GRACO INC.

Moderator: Caroline M. Chambers
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10:00 am CT

Operator: Good morning and welcome to the Fourth Quarter and Year End 2015 conference call for Graco Inc.

If you wish to access the replay for this call you may do so by dialing 1-888-203-1112 within the United States or Canada.

The dial in number for international callers is 719-457-0820. The conference ID number is 2790548. The replay will be available through January 30, 2016.

Graco has additional information available in a PowerPoint slide presentation which is available as part of the Web cast player.

At the request of the company we will open the conference up for question and answers after 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 purpose of 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 2014 Annual Report on Form 10K and Item 1A of the company's most recent quarterly report on Form 10Q. These reports are available on the company's Web site at www.graco.com and the SEC's Web site 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.

Please note today's call is being recorded. I will now turn the conference over to Caroline Chambers, Vice President Corporate Controller and Information Systems.

Caroline Chambers: Good morning everyone. I'm here this morning with Pat McHale and Christian Rothe. Our conference call slides are on our Web site and provide additional information on our quarter.

Last evening Graco reported fourth quarter sales of $326 million, net earnings of $54 million and diluted net earnings of 94 cents.

Foreign exchange continued to be a headwind for us and in the fourth quarter the effect of foreign translation rates reduce sales by $12 million and reduced net income by $5 million or 9 cents per diluted share.

Sales from businesses acquired in the past 12 months increased sales in the fourth quarter by $13 million but contributed less than 1 million to earnings.

A reconciliation of our operating earnings is included on Page 10 of our slide deck.

For the year the effect of foreign exchange was offset by favorable volume, price and lower factory costs.

The effect of acquired businesses reduced operating margins by 1 percentage point and increased unallocated corporate expenses primarily stock compensation and pension also reduced operating margins by 1 percentage point.

Results for the fourth quarter also include 1 million from favorable post-closing adjustments related to the sale earlier this year of the liquid finishing businesses that were held separate.

Year to date results include after-tax gain on sale and dividend income from the investment of $141 million or $2.40 per diluted share.

The effective tax rate for the quarter was 27% consistent with the quarter in 2014.

The federal R&D tax credit was reinstated in the fourth quarter and the company recognized a full-year benefit of $3 million.

Cash provided by operating activities is $190 million for the year. This is net of $67 million of divestiture related expenses including taxes, transaction costs and a contribution to the company's charitable foundation.

We continue with share repurchases in the fourth quarter. And our outstanding share count is below 56 million at year end.

Fourth quarter unallocated corporate expenses were slightly below last year and for the full year approximately $5 million above the prior year primarily due to increased pension and stock compensation.

Unallocated costs related to the new central warehouse were slightly less than $1 million in the fourth quarter the same as the prior year.

Looking at 2016 foreign exchange will continue to be a headwind for us. At today's exchange rates and assuming the same volumes, mix of products and mix of business by currency we expect to see an unfavorable effect of currency translation of approximately 2% on sales and 5% on earnings with the greatest effect of the first half.

Also going into 2016 we expect to realize modest price increases, lower material costs and improved factory efficiencies so factory performance is dependent on volume.

Capital expenditures are expected to be approximately $40 million without taking into account possible building expansion for our contractor segment which is nearing full capacity.

Full-year unallocated corporate expenses in 2016 are expected to be similar to 2015.

The tax rate is expected to be approximately 31% in 2016. Since the R&D tax credit has already been extended the approximately $3 million expected annual benefit will be recognized over the course of the year.

I'll turn the call over to Pat now for further segment and regional discussion.

Pat McHale: Thanks Caroline. Good morning everyone.

In the fourth quarter we posted 6% organic growth and a constant currency basis led by our contractor and industrial businesses in the Americas.

For the full year 2015 more than 90% of our dollar growth came from these two slices.

Clearly we're in a divergence of economies and end markets. The brightest spots are the residential and commercial construction markets in the United States.

Our Contractors America's business has essentially 100% exposure to those end markets. In the industrial Americas nearly 1/3 of that business has exposure to residential and commercial construction to our spray foam products as well as in plant applications for windows, doors, cabinets, furniture and white goods.

If you add in automotive manufacturing the Industrial Americas business has more than half its sales exposed to consumer facing end markets.

Industrial Americas and Contractor Americas were 46% of our sales in 2015. And 3/4 of those sales have exposure to the consumer facing end markets of res and non-res construction and automotive. Those markets have been good and we expect them to continue to be solid as we enter 2016.

Excluding acquisitions and on a constant currency basis our only segment and/or region with a year over year decline in the quarter was our process segment which was down 2%. This segment has some oil and gas exposure which has dampened results.

For the full year we achieved our mid-single digit growth outlook but just did miss our target of growth in every region and reportable segment as Asia-Pacific was down year over year by a little less than $1 million.

Our manufacturing purchasing and customer support and training operations performed at a high level during 2015 and contributed significantly to our earnings performance.

With moderate volume growth I believe these organizations are well-positioned to contribute again in 2016.

Despite the challenges we face in many end markets and geographies we continue to press forward with our long term growth initiatives. We're focused on growing and have a great deal of conviction in our business plans.

A few notable data points on the quarter, contractor Americas grew 21% in the quarter and achieved their second half goal of double digit growth.

Paint store sales were up strong double digits in the quarter while sales to the home center channel grew in the low single digits.

If you recall home center was flat in Q2, up nicely in Q3 and reverted down to the single digits in Q4.

Paint store was the opposite with strong growth in Q2 and Q4 and flat in Q3.

While we are seeing some variability from quarter to quarter the overall digital double digit growth for the first half second half and full year was an excellent performance.

Out the door sales for both channels were good throughout the year and were not reflective of the variability we saw from quarter to quarter.

In our EMEA region we saw a little slowing of our growth rate in the developed economies of the West while the central Eastern European markets continue to perform well.

Russia and the Middle East remained a challenge in Q4 and largely offset our growth in the West.

We expect the large declines in Russia to ease as we move through Q1 but don't expect growth in Russian in 2016.

In Asia-Pacific we saw growth in Australia, New Zealand and India well China was down high single digits in the corner.

Recall that we grew in China in Q3 so the spottiness notice of that market remains an ongoing concern.

Moving on to our outlook, please note that we've got additional commentary in our slide deck.

We initiated our 2016 outlook in our earnings released late last night with an expectation of low single digit organic constant currency growth for the first quarter and low to mid-single growth for Graco worldwide for the full year with growth in every region and reportable segment.

We continue to operate in a difficult macro environment for a large portion of our business. And with 18 consecutive quarters of record same quarter sales nearly all of our comps are tough at this point.

Notably we're up against the 27% growth that the Contractor Americas posted in the first quarter of 2015.

We're targeting high single digit growth for Contractor Americas for the full year 2016. Against the tough comps in the first quarter and fourth quarter I'm expecting that we're going to be lumpy from quarter to quarter in Contractor Americas. And I wouldn't be surprised to see a number closer to flat in Q1.

We have some product launches planned for early Q2 which would bring us back to that high single digit pace for the first half.

Regionally for the full year we're targeting mid-single digit growth in the Americas and low single digit growth in EMEA and Asia-Pacific.

Regarding capital deployment our priorities continue to be organic growth investments and acquisitions and we continue to be opportunistic on share repurchases. With the recent pullback we've been more active in the market.

This month we also completed acquisitions in our process segment. In total we spent 49 million and the acquired businesses have trailing 12 months sales of about 16 million.

These businesses expand our QED landfill and ground water remediation patient portfolio.

With that operator we're ready for questions.

Operator: Thank you. The question and answer session will begin at this time. If you would like to ask a question you may do so by pressing Star then 1 on your touch-tone phone. You may remove your question at any time by pressing the pound key.

And again that's Star 1 to ask a question. Your question will be taken in the order that it is received. Please stand by for your first question.

Our first question comes from Joseph Ritchie. Please go ahead.

(Evelyn Chow): Good morning. This is actually (Evelyn Chow) on for (Joe). And he sends his regrets for not being on today, very nice quarter. I just wanted to dig into contractor margins a bit.

You had very strong in incrementals in what I think is typically the lowest margin quarter for the business.

And correct me if I'm wrong but I think it's actually the best 4Q margin you've had in contractor since 2007.

So maybe what are the puts and takes on the margins as you saw as it relates to product launches, maybe potential mix up or just really strong volume leverage?

Christian Rothe: Hi (Evelyn). Good morning it's Christian. Yes just a couple quick comments on that. You're right it was a very strong fourth quarter for the contractor business.

You know, really it's just a convergence of a few different items. The first one is of course paint store sales were very strong in the quarter. And that's a more profitable business segment for us in the contractor business.

In addition to that from a launch perspective and Pat talked about the fact that we have some product launches that are happening in Q2.

So some of those costs that normally would come in the fourth quarter have now been pushed back a little bit as we go into 2016.

So it was a later expense month or later expense quarter sorry, and on top of that a strong mix.

(Evelyn Chow): Thanks Christian, that's helpful. I guess maybe turning to industrials for a second, you know, I know not to read too much into one quarter of growth or two quarters of growth.

Maybe just thinking about the exposure there, I think roughly 20 something percent of the segment is auto related. And we've seen increasing concerns on potentially peaking North America Autosar.

Do you guys have any concerns as to the sustainability of growth in that end market?

Pat McHale: So going back to the exposures in Industrial Americas so nearly 1/3 of that business has exposure to the residential and commercial construction markets so that's spray foam, window manufacturing, door manufacturing, cabinets -- those types of things.

And then if you add automotive under that that gets to be about half of the sales.

Both of those end markets we expect to be pretty decent here in 2016 and give us good opportunities.

(Evelyn Chow): Thanks, that's helpful. And I guess maybe last one for me switching gears I saw you did some acquisitions post year end in process, I think about 49 million in value.

If you can, what are those acquisitions and maybe what is the strategic rationale for doing them?

Pat McHale: Sure. We started building up an environmental systems business back in 2015 with an acquisition of QED which really focused on landfill and groundwater remediation markets.

And the recent acquisitions that we've done were adding to our product portfolio in that space. So they're landfill gas wellheads, portable and fixed gas analyzers used not only in landfills but also in biogas applications and in some medical applications.

(Evelyn Chow): And do you expect these acquisitions to be accretive in 2016?

Pat McHale: Mildly accretive. So they're relatively small.

(Evelyn Chow): Okay. Okay thanks very much guys.

Operator: Thank you. We'll take our next question from Mike Halloran. Please go ahead.

Mike Halloran: Good morning guys.

Male: Good morning.

Mike Halloran: So let's start with the order rates of the fourth quarter.

The growth rates slowed towards flattish year over year. Could you just break that out by some of the verticals you're seeing?

Sounds like you still have confidence in a lot of the consumer facing pieces. Was there a dichotomy between the consumer face thing and the industrial, kind of core industrial stuff?

Christian Rothe: Yes Mike it's Christian. So as, you know, we went through the quarter October was a, you know we were up. November we were down. December we were up again. And that kind of ended with a flat for the full quarter.

For a end market or let's talk about segments for a second. The - on the segment side contractor held up okay, in fact pretty well.

If you look at the industrial and process segments though, those did take a small step down as we went into the fourth quarter. You know, from a geography and product line perspective it was pretty broad-based.

You know, really the variability from week to week continues to happen for us. And as we look at what's happened in January also we're still seeing that variability.

But we are up for the month of January. You know, again not that we can deduce a whole heck of a lot from that. Let's continue to wait and see how this quarter develops.

Mike Halloran: Makes sense. And then on the outlook could you just bucket the - what's driving the move from low single digits to mid-single - too low to mid-single digits as you move from the first quarter guidance to the full year guidance?

And by bucket I mean and beyond just comps changing a little bit for you getting slightly easier are you guys assuming any sort of fundamental improvement from the environment or is this just comps, new products introductions coming forward?

Pat McHale: Yes we're not assuming any improvement in the environment. Certainly we welcome that but not really expecting that and haven't built that into our plans.

We've got big comp in contractor in Q1. And that's probably the biggest driver that would cause us maybe to be a little lower in Q1 then we're expecting to be for the full year.

We do have new product launches in all of our initiatives in place so we've got I think plenty of opportunity to figure out how to have a decent year even in a tough environment.

Mike Halloran: Makes sense. And then last one on the acquisition could you give us some kind of framework for what sort of revenue contribution that would either on a trailing 12 months or what you guys are expecting for '16? And then also is all of that revenue in the process segment then?

Pat McHale: Yes that's about 16 million. It's all in process.

Mike Halloran: Great, appreciate the time guys.

Operator: Thank you. We'll take our next question from Matt McConnell. Please go ahead.

Matt McConnell: Thank you. Good morning.

Pat McHale: Good morning.

Matt McConnell: Could you just give a brief update on what you're seeing in the M&A pipeline? Do you think this will be a meaningful use capital of in 2016?

Pat McHale: You know, we continue to be active and we've got a number of deals done of course the last 12 to 18 months.

Matt McConnell:

Pat McHale: Currently I, you know, I don't see the pipeline as being particularly strong. You know, certainly would like to get something done that would move the needle. But looking at it right now I would say it's probably slightly weaker than it has been.

Matt McConnell: Okay. Okay and then switching gears just a little bit to contractor, was there any noticeable impact from weather in the fourth quarter in contractor specifically?

Pat McHale: No, you know, we don't really pay too much attention to that. I mean, the weather's always good somewhere and always bad somewhere...

Matt McConnell: Yes.

Pat McHale: ...so we'll miss - so no, we did not have anything with weather.

Matt McConnell: Okay and what kind of growth in 2016 would necessitate new capacity decisions there? And when might you make a decision there and what kind of capital outlay might that require?

Pat McHale: So we've been contemplating what to do with space out there since the housing market peaked back in 2006, 2007. And we evaluate every year.

We did take some action about a year or so ago to give them some more space. But obviously they had another very strong growth year.

So we're close. We don't have a plan. The team is doing their work. And we just wanted to flag for folks that should the team come forward sometime this year with a plan that it's possible that we could move forward.

Matt McConnell: Okay great. Thank you.

Operator: Thank you. We'll take our next question comes from John Franzreb. Please go ahead.

John Franzreb: Hi. You kind of highlighted the contractor business as one of the main drivers of the mid to single digit revenue growth.

Could you talk a little bit about your expectations on the process side of the business in the year ahead?

Pat McHale: Yes so we're expecting the process business in agreement to put up growth next year.

Obviously it's going to be challenging for them to do that with some exposure to oil and gas. But, you, you have exposure to a lot of other end markets and we've got a lot of initiatives underway.

So we still have confidence at this point that the process number can get some organic growth next year.

John Franzreb: And you've kind of highlighted new product introductions over the past couple quarters. Could you give us may be two things?

One, how much did new products add to the top line for all of 2015? And maybe you can share with us, you know, what the hurdle rates you use internally before you start on a new project?

Pat McHale: Sure. Yes I can't share with you the number that new products added to the top line. It's obviously not an easy metric. Some products replace other products, some products are incremental.

In terms of the process at Graco that we go through we have a finance committee that meets every month. And we've got a format that people can use to come in and ask for capital.

Typical returns on new product I'll say the actual returns average in the 20s. But there's a fair amount of variability around that.

John Franzreb: And one last question on the distribution center costs are they through? And beside what you said mentioned on contract are there any unusual expenses we should be aware of in the upcoming year?

Caroline Chambers: So we expect to have additional costs running through unallocated corporate next year associated with additional moves of some inventory.

We expect that overall our unallocated corporate will be the same in 2016 as in 2015.

John Franzreb: Okay. Thank you for taking my questions.

Operator: Thank you. We'll take our next question from Kevin Maczka. Please go ahead.

Kevin Maczka: Thanks. Good morning.

Pat McHale: Good morning.

Kevin Maczka: So Pat on price I think it was mentioned that there some price assumed here in the organic guidance. Can you maybe comment on that, quantify that if that's possible? And how should we think about the favorable price cost impact on margin next year?

Pat McHale: Yes, we think it should be okay. Our price increase I think should be pretty typical. And assuming that we get some volume our factories and our purchasing groups are set up I think to have another good year.

You know, and our typical price realization is probably somewhere in that 1-1/2% to 2% kind of a number and if we can drive zero cost change that gives us opportunities obviously to expand margins.

So again volume will play a key role in that as we move through the year. If we can get a little bit of volume like we did this year our factories generally do quite well.

Kevin Maczka: In terms of incremental margins they're normally strong. I think we typically start with about 40% and then there's puts and takes on that.

With that kind of normal price increase but lower volumes positive but lower you - is that still a fair way to think about the incremental margin expectation for next year or could that be better with price cost still favorable?

Christian Rothe: Again this is Christian. So, you know, there's two ways that I look at it. The first one is, is as you just described.

And, you know, I think generally that's correct with one exception, one or two exceptions, the first being that we do have a more home center business in the contractor side of our operations. And that does have a lower margin profile.

And so as we get growth out of that side of the business that does have a little bit of a drag on the incrementals.

The other portion of that has to do with the fact that we have been spending somewhat more on these regional and product growth initiatives. And so that took us into the kind of low end of the 35% to 45% range for 2015 on an organic constant currency basis.

As you look forward to 2016 then I think you're when you think about that basis from an incremental margin perspective it's probably correct.

But if you do then put on top of that the FX keep in mind we do have the - that impact that we're expecting now of 2% of the top line and 5% of the net income line. So that will of course take the incrementals if you're looking at it on a apples to apples currency basis we're going to have a little bit of a headwind.

Kevin Maczka: Got it, okay. And then can I just go back to process quickly? I know you're expecting at least some growth there even though there's oil and mining and exposures like that that are not favorable right now.

Can you give a little bit more color on what's underlying that why - what you think it's better because that's a business that only had very minimal growth in '15?

And then can you just talk to the margin there? That was the one segment where the margin kind of took a step back in Q4.

Pat McHale: I'll talk to the growth piece. You know, we're running the normal Graco playbook with process. And all say the thing that's different there is we've made a conscious decision the last two or three years to build up that business with the oil and gas initiative and some other segments that we think are attractive.

So we do continue to invest in those businesses from I'll say a short term expense and a longer term capital standpoint to position them well for when their end markets are better but we're running the standard Graco playbook.

Each one of the business segments has new product development. We've got our normal growth initiatives. And our exposure to oil and gas and the mining markets aren't so great that we think that it precludes us from getting some topline growth next year.

Christian Rothe: On the margin side of the equation, you know, our expectation is that over the long term this business can be, you know, at a 20% or better type of operating margin number. But it's going to take some time to get there and it's going to take some volume to get there.

So in the short term if we're not getting volume we are going to continue to have numbers similar to what you saw in 2015 with the potential of course some - with incremental margins that happen with that volume growth.

Kevin Maczka: Okay got it. Thank you.

Operator: Thank you. We'll take our next question from Matt Summerville. Please go ahead.

Matt Summerville: Just a couple quick ones. I think Pat in your prepared remarks you mentioned China was down 9% in the fourth quarter. Was that a similar experience across the three business segments?

And then the other thing you've been talking about the last couple quarters you've made some management changes I believe in Asia.

Is that starting to provide any sort of relief to some of the pressures you're seeing there as well as beginning to drive higher conversion rates which I think you've been disappointed with in the recent past? Thank you.

Pat McHale: Yes, no we - I didn't call out in a specific number but I said China was down high single digits in the quarter. But we also had growth in Q3.

So, you know, it's been probably I don't know three years now that China's been pretty spotty for us.

We have made a couple of management changes over there that longer term we hope will have some positive impact.

I'm not expecting that that impact is going to be in Q1. Those folks are getting their feet on the ground.

Our larger disappointments in China as we've talked about has been the conversion rate on the contractor side. And that's really what we're hoping the new management team will get us refocused on. But again that's a longer term action and we should expect to see progress as we move forward.

Matt Summerville: Thank you.

Operator: Thank you. We'll take our next question from Charlie Brady. Please go ahead.

Charlie Brady: Hey thanks. Good morning Pat.

Pat McHale: Hi.

Charlie Brady: Hey Pat can we just on the industrial side, you know, you mentioned the third is kind of construction related and then the other chunk into auto.

Can you just maybe get a little more granular on the 50% that's not those markets? Because I think when people look at industrial given everyone else and industrial's having a pretty tough go at it these non-construction non-auto markets I think people scratch their head and say, you know, where's that growth coming from?

Can you maybe just get a little granular on that part of the business in industrial?

Pat McHale: Yes so, you know, our business gets cut into lots of pieces once you take the big chunks off.

I mean our industrial business has exposure to general industrial. We have rail. We've got of course all the resource segments. It's aerospace, farm and construction. It's really gets broad-based after that.

Charlie Brady: Okay. And can you maybe just talk a minute about Europe? I mean obviously the contractor index in particular I know it's a small piece of that business but pretty decent growth in Europe in contractor.

Is that a more of a function of move away from brush and roller maybe accelerating or just kind of broad-based Europe's kind of doing better than it was doing a few months ago?

Pat McHale: You know, I don't think there's a broad-based acceleration. That's an opportunity there that will continue to be an ongoing opportunity.

I think the team has done a pretty good job by the new products that we've launched there the last couple of years have been successful.

And the end markets in the West particularly in the South are definitely better than they were. So I think it's kind of a combination of factors that has given the team there an opportunity to put up some decent numbers.

Charlie Brady: Okay and just one more from me on contractor. With the second quarter product launches given the commentary, you know, you get some push out in expense from Q4 would you expect margins to be down year over year or is there enough volume leverage to kind of offset that expense on the year over year basis do you think?

Christian Rothe: Yes, so, you know, I think on the margin side we feel like there's going to be enough volume that we should be okay.

Just circling back to your question on EMEA contractor just to underscore what Pat said, you know, it's still a relatively small business. So you're going to have some movement from quarter to quarter.

For the full year we, you know although it was a nice growth for the quarter for the full year we're talking about a 2% organic growth rate.

Pat McHale: Offset a lot by what happened in Russia.

Christian Rothe: Absolutely. Yes the West was really strong and Russia was extremely weak.

Charlie Brady: Thanks.

Operator: Thank you. And just a reminder it is Star 1 to ask a question. We'll take our next question from Joe Radigan. Please go ahead.

Joe Radigan: Thanks. Good morning. What's your gauge on channel inventory and on - in contractor? And did you benefit from any pull forward in that plus 21% in Contractor America has either had a price increase or whatnot?

Pat McHale: Yes so that channel looks like it's got the right amount of inventory based upon what the end market conditions are. We're not overly concerned at this point.

You know we do get some activity in December every year. I don't think anything that happened this year was unusual. I would say things were normal in terms of how we finished the quarter in terms of buying activity by the channel.

Joe Radigan: Okay and then just to be clear did the price increase go into effect January 1 or is that still ahead of us?

And do you get the same magnitude of price realization in the home center channel as you do in propane?

Pat McHale: So if you're talking specific to contractor the price increase did not all go into effect on January 1 and it normally does not.

It - there are some things that happen there from a timing standpoint either geographically or by channel that caused some variation there.

Typically what we will see is that if we don't get pricing on in the first part of January or in the first quarter we're still getting the pricing compared to last year. And that will get that - the new pricing at some other point in time.

But no, you can't conclude that there was a January 1 price increase for everybody and that that drove a lot of buying behavior in our contractor business.

Typically...

Joe Radigan: Okay.

Pat McHale: ...around the world our pricing kicks in on January 1. But again there's not a set rule for that.

Joe Radigan: Okay that's helpful. And then lastly in the slide you mentioned India as being favorable in the contractor. I just, you know, that doesn't seem like a market that has a compelling equipment ROI given the labor costs. So just I'm sure it's small but what's driving that?

Christian Rothe: Yes some of the year-over-year volume increase that we're seeing it's off of a really small base. So we're just trying to point out some of the geographies that we're seeing a favorable movement.

(Crosstalk)

Pat McHale: There are other opportunities for us. Their labor rates are low so that creates challenges for us on the conversion. But there are people that are spraying. And also line striping over there provides us opportunities, things like airports.

Joe Radigan: Okay. Thank you very much.

Operator: Thank you. We'll take our next question from Jim Giannakouros. Please go ahead.

Jim Giannakouros: Hi. Good morning. Thanks for taking my question.

Christian Rothe: Good morning.

Jim Giannakouros: As far as China if you can give us a little more color on, you know, the spottiness that you cited. I mean can you talk about where you're seeing relative strength and weakness I guess outside of the contractor segment that you kind of called out earlier?

Pat McHale: Yes, you know, we've had some parts of the business that have done relatively better than others. But, you know, frankly over the last three years what we've just seen is we've just seen, you know, overall I'm going to say flat to low kind of growth performance and variation between product lines and countries or excuse me, product lines and segments quarter to quarter.

And so, you know, we have a fair amount of exposure to automotive in China and some of that is project based. So we're watching our project pipeline.

Certainly in '15 we saw some of the projects get pushed out to 2016. Whether they'll actually execute on those on 2016 or push them again I don't know.

But it's been hard for us to really get our arms around in terms of predicting what's going to happen in the short term.

You know, a lot of that business is pretty quick book to bill. And we continue to be interested each month in terms of what we're seeing actually come through the door.

So I don't think I can provide you a lot of help in terms of what's happening in China other than to say that the numbers are just bouncing around but it's bouncing around at a growth rate that's certainly not like it was prior to two or three years ago.

Jim Giannakouros: Fair enough. If I can switch over to your liquid finishing end markets there. I mean since the sale have you seen any aggressive pricing there or are things pretty rationale in your channel there?

Pat McHale: You know, so generally speaking the customers in that space are looking to buy products that add the most value to their operation.

You know, the capital equipment cost it does matter. But certainly the quality of their throughput and the speed of their throughput and their ability to reduce their material and energy consumption continue to drive the day.

So generally successful competitors in that space are trying to win on performance and not necessarily on who's got the lowest price.

And I haven't seen really the competitive market dynamics change from that standpoint. And it tends to be aggressive competition but really trying to win by having the best product.

Jim Giannakouros: That's helpful thank you. And last one in contractor can you update us on the progress that you've made on selling the more highly engineered or the higher margin equipment there how much of an impact that's had in '15 both in sales and to your margin?

Christian Rothe: Yes, so, you know, we've - we are making progress in that area. And we just looked at the data actually for 2015 and it did have a favorable impact within the paint store channel.

But as we talked about before if you look at the overall contractor business it's not really going to come through because of the fact that we are selling more to the home center today. And so that's - that is diluting the impact from that.

We do have some runway left on the recovery in particular the very large high performance units. But we're still missing sales that were there back in the '06, '07 timeframe. So we're still - we still have runway left on that recovery.

Jim Giannakouros: Okay thank you.

Operator: Thank you. We'll take a next question from Jim Foung. Please go ahead.

Jim Foung: Hi. Good morning Pat and Christian.

Pat McHale: Hi.

Jim Foung: Yes you shown - could you separate the growth you saw in your residential construction market versus a nonresidential? It seems like the nonresidential construction really hasn't picked up as much. And I was just wondering if there was more upside from that market to your business?

Pat McHale: Yes it's impossible for us to sort that out. You know, remember we sell a paint sprayer to a channel partner who sells it to a partner. And that contractor could be painting a house with it or he could be painting a church with it or a barn or a new apartment complex. You know we really don't know where they're going to take that product.

We know larger jobs use larger sprayers. So we can, you know, take some stabs at whether the painting products projects are getting big or not. But it's impossible to give that kind of detail.

Jim Foung: Okay but anecdotally you just shared that non-res hasn't really nonresident hasn't really participated as much as res?

Pat McHale: I don't know our view is that non-res is okay this year. But again you have to take - if you're interested in non-res you can really parse that into a lot of pieces right? You can take a look at how different segments are doing.

But overall we thought non-res was okay in '15 and we're expecting it to be okay in '16.

Jim Foung: Okay good enough. And then you have a 6 million share buyback program. It looks like you brought back 3.9 million to date.

Do you have a timetable for the rest of the purchase? And also I think you have total shares - your basic shares outstanding in the Q4 was 55.8 million is that correct?

Christian Rothe: Yes that's correct. That's the data we disclosed last night in our conference call slide.

Jim Foung: Okay.

Christian Rothe: So we don't have a specific timeline. Right now we are more in an opportunistic mode. So as the market pulls back we, you know, use that as an opportunity to go out and buy back shares.

You know, we want to obviously continue to be diligent about that and be thoughtful around the valuation. And so we're - we just wait for opportunities.

Jim Foung: Okay and then and just last thing I guess to your elevated inventory level. It's just been creeping up because of the acquisitions and the growth in the business. There's nothing more to that thing?

Christian Rothe: Yes, I don't anticipate that you see that turning around. Yes part of that's been acquisitions and part of it's been us trying to improve our overall in stock service levels.

We do think that's a competitive advantage for the company and especially with some of the large demand that we've seen in contractor. And some of that demand has been difficult to predict. We want to make sure that we're there to serve those channel partners and customers when they need the products. So we have definitely been investing more.

Jim Foung: Okay great. Thanks so much.

Operator: Thank you. We'll take our next question from Walter Liptak. Please go ahead.

Walter Liptak: Hi. Thanks guys and great end to the year.

I wanted to just ask one question about the acquisitions that you've completed like in the last year or year plus.

Yes, how are you feeling about those? You know, from some of the end markets I think were a little bit more, you know, kind of commodities or oil and gas related. How are they coming along? How are the integrations going, et cetera?

Pat McHale: So I would say that from a being able to do the kinds of things that we think that we can do to improve margin performance and take out manufactured cost we feel pretty good about the deals and we've got a lot of activities underway.

We're not really putting anything on hold because of the revenue challenge that some of those businesses have.

In terms of our timing of when bought them and what we paid obviously we caught a couple of them at the peak and it'd be nice to have a do over but that's not going to happen.

So I would say given the environment that we have we are optimistic about the businesses. We think that they're going to be contributors to Graco's long term profit potential and we're going to keep working them.

Walter Liptak: Okay. You know, in, you know, I think in the previous question you started to get at some of this. But I wonder if you can, you know, help us understand, you know, the new product spend for 26 or 2016 versus 2016, you know, operational improvement efforts kind of going, you know, in 2016 and the other special projects that you guys might be working on that'll either, you know, be a cost or a benefit in 2016?

Pat McHale: You know, we've kind of got a playbook that we follow. And I view 2016 as being pretty straightforward in terms of how that's going to move.

You know, there may be some incremental spend in product development in 2016 but it's not going to be significant. We don't have any current plans to make a major investment of a large new team in that space so there maybe some cost pressures in terms of wages or whatever but nothing dramatic.

Our cost performance, our continuous improvement in quality and customer service and cost outs, those things are ongoing. They're not really project based.

Every one of our factories and every one of our engineering groups has got an ongoing list of opportunities in those spaces. And they execute those and we review those on a quarterly basis.

So I look forward into 2016. I think kind of the big thing is whether we get a little bit of volume. Because a little bit about volume through our factories it really helps us.

Obviously if we come up with a cost reduction and we can run it across a higher unit volume that's nice but also the absorption overhead and other fixed costs.

So we get some volume I think 2016's going to be just fine.

Walter Liptak: Okay. And I think in the opening comments there was a comment that was made about the contractor being at full capacity. Did I hear that right? And if it's right, you know, what are the implications of that?

Pat McHale: So we said nearing full capacity. And that's really space. That's not manufacturing output.

Although we run our machines pretty heavily five days a week around the clock we can flex the machines on weekends. And we run our assembly maybe 1-1/4 shifts so we can flex our assembly.

But ultimately the building just starts to get filled up. And that's really where we're at and we've been at. But with the growth we saw in '15 it's really made the situation a little bit worse.

So we can continue to get by for a while. It's certainly not going to be an issue for us at all in terms of being able to serve the customer. It's not an external issue. It's completely an internal issue.

And we'll make sure that we invest in the space that we need. But we're going to do it planfully and we're going to do it at the right time.

Walter Liptak: Okay is there anything positive or negative for margins if you're nearing full capacity?

Pat McHale: Well obviously being busy has been better for margins. The growth is better for margins.

Walter Liptak: Yes.

Pat McHale: Yes, nothing beyond that.

Walter Liptak: Okay. Okay thanks very much.

Operator: Thank you. And once again it is Star 1 to ask a question. We'll take our next question from Mario Gabelli. Please go ahead.

Mario Gabelli: Pat how are you?

Pat McHale: Good. How are you doing?

Mario Gabelli: Not too bad. Good numbers. I've been grazing a little but the $49 million that you expended for deals what's the revenue? Did you guys release any financials as to incremental revenues?

Pat McHale: Sixteen.

Mario Gabelli: Thank you. And secondly the head check on a couple of questions on your capacity expansion and contracting.

If you started a greenfield project how much?

Pat McHale: Yes I doubt we'll greenfield but, you know, we're probably looking somewhere between ten and 20.

Mario Gabelli: And in terms of 30,000 feet looking down you've got a highway bill that has been missing for a long time. You've got the military coming back.

But more mundane assuming the oil gets up to X dollars and they start ramping back up on some of these how do you - how quickly do you benefit based on your knowledge of the past three or four cycles in the oil patch?

Pat McHale: Yes so I've got very little knowledge of the last three or four cycles in the...

Mario Gabelli: Oh come on. You're...

(Crosstalk)

Pat McHale: ...oil patch, yes.

Mario Gabelli: ...just hiding behind your youthful age.

Pat McHale: That's it, hiding behind my ignorance. That's right.

But so what we're doing right now is we're concentrating really hard on driving the manufacturing performance improvements and facility consolidations that we had expected to do.

We didn't call a timeout to those because revenue's down.

Mario Gabelli: All right.

Pat McHale: Taking the hit. We're put in the new machines in place. We're consolidating the facilities. We're working on process improvement.

Mario Gabelli: Yes, well you're doing your playbook all the time. Got you.

Pat McHale: We've got to be ready to go when it comes back.

Mario Gabelli: Got it. And but no sense of how quickly where you are in terms of that recovery let's say in the spring of 2017 or something like that? I'm just, you know, got to look for the underside of this curve.

Pat McHale: Yes I have no idea.

Mario Gabelli: And the highway bill?

Pat McHale: The highway bill should be good for us. You know, we are - any time that there is construction activity happening that benefits us in several different business segments so it should be a positive.

Mario Gabelli: Hey have a great year. Thanks Pat. Thanks Chris.

Pat McHale: All right thank you.

Mario Gabelli: You bet.

Operator: Thank you. And it appears we have no further questions at this time. I will now turn the conference back over to Pat McHale. Please go ahead.

Pat McHale: All right well thanks everyone for joining our session this morning including the lively Q&A. Have a great rest your day.

Operator: This concludes our conference for today. Thank you for your participation and have a nice day. All parties may now disconnect.

END