



EMERGING ECONOMIES **DRIVE** GROWTH



3rd Quarter 2011 Earnings Conference Call

Thursday, October 27, 2011, 10 a.m. CT



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, 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 www.Graco.com (click on “Investor Relations”)

Telephone replay available after 2 p.m. ET, October 27, 2011. The replay by telephone will be available through October 30, 2011.

- 800-406-7325 – Conference ID #4478419
- 303-590-3030 – Conference ID # 4478419, for International participants



Consolidated Financial Results

\$ millions except EPS

	Third Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Sales	\$ 227.3	\$ 190.0	20 %	\$ 679.7	\$ 546.8	24 %
Gross Profit	126.3	104.6	21 %	383.2	295.8	30 %
% of Sales	55.6 %	55.0 %	0.6 pts	56.4 %	54.1 %	2.3 pts
Operating Earnings	56.8	43.4	31 %	172.1	115.3	49 %
% of Sales	25.0 %	22.9 %	2.1 pts	25.3 %	21.1 %	4.2 pts
Net Earnings	\$ 36.6	\$ 30.4	20 %	\$ 111.9	\$ 75.8	48 %
% of Sales	16.1 %	16.0 %	0.1 pts	16.5 %	13.9 %	2.6 pts
Diluted Earnings Per Share	\$ 0.60	\$ 0.50	20 %	\$ 1.82	\$ 1.25	46 %

Operating expenses for the quarter included \$3 million related to the pending acquisition of ITW's finishing businesses, year-to-date \$6 million



Consolidated Financial Results - Effect of Currency

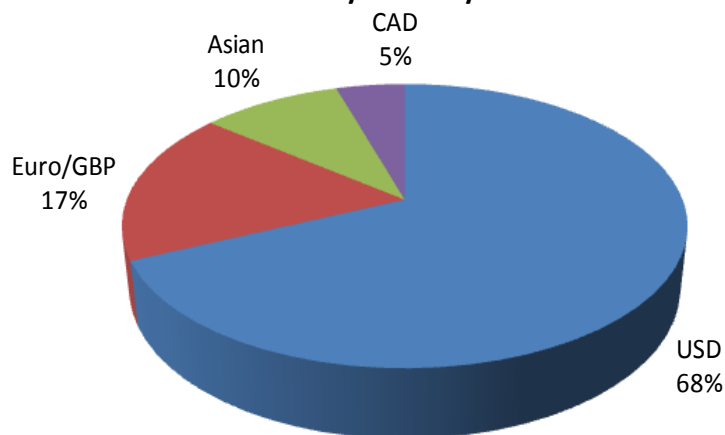
Third Quarter

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	22%	8%	21%	12%	10%	34%	16%
Currency	3%	3%	2%	1%	8%	7%	4%
Total	25%	11%	23%	13%	18%	41%	20%

Year-to-Date

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	24%	15%	32%	18%	19%	31%	21%
Currency	3%	2%	2%	1%	7%	6%	3%
Total	27%	17%	34%	19%	26%	37%	24%

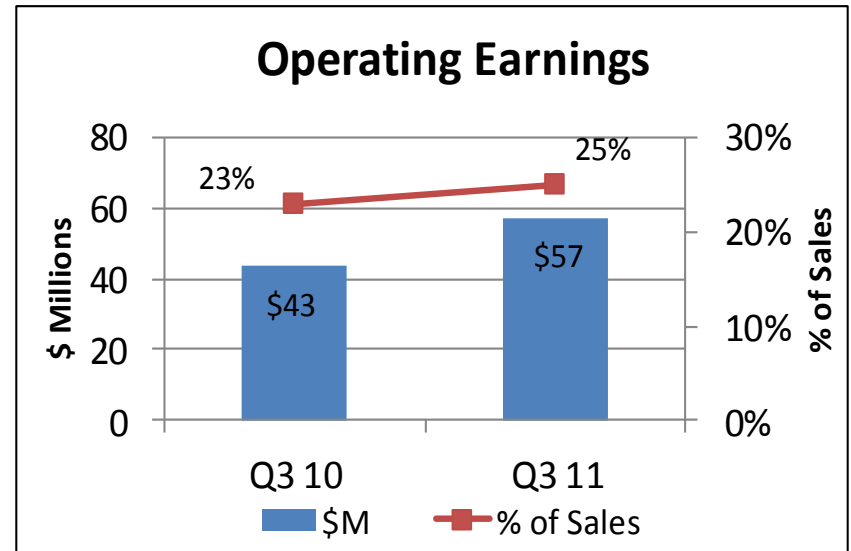
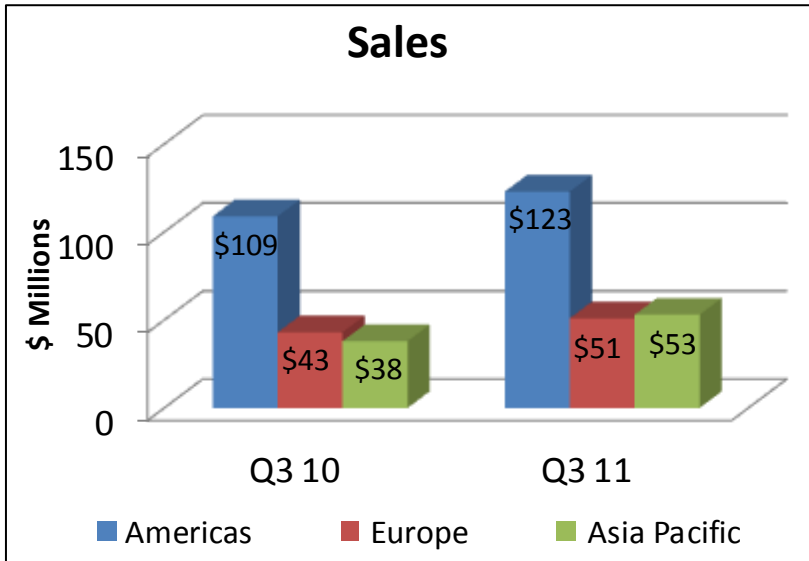
Sales by Currency



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



Consolidated Third Quarter Results

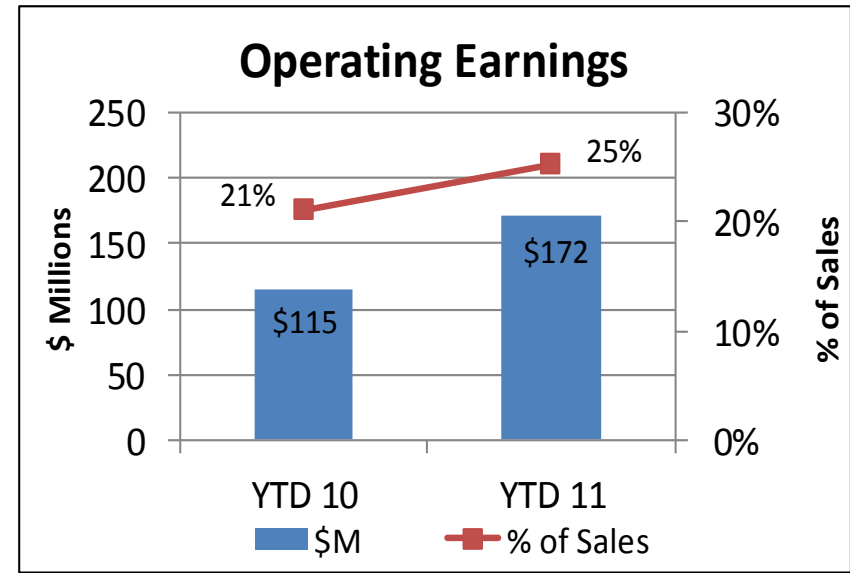
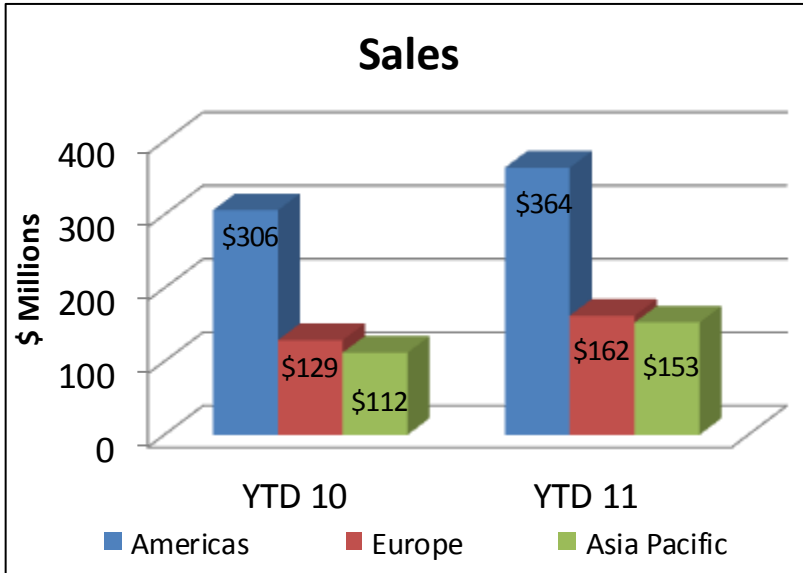


- Sales increase of 20% (4 percentage points from currency translation)
- Gross profit margin improvement 0.6 percentage points from prior year
 - Translation
 - Higher production volumes
 - Higher material costs partially offset by manufacturing efficiencies

- Operating expenses up \$8 million
 - \$3 million transaction costs relating to pending acquisition
 - \$2 million currency translation
 - Increased marketing and selling (primarily Industrial)
- Tax rate 32% is higher than prior year rate of 28%. Last year's rate reflected the favorable effects of tax law rulings and expiring statutes of limitations.



Consolidated Year-to-Date Results



- Sales increased 24% (3 percentage points from currency translation)
- Gross profit margin improvement of 2 percentage points from prior year
 - Higher production volumes
 - Translation
 - High material costs offset by manufacturing efficiencies, pricing

- Operating expenses up \$31 million
 - \$6 million in transaction costs related to pending acquisition
 - \$4 million currency translation
 - Increased selling and marketing, higher marketing and promotion, headcount primarily Asia Pacific
- Tax rate of 33% is consistent with prior year



Consolidated Results

Change in % of sales

2010 Operating Earnings (percentage of sales)

Translation effect

Product cost / mix / price

Unabsorbed manufacturing costs, reduction

Transaction costs for pending acquisition

Volume effect on expense leverage

2011 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

23 %

21 %

1

1

(1)

—

—

1

(1)

(1)

3

3

25 %

25 %

Revenue Leverage (\$M)

Third Quarter

Year-to-Date

Year-Over-Year Revenue Change

\$ 37

\$ 133

Year-Over-Year Operating Earnings Change

\$ 13

\$ 57

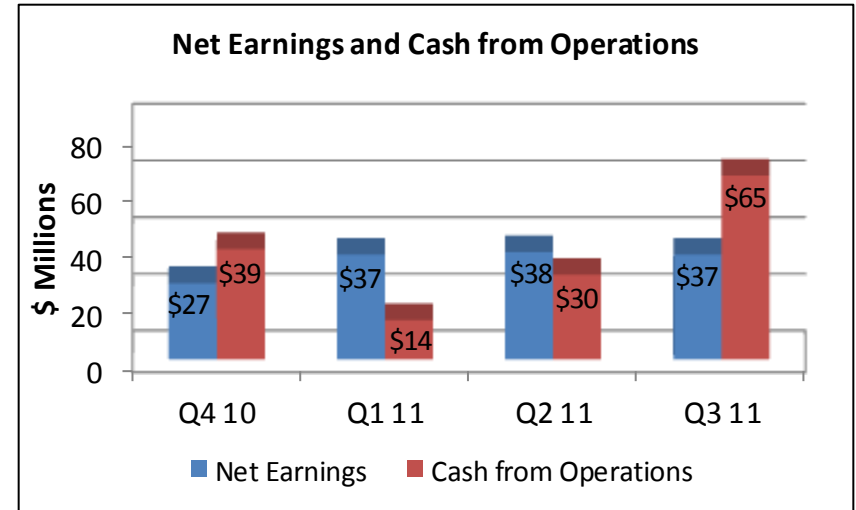
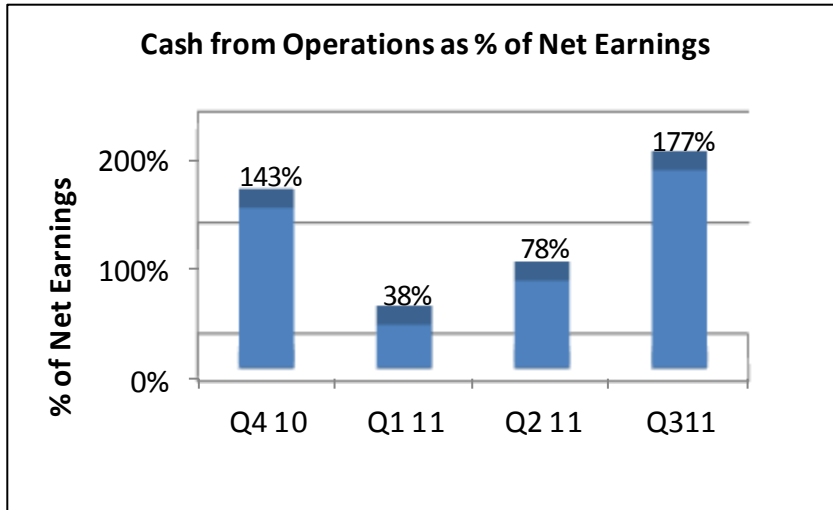
Revenue Leverage

36%

43%



Cash Flow and Liquidity



2011 cash flow from operations of \$109M versus \$62M in 2010

- Cash uses
 - Capital expenditures \$17M
 - Dividends \$38M

Share repurchases \$38M

- \$35M paid, balance in accounts payable

Working capital

- Increase in inventories \$20M
 - Balance consistent with second quarter
- Increase in accounts receivable \$32M
 - Up \$3M in third quarter

Private placement long-term debt \$300M

- Interest expense \$3M for the quarter, \$5M for the year

Available unused current credit lines of \$264M



Acquisition of Finishing Businesses from ITW

Entered into a definitive agreement to purchase the finishing business operations of Illinois Tool Works, Inc. (ITW) in April 2011.

- Cooperating with the Federal Trade Commission (FTC) to close transaction as soon as possible
- Graco and ITW have submitted responses to the FTC's request for additional information and the FTC has up to 60 days from October 18, the date of substantial compliance, to respond

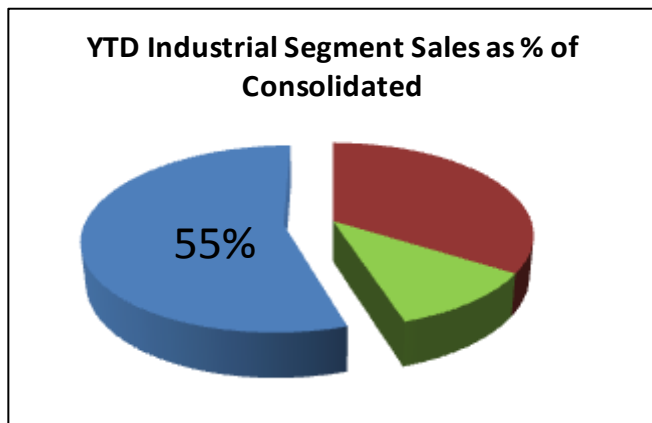


Other Discussion Items

- Material cost pressures expected to moderate in fourth quarter
- Expenses associated with the pending acquisition expected to be \$3 million in fourth quarter
- Interest expense for fourth quarter expected to be \$4 million
- Based on expected profitability of our international subsidiaries and current currency exchange environment, the fourth quarter and annualized tax rate is projected to be approximately 33 percent
- Company will continue to make opportunistic share repurchases
- An additional week of shipping occurred during fiscal fourth quarter 2010



Industrial Equipment Results



Sales (\$ M)	Third Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 54	\$ 47	15%	\$ 163	\$ 134	21%
Europe	33	25	29	104	81	29
Asia Pacific	38	27	40	110	82	35
Total	\$ 125	\$ 99	25%	\$ 377	\$ 297	27%
Operating Earnings	\$ 43	\$ 31	37%	\$ 133	\$ 91	46%
% of sales	34%	31%		35%	31%	



Industrial Equipment Results

Change in % of sales

2010 Operating Earnings (percentage of sales)		
Translation effect		
Product cost / mix / price		
Unabsorbed manufacturing costs, reduction		
Volume effect on expense leverage		
2011 Operating Earnings (percentage of sales)		

Third Quarter

Year-to-Date

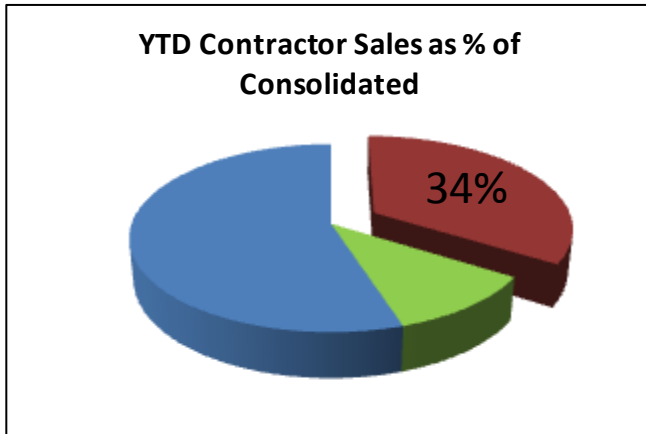
31 %	31 %
1	1
(1)	—
1	1
2	2
<u>34 %</u>	<u>35 %</u>

Revenue Leverage (\$M)

	Third Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 25	\$ 80
Year-Over-Year Operating Earnings Change	\$ 11	\$ 42
Revenue Leverage	45%	52%



Contractor Equipment Results



Sales (\$ M)	Third Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 51	\$ 47	10%	\$ 149	\$ 130	14%
Europe	16	16	(2)	52	44	19
Asia Pacific	11	7	43	28	21	35
Total	\$ 78	\$ 70	11%	\$ 229	\$ 195	17%
Operating Earnings	\$ 17	\$ 14	21%	\$ 44	\$ 32	39%
% of sales	21%	20%		19%	16%	



Contractor Equipment Results

Change in % of sales

2010 Operating Earnings (percentage of sales)

Translation effect

Product cost / price

Unabsorbed manufacturing costs

Channel mix

Volume effect on expense leverage

2011 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

20 %

16 %

1

1

—

1

(1)

1

(1)

(1)

2

1

21 %

19 %

Revenue Leverage (\$M)

Third Quarter

Year-to-Date

Year-Over-Year Revenue Change

\$ 7

\$ 34

Year-Over-Year Operating Earnings Change

\$ 3

\$ 12

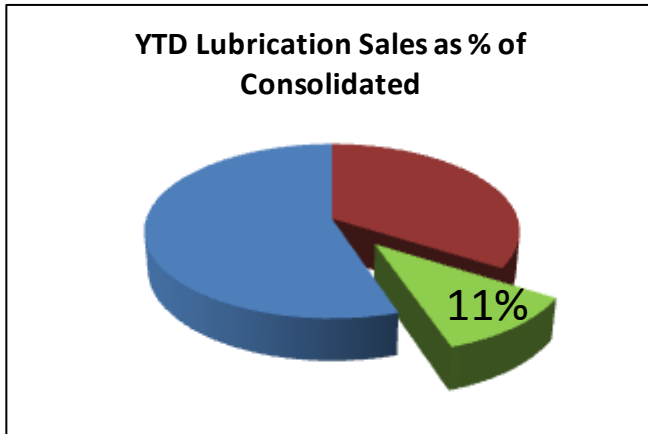
Revenue Leverage

40%

37%



Lubrication Equipment Results



Sales (\$ M)	Third Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 18	\$ 15	17%	\$ 53	\$ 41	28%
Europe	2	1	29	6	4	46
Asia Pacific	5	4	46	15	10	56
Total	\$ 25	\$ 20	23%	\$ 74	\$ 55	34%
Operating Earnings	\$ 4	\$ 3	59%	\$ 14	\$ 6	116%
% of sales	17%	14%		18%	11%	



Lubrication Equipment Results

Change in % of sales

2010 Operating Earnings (percentage of sales)
Translation effect
Product cost and factory performance
Unabsorbed manufacturing costs, reduction
Volume effect on expense leverage
2011 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

14 %	11 %
1	1
(4)	(1)
3	4
3	3
<u>17 %</u>	<u>18 %</u>

Revenue Leverage (\$M)

	Third Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 5	\$ 19
Year-Over-Year Operating Earnings Change	\$ 2	\$ 7
Revenue Leverage	34%	38%



Move – Measure – Control – Dispense – Apply

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