



3rd Quarter 2016 Earnings

Conference Call

October 20, 2016

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 Item 1A of the Company's Form 10-K, and Item 1A of the most recent Quarterly Report on Form 10-Q and also the Company's Earnings Release dated October 19, 2016.

Conference Call Logistics



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

Telephone replay will be available after 2 p.m. ET, October 20, 2016. The replay by telephone will be available through October 24, 2016

- 888-203-1112 – Conference ID #5026669
- 719-457-0820 – with the same conference ID #, for International participants

Financial Results



	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
\$ millions except EPS						
Sales	\$ 327.2	\$ 319.0	3 %	\$ 980.2	\$ 960.9	2 %
Gross Profit	176.6	170.2	4 %	523.5	512.9	2 %
% of Sales	54.0 %	53.4 %	0.6 pts	53.4 %	53.4 %	0.0 pts
Operating Earnings	81.5	76.9	6 %	220.8	226.0	(2)%
% of Sales	24.9 %	24.1 %	0.8 pts	22.5 %	23.5 %	(1.0) pts
Held Separate Investment Income, Net	-	2.4		-	190.7	
Net Earnings	\$ 54.4	\$ 50.7	7 %	\$ 144.9	\$ 292.2	(50)%
% of Sales	16.6 %	15.9 %	0.7 pts	14.8 %	30.4 %	(15.6) pts
Diluted Earnings						
Per Share	\$ 0.95	\$ 0.86	10 %	\$ 2.55	\$ 4.90	(48)%
<i>Diluted Shares in Millions</i>	57.0	58.7		56.9	59.6	
Adjusted Diluted Earnings						
Per Share (1)	\$ 0.95	\$ 0.84	13 %	\$ 2.55	\$ 2.54	0 %

(1) 2015 excludes effect of \$2 million (\$0.02 per diluted share) for the quarter and \$141 million (\$2.36 per diluted share) for the year to date, representing net investment income from the Held Separate Liquid Finishing businesses sold in the second quarter of 2015. See page 19 for reconciliation of the adjusted non-GAAP financial measure to GAAP

Net earnings in 2015, year-to-date, included non-recurring income tax benefits of \$9 million, or \$0.15 per diluted share

Financial Results



Components of Net Sales Change

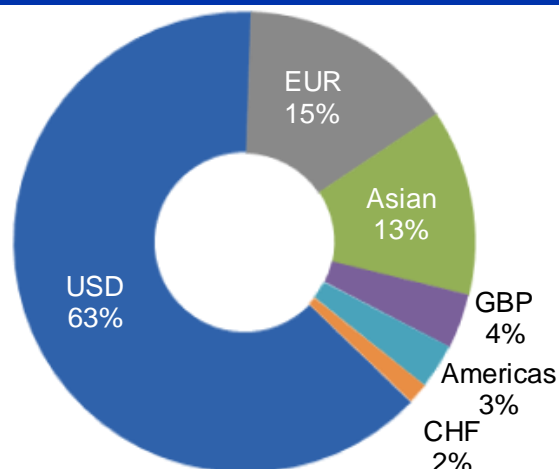
Third Quarter September 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(1)%	-	7 %	2 %	2 %	3 %	2 %
Acquisitions	-	5 %	-	-	2 %	1 %	1 %
Currency	-	(1)%	-	-	(2)%	-	-
Total	(1)%	4 %	7 %	2 %	2 %	4 %	3 %

Year-to-Date September 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	2 %	(9)%	7 %	-	5 %	2 %	1 %
Acquisitions	-	6 %	-	1 %	3 %	2 %	2 %
Currency	(1)%	(1)%	-	-	(2)%	(2)%	(1)%
Total	1 %	(4)%	7 %	1 %	6 %	2 %	2 %

2016 YTD Sales by Currency



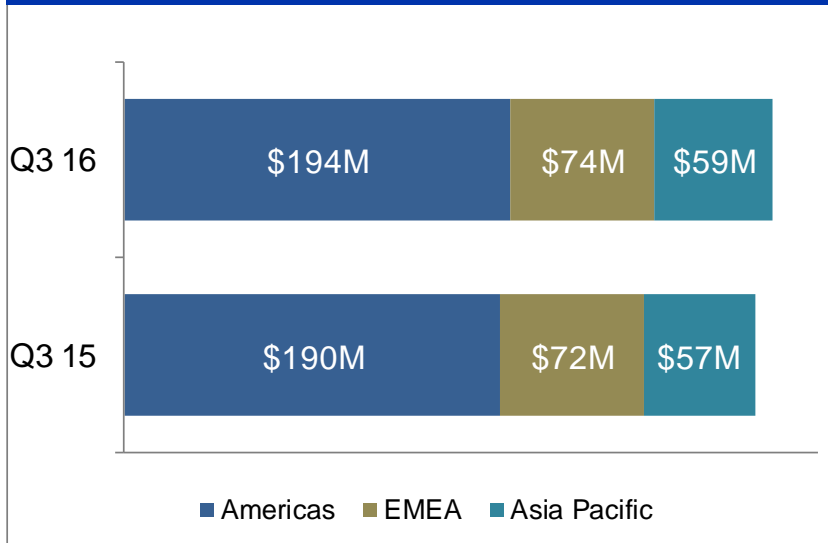
Asian currencies include:
AUD, CNY/RMB, KRW,
JPY

Americas currencies
include:
CAD, BRL, MXN

Third Quarter 2016 Results

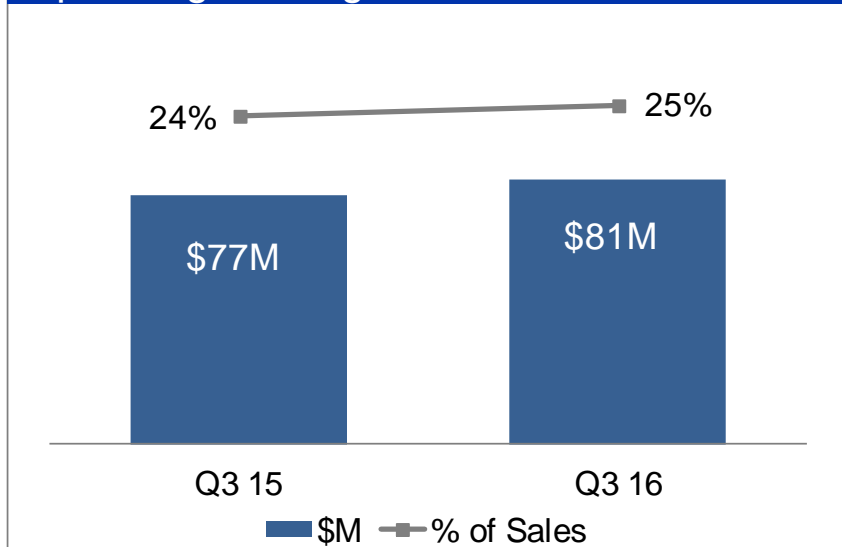


Sales



- Sales increase of 3% (the same at consistent currency translation rates)
 - Acquired businesses sales of \$4 million account for 1 percentage point of growth
- Gross margin rate up 0.6 percentage point from third quarter 2015
 - Realized pricing and favorable impact of product and channel mix more than offset the unfavorable impact of lower factory volume
- Operating earnings up \$5 million from third quarter 2015, as a percentage of sales up 1 percentage point
 - Lower unallocated corporate expenses, primarily pension and stock compensation, as compared to 2015, increased operating margin 1 percentage point
- Tax rate was 29% for third quarter 2016 compared to 31% in 2015
 - 2016 rate includes favorable impact from the Federal R&D tax credit, not available until Q4 2015, and foreign earnings taxed at lower rates than the U.S.

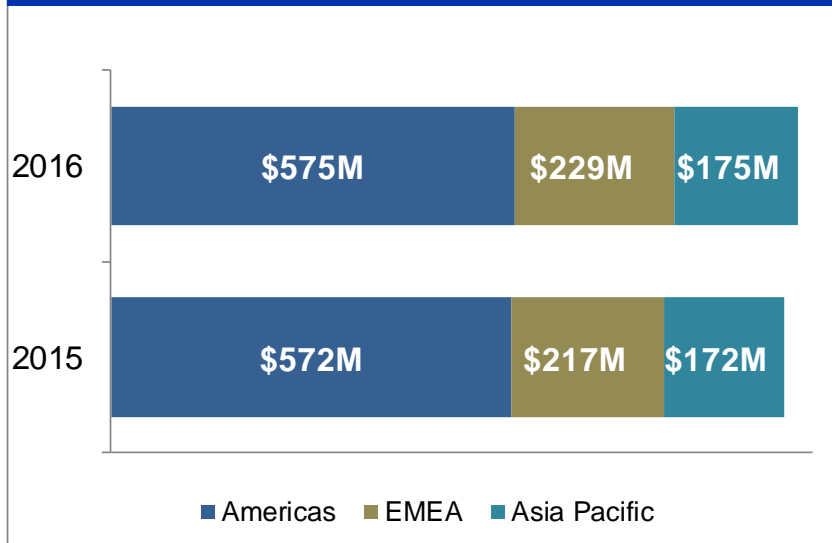
Operating Earnings



September Year-to-Date 2016 Results

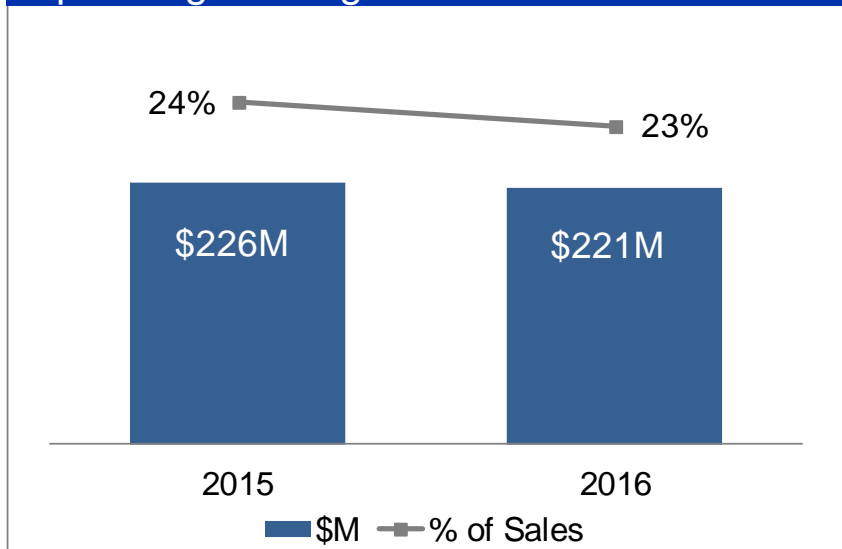


Sales



- Sales increase of 2% (at consistent currency translation rates sales increase 3%)
 - Acquired businesses sales of \$15 million account for 2 percentage points of growth
 - Effect of currency translation rates negatively impacted sales by \$9 million
- Gross margin rate consistent with 2015
 - The favorable effects of reduced acquisition related purchase accounting and realized pricing offset the unfavorable impact of lower factory volume
- Operating earnings down \$5 million from 2015, \$3 million of decrease due to currency translation; as a percentage of sales, down 1 percentage point
 - Unfavorable expense leverage decreased operating margin 1 percentage point
- Tax rate was 30% for 2016 compared to 27% in 2015
 - 2016 rate includes impact of the Federal R&D tax credit not available until Q4 2015
 - 2015 rate included favorable impact of non-recurring tax benefits and post-tax dividend income, partially offset by the tax rate effect of the gain on the sale of the Liquid Finishing assets

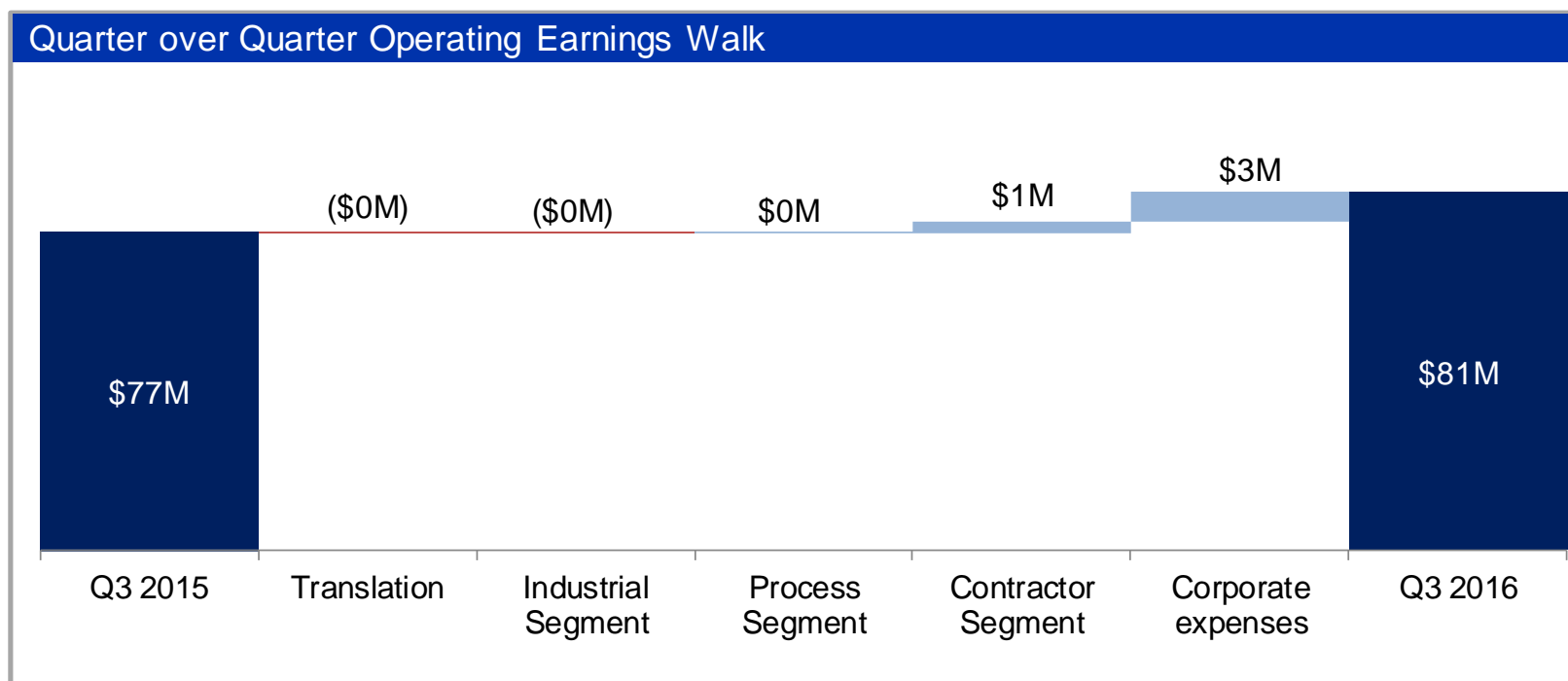
Operating Earnings



Operating Earnings



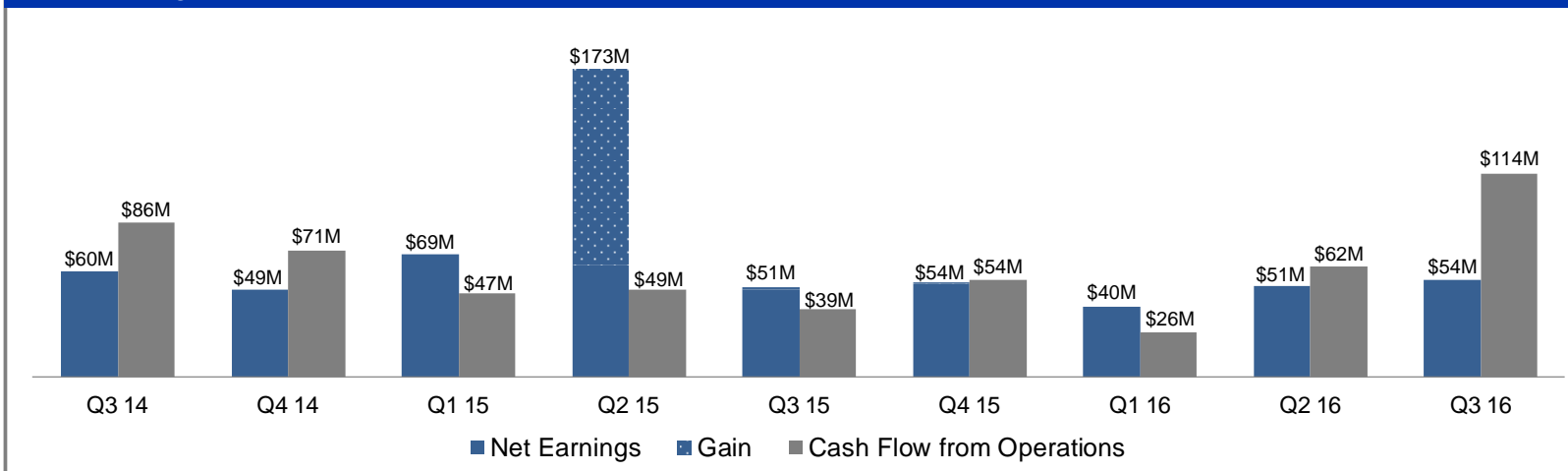
Change in Operating Earnings	Third Quarter		Year-to-Date	
2015 Operating Earnings (\$M and % of sales)	\$ 77	24 %	\$ 226	24 %
Translation effect	—	—	(3)	—
Mix, volume and pricing	4	—	7	—
Effect of acquired businesses operations, inventory set-up and acquisition costs, net	1	—	3	—
Incremental investment in growth initiatives and corporate items	(1)	—	(4)	—
Unallocated corporate expenses (pension, stock compensation)	3	1	—	—
Facility relocation and integration costs for acquired businesses	—	—	(1)	—
Volume effect on expense leverage	(3)	—	(7)	(1)
2016 Operating Earnings (\$M and % of sales)	<u>\$ 81</u>	<u>25 %</u>	<u>\$ 221</u>	<u>23 %</u>



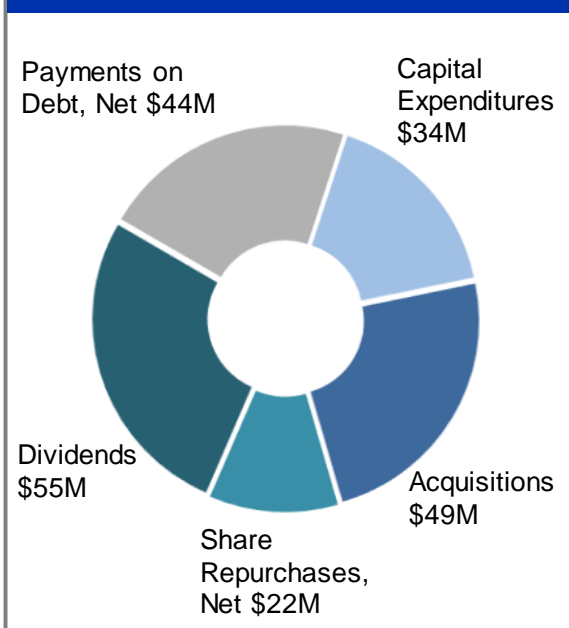
Cash Flow and Liquidity



Net Earnings and Cash from Operations



2016 Uses of Cash



- Net cash provided by operating activities was \$202 million in 2016 vs. \$135 million in 2015
 - 2015 cash flows include the divestiture of Liquid Finishing Held Separate assets that occurred in Q2 2015
 - Proceeds from the sale of the business were \$610 million and are included in cash flows from investing activities
 - Gain on the sale, net of expenses, was \$139 million and reflected in Q2 2015 net income
 - Post-closing adjustments of \$2 million were recorded in Q3 2015 net income
 - Effect of taxes on the gain, transaction costs and foundation contribution are included in operating cash flows. Payments of \$18 million and \$36 million for these items were made in Q2 and Q3 2015, respectively
- Debt, including notes payable, \$364 million; down \$44 million from year-end
 - Interest expense comparable to 2015

Goodwill Impairment



- In 2016, operating results of our Oil and Natural Gas reporting unit ("ONG") within the Process segment have fallen short of expectations due to weakness in oil and natural gas markets
- After considering third quarter operating results and preliminary projections from our 2017 planning process, we concluded that the depth and length of industry weakness, and its continuing impact on ONG results, were greater than previously expected
- While management is committed to long-term profitability in ONG, and believes its investment in facility improvements, manufacturing capabilities and commercial resources have positioned the unit to benefit strongly from a recovery when it occurs, we initiated an impairment analysis at the end of the third quarter
- Preliminary analysis indicated potential impairment of ONG goodwill as of September 23, 2016. Due to the amount of time and effort required to determine the implied fair value of ONG goodwill, we are unable to provide a reasonable estimate or a range of estimates for the potential non-cash impairment charge at this time
- The carrying value of ONG goodwill was \$147 million and the carrying value of other identifiable intangible assets of ONG totaled \$73 million as of September 23, 2016
- The valuation to determine the amount of impairment will be completed in the fourth quarter

Other Discussion Items












- Capital expenditures expected to be approximately \$40 million in 2016
- Unallocated corporate expenses for the full year 2016 are expected to be \$1 million higher than 2015; expenses vary by quarter
- Opportunistic share repurchases may continue via open market transactions and/or short-dated accelerated share repurchase programs
- Changes in currency translation rates decreased year-to-date sales and net earnings by \$9 million and \$2 million respectively. At current rates, we expect currency to have an insignificant effect on the fourth quarter
- The tax rate for the fourth quarter is expected to be approximately 31% and the full year is expected to be approximately 30%

Current Environment and Outlook



Constant currency basis and excluding acquisitions completed in the prior 12 months

	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Growth Q3 2016 2% YTD 2016 (0%)	Sales Growth Q3 2016 2% YTD 2016 5%	Sales Growth Q3 2016 3% YTD 2016 2%	Sales Growth Q3 2016 2% YTD 2016 1%
Industrial Segment	 Sales Growth Q3 2016 (4%) YTD 2016 (4%)	 Sales Growth Q3 2016 (2%) YTD 2016 6%	 Sales Growth Q3 2016 7% YTD 2016 8%	Sales Growth Q3 2016 (1%) YTD 2016 2%
Contractor Segment	 Sales Growth Q3 2016 7% YTD 2016 7%	 Sales Growth Q3 2016 21% YTD 2016 18%	 Sales Growth Q3 2016 (11%) YTD 2016 (4%)	Sales Growth Q3 2016 7% YTD 2016 7%
Process Segment	 Sales Growth Q3 2016 1% YTD 2016 (7%)	 Sales Growth Q3 2016 (6%) YTD 2016 (13%)	 Sales Growth Q3 2016 1% YTD 2016 (10%)	Sales Growth Q3 2016 (0%) YTD 2016 (9%)
Full Year 2016 Outlook	Flat	Low-to-Mid Single Digits	Low Single Digits	Low Single Digits

The full-year 2016 outlook for Graco worldwide is low single digit growth

- Americas region is expected to finish the full-year 2016 flat compared with the prior year, below our prior outlook of low single-digit growth
- EMEA region, we maintain our low-to-mid single-digit growth expectations for the full year
- Asia Pacific region continues to have an outlook of low single-digit growth for 2016

While our Process segment saw modest growth sequentially in the third quarter, we are cautious about ongoing headwinds

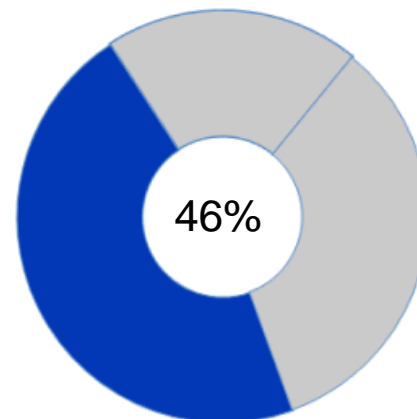
Industrial Segment Results



Sales

\$ in millions	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 67	\$ 70	(4)%	\$ 201	\$ 209	(4)%
EMEA	44	45	(3)	134	128	5
Asia Pacific	40	37	8	120	112	7
Total	\$ 151	\$ 152	(1)%	\$ 455	\$ 449	1 %
Operating Earnings	\$ 51	\$ 51	(0)%	\$ 147	\$ 144	2 %
% of sales	34 %	33 %		32 %	32 %	

2016 Industrial Segment Sales as % of Graco



2016 Components of Net Sales Change

Current Environment



Third Quarter Year-to-Date

Americas	Third Quarter	Year-to-Date
Volume & Price	(4)%	(4)%
Acquisitions	—	1 %
Currency	—	(1)%
Total	(4)%	(4)%



- Stable: Wood, tier one auto
- Challenging: Capital equipment spending, heavy machinery, agriculture, truck and trailer

EMEA	Third Quarter	Year-to-Date
Volume & Price	(2)%	6 %
Acquisitions	—	—
Currency	(1)%	(1)%
Total	(3)%	5 %



- Stable: Western Europe
- Challenging: Currency, geopolitical
- Easing: Russia comps in 2016

Asia Pacific	Third Quarter	Year-to-Date
Volume & Price	7 %	8 %
Acquisitions	—	—
Currency	1 %	(1)%
Total	8 %	7 %



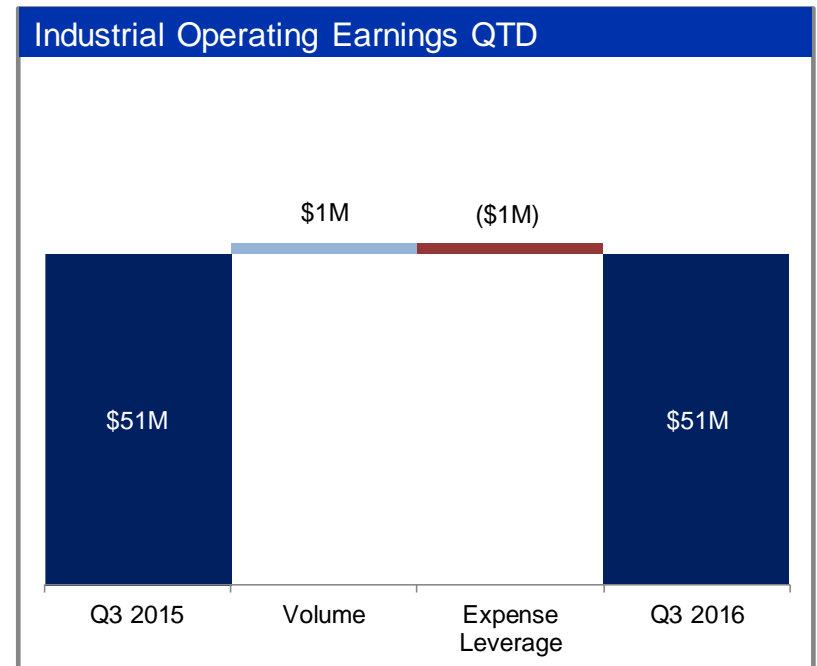
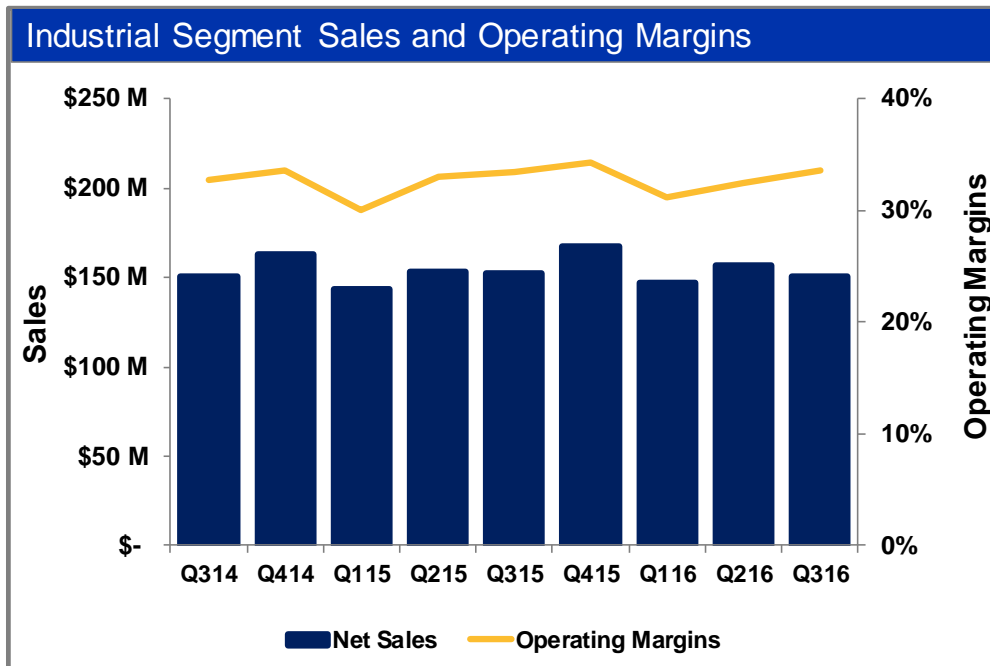
- Stable: General industrial, adhesive dispense
- Challenging: Marine, mining, agriculture, construction
- Spotty: Project activity

Segment Total	Third Quarter	Year-to-Date
Volume & Price	(1)%	2 %
Acquisitions	—	—
Currency	—	(1)%
Total	(1)%	1 %

Industrial Segment Results



Change in % of sales	Third Quarter	Full Year
2015 Operating Earnings (% of sales)	33 %	32 %
Translation effect	—	—
Price, cost, mix	1	—
2016 Operating Earnings (% of sales)	<u>34 %</u>	<u>32 %</u>



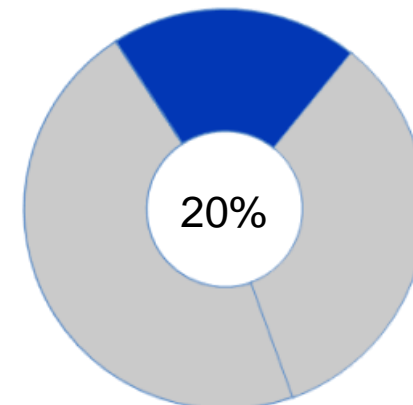
Process Segment Results



Sales

\$ in millions	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 43	\$ 41	5 %	\$ 124	\$ 128	(3)%
EMEA	13	13	-	40	42	(4)
Asia Pacific	11	11	4	32	34	(8)
Total	\$ 67	\$ 65	4 %	\$ 196	\$ 204	(4)%
Operating Earnings	\$ 10	\$ 10	-	\$ 25	\$ 35	(28)%
% of sales	15 %	16 %		13 %	17 %	

2016 Process Segment Sales as % of Graco



2016 Components of Net Sales Change

Current Environment



	Third Quarter	Year-to-Date
Americas		
Volume & Price	1 %	(7)%
Acquisitions	4 %	4 %
Currency	—	—
Total	5 %	(3)%
EMEA		
Volume & Price	(6)%	(13)%
Acquisitions	13 %	13 %
Currency	(7)%	(4)%
Total	—	(4)%
Asia Pacific		
Volume & Price	1 %	(10)%
Acquisitions	5 %	4 %
Currency	(2)%	(2)%
Total	4 %	(8)%
Segment Total		
Volume & Price	—	(9)%
Acquisitions	5 %	6 %
Currency	(1)%	(1)%
Total	4 %	(4)%



- Favorable: Environmental applications, technology
- Challenging: Oil & natural gas, industrial lubrication
- Spotty: Project activity



- Stable: Western Europe
- Challenging: Currency, geopolitical, oil & natural gas



- Stable: Process applications
- Challenging: Mining, oil & natural gas

Process Segment Results



Change in % of sales

2015 Operating Earnings (% of sales)

Translation effect

Effect of acquisition operations, inventory step-up and acquisition costs, net

Incremental investment in growth initiatives

Expense leverage

2016 Operating Earnings (% of sales)

Third

Full Year

16 %

17 %

—

—

—

1

—

(1)

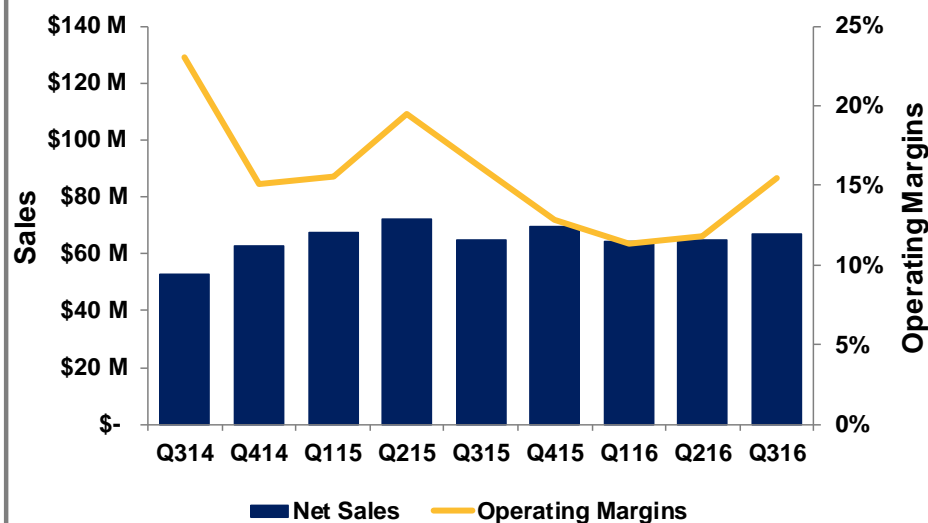
(1)

(4)

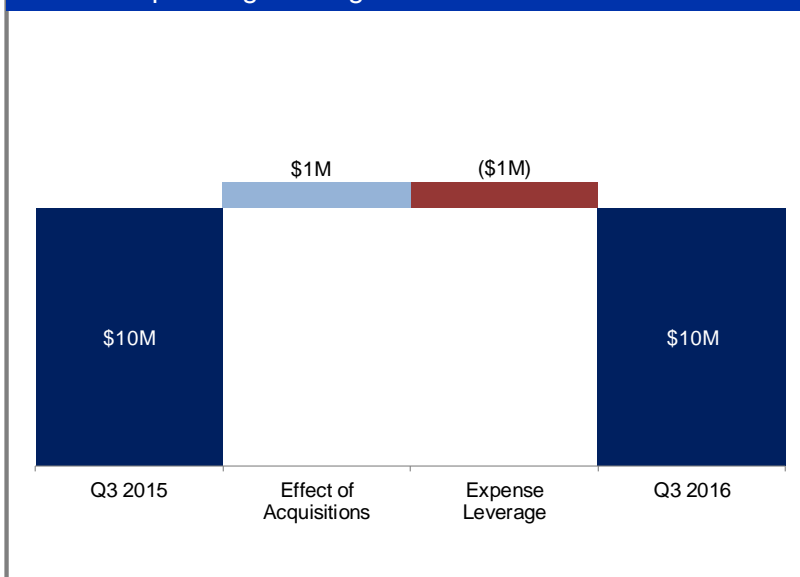
15 %

13 %

Process Segment Sales and Operating Margins



Process Operating Earnings QTD



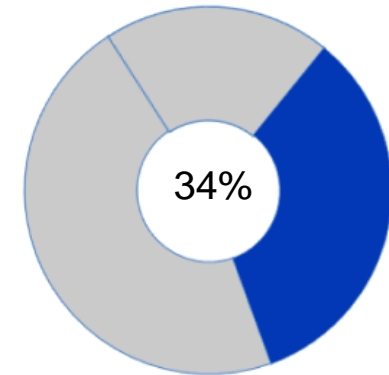
Contractor Segment Results



Sales

\$ in millions	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 85	\$ 79	7 %	\$ 250	\$ 235	6 %
EMEA	16	14	20	55	47	17
Asia Pacific	8	9	(11)	24	26	(6)
Total	\$ 109	\$ 102	7 %	\$ 329	\$ 308	7 %
Operating Earnings	\$ 26	\$ 24	6 %	\$ 72	\$ 71	2 %
% of sales	23 %	24 %		22 %	23 %	

2016 Contractor Segment Sales as % of Graco



2016 Components of Net Sales Change

Current Environment



	Third Quarter	Year-to-Date
Americas		
Volume & Price	7 %	7 %
Acquisitions	—	—
Currency	—	(1)%
Total	7 %	6 %
EMEA		
Volume & Price	21 %	18 %
Acquisitions	—	—
Currency	(1)%	(1)%
Total	20 %	17 %
Asia Pacific		
Volume & Price	(11)%	(4)%
Acquisitions	—	—
Currency	—	(2)%
Total	(11)%	(6)%
Segment Total		
Volume & Price	7 %	7 %
Acquisitions	—	—
Currency	—	—
Total	7 %	7 %



- Stable: Residential and commercial construction
- Focus Sectors: Pro paint, general construction, DIY



- Favorable: Western Europe
- Challenging: Currency, geopolitical



- Stable: Pavement, texture products
- Challenging: General construction, equipment adoption rates

Contractor Segment Results



Change in % of sales

2015 Operating Earnings (% of sales)

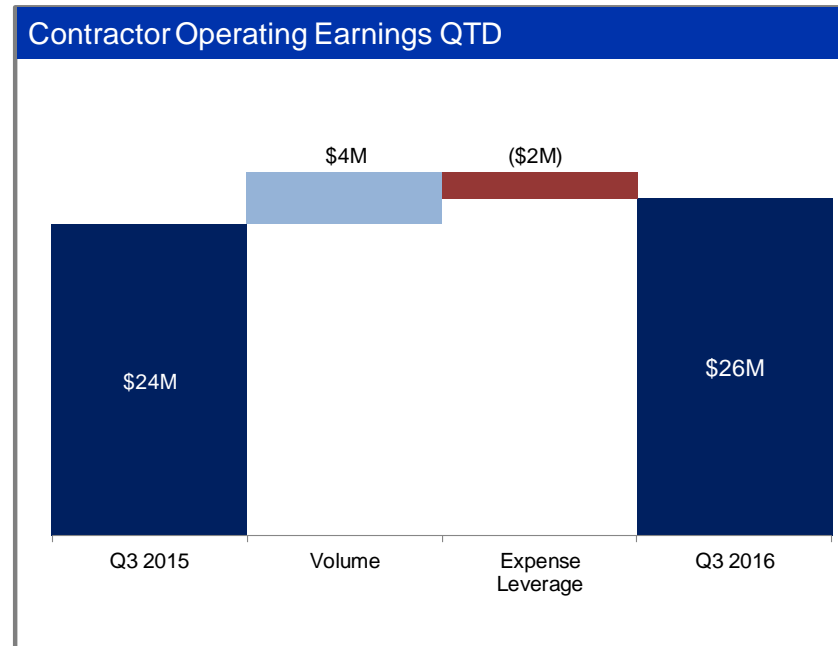
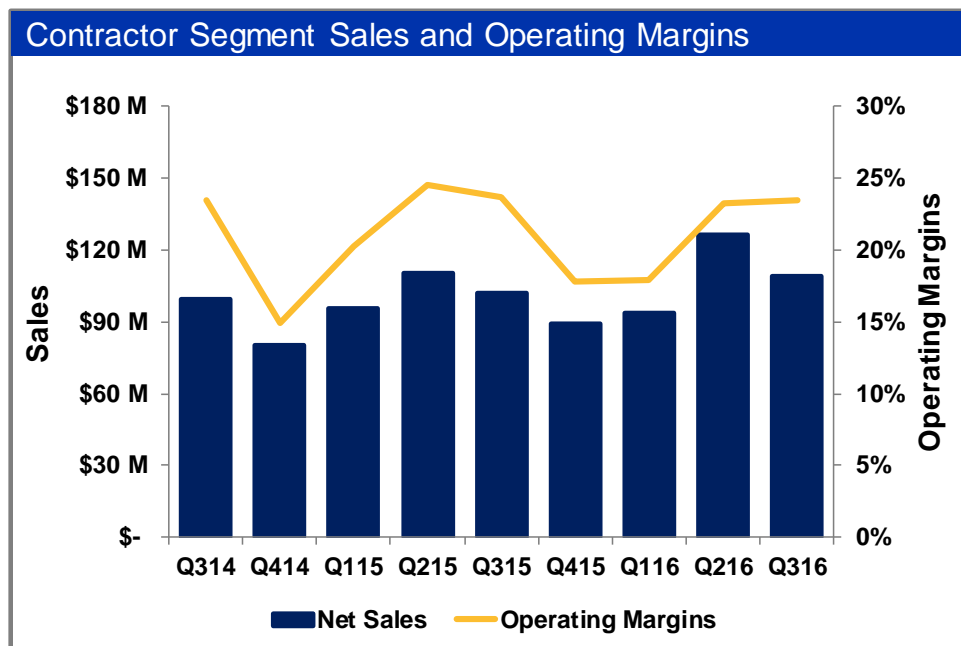
Translation effect

Expense leverage

2016 Operating Earnings (% of sales)

Third Quarter Year-to-Date

24 %	23 %
—	—
(1)	(1)
<u>23 %</u>	<u>22 %</u>



Non-GAAP Reconciliation



- The Held Separate Liquid Finishing business assets were sold in the second quarter of 2015. 2015 net earnings included after-tax investment income of \$2 million (\$0.02 per diluted share) for the quarter (from post-closing purchase price adjustments) and \$141 million (\$2.36 per diluted share) for the year-to-date
- Results excluding Liquid Finishing investment income and expense provide a more consistent base of comparison of on-going results
- Calculation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

Non-GAAP Reconciliation	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
Net earnings	\$ 54.4	\$ 50.7	\$ 144.9	\$ 292.2
Held separate investment (income), net	-	(2.4)	-	(190.7)
Income tax effect	-	0.8	-	49.7
Adjusted net earnings	<u>\$ 54.4</u>	<u>\$ 49.1</u>	<u>\$ 144.9</u>	<u>\$ 151.2</u>
Diluted EPS as reported	\$ 0.95	\$ 0.86	\$ 2.55	\$ 4.90
Diluted EPS as adjusted	0.95	0.84	2.55	2.54



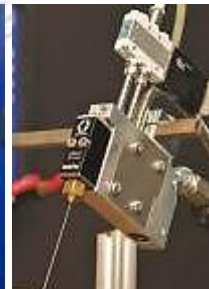
move



measure



mix



control



dispense



spray

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