Gema out there is pretty strong? Or are you seeing a different trend in Europe? I think you made some comments earlier as well.

David M. Lowe - *Graco Inc. - CFO & Treasurer*

Well, we had some lift in Europe from the Contractor side of the business. And we, I think, mentioned the protective coatings business, we called out the foam. I'll volunteer that the sell-through to the Pro paint channel was seen as pretty good. And I think those were probably the more positive pieces of the story.

On the -- I'll call it in the other segments, on the Industrial side, I think the market we'd characterize as being a bit more anemic. And of course, in Europe, the powder market -- the powder equipment market is a larger percent of the Industrial segment than in the other 2 regions. It was flattish for the period.

And then in the Process space, I think there we got off to a slow start. Channel orders that we were hoping to receive from the channel just weren't there at the beginning of the year.

Walter Scott Liptak - *Seaport Research Partners - MD & Senior Industrials Analyst*

Okay. Great. Thanks for the color on that. And then maybe a last one for me. With the discussion of the new products, which I think is great, is there a new product spend that drops off in the second quarter or in the second half once you get these new products launched?

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

Not in a meaningful manner.

Operator

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

Mark W. Sheahan - *Graco Inc. - President, CEO & Director*

All right. Well, thank you very much for participating today. That concludes the call, and have a good rest of your day.

Operator

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