



EMERGING ECONOMIES **DRIVE** GROWTH



2nd Quarter 2011 Earnings Conference Call

Thursday, July 28, 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, July 28, 2011. The replay by telephone will be available through August 2, 2011.

- 800-406-7325 – Conference ID #4454163
- 303-590-3030 – Conference ID # 4454163, for International participants





Consolidated Financial Results

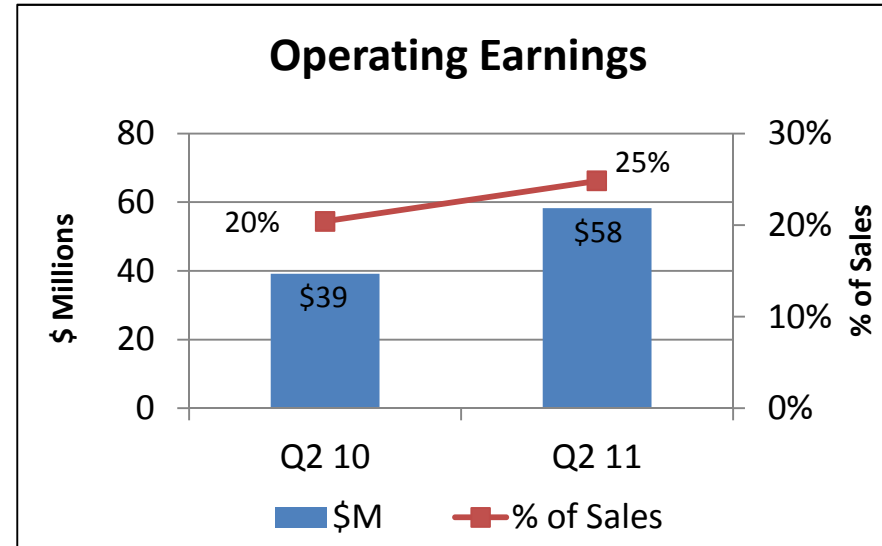
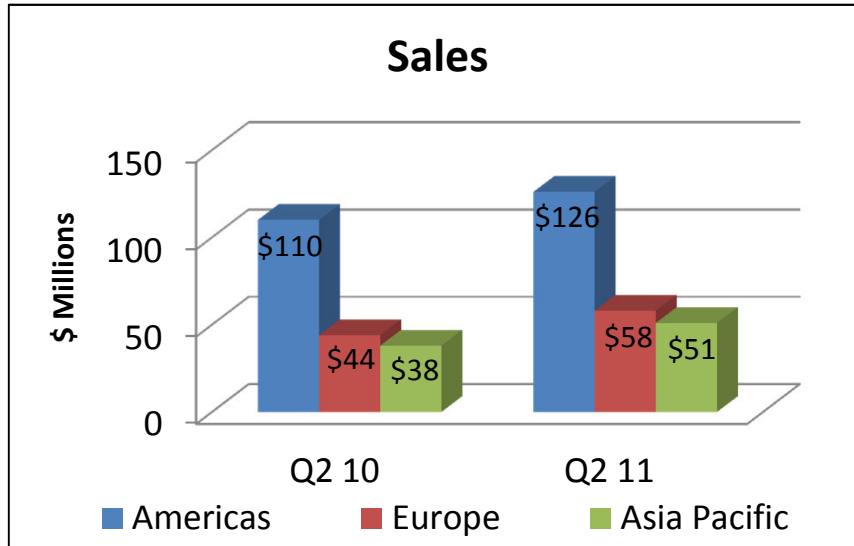
\$ millions except EPS	Second Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Sales	\$ 234.7	\$ 192.1	22 %	\$ 452.3	\$ 356.8	27 %
Gross Profit	132.4	101.9	30 %	256.8	191.2	34 %
% of Sales	56.4 %	53.1 %	3.3 pts	56.8 %	53.6 %	3.2 pts
Operating Earnings	58.3	39.2	49 %	115.3	71.9	60 %
% of Sales	24.8 %	20.4 %	4.4 pts	25.5 %	20.2 %	5.3 pts
Net Earnings	\$ 38.1	\$ 24.8	53 %	\$ 75.4	\$ 45.4	66 %
% of Sales	16.2 %	12.9 %	3.3 pts	16.7 %	12.7 %	4.0 pts
Diluted Earnings Per Share	\$ 0.61	\$ 0.41	49 %	\$ 1.22	\$ 0.74	65 %

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





Consolidated Second Quarter Results

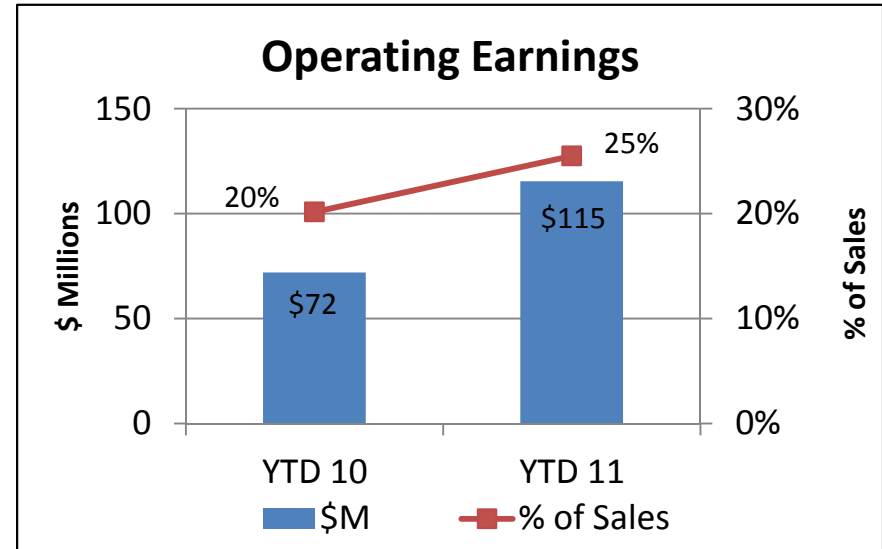
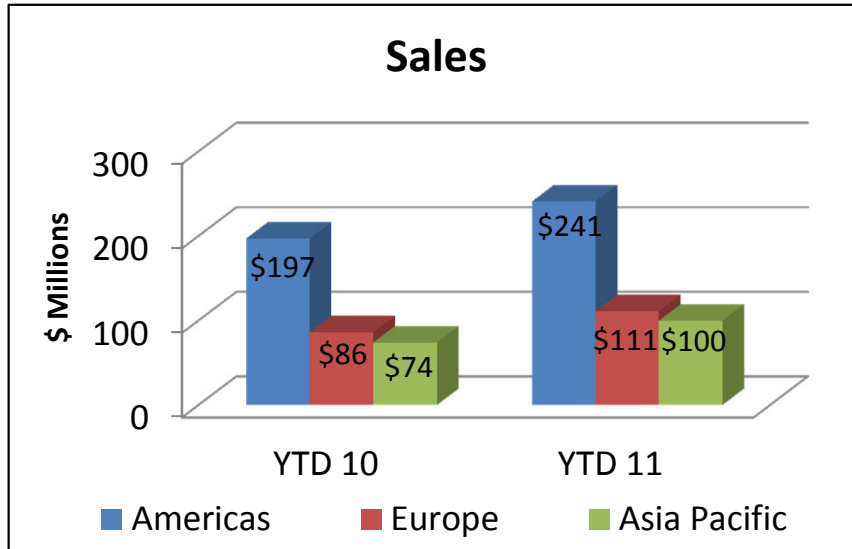


- Sales increase of 22% (4 percentage points from currency translation)
- Gross profit margin improvement of 3 percentage points from prior year
 - Higher production volumes
 - Higher material costs offset by manufacturing efficiencies, pricing

- Operating expenses up \$11 million
 - \$3 million transaction costs relating to pending acquisition
 - \$2 million currency translation
 - Increased marketing and selling (primarily CED), head count (primarily Asia Pacific and Europe)
- Tax rate 32% includes effect of federal R&D tax credit that was not available until Q4 last year



Consolidated Year-to-Date Results



- Sales increased 27% (3 percentage points from currency translation)
- Gross profit margin improvement of 3 percentage points from prior year
 - Higher production volumes
 - High material costs offset by manufacturing efficiencies, pricing

- Operating expenses up \$22 million
 - \$3 million in transactions costs related to pending acquisition
 - \$3 million currency translation
 - Increased selling and marketing (primarily CED), headcount (primarily Asia Pacific and Europe)
- Tax rate of 33% includes effect of federal R&D tax credit not available until Q4 last year



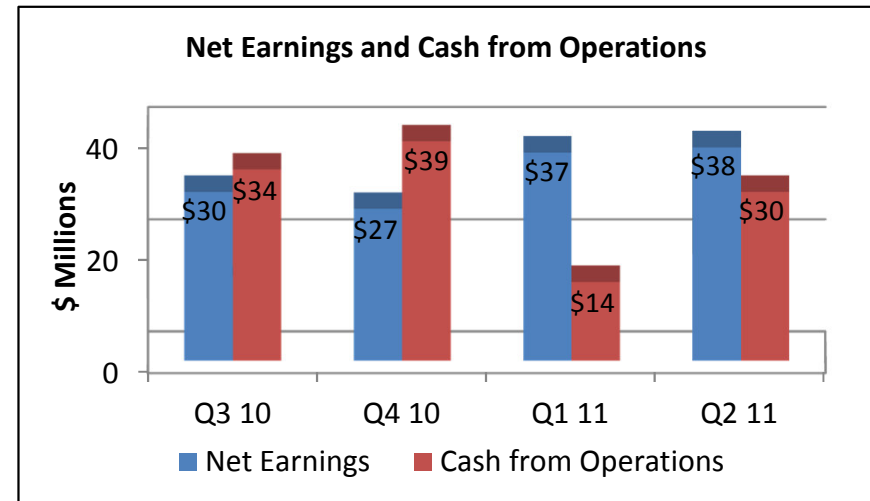
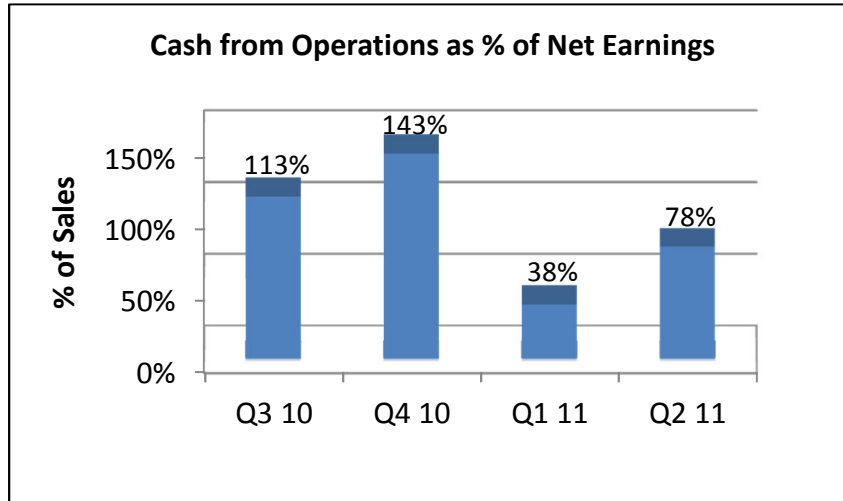
Consolidated Results

<u>Change in % of sales</u>	<u>Second Quarter</u>	<u>Year-to-Date</u>
2010 Operating Earnings (percentage of sales)	20 %	20 %
Translation effect	2	1
Product cost / mix / price	—	—
Unabsorbed manufacturing costs, reduction	2	2
Transaction costs for pending acquisition	(1)	(1)
Volume effect on expense leverage	2	3
2011 Operating Earnings (percentage of sales)	<u>25 %</u>	<u>25 %</u>

Revenue Leverage (\$M)		
	Second Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 43	\$ 96
Year-Over-Year Operating Earnings Change	\$ 19	\$ 43
Revenue Leverage	45%	45%



Cash Flow and Liquidity



2011 cash flow from operations of \$44M versus \$28M in 2010

- Cash uses
 - Capital expenditures \$10M
 - Dividends \$25M

Working capital

- Increase in inventories \$22M
 - Improved service levels, international distribution
 - Increased product offerings
- Increase in accounts receivable \$35M
 - Days of sales remain steady

Private placement long-term debt \$300M

- First \$150M funded in March
- Second \$150M drawn in July

Available unused current credit lines of \$261M





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.

- A request for additional information (commonly referred to as a 2nd request) received in early July from the Federal Trade Commission (FTC)
- Cooperating with FTC to close transaction as soon as possible





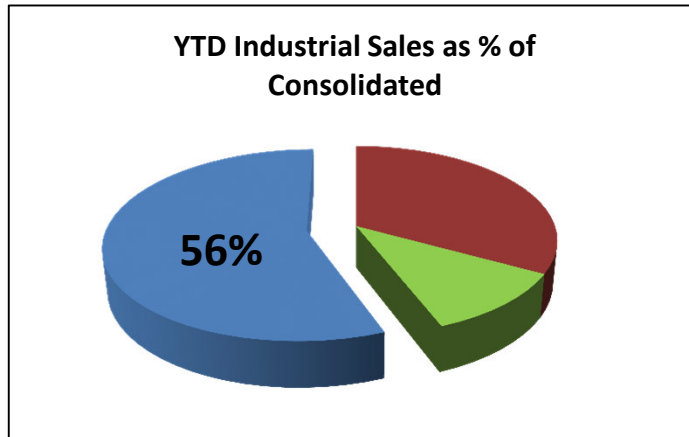
Other Discussion Items

- Material cost pressures expected to continue at same level as second quarter
- Expenses associated with the pending acquisition expected to be \$2-3 million in third quarter, with total costs still anticipated to be \$15 million
- Interest expense for third quarter expected to be \$3 million
- Based on expected profitability of our international subsidiaries and current currency exchange environment, the annualized tax rate is projected to be approximately 33 percent





Industrial Equipment Results



Sales (\$ M)	Second Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 56	\$ 45	23%	\$ 109	\$ 87	25%
Europe	36	27	33	70	55	28
Asia Pacific	37	28	34	73	55	33
Total	\$ 129	\$ 100	29%	\$ 252	\$ 197	28%
Operating Earnings	\$ 45	\$ 30	53%	\$ 90	\$ 60	51%
% of sales	35%	29%		36%	30%	



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)

Second Quarter

Year-to-Date

29 %

30 %

1

1

—

—

1

1

4

4

35 %

36 %

Revenue Leverage (\$M)

Second Quarter

Year-to-Date

Year-Over-Year Revenue Change

\$ 29

\$ 55

Year-Over-Year Operating Earnings Change

\$ 16

\$ 30

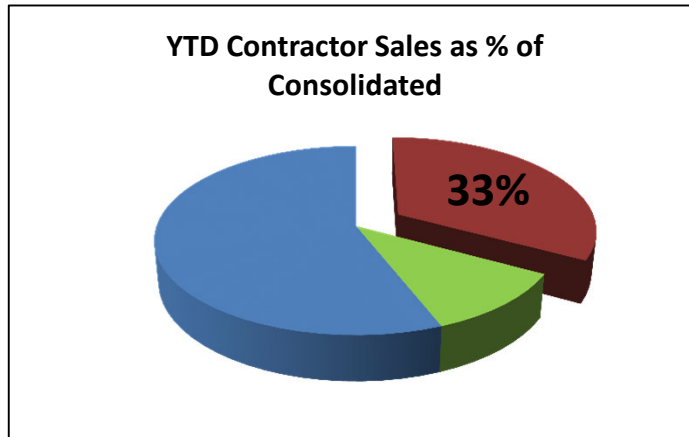
Revenue Leverage

55%

55%



Contractor Equipment Results



Sales (\$ M)	Second Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 52	\$ 52	2%	\$ 98	\$ 84	17%
Europe	20	15	29	36	28	30
Asia Pacific	9	7	23	17	13	30
Total	\$ 81	\$ 74	9%	\$ 151	\$ 125	21%
Operating Earnings	\$ 16	\$ 13	24%	\$ 28	\$ 18	52%
% of sales	20%	18%		18%	15%	



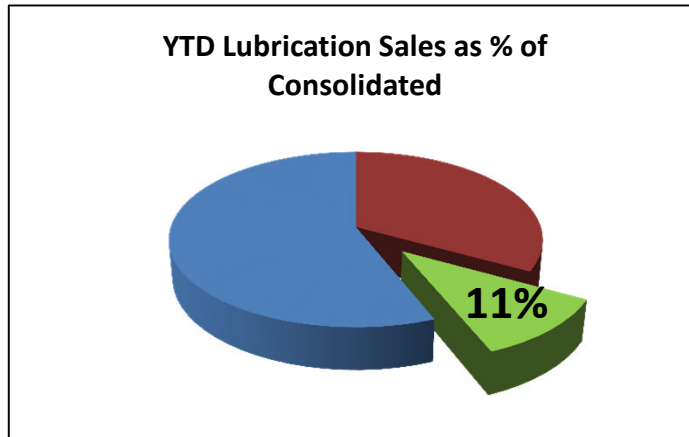
Contractor Equipment Results

<u>Change in % of sales</u>	<u>Second Quarter</u>	<u>Year-to-Date</u>
2010 Operating Earnings (percentage of sales)	18 %	15 %
Translation effect	1	1
Product cost / mix / price	1	1
Unabsorbed manufacturing costs, reduction	1	2
Marketing & selling cost, increase	(1)	(2)
Volume effect on expense leverage	0	1
2011 Operating Earnings (percentage of sales)	<u>20 %</u>	<u>18 %</u>

Revenue Leverage (\$M)		
	Second Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 7	\$ 26
Year-Over-Year Operating Earnings Change	\$ 3	\$ 9
Revenue Leverage	47%	36%



Lubrication Equipment Results



Sales (\$ M)	Second Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 18	\$ 13	30%	\$ 35	\$ 26	34%
Europe	2	2	55	4	3	55
Asia Pacific	5	3	64	10	6	63
Total	\$ 25	\$ 18	38%	\$ 49	\$ 35	41%
Operating Earnings	\$ 4	\$ 2	116%	\$ 9	\$ 4	159%
% of sales	16%	10%		19%	10%	



Lubrication Equipment Results

<u>Change in % of sales</u>	<u>Second Quarter</u>	<u>Year-to-Date</u>
2010 Operating Earnings (percentage of sales)	10 %	10 %
Translation effect	1	1
Product cost / mix / price	(1)	—
Unabsorbed manufacturing costs, reduction	3	4
Volume effect on expense leverage	3	4
2011 Operating Earnings (percentage of sales)	<u>16 %</u>	<u>19 %</u>

Revenue Leverage (\$M)		
	Second Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 7	\$ 14
Year-Over-Year Operating Earnings Change	\$ 2	\$ 6
Revenue Leverage	32%	40%



Move – Measure – Control – Dispense – Apply

EMERGING
ECONOMIES **DRIVE** GROWTH