



1st Quarter 2020 Earnings Conference Call

April 23, 2020

Safe Harbor

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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 April 22, 2020.

Conference Call Logistics

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

Telephone replay will be available after 2 p.m. ET, April 23, 2020. The replay by telephone will be available through 2 p.m. ET, April 27, 2020.

- ▶ 888-203-1112 – Conference ID #6655137
- ▶ 786-789-4797– with the same conference ID #, for international participants

Financial Results

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Statement of Earnings

\$ in millions except per share amounts

	First Quarter		
	2020	2019	Change
Sales	\$ 373.6	\$ 404.9	(8)%
Gross Profit	198.6	216.0	(8)%
% of Sales	53.2%	53.4%	(0.2) pts
Operating Earnings	89.8	104.5	(14)%
% of Sales	24.0%	25.9%	(1.9) pts
Net Earnings	\$ 72.8	\$ 86.7	(16)%
% of Sales	19.5%	21.4%	(1.9) pts
Diluted Earnings Per Share	\$ 0.42	\$ 0.51	(18)%
Diluted Shares in Millions	172.6	170.9	1 %
<i>Net Earnings, Adjusted (1)</i>	\$ 65.0	\$ 80.1	(19)%
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.38	\$ 0.47	(19)%

(1) Net earnings and diluted earnings per share for 2020 and 2019 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 18 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Sales

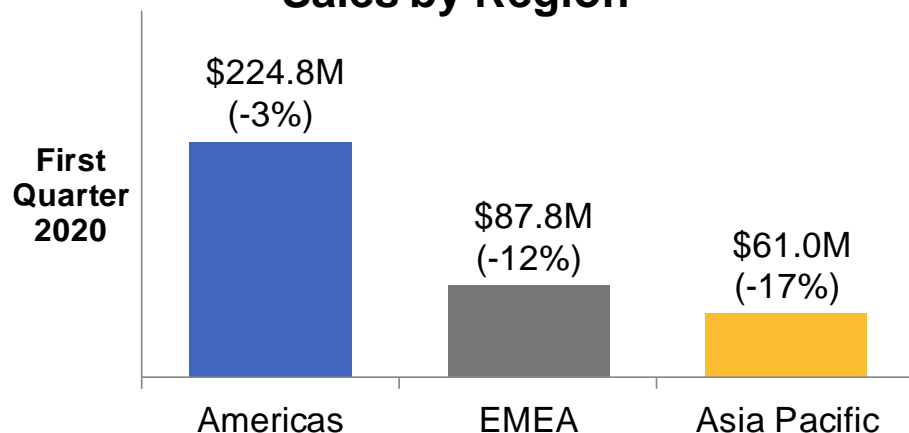
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Components of Net Sales Changes

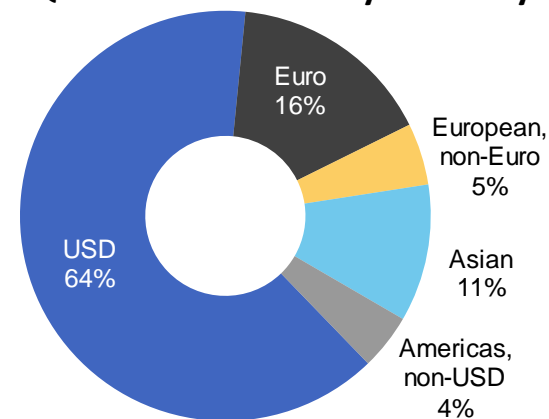
First Quarter March 2020

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(15)%	(6)%	1 %	(4)%	(11)%	(18)%	(8)%
Acquisitions	0 %	5 %	0 %	1 %	1 %	3 %	1 %
Currency	(1)%	0%	(1)%	0 %	(2)%	(2)%	(1)%
Total	(16)%	(1)%	0 %	(3)%	(12)%	(17)%	(8)%

Sales by Region



1st Quarter 2020 Sales by Currency

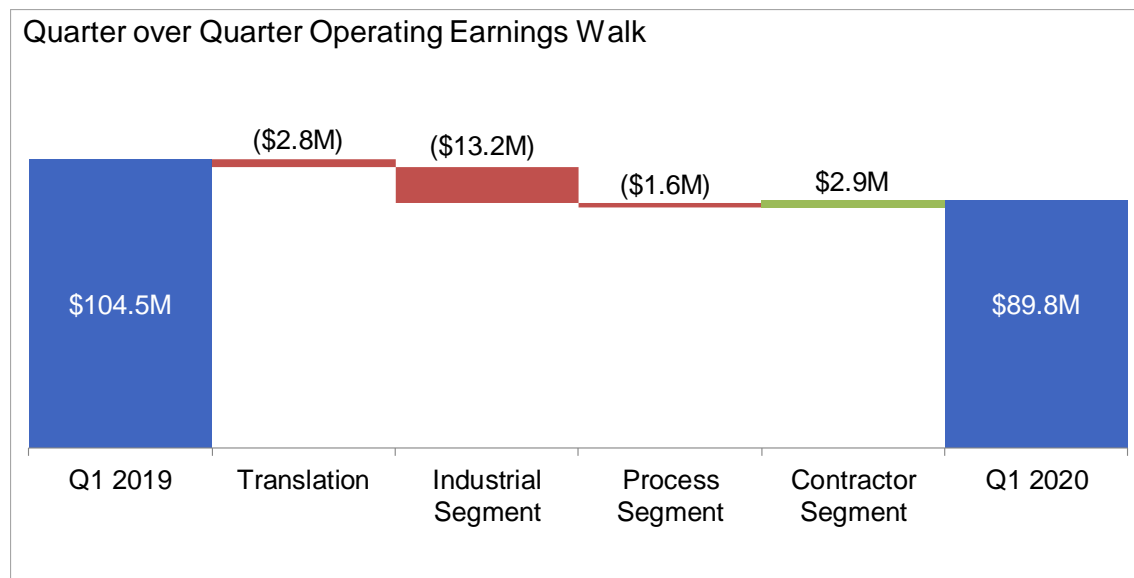
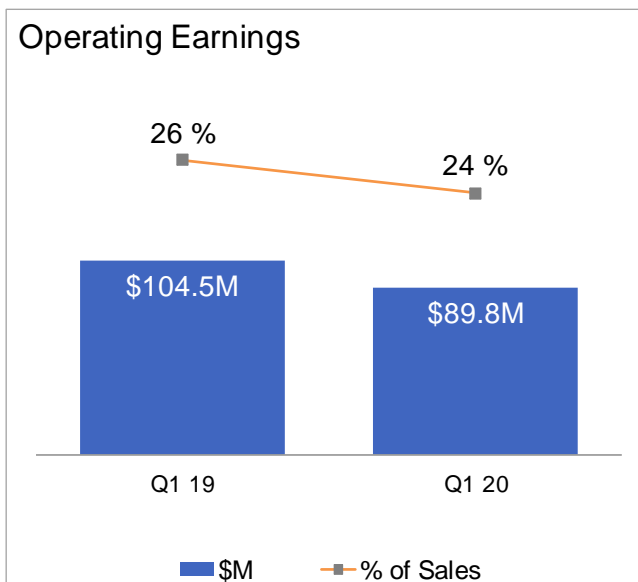


Asian currencies include: AUD, CNY, JPY, KRW. European, non-euro currencies include: CHF, GBP, RON. Americas, non-USD currencies include: BRL, CAD, MXN

Operating Earnings

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	First Quarter	
2019 Operating Earnings (\$M and % of sales)	\$104.5	26 %
Translation effect	(2.8)	(1)
Volume, price and cost, product and channel mix	(13.9)	0
Volume effect on expense leverage	2.0	(1)
2020 Operating Earnings (\$M and % of sales)	\$ 89.8	24 %



First Quarter 2020



Sales	<ul style="list-style-type: none">▶ Down 8 percent from 2019, down 7 percent at consistent exchange rates<ul style="list-style-type: none">▪ Acquired businesses added 1 percentage point
Gross Margin	<ul style="list-style-type: none">▶ Rate down 0.2 percentage points from 2019<ul style="list-style-type: none">▪ Strong realized pricing nearly offset adverse effects of lower factory volume, unfavorable product and channel mix, and changes in currency translation rates
Operating Earnings	<ul style="list-style-type: none">▶ Decreased \$15 million, or 14% from 2019<ul style="list-style-type: none">▪ Decline in volume driving lower operating earnings▪ Unfavorable impact of currency translation
Other Expense	<ul style="list-style-type: none">▶ Increased \$5 million<ul style="list-style-type: none">▪ Driven by market value losses on investments used to fund certain retirement benefits liabilities
Taxes	<ul style="list-style-type: none">▶ Effective tax rate for the quarter was 11%, down 3 percentage points from first quarter 2019<ul style="list-style-type: none">▪ Decrease due primarily to an increase in excess tax benefits related to stock option exercises, partially offset by non-recurring tax benefits from other tax planning activities last year

Operational Updates

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- ▶ Nearly all locations worldwide are running and able to fulfill customer orders
 - Cleaning, disinfecting and social distancing guidelines have been implemented
 - People who can work from home are doing so in compliance with stay at home orders
- ▶ Incoming order rates have declined by approximately 30 percent since mid-March (organic, constant currency)
 - The effect varies by region, product family and end-user industry
- ▶ Our commercial teams are focused on customer service, maintaining end-user customer contact and providing support to our distributors
- ▶ Our engineering teams continue to develop and launch new products
- ▶ Operating cash flows and available liquidity support operations at current order rates

Solid Liquidity



Debt Structure

- ▶ Total debt \$446M with remaining borrowing capacity of \$464M
 - \$250M borrowing on revolving credit facility is priced at LIBOR +100 BPS or 1.99%
 - Revolving credit facility matures December 2021
 - Series B and D Private placement debt matures in March 2023 and July 2026, respectively

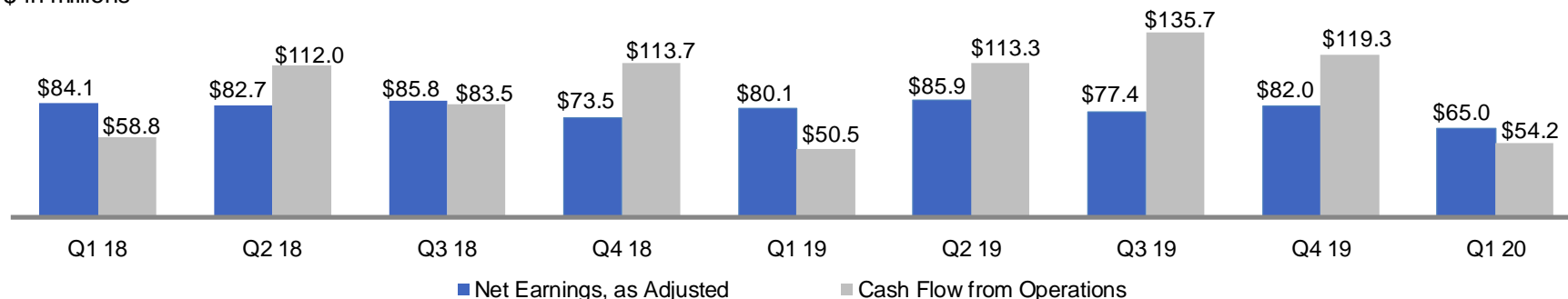
Financial Covenants

- ▶ All agreements carry the same covenants
 - Interest Coverage Ratio not less than 3x measured as rolling 4 quarter Adjusted EBITDA by rolling 4 quarter interest expense
 - Cash Flow Leverage Ratio not more than 3.5x measured as consolidated indebtedness by rolling 4 quarter Adjusted EBITDA
- ▶ At current debt levels, covenants are not tripped unless Adjusted EBITDA falls to ~\$117M

Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operations
\$ in millions



Significant Uses of Cash (\$M)

	2020	2019
Share Repurchases, net of Issued	\$ 45.1	\$ -
Dividends	29.3	26.4
Capital Expenditures	18.9	30.4
Net Payments on Debt	-	22.1
Acquisitions	-	5.4

- ▶ Net cash provided by operating activities was \$54 million in 2020 vs. \$51 million in 2019
 - Operating cash flows and available liquidity are sufficient to support operations at current order rates
 - Changes in working capital elements are in line with volume
- ▶ Capital expenditures of \$19 million
- ▶ Debt, including notes payable, was \$446 million - up \$275 million from December 2019
 - During March 2020, borrowed \$250 million on the \$500 million revolving credit facility. This will add approximately \$1 million to quarterly interest expense
 - First quarter interest expense down \$1 million compared to 2019

Other Discussion Items

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Cap Ex	<ul style="list-style-type: none">▶ Capital expenditure expectations of approximately \$70 million in 2020, including approximately \$50 million facility expansion
Expenses	<ul style="list-style-type: none">▶ Unallocated corporate expenses in 2020 are expected to be approximately \$30 million
Shares	<ul style="list-style-type: none">▶ During first quarter 2020, we repurchased 2.1 million shares. We may make opportunistic repurchases going forward
Currency	<ul style="list-style-type: none">▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2019, the unfavorable movement in foreign currencies would be a headwind of approximately 1% on sales and 3% on earnings in 2020
Taxes	<ul style="list-style-type: none">▶ At our current estimate of results and mix of earnings, we anticipate the effective tax rate for the second quarter and the full year to be approximately 20% - 21%, excluding any impact from excess tax benefits related to stock option exercises and any one-time items. Actual results and mix of earnings may materially impact the expected tax rate for the second quarter and full year

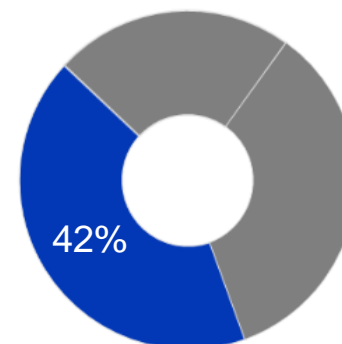
Industrial Segment Results



\$ in millions

	First Quarter		
	2020	2019	Change
Sales			
Americas	\$ 74.4	\$ 80.9	(8)%
EMEA	46.2	58.1	(20)
Asia Pacific	38.1	50.1	(24)
Total	\$ 158.7	\$ 189.1	(16)%
Operating Earnings	\$ 50.2	\$ 65.2	(23)%
% of sales	32 %	34 %	

2020 Industrial Segment
Q1 Sales as % of Graco



Components of Net Sales Change

	2020		2020
Americas		Asia Pacific	
Volume & Price	(8)%	Volume & Price	(22)%
Acquisitions	0 %	Acquisitions	0 %
Currency	0 %	Currency	(2)%
Total	(8)%	Total	(24)%
EMEA		Segment Total	
Volume & Price	(19)%	Volume & Price	(15)%
Acquisitions	0 %	Acquisitions	0 %
Currency	(1)%	Currency	(1)%
Total	(20)%	Total	(16)%

Industrial Segment Results

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Change in % of sales

First Quarter

2019 Operating Earnings (% of sales)

34 %

Translation effect

0

Volume, product cost, channel and product mix

1

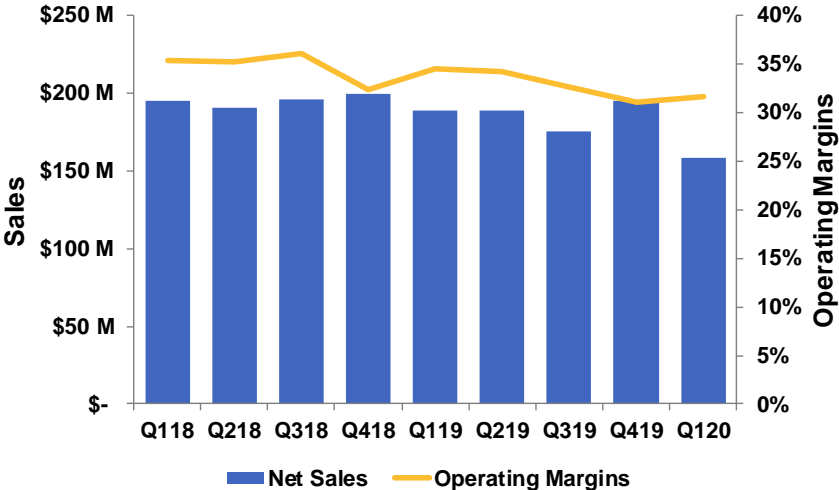
Volume effect on expense leverage

(3)

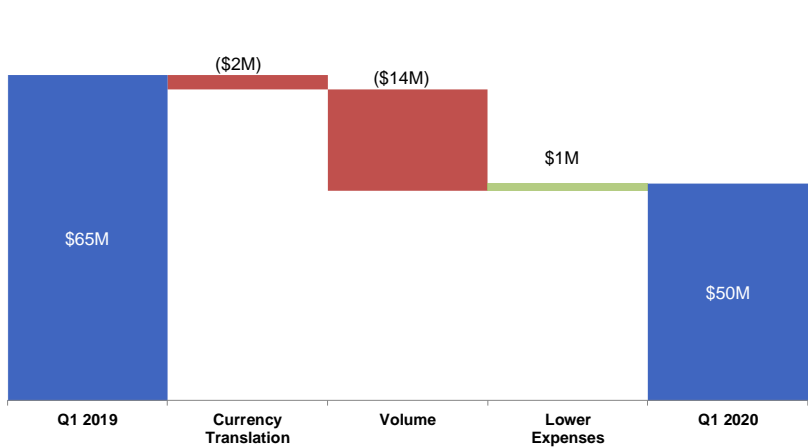
2020 Operating Earnings (% of sales)

32 %

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



Process Segment Results



\$ in millions

Sales

Americas
EMEA
Asia Pacific

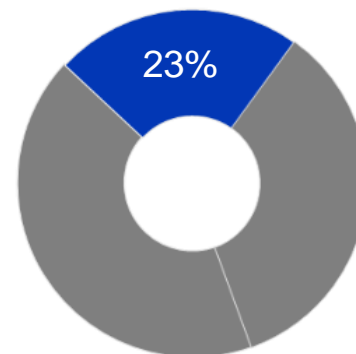
Total

Operating Earnings

% of sales

First Quarter			
	2020	2019	Change
Americas	\$ 55.1	\$ 57.1	(4)%
EMEA	15.8	15.8	0
Asia Pacific	15.2	14.0	9
Total	\$ 86.1	\$ 86.9	(1)%
Operating Earnings	\$ 18.1	\$ 20.0	(10)%
% of sales	21 %	23 %	

2020 Process Segment
Q1 Sales as % of Graco



Components of Net Sales Change

	2020		2020
Americas		Asia Pacific	
Volume & Price	(6)%	Volume & Price	(3)%
Acquisitions	2 %	Acquisitions	15 %
Currency	0 %	Currency	(3)%
Total	(4)%	Total	9 %
EMEA		Segment Total	
Volume & Price	(7)%	Volume & Price	(6)%
Acquisitions	8 %	Acquisitions	5 %
Currency	(1)%	Currency	0 %
Total	0 %	Total	(1)%

Process Segment Results



Change in % of sales

First Quarter

2019 Operating Earnings (% of sales)

23 %

Translation effect

0

Volume, product cost, channel and product mix

(1)

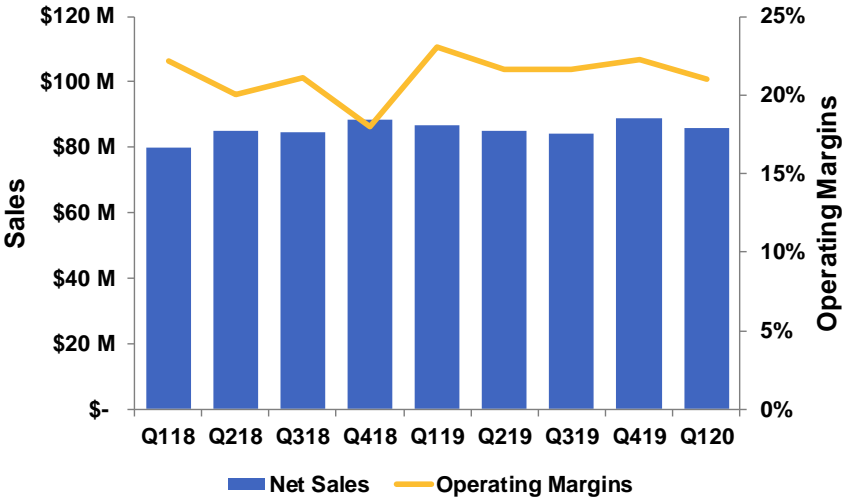
Effect of acquired business operations

(1)

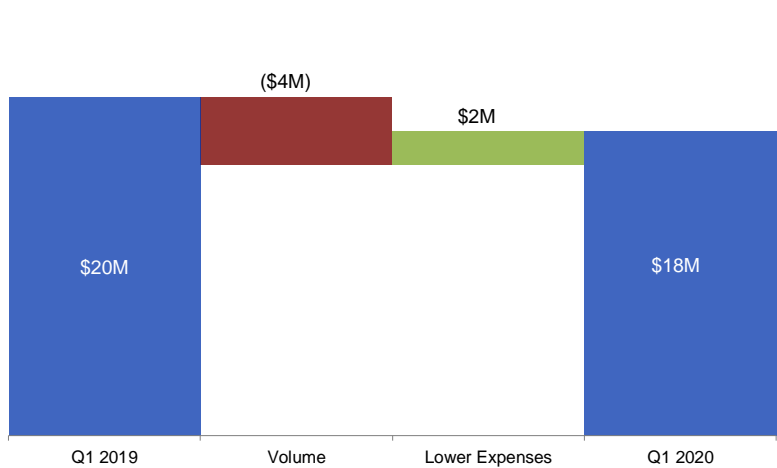
2020 Operating Earnings (% of sales)

21 %

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



Contractor Segment Results



\$ in millions

Sales

Americas

EMEA

Asia Pacific

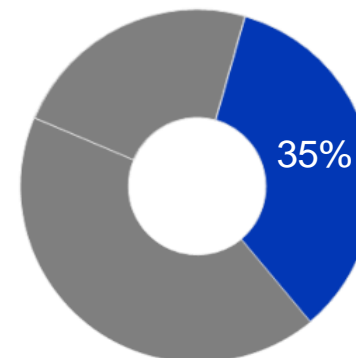
Total

Operating Earnings

% of sales

	First Quarter		
	2020	2019	Change
Americas	\$ 95.3	\$ 94.0	1%
EMEA	25.8	25.6	1
Asia Pacific	7.7	9.3	(18)
Total	\$ 128.8	\$ 128.9	0%
Operating Earnings	\$ 28.7	\$ 26.5	8%
% of sales	22 %	21 %	

2020 Contractor Segment
Q1 Sales as % of Graco



Components of Net Sales Change

	2020	2020
Americas		
Volume & Price	2 %	
Acquisitions	0 %	
Currency	(1)%	
Total	1 %	
Asia Pacific		
Volume & Price		(14)%
Acquisitions		0 %
Currency		(4)%
Total		(18)%
EMEA		
Volume & Price	3 %	
Acquisitions	0 %	
Currency	(2)%	
Total	1 %	
Segment Total		
Volume & Price		1 %
Acquisitions		0 %
Currency		(1)%
Total		0 %

Contractor Segment Results

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Change in % of sales

2019 Operating Earnings (% of sales)

Translation effect

Volume, product cost, channel and product mix

Volume effect on expense leverage

2020 Operating Earnings (% of sales)

First Quarter

21 %

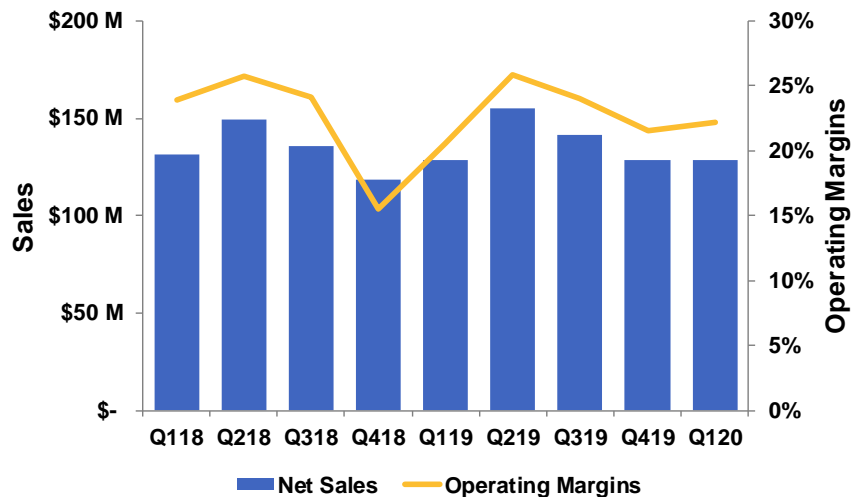
(1)

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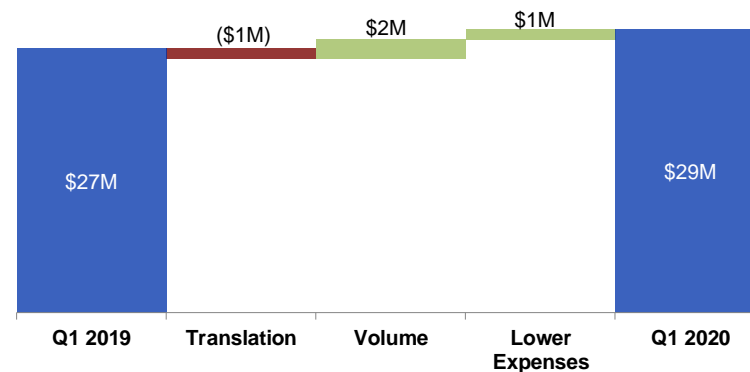
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22 %

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD



Financial Results Adjusted for Comparability

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Certain items have caused fluctuation in the Company's financial results. Excluding the impacts of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements follows:

Non-GAAP Reconciliation	First Quarter		
	2020	2019	Change
\$ in millions except per share amounts			
Income taxes, as reported	\$ 9.3	\$ 14.0	(34)%
Excess tax benefit from option exercises	7.8	5.1	
Other non-recurring tax benefit	-	1.5	
Income taxes, adjusted	\$ 17.1	\$ 20.6	(17)%
Effective income tax rate			
As reported	11.3%	13.9%	
Adjusted	20.8%	20.5%	
Net earnings, as reported	\$ 72.8	\$ 86.7	(16)%
Excess tax benefit from option exercises	(7.8)	(5.1)	
Other non-recurring tax benefit	-	(1.5)	
Net earnings, adjusted	\$ 65.0	\$ 80.1	(19)%
Weighted Average Diluted Shares, in millions	172.6	170.9	
Diluted Earnings per Share			
As reported	\$ 0.42	\$ 0.51	(18)%
Adjusted	\$ 0.38	\$ 0.47	(19)%



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