



1st Quarter 2014 Earnings Conference Call

April 24, 2014

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 the Company's Form 10-K, and 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/ir

Telephone replay will be available after 2 p.m. ET, April 24, 2014. The replay by telephone will be available through April 27, 2014

- 800-406-7325 – Conference ID #4678040
- 303-590-3030 – Conference ID #4678040, for International participants

Financial Results



| \$ millions except EPS | First Quarter | | |
|-----------------------------------|---------------|----------|-----------|
| | 2014 | 2013 | Change |
| Sales | \$ 290.0 | \$ 269.0 | 8 % |
| Gross Profit | 159.3 | 150.6 | 6 % |
| % of Sales | 54.9 % | 56.0 % | (1.1) pts |
| Operating Earnings | 74.7 | 71.5 | 4 % |
| % of Sales | 25.8 % | 26.6 % | (0.8) pts |
| Net Earnings | \$ 50.7 | \$ 52.1 | (3)% |
| % of Sales | 17.5 % | 19.4 % | (1.9) pts |
| Diluted Earnings Per Share | \$ 0.81 | \$ 0.84 | (4)% |
| <i>Diluted Shares in Millions</i> | 62.4 | 62.4 | |

Includes dividends (post-tax) from Liquid Finishing Business held separate:

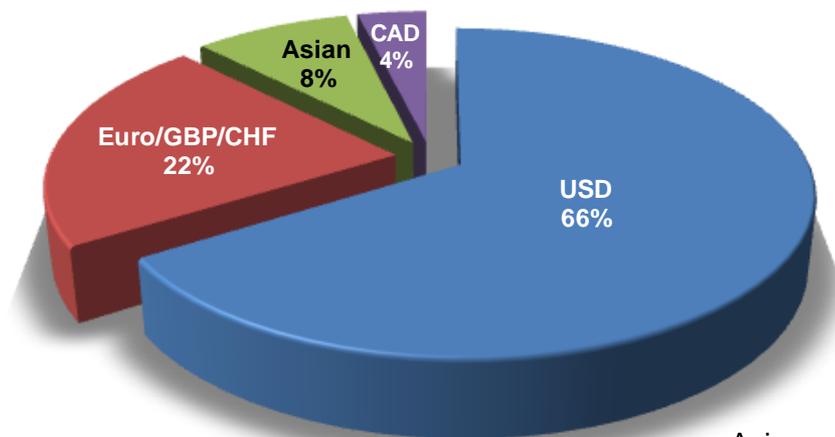
| | | |
|------------|---------|---------|
| Dividends | \$ 4 | \$ 4 |
| EPS Impact | \$ 0.07 | \$ 0.07 |

Components of Net Sales Change

First Quarter 2014

| | Segment | | | Region | | | Consolidated |
|------------------|------------|------------|-------------|-------------|------------|--------------|--------------|
| | Industrial | Contractor | Lubrication | Americas | EMEA | Asia Pacific | |
| Volume and Price | 2 % | 9 % | 7 % | 11 % | 3 % | (7)% | 5 % |
| Acquisitions | 4 % | — | — | 5 % | — | 1 % | 3 % |
| Currency | 1 % | — | (2)% | (1)% | 4 % | (1)% | — |
| Total | 7 % | 9 % | 5 % | 15 % | 7 % | (7)% | 8 % |

2014 Sales by Currency

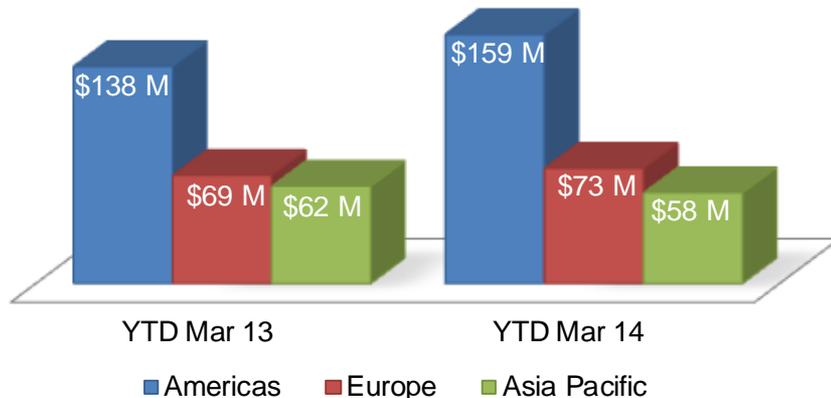


Asian currencies include:
AUD, CNY/RMB, KRW, JPY

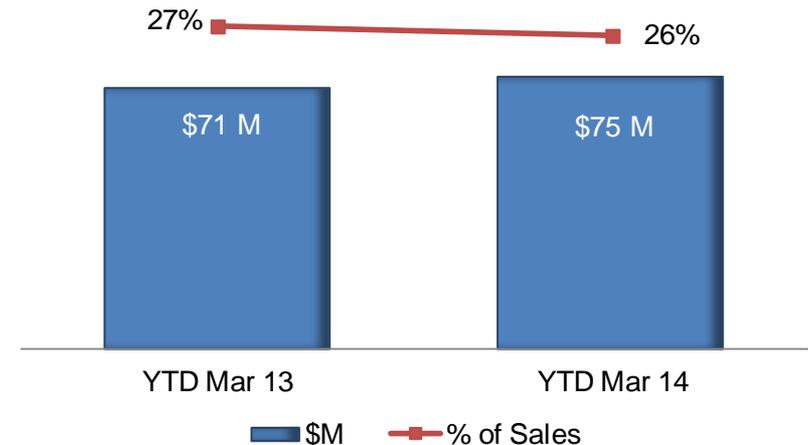
First Quarter 2014 Results



Sales



Operating Earnings



- Sales increase of 8%
 - Acquired businesses sales of \$7 million account for 3 percentage points of growth
- Gross margin rate down 1 percentage point from first quarter 2013
 - Purchase accounting and lower margin for acquisitions impacted consolidated margin by ½ percentage point
 - Changes in product mix
- Operating earnings up \$3 million, down 1 percentage point as a percentage of sales from first quarter 2013
 - Operating expenses as percentage of sales, consistent with first quarter 2013
 - Incremental expense investment in region and product expansion over \$1 million
 - Acquisition/divestiture expenses \$1million, not significant in 2013
- Interest expense \$5 million consistent with first quarter 2013
- Liquid Finishing dividend \$4 million (post-tax), the same as first quarter 2013
- Tax rate of 31% is higher than first quarter 2013 rate of 27%
 - 2013 reduced by effect of R&D tax credit reinstated; full year 2012 and first quarter 2013 credit recognized in first quarter 2013 (\$3.6 million)
 - R&D credit not approved for 2014

Operating Earnings



Change in Operating Earnings

2013 Q1 Operating Earnings (\$M and % of sales)

Translation effect

Volume effect on gross margin

Effect of acquired businesses on operating earnings leverage

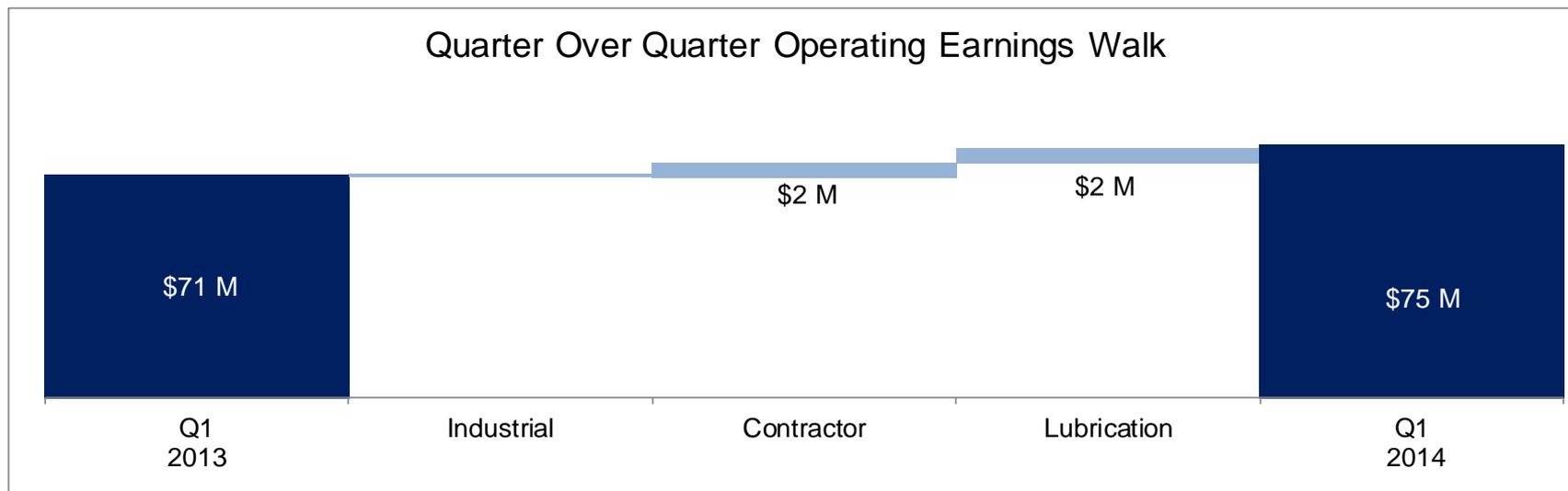
Incremental investment in regional and product expansion

Volume effect on expense leverage

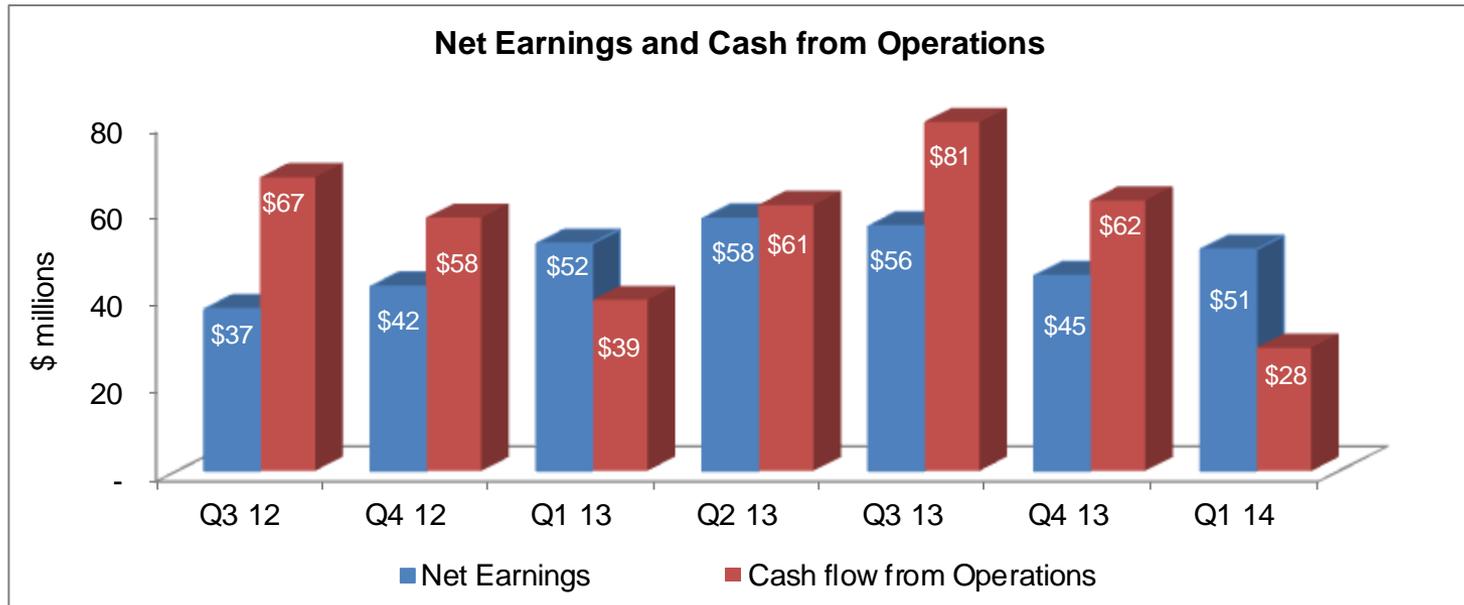
2014 Q1 Operating Earnings (\$M and % of sales)

First Quarter

| | |
|--------------|-------------|
| \$ 71 | 27 % |
| — | — |
| 6 | — |
| — | (1) |
| (1) | (1) |
| (1) | 1 |
| \$ 75 | 26 % |



Cash Flow and Liquidity



2014 year-to-date cash flow from operations \$28 million versus \$39 million in 2013

Cash uses year-to-date:

- Capital expenditures \$7 million
- Dividends paid \$17 million
- Share repurchases \$48 million
- Business acquired \$65 million
- Purchase price allocation
 - Net tangible assets \$6 million
 - Intangible assets \$22 million
 - Goodwill \$37 million

Working capital

- Increase in accounts receivable \$23 million, in line with volume growth; days sales outstanding consistent with year end 2013
- Increase in inventories \$10 million, in line with volume growth

Long-term debt \$503 million; up \$95 million from year-end

- Interest expense \$5 million

Liquid Finishing dividend (post-tax) \$4 million the same as first quarter 2013

Acquisition of Finishing Businesses



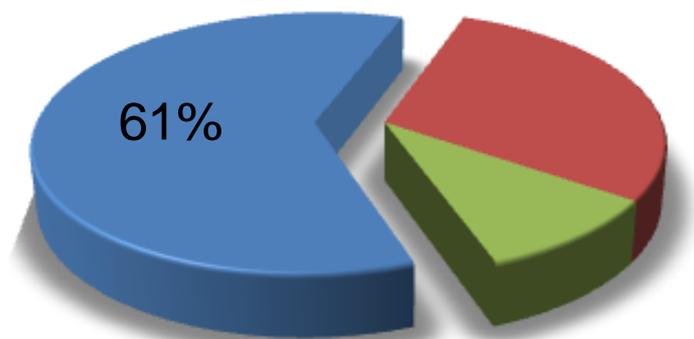
- The purchase of the finishing businesses of Illinois Tool Works Inc. was completed in April 2012 and included Powder Finishing and Liquid Finishing equipment operations, technologies and brands. Results of the Powder Finishing business have been included in the Industrial segment since the acquisition
- The Federal Trade Commission (FTC) issued a Hold Separate Order for Graco to hold the Liquid Finishing assets separate and these businesses are reflected as a cost-method investment
 - Income is recognized based on dividends from current earnings of the Liquid Finishing businesses; \$4 million (post-tax) in Q1 2014
- The FTC issued a proposed decision and order (the “Decision and Order”) in May 2012, and continues to work to resolve issues related to a proposed final Decision and Order
- Graco has retained an investment bank to help market the Liquid Finishing businesses and identify potential buyers

Other Discussion Items

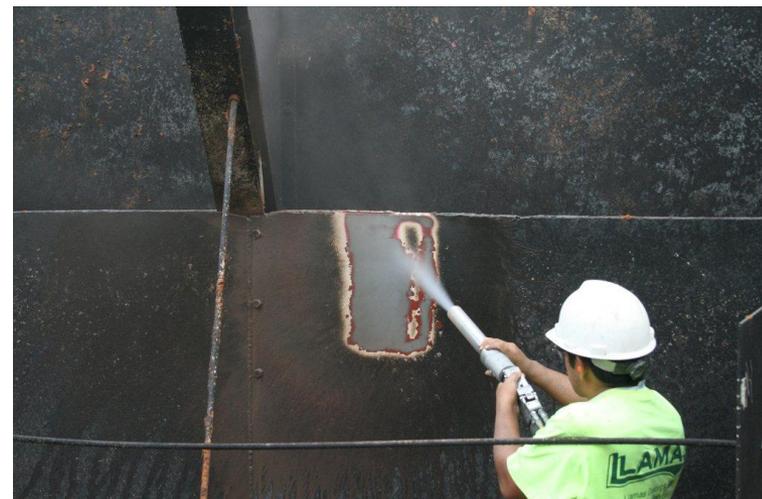


- Capital expenditures expected to be in the range of \$25-\$30 million in 2014
 - Includes \$5 to \$8 million for initial fit-out and equipment for a leased warehouse in Minnesota
 - The facility is expected to be ready mid-year. Move costs of approximately \$1-2 million are expected during the second half of the year and annual operating costs expected to be approximately \$3 million
- Tax rate for second quarter is expected to be approximately 28-29%; for the year approximately 29-30%, excluding any impact of sale of Liquid Finishing businesses
 - Assumes \$11 million (post-tax) dividends in second quarter from Liquid Finishing, the same as second quarter 2013
 - Assumes the Federal R&D tax credit will not be reinstated in 2014
- Share repurchases have continued in 2014, with a goal of 60 million or fewer shares outstanding by the end of the year

Industrial Equipment Results



March 2014 YTD Industrial Segment Sales as % of Consolidated



| Sales (\$M) | First Quarter | | |
|--------------------|---------------|--------|--------|
| | 2014* | 2013 | Change |
| Americas | \$ 79 | \$ 66 | 19 % |
| EMEA | 54 | 50 | 8 |
| Asia Pacific | 43 | 48 | (8) |
| Total | \$ 176 | \$ 164 | 7 % |
| Operating Earnings | \$ 55 | \$ 55 | — |
| % of sales | 31 % | 34 % | |

* Includes sales from acquired businesses of \$7M

Industrial Equipment Results



Change in % of sales

2013 Q1 Operating Earnings (percentage of sales)

Translation effect

Mix, product cost and pricing

Effect of acquired businesses on operating earnings leverage

Incremental investment in regional and product expansion

Volume effect on expense leverage

2014 Q1 Operating Earnings (percentage of sales)

First Quarter

34 %

—

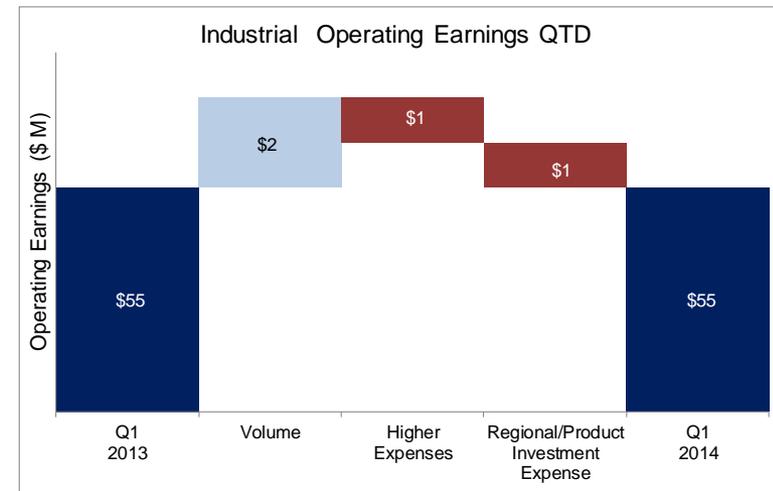
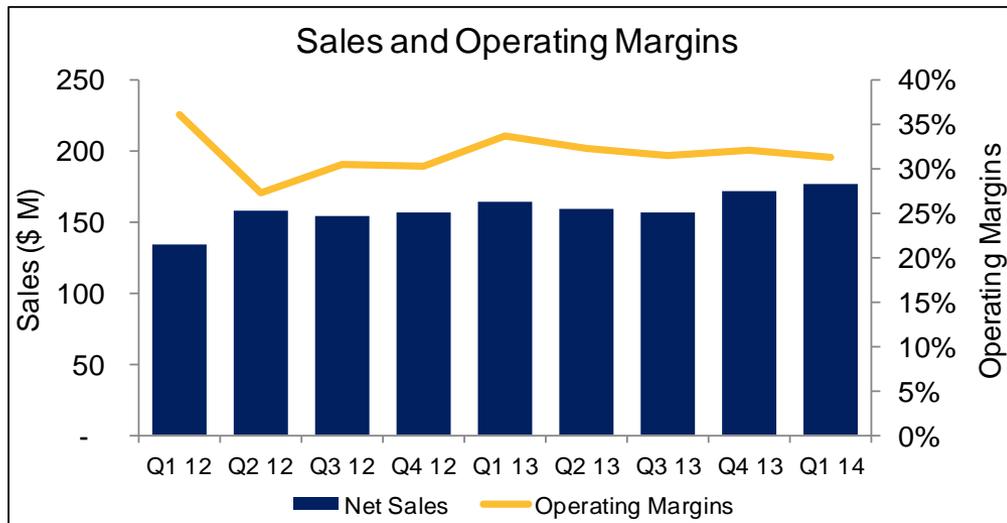
—

(2)

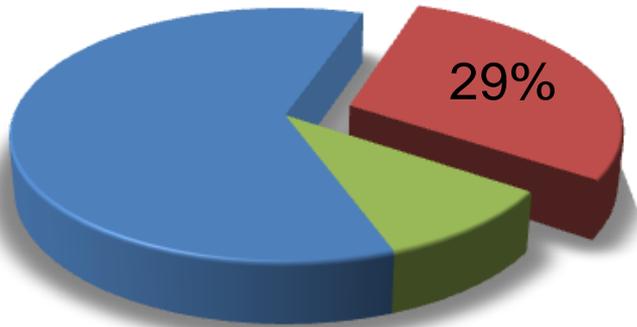
(1)

—

31 %



Contractor Equipment Results



March 2014 YTD Contractor Sales as % of Consolidated



| Sales (\$ M) | First Quarter | | |
|--------------------|---------------|-------|--------|
| | 2014 | 2013 | Change |
| Americas | \$ 59 | \$ 52 | 14 % |
| EMEA | 16 | 16 | 2 |
| Asia Pacific | 10 | 10 | (1) |
| Total | \$ 85 | \$ 78 | 9 % |
| Operating Earnings | \$ 18 | \$ 16 | 11 % |
| % of sales | 21 % | 21 % | |

Contractor Equipment Results



Change in % of sales

2013 Q1 Operating Earnings (percentage of sales)

Translation effect

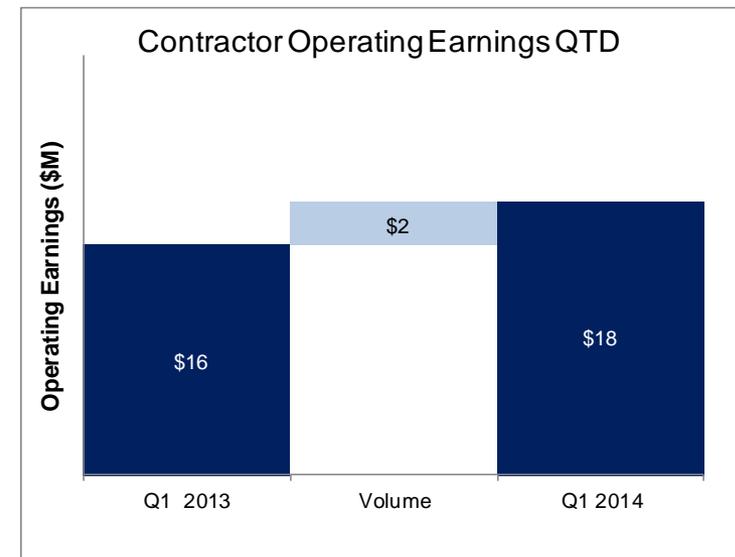
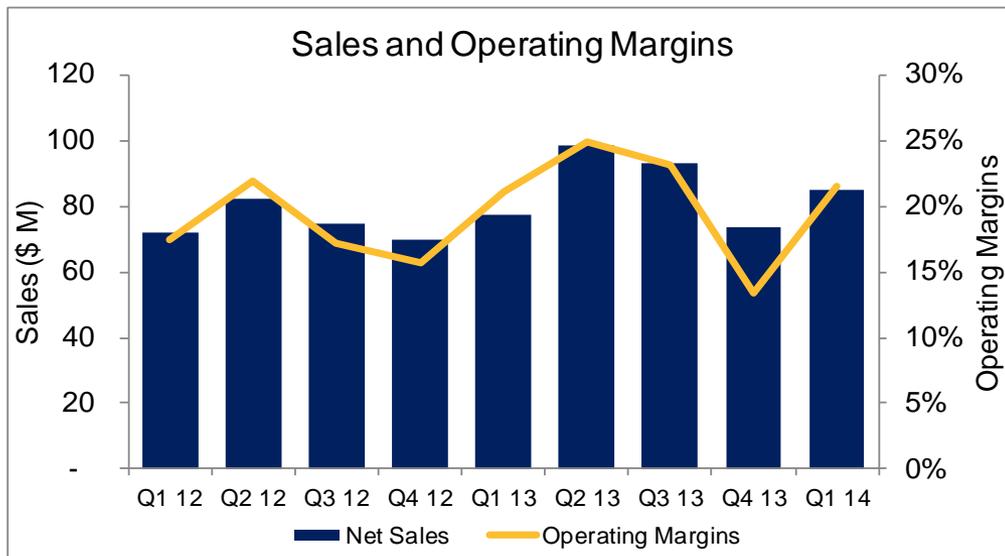
Product mix

Expense/volume leverage

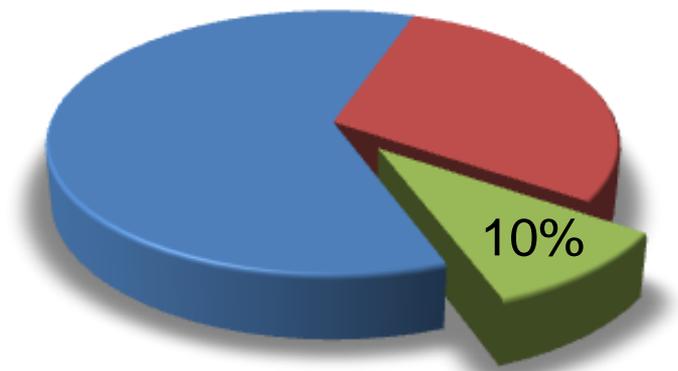
2014 Q1 Operating Earnings (percentage of sales)

First Quarter

| |
|-------------|
| 21 % |
| — |
| (2) |
| 2 |
| <u>21 %</u> |



Lubrication Equipment Results



March 2014 YTD Lubrication Sales as % of Consolidated



| Sales (\$ M) | First Quarter | | |
|--------------------|---------------|-------|--------|
| | 2014 | 2013 | Change |
| Americas | \$ 22 | \$ 21 | 6 % |
| EMEA | 3 | 2 | 2 |
| Asia Pacific | 4 | 4 | 3 |
| Total | \$ 29 | \$ 27 | 5 % |
| Operating Earnings | \$ 7 | \$ 5 | 27 % |
| % of sales | 23 % | 19 % | |

Lubrication Equipment Results



Change in % of sales

2013 Q1 Operating Earnings (percentage of sales)

Translation effect

Pricing, volume, mix and product cost

Volume effect on expense leverage

2014 Q1 Operating Earnings (percentage of sales)

First Quarter

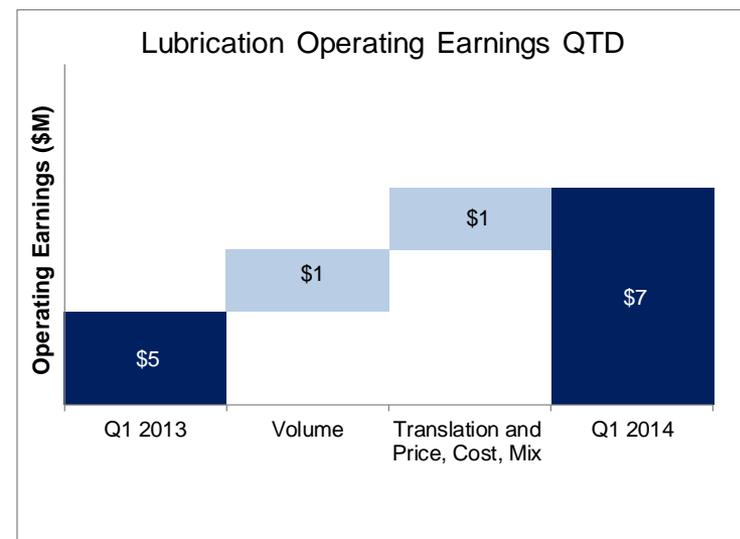
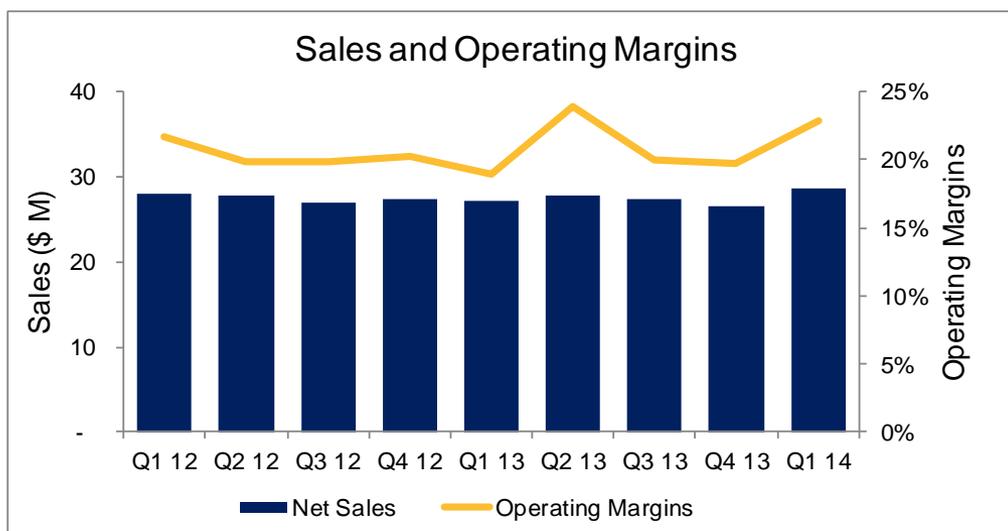
19 %

(1)

3

2

23 %





move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

www.graco.com