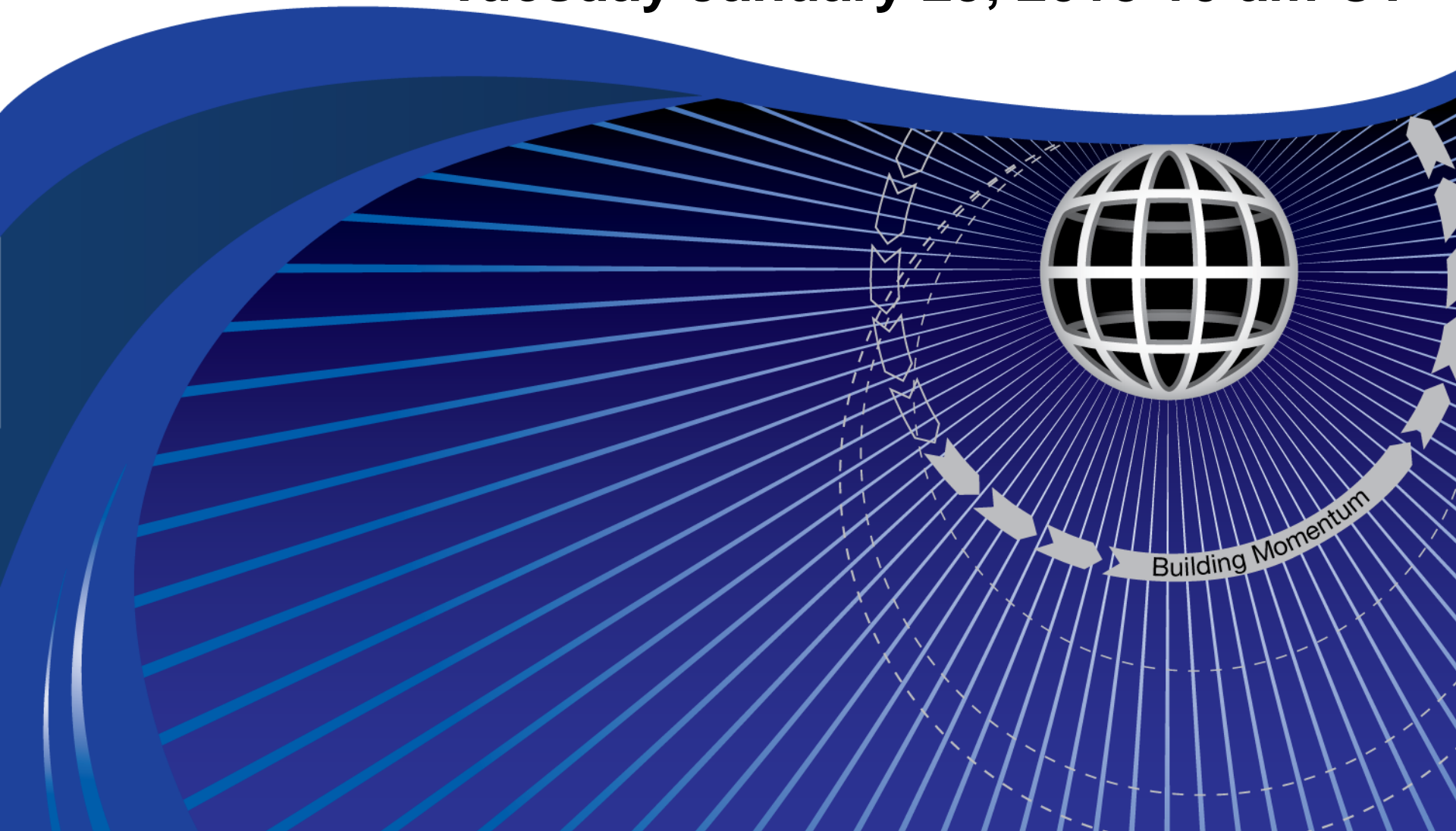




4th Quarter 2012 Earnings Conference Call

Tuesday January 29, 2013 10 am CT





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, and Exhibit 99 to, the Company's Form 10-K, and Item 1A of the current Quarterly Report on Form 10-Q.



Conference Call Logistics

The release, accompanying slides and replay web cast are available online at investors.graco.com

Telephone replay will be available after 2 p.m. ET, January 29, 2013. The replay by telephone will be available through February 1, 2013.

- 800-406-7325 – Conference ID #4587286
- 303-590-3030 – Conference ID #4587286, for International participants



Consolidated Financial Results

\$ millions except EPS	Fourth Quarter			Year-to-Date		
	2012	2011	Change	2012	2011	Change
Sales	\$ 253.7	\$ 215.6	18 %	\$1,012.5	\$ 895.3	13 %
Gross Profit	\$ 138.9	117.0	19 %	550.5	500.2	10 %
% of Sales	54.7 %	54.3 %	0.4 pts	54.4 %	55.9 %	(1.5) pts
Operating Earnings	\$ 57.9	47.4	22 %	224.7	219.5	2 %
% of Sales	22.8 %	22.0 %	0.8 pts	22.2 %	24.5 %	(2.3) pts
Net Earnings	\$ 42.3	\$ 30.4	39 %	\$ 149.1	\$ 142.3	5 %
% of Sales	16.7 %	14.1 %	2.6 pts	14.7 %	15.9 %	(1.2) pts
Diluted Earnings Per Share	\$ 0.68	\$ 0.50	36 %	\$ 2.42	\$ 2.32	4 %

Acquisition/divestiture related items (as compared to prior period):	Fourth Quarter	Year-to-Date
Non-recurring charges related to inventory	\$ -	\$ 7
Acquisition/divestiture costs- increase/(decrease)	(1)	8
Amortization of intangibles- increase	2	6
Interest expense- increase	1	10
Liquid Finishing dividend (income) (post-tax)	(4)	(12)



Consolidated Financial Results - Net Sales

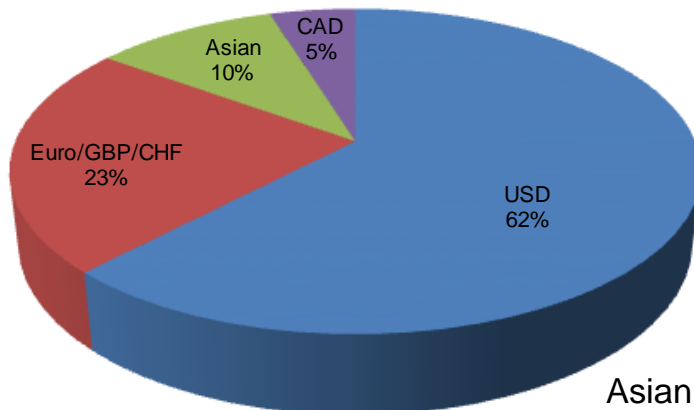
Fourth Quarter

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	0 %	13 %	(3)%	14 %	0 %	(17)%	3 %
Acquisitions	25 %	0 %	0 %	5 %	42 %	11 %	15 %
Currency	0 %	0 %	0 %	1 %	(3)%	1 %	0 %
Total	25 %	13 %	(3)%	20 %	39 %	(5)%	18 %

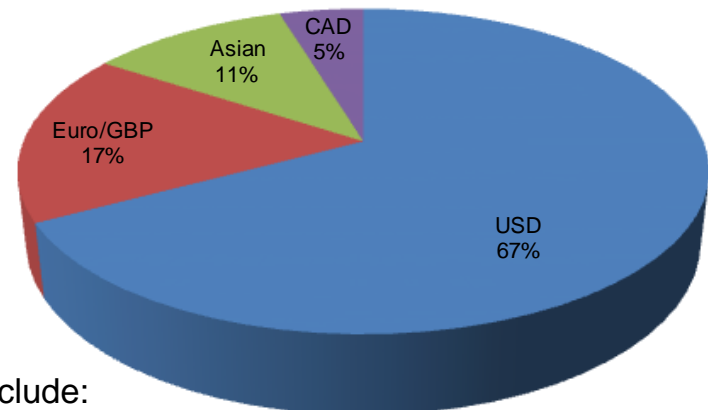
Year-to-Date

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	3 %	4 %	8 %	9 %	2 %	(5)%	4 %
Acquisitions	19 %	0 %	0 %	4 %	26 %	10 %	10 %
Currency	(2)%	(1)%	(1)%	0 %	(6)%	0 %	(1)%
Total	20 %	3 %	7 %	13 %	22 %	5 %	13 %

Sales by Currency Q4 2012



Sales by Currency Q4 2011



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



Consolidated Impact of Acquisition/Divestiture Items

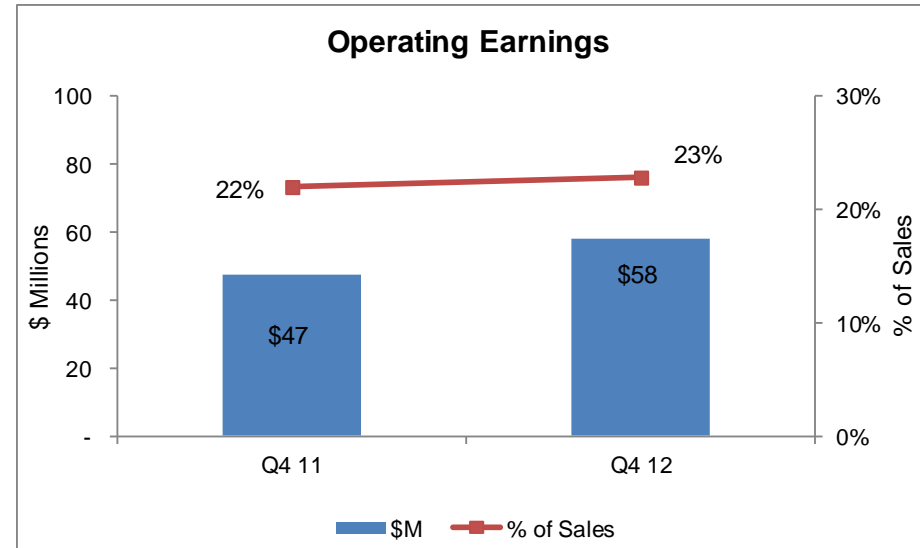
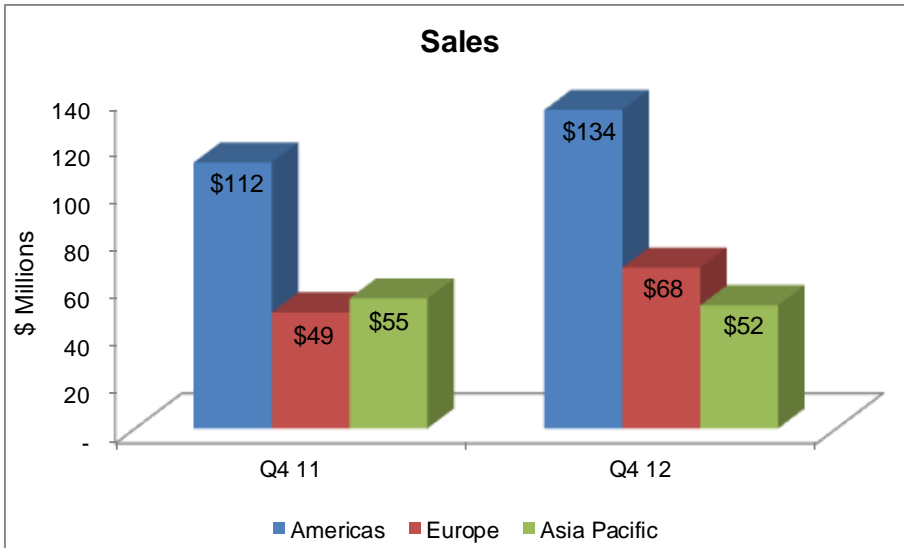
\$ millions except EPS

Fourth Quarter	2012	2011	Change	Acquisition/Divestiture Related Items
Sales	\$ 253.7	\$ 215.6	18 %	\$32 million Powder Finishing, 15 percentage points (pts)
Gross Profit	\$ 138.9	117.0	19 %	Powder lower gross margin percentage reduced consolidated results by 1½ percentage points
% of Sales	54.7 %	54.3 %	0.4 pts	
Operating Earnings	\$ 57.9	47.4	22 %	\$2 million quarterly recurring Powder Finishing intangible amortization; Acquisition/divestiture cost \$1 million, a decrease of \$1M from prior year
% of Sales	22.8 %	22.0 %	0.8 pts	
Net Earnings	\$ 42.3	\$ 30.4	39 %	Liquid Finishing dividend (post-tax) \$4 million; \$1 million after tax increase in interest expense
% of Sales	16.7 %	14.1 %	2.6 pts	
Diluted Earnings Per Share	\$ 0.68	\$ 0.50	36 %	

Year-to-Date	2012	2011	Change	Acquisition/Divestiture Related Items
Sales	\$ 1,012.5	\$ 895.3	13 %	\$93M Powder Finishing, 10 percentage points (pts)
Gross Profit	550.5	500.2	10 %	\$7M non-recurring charges related to Powder inventory, 1 pt impact on margin; Powder lower gross margin reduced consolidated results by 1 pt
% of Sales	54.4 %	55.9 %	(1.5) pts	
Operating Earnings	224.7	219.5	2 %	\$6 million (\$2M per quarter) Powder Finishing intangible amortization; Acquisition/divestiture cost increase \$8 million; \$16 million in total
% of Sales	22.2 %	24.5 %	(2.3) pts	
Net Earnings	\$ 149.1	\$ 142.3	5 %	Liquid Finishing dividend (post-tax) \$12 million; \$7 million after tax increase in interest expense
% of Sales	14.7 %	15.9 %	(1.2) pts	
Diluted Earnings Per Share	\$ 2.42	\$ 2.32	4 %	



Consolidated Fourth Quarter Results

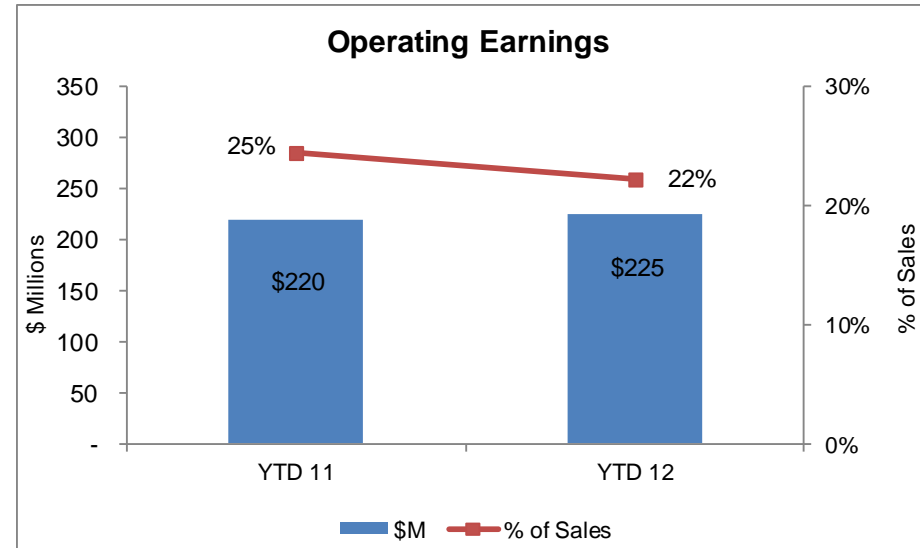
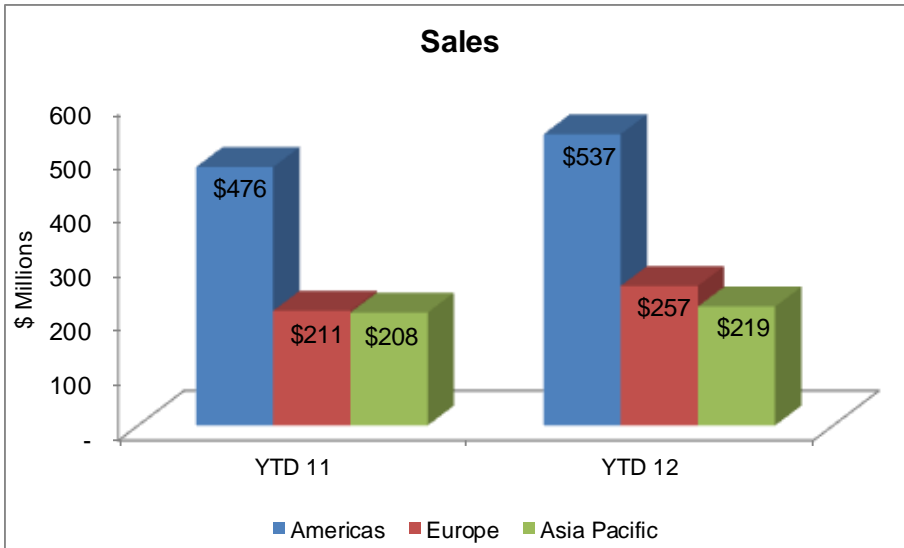


- Sales increase of 18% (no impact from currency translation)
 - Powder Finishing sales of \$32 million account for 15 percentage points of growth
- Gross margin rate up ½ percentage point from prior year
 - Realized pricing, improved production volumes and efficiencies
 - Powder Finishing lower margin reduced consolidated by 1½ percentage points

- Operating expenses are up \$11 million
 - \$9 million Powder Finishing operations
- Interest expense \$5 million, up \$1 million from Q4 2011
- Liquid Finishing dividend \$4 million, post tax
- Tax rate 28% is 2½ percentage points lower than fourth quarter 2011
 - 2012 reduced by effect of investment income (post-tax) from Liquid Finishing
 - Effect of tax rate change on deferred liabilities from tax holiday received in a foreign jurisdiction



Consolidated Year-to-Date Results



- Sales increase of 13% (15% at consistent currency translation rates)
 - Powder Finishing sales of \$93 million accounts for 10 percentage points
- Gross margin rate down 1½ percentage points from prior year
 - Effect of purchase accounting 1 percentage point decline
 - Realized pricing partially offset by currency translation and changes in product mix
 - Powder Finishing lower margin reduced consolidated by 1 percentage point

- Operating expenses are up \$45 million
 - \$8 million acquisition /divestiture costs
 - \$25 million Powder Finishing operations
 - \$5 million pension
 - \$5 million product development
- Interest expense \$19 million, up \$10 million from December 2011
- Liquid Finishing dividend \$12 million, post tax
- Tax rate 31% is 1½ percentage points lower than prior year
 - 2012 reduced by effect of the investment income (post-tax) from Liquid Finishing



Consolidated Results

Change in Operating Earnings

2011 Operating Earnings (\$M and % of sales)

Translation effect

Effect of Powder Finishing

Purchase accounting effect on inventory

Powder Finishing operating earnings leverage

Acquisition/divestiture costs (increase)/decrease

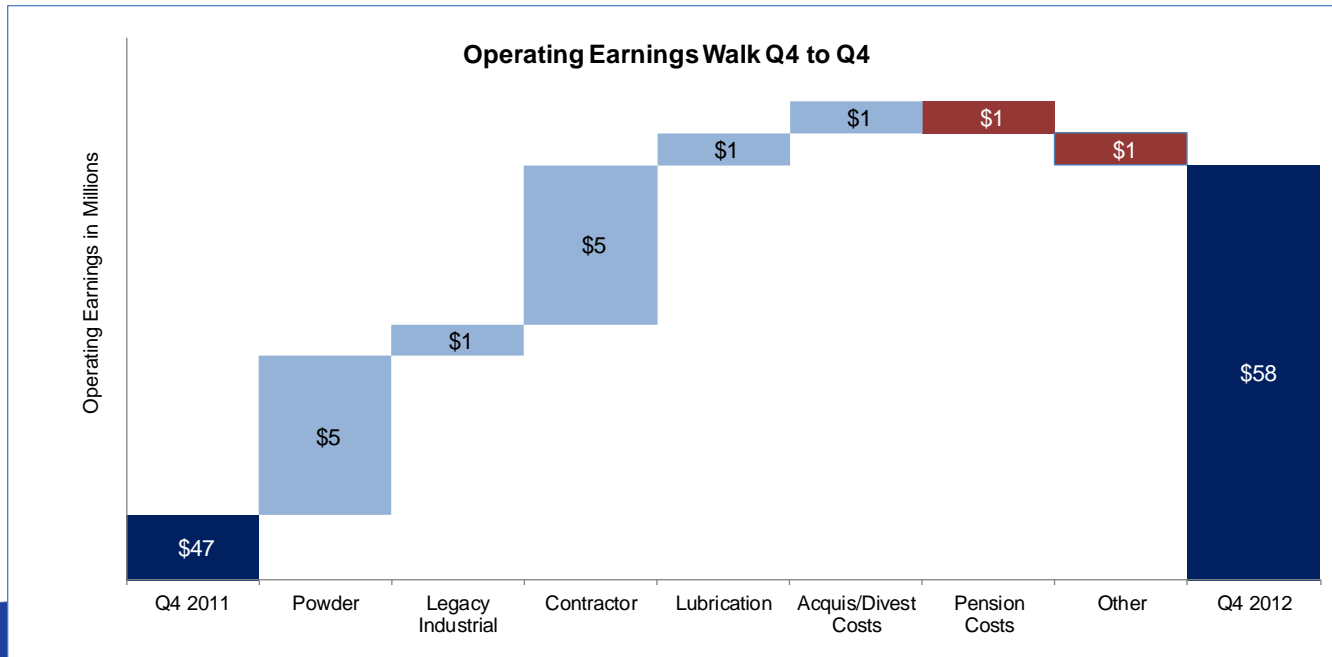
Pension costs (increase)

Pricing, product cost and mix

Volume effect on expense leverage

2012 Operating Earnings (\$M and % of sales)

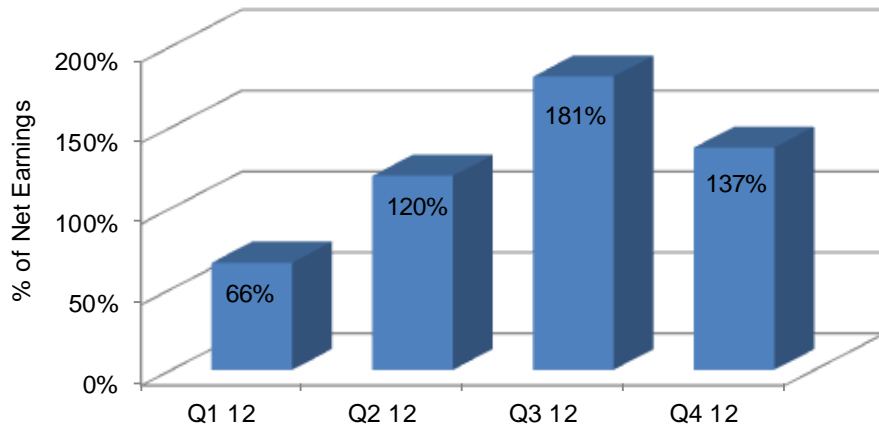
	Fourth Quarter		Year-to-Date	
2011 Operating Earnings (\$M and % of sales)	\$ 47	22 %	\$ 220	25 %
Translation effect	—	—	(7)	—
Effect of Powder Finishing				
Purchase accounting effect on inventory	—	—	(7)	(1)
Powder Finishing operating earnings leverage	5	(1)	16	(1)
Acquisition/divestiture costs (increase)/decrease	1	1	(8)	(1)
Pension costs (increase)	(1)	(1)	(5)	(1)
Pricing, product cost and mix	9	2	28	1
Volume effect on expense leverage	(3)	—	(12)	—
2012 Operating Earnings (\$M and % of sales)	<u>\$ 58</u>	<u>23 %</u>	<u>\$ 225</u>	<u>22 %</u>



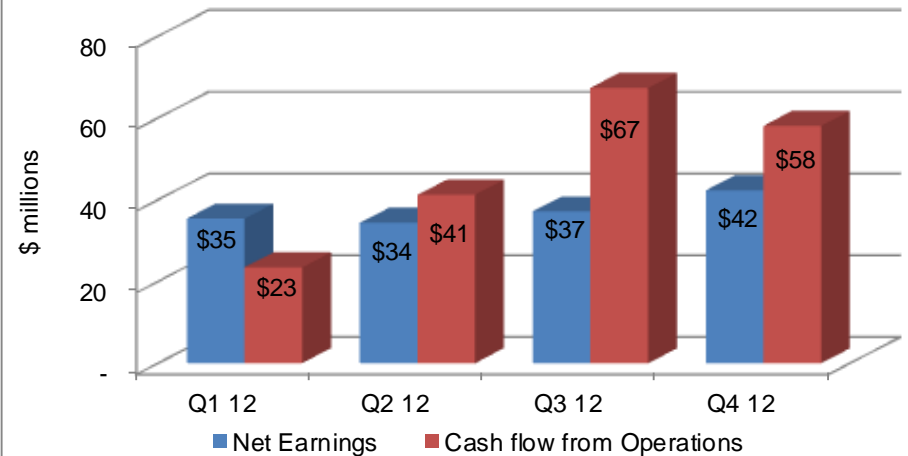


Cash Flow and Liquidity

Cash from Operations as % of Net Income



Net Earnings and Cash from Operations



Long-term debt \$556 million at year end

- Interest expense \$5 million for the quarter, \$19 million year-to-date

Liquid Finishing dividend (post-tax)

- \$4 million for the quarter, \$12 million year-to-date

Voluntary contribution to U.S. funded pension

- \$10 million year-to-date

2012 cash flow from operations \$190 million versus \$162 million in 2011

• Cash uses

- Investment in businesses held separate \$427 million
- Acquired businesses \$240 million
- Payments on long-term line of credit \$393 million
- Capital expenditures \$18 million
- Dividends paid \$54 million

• Working capital

- Increase in accounts receivable \$3 million
- Decrease in inventories \$6 million



Acquisition of Finishing Businesses

- On April 2, 2012, the Company completed the purchase of the finishing businesses of Illinois Tool Works Inc. The acquisition includes Powder Finishing and Liquid Finishing equipment operations, technologies and brands. Results of the Powder Finishing business have been included in the Industrial segment since the date of acquisition
- The Federal Trade Commission (FTC) issued a Hold Separate Order for Graco to hold the Liquid Finishing assets separate and in compliance with the FTC order, the Liquid Finishing businesses are run independently by existing management under the supervision of a trustee who reports directly to the FTC
- Liquid Finishing businesses held separate from Graco are reflected as a cost-method investment, and its financial results have not been consolidated with those of the Company
 - Income is recognized based on dividends from current earnings, \$12 million (post-tax) received year-to-date
- The FTC issued a proposed decision and order (the “Decision and Order”), which requires Graco to sell the Liquid Finishing business assets, no later than 180 days from the date the order becomes final. The FTC has not yet issued its final Decision and Order
- Graco has retained an investment bank to help market the Liquid Finishing businesses and identify potential buyers

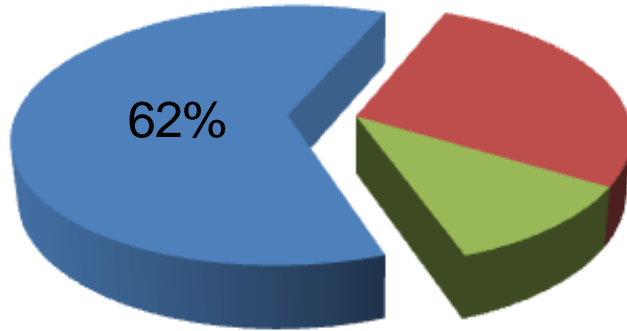


Other Discussion Items

- Total future costs of the divestiture expected to be approximately \$10 million, though the timing and final amount may be affected by the sales and regulatory review processes
- 2013 annualized tax rate is projected to be approximately 32-33%
 - Reinstated federal R&D tax credit will have favorable effect in Q1 2013 and will include catch-up for 2012 of \$2½ million resulting in a tax rate for Q1 2013 of 31-32%
 - Assumes \$4 million (post-tax) in dividends per quarter from the Liquid Finishing business
- Annual pension expense is expected to be approximately \$2M favorable compared to 2012 and we may also decide to make a voluntary contribution to the US funded pension of approximately \$10M
- Capital expenditures are expected to be \$25 million in 2013



Industrial Equipment Results



Fourth Quarter Industrial Segment Sales as % of Consolidated



Sales (\$ M)	Fouth Quarter*			Year-to-Date*		
	2012	2011	Change	2012	2011	Change
Americas	\$ 69	\$ 57	20 %	\$ 261	\$ 220	19 %
Europe	50	31	61	184	135	36
Asia Pacific	37	37	1	158	147	8
Total	\$ 156	\$ 125	25 %	\$ 603	\$ 502	20 %
Operating Earnings	\$ 47	\$ 41	17 %	\$ 186	\$ 174	7 %
% of sales	30 %	33 %		31 %	35 %	

*Includes Powder Finishing sales of \$32M QTD, \$93M YTD



Industrial Equipment Results

Change in Operating Earnings

2011 Operating Earnings (\$M and % of sales)

Translation effect

Effect of Powder Finishing

Purchase accounting effect on inventory

Powder Finishing operating earnings leverage

Pricing, product cost and mix

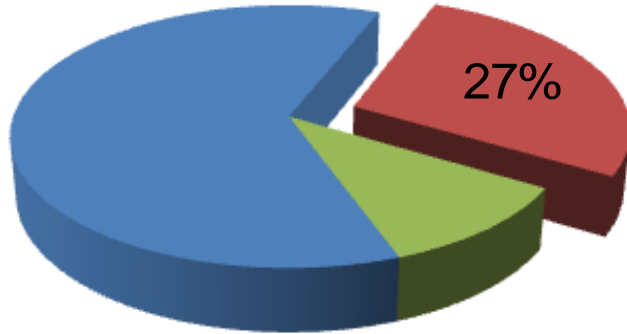
Volume effect on expense leverage

2012 Operating Earnings (\$M and % of sales)

	<u>Fouth Quarter</u>		<u>Year-to-Date</u>	
2011 Operating Earnings (\$M and % of sales)	\$ 41	33 %	\$ 174	35 %
Translation effect	—	—	(5)	—
Effect of Powder Finishing				
Purchase accounting effect on inventory	—	—	(7)	(1)
Powder Finishing operating earnings leverage	5	(4)	16	(3)
Pricing, product cost and mix	3	2	16	1
Volume effect on expense leverage	(2)	(1)	(8)	(1)
2012 Operating Earnings (\$M and % of sales)	<u>\$ 47</u>	<u>30 %</u>	<u>\$ 186</u>	<u>31 %</u>



Contractor Equipment Results



Fourth Quarter Contractor Sales as % of Consolidated



Sales (\$ M)	Fourth Quarter			Year-to-Date		
	2012	2011	Change	2012	2011	Change
Americas	\$ 45	\$ 35	25 %	\$ 194	\$ 184	5 %
Europe	15	16	(4)	64	68	(5)
Asia Pacific	10	11	(6)	41	39	4
Total	\$ 70	\$ 62	13 %	\$ 299	\$ 291	3 %
Operating Earnings	\$ 11	\$ 6	73 %	\$ 54	\$ 51	7 %
% of sales	16 %	10 %		18 %	17 %	



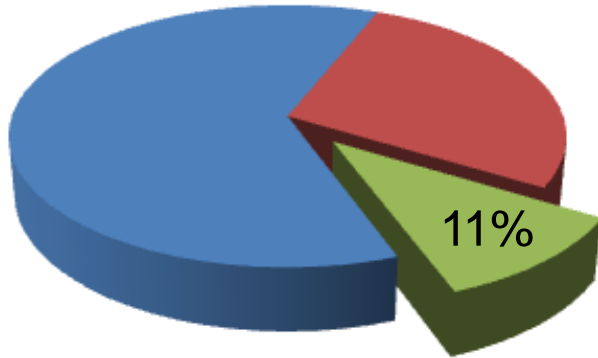
Contractor Equipment Results

Change in % of sales

	<u>Fourth Quarter</u>		<u>Year-to-Date</u>	
2011 Operating Earnings (\$M and % of sales)	\$ 6	10 %	\$ 51	17 %
Translation effect	—	—	(2)	—
Pricing, product cost	6	3	9	1
Effect of product mix and channel inventory realignment	—	—	(3)	(1)
Expense/volume leverage	(1)	3	(1)	1
2012 Operating Earnings (\$M and % of sales)	<u>\$ 11</u>	<u>16 %</u>	<u>\$ 54</u>	<u>18 %</u>



Lubrication Equipment Results



Fourth Quarter Lubrication Sales as % of Consolidated



Sales (\$ M)	Fourth Quarter			Year-to-Date		
	2012	2011	Change	2012	2011	Change
Americas	\$ 21	\$ 19	8 %	\$ 81	\$ 72	13 %
Europe	2	2	16	9	9	2
Asia Pacific	4	7	(39)	20	22	(10)
Total	\$ 27	\$ 28	(3)%	\$ 110	\$ 103	7 %
Operating Earnings	\$ 6	\$ 5	5 %	\$ 23	\$ 19	19 %
% of sales	20 %	19 %		20 %	18 %	



Lubrication Equipment Results

Change in % of sales

2011 Operating Earnings (\$M and % of sales)

Translation effect

Price / Product cost / mix

Volume effect on expense leverage

2012 Operating Earnings (\$M and % of sales)

	<u>Fourth Quarter</u>		<u>Year-to-Date</u>	
2011 Operating Earnings (\$M and % of sales)	\$ 5	19 %	\$ 19	18 %
Translation effect	—	—	—	—
Price / Product cost / mix	—	1	6	1
Volume effect on expense leverage	1	—	(2)	1
2012 Operating Earnings (\$M and % of sales)	<u>\$ 6</u>	<u>20 %</u>	<u>\$ 23</u>	<u>20 %</u>



Move – Measure – Control – Dispense – Apply

Building Momentum