



4th Quarter 2016 Earnings

Conference Call

January 31, 2017

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 January 30, 2017.

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, January 31, 2017. The replay by telephone will be available through February 4, 2017

- 888-203-1112 – Conference ID #9371987
- 719-457-0820 – with the same conference ID #, for International participants

Financial Results



Statement of Earnings		Fourth Quarter			Year-to-Date		
\$ in millions except per share amounts							
	2016	2015	Change	2016	2015	Change	
	14 Weeks	13 Weeks		53 Weeks	52 Weeks		
Sales	\$ 349.1	\$ 325.6	7 %	\$ 1,329.3	\$ 1,286.5	3 %	
Gross Profit	184.7	171.8	8 %	708.2	684.7	3 %	
% of Sales	52.9 %	52.8 %	0.1 pts	53.3 %	53.2 %	0.1 pts	
Operating Earnings (Loss)	(106.9)	76.1	(240)%	113.9	302.1	(62)%	
% of Sales	(30.6)%	23.4 %	(54.0) pts	8.6 %	23.5 %	(14.9) pts	
Net Earnings (Loss)	\$ (104.2)	\$ 53.5	(295)%	\$ 40.7	\$ 345.7	(88)%	
% of Sales	(29.9)%	16.4 %	(46.3) pts	3.1 %	26.9 %	(23.8) pts	
Diluted Earnings (Loss)							
Per Share	\$ (1.83)	\$ 0.94	(295)%	\$ 0.71	\$ 5.86	(88)%	
<i>Diluted Shares in Millions</i>	<i>57.1</i>	<i>57.3</i>		<i>57.0</i>	<i>59.0</i>		

Net Earnings for the year 2015 included non-recurring income tax benefits totaling \$9 million or \$0.15 per diluted share

Results excluding the 2016 non-cash impairment and the 2015 Liquid Finishing investment income and expense provide a more consistent basis for on-going results. See non-GAAP reconciliation below and discussion on following page

Non-GAAP Reconciliation		Fourth Quarter			Year-to-Date		
\$ in millions except per share amounts							
	2016	2015	Change	2016	2015	Change	
Operating Earnings (Loss), as reported	\$ (106.9)	\$ 76.1	(240)%	\$ 113.9	\$ 302.1	(62)%	
Impairment	192.0	-		192.0	-		
Operating Earnings, adjusted	<u>\$ 85.1</u>	<u>\$ 76.1</u>	12 %	<u>\$ 305.9</u>	<u>\$ 302.1</u>	1 %	
Net Earnings (Loss), as reported	\$ (104.2)	\$ 53.5	(295)%	\$ 40.7	\$ 345.7	(88)%	
Impairment	192.0	-		192.0	-		
Held Separate investment (income), Net	-	(0.9)		-	(191.6)		
Income tax effect	(30.6)	0.3		(30.6)	50.2		
Net Earnings, adjusted	<u>\$ 57.2</u>	<u>\$ 52.9</u>	8 %	<u>\$ 202.1</u>	<u>\$ 204.3</u>	(1)%	
Diluted Earnings (Loss) per Share							
As reported	\$ (1.83)	\$ 0.94	(295)%	\$ 0.71	\$ 5.86	(88)%	
Adjusted	\$ 1.00	\$ 0.93	8 %	\$ 3.55	\$ 3.46	3 %	

Non-GAAP Disclosure Reconciliation



Results excluding the 2016 non-cash impairment and 2015 Liquid Finishing investment income and expense provide a more consistent base of comparison of on-going results

2016 – Goodwill and Intangible Asset Impairment

- ▶ 2016 operating results of our Oil and Natural Gas reporting unit (“ONG”) within the Process segment fell short of expectations due to weakness in oil and natural gas markets. At the end of the third quarter, we concluded the depth and length of industry weakness, and its continuing impact on ONG results, were greater than previously expected, so we initiated an impairment analysis
- ▶ We completed the impairment analysis in the fourth quarter and recorded adjustments to reduce goodwill by \$147 million and other intangibles by \$45 million. The non-cash impairment charges reduced operating earnings by \$192 million, created a \$31 million deferred tax benefit, and decreased net earnings by \$161 million

2015 – Investment Income and Sale of Held Separate Liquid Finishing Business Assets

- ▶ 2015 net earnings included after-tax investment income of the Held Separate Liquid Finishing business assets sold in the second quarter of 2015. Fourth quarter 2015 included post-closing purchase price adjustments of \$0.6 million and year-to-date included after-tax investment income of \$141 million

Financial Results



Components of Net Sales Change

Fourth Quarter December 2016

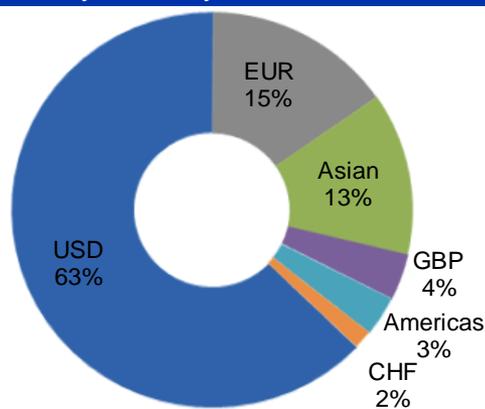
	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	6 %	(1)%	17 %	6 %	12 %	4 %	7 %
Acquisitions	0 %	5 %	0 %	1 %	2 %	1 %	1 %
Currency	(2)%	(2)%	(0)%	(0)%	(5)%	(1)%	(1)%
Total	4 %	2 %	17 %	7 %	9 %	4 %	7 %

Year-to-Date December 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	(7)%	10 %	1 %	6 %	3 %	3 %
Acquisitions	0 %	6 %	0 %	1 %	3 %	1 %	1 %
Currency	(1)%	(2)%	(1)%	(0)%	(2)%	(1)%	(1)%
Total	2 %	(3)%	9 %	2 %	7 %	3 %	3 %

Fourth quarter 2016 included 14 weeks compared to 13 weeks in 2015.

2016 YTD Sales by Currency



Asian currencies include:
AUD, CNY, KRW, JPY

Americas currencies include:
CAD, BRL, MXN

Tax Items

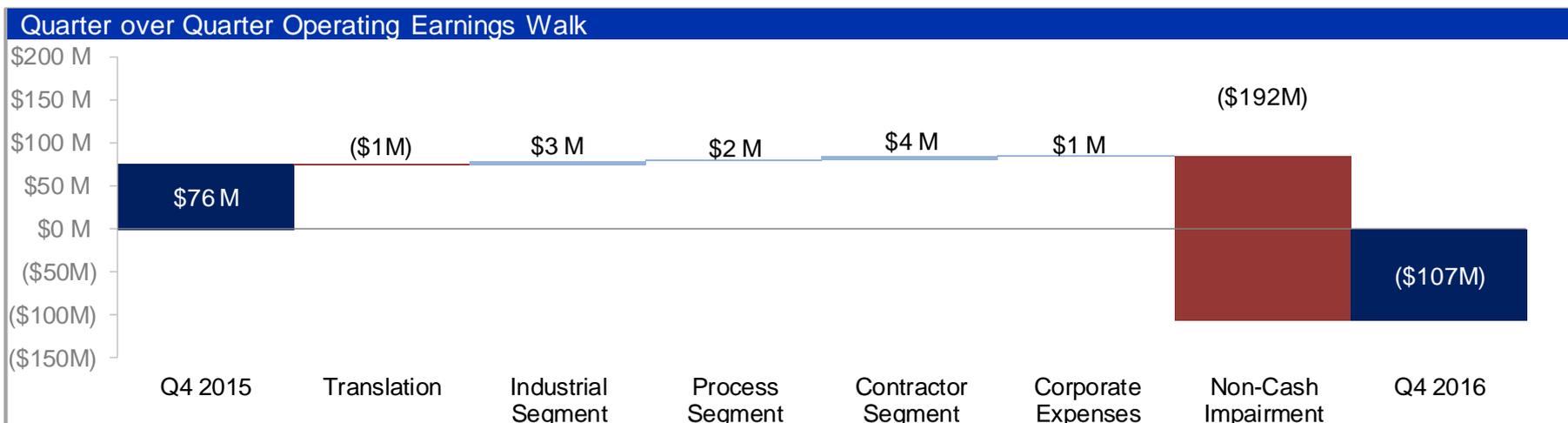
- ▶ The deferred tax benefit of \$31 million related to non-cash impairment charges recorded in the fourth quarter had a significant impact on the effective tax rate for both the quarter and the year
- ▶ The effective tax rate for the quarter was 6% compared to 27% for the fourth quarter last year. The impact of the impairment on the effective tax rate was a decrease of approximately 23 percentage points
 - The 2015 rate included the full year benefit of the federal R&D tax credit not available until fourth quarter 2015
- ▶ The effective tax rate for the year was 58%, including approximately 28 percentage points related to the impairment charge, compared to 27% in 2015
 - The 2015 rate included favorable impact of non-recurring tax benefits and post-tax dividend income, partially offset by the tax rate effects of the gain on the sale of the Held Separate Liquid Finishing business assets
 - 2015 non-recurring tax benefits totaled \$9 million, or \$0.15 per diluted share
 - The net increase in the effective rate from the 2015 favorable items was partially offset by additional 2016 benefit from foreign earnings taxed at lower rates than the U.S.
- ▶ Tax rate for 2017 is expected to be approximately 30%

Operating Earnings



Change in Operating Earnings	Fourth Quarter		Year-to-Date	
2015 Operating Earnings (\$M and % of sales)	\$ 76	23 %	\$ 302	23 %
Translation effect	(1)	—	(4)	—
Mix, volume and pricing	15	1	22	—
Effect of acquired businesses operations, inventory set-up and acquisition costs, net	—	—	4	—
Incremental investment in growth initiatives and corporate items	(1)	—	(4)	—
Unallocated corporate expenses *	1	—	1	—
Facility relocation and integration costs for acquired businesses	—	—	(2)	—
Decrease in intangible amortization related to non-cash impairment	1	—	1	—
Volume effect on expense leverage	(6)	—	(14)	—
2016 Operating Earnings - Excluding Non-Cash Impairment (\$M and % of sales)	<u>\$ 85</u>	<u>24 %</u>	<u>\$ 306</u>	<u>23 %</u>
Non-cash impairment of intangible assets	(192)	(55)	(192)	(14)
2016 Operating Earnings (\$M and % of sales)	<u>(\$107)</u>	<u>(31)%</u>	<u>\$ 114</u>	<u>9 %</u>

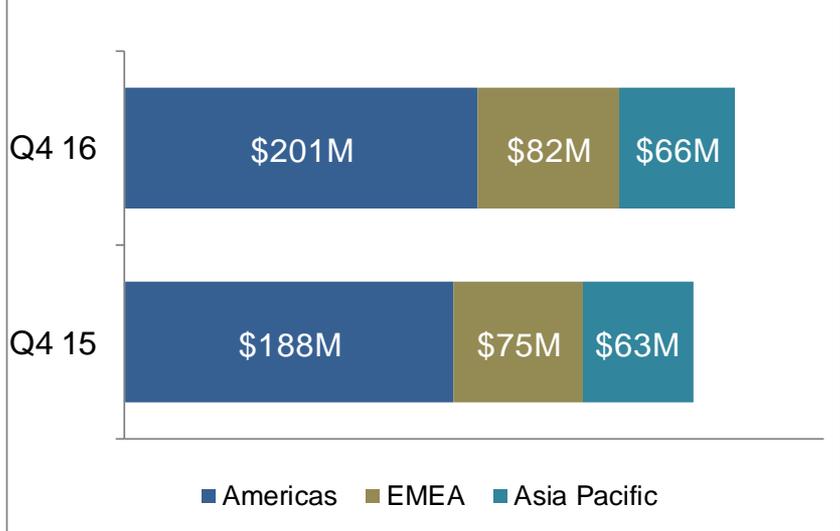
*Unallocated corporate expenses (primarily stock compensation and pension) include \$2 million in employee share based compensation that was more than offset by a favorable legal settlement



Fourth Quarter 2016 Results

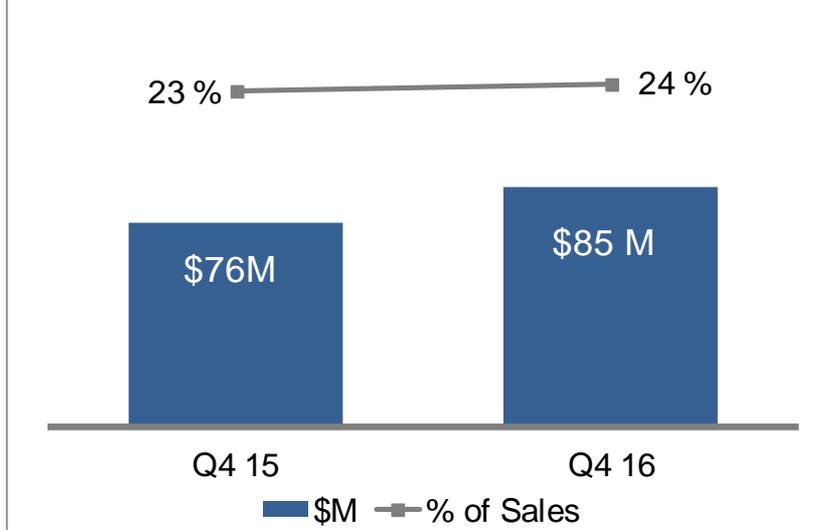


Sales



- ▶ Sales increase of 7% (at consistent currency translation rates sales increase 8%)
 - Acquired businesses sales of \$4 million account for 1 percentage point of growth
 - Fourth quarter 2016 included 14 weeks compared to 13 weeks in 2015
 - Effect of currency translation rates negatively impacted sales by \$4 million
- ▶ Gross margin rate consistent with fourth quarter 2015
 - Realized pricing and favorable impact of product and channel mix offset the unfavorable impact of higher production costs
- ▶ Operating earnings (loss), as reported, down \$183 million from fourth quarter 2015 due to \$192 million non-cash impairment charge
- ▶ Operating earnings, excluding the non-cash impairment, are up \$9 million, or 12%, from fourth quarter 2015
 - Higher sales volume more than offset the unfavorable impact of translation and higher expenses
- ▶ Tax rate for the quarter was 6% compared to 27% for the fourth quarter last year. The impact of the impairment was a decrease of approximately 23 percentage points
 - 2015 rate included favorable impact from the full year federal R&D tax credit, not available until Q4 2015

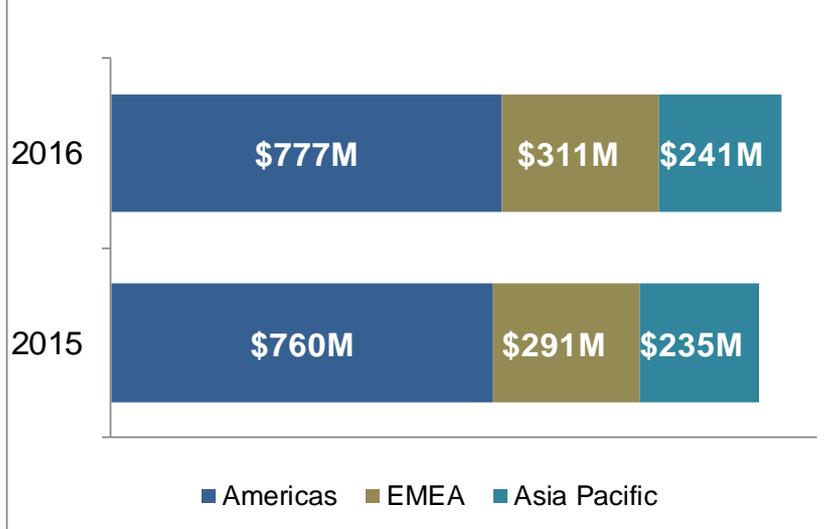
Operating Earnings - Excluding Impairment



Full Year 2016 Results

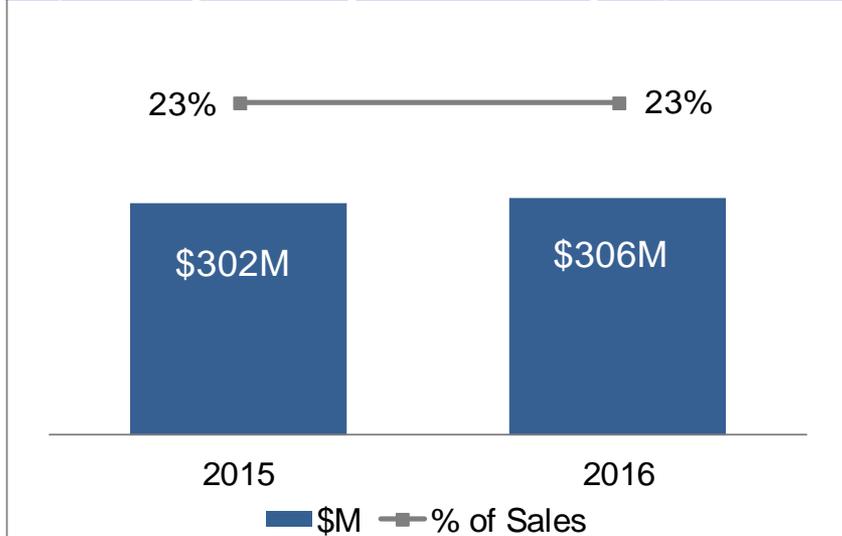


Sales



- ▶ Sales increase of 3% (at consistent currency translation rates sales increase 4%)
 - Acquired businesses sales of \$19 million account for 1 percentage points of growth
 - 2016 was a 53 week year compared to 52 weeks in 2015
 - Effect of currency translation rates negatively impacted sales by \$12 million
- ▶ Gross margin rate consistent with 2015
 - The favorable effects of reduced acquisition related purchase accounting, product and channel mix and realized pricing offset the unfavorable impact of lower factory volume
- ▶ Operating earnings, as reported, down \$188 million from 2015 due to \$192 million non-cash impairment charge
- ▶ Operating earnings, excluding non-cash impairment, up \$4 million, or 1%, from 2015
 - Higher sales volume, the favorable effect of reduced acquisition related purchase accounting more than offset unfavorable impact of translation and higher expenses
- ▶ Tax rate for the year was 58%, including approximately 28 percentage points related to the impairment charge, compared to 27% in 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 Held Separate Liquid Finishing business assets
 - The net increase in the effective rate from those 2015 favorable items was partially offset by additional benefit from foreign earnings taxed at lower rates than the U.S.

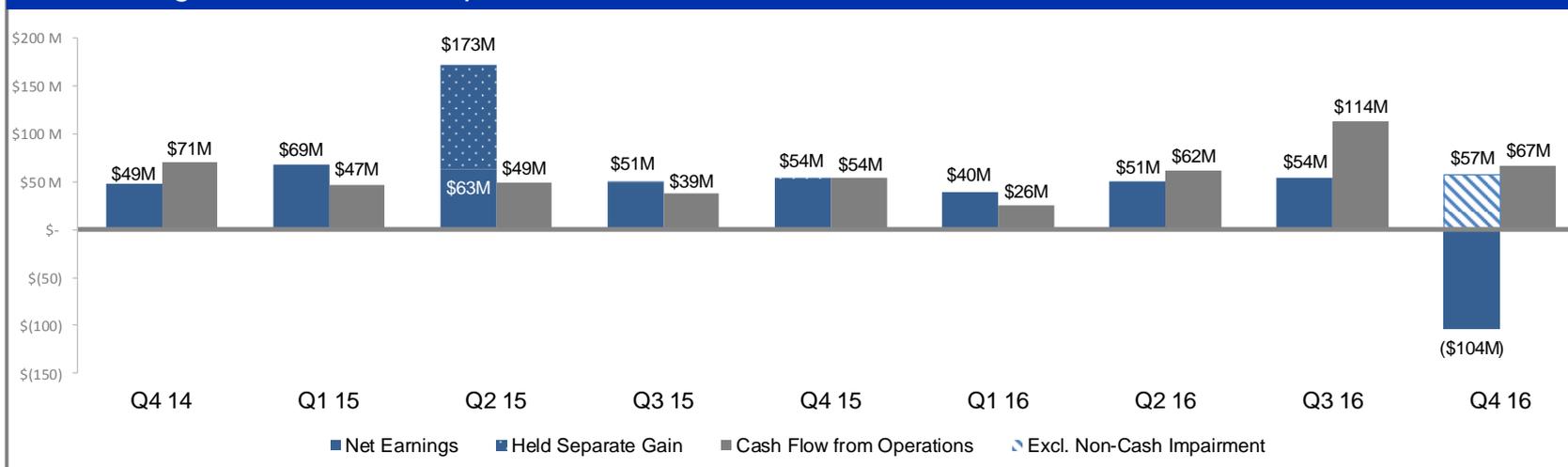
Operating Earnings - Excluding Impairment



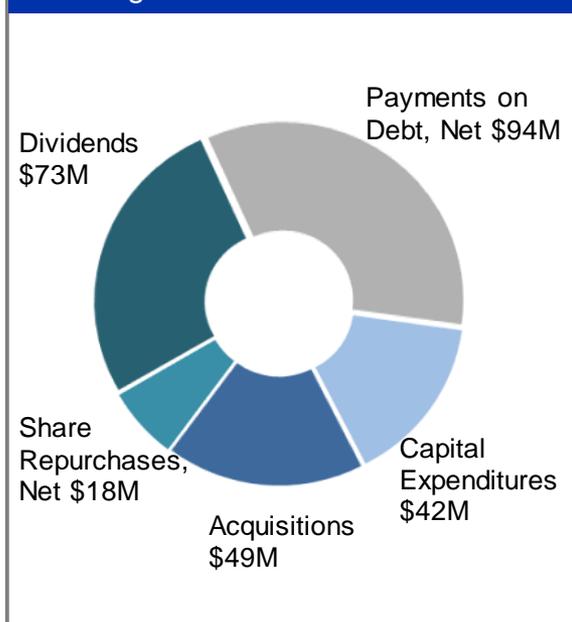
Cash Flow and Liquidity



Net Earnings and Cash from Operations



2016 Significant Uses of Cash



- ▶ Net cash provided by operating activities was \$269 million in 2016 vs. \$190 million in 2015
- ▶ Intangible impairment in Q4 2016 was a non-cash charge. Adjustments to reconcile net earnings include the impairment and related change in deferred taxes
- ▶ Effect of divestiture of Held Separate Liquid Finishing business assets - sale completed in Q2 2015
 - Proceeds from the sale of the business were \$610 million and were 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 were recorded in Q3 and Q4 of 2015, \$2 million and \$1 million, respectively
 - Effect of taxes on the gain, transaction costs and foundation contribution were included in 2015 operating cash flows. 2015 payments of \$18 million, \$36 million and \$13 million for these items were made in Q2, Q3 and Q4, respectively
- ▶ Debt, including notes payable, was \$315 million; down \$94 million from year-end
 - Interest expense comparable to 2015

Other Discussion Items



- ▶ Capital expenditure expectations of approximately \$40 million in 2017
- ▶ Unallocated corporate expenses in 2017 are expected to be approximately \$31 million, or \$2 million higher compared to 2016
- ▶ Non-cash impairment of intangible assets in fourth quarter 2016 is expected to reduce amortization expense by approximately \$1 million in each of the first three quarters of 2017 compared to 2016
- ▶ In 2017 we intend to make share repurchases to maintain our current outstanding share count. Further share repurchases will be on an opportunistic basis
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2016, the unfavorable movement in foreign currencies would be a headwind of approximately 1% on sales and 3% on earnings, with the greatest headwind in the first three quarters

2016 U.S and Non-U.S. Business Data Points*



Sales	2016 sales \$1,329 million- Sales from U.S production to U.S. customers ~ 45-47% Sales from U.S. production to foreign customers ~ 30% Sales from foreign production to foreign customers ~ 20% Sales from foreign production to U.S. customers ~ 3-5%
Cost of Good Sold	2016 cost of goods sold \$621 million- U.S.-based cost of goods sold is ~ 70-75% Foreign-based cost of goods sold is ~ 25-30%
Operating Expenses	Operating expenses are 30% of sales (excluding 2016 impairment) U.S-based expenses are ~ 65-70% of operating expenses
Capital Expenditures	Capital expenditures \$42 million U.S.-based capital expenditures ~ 75%
Interest Expense	\$18 million – predominately U.S.-based

*Graco management estimates. May vary year to year

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 Q4 2016 6% FY 2016 1%	Sales Growth Q4 2016 11% FY 2016 6%	Sales Growth Q4 2016 4% FY 2016 3%	Sales Growth Q4 2016 7% FY 2016 3%
Industrial Segment	 Sales Growth Q4 2016 0% FY 2016 (2%)	 Sales Growth Q4 2016 14% FY 2016 8%	 Sales Growth Q4 2016 6% FY 2016 7%	Sales Growth Q4 2016 5% FY 2016 3%
Contractor Segment	 Sales Growth Q4 2016 17% FY 2016 9%	 Sales Growth Q4 2016 22% FY 2016 19%	 Sales Growth Q4 2016 8% FY 2016 (1%)	Sales Growth Q4 2016 17% FY 2016 10%
Process Segment	 Sales Growth Q4 2016 2% FY 2016 (5%)	 Sales Growth Q4 2016 (11%) FY 2016 (12%)	 Sales Growth Q4 2016 (4%) FY 2016 (8%)	Sales Growth Q4 2016 (1%) FY 2016 (7%)
Full Year 2017 Outlook	Low Single-Digit	Low Single-Digit	Low Single-Digit	Low Single-Digit

Graco is focused on achieving full-year sales growth in all geographic regions and reportable segments in 2017

- Our Process segment experienced headwinds throughout 2016 and remains a source of caution as we enter 2017, despite easier comparables
- Outlook for Contractor segment is mid single-digit sales growth

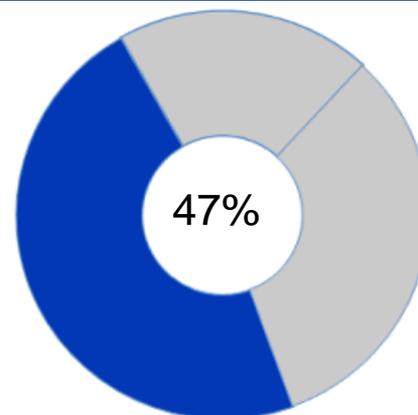
Industrial Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 80	\$ 80	0 %	\$ 281	\$ 289	(3)%
EMEA	51	45	11	185	173	6
Asia Pacific	44	42	5	164	154	6
Total	\$ 175	\$ 167	4 %	\$ 630	\$ 616	2 %
Operating Earnings	\$ 60	\$ 57	4 %	\$ 207	\$ 202	3 %
% of sales	34 %	34 %		33 %	33 %	

2016 Industrial Segment Sales as % of Graco



2016 Components of Net Sales Change

Fourth Quarter Year-to-Date

Americas	Fourth Quarter	Year-to-Date
Volume & Price	0 %	(2)%
Acquisitions	0 %	0 %
Currency	(0)%	(1)%
Total	0 %	(3)%



- Stable: Wood, tier one auto
- Challenging: Capital equipment spending, protective coatings, heavy machinery, agriculture, South America

EMEA	Fourth Quarter	Year-to-Date
Volume & Price	14 %	8 %
Acquisitions	1 %	0 %
Currency	(4)%	(2)%
Total	11 %	6 %



- Stable: Western Europe, general industrial
- Challenging: Currency, geopolitical

Asia Pacific	Fourth Quarter	Year-to-Date
Volume & Price	6 %	7 %
Acquisitions	0 %	1 %
Currency	(1)%	(2)%
Total	5 %	6 %



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

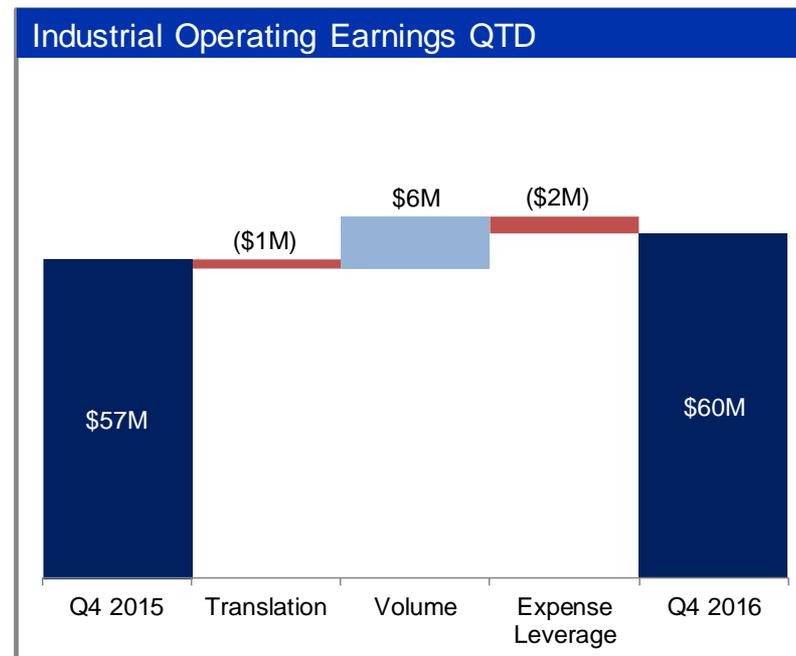
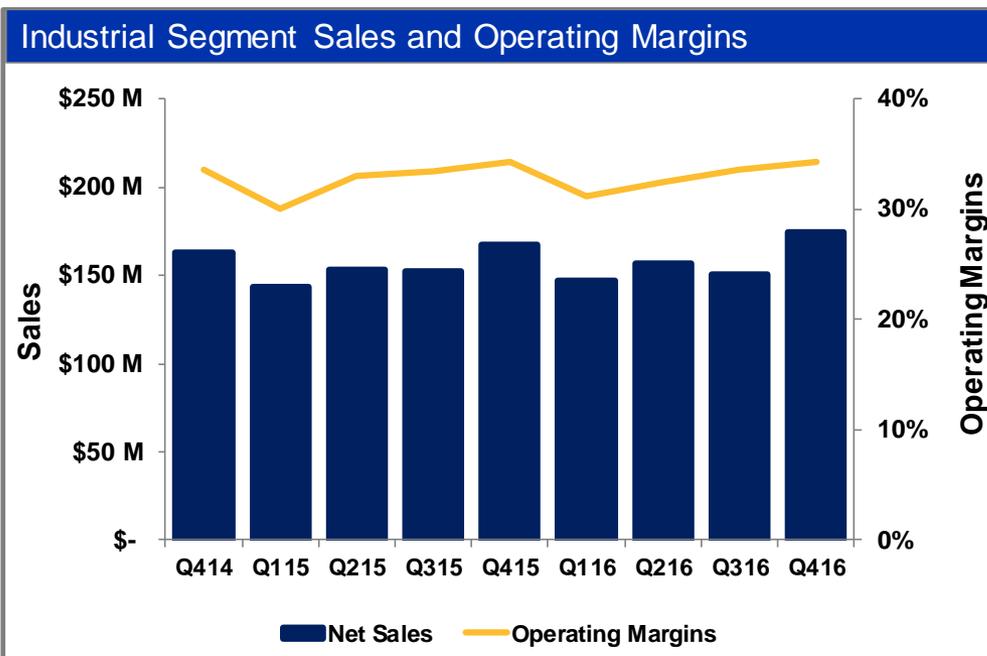
Segment Total	Fourth Quarter	Year-to-Date
Volume & Price	6 %	3 %
Acquisitions	0 %	0 %
Currency	(2)%	(1)%
Total	4 %	2 %



Industrial Segment Results



Change in % of sales	Fourth Quarter	Full Year
2015 Operating Earnings (% of sales)	34 %	33 %
Translation effect	0	0
Product and channel mix, price	1	0
Expense leverage	(1)	0
2016 Operating Earnings (% of sales)	<u>34 %</u>	<u>33 %</u>



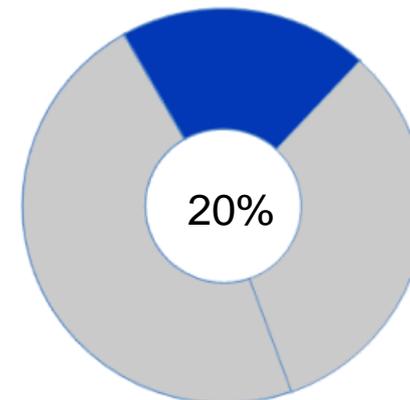
Process Segment Results



Sales

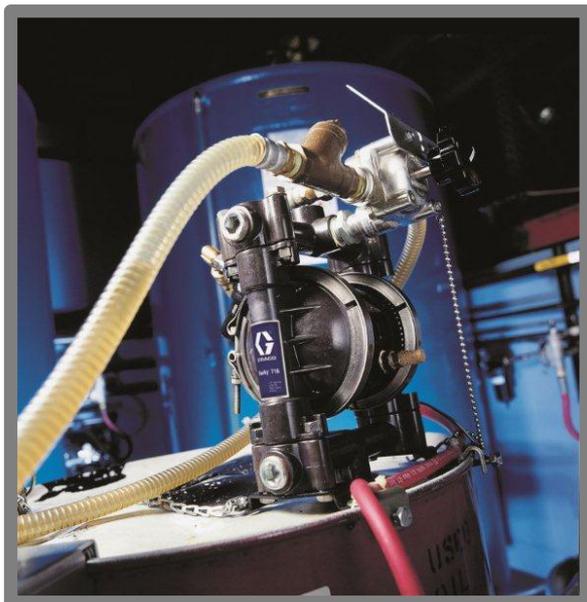
\$ in millions	Fourth Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 46	\$ 43	6 %	\$ 171	\$ 172	(1)%
EMEA	13	14	(9)	52	55	(5)
Asia Pacific	12	12	(1)	44	47	(6)
Total	\$ 71	\$ 69	2 %	\$ 267	\$ 274	(3)%
Operating Earnings	\$ 10	\$ 9	17 %	\$ 36	\$ 44	(18)%
% of sales	15 %	13 %		13 %	16 %	

2016 Process Segment Sales as % of Graco



2016 Components of Net Sales Change

Current Environment



Fourth Quarter Year-to-Date

Americas	Fourth Quarter	Year-to-Date
Volume & Price	2 %	(5)%
Acquisitions	4 %	4 %
Currency	(0)%	(0)%
Total	6 %	(1)%



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

EMEA	Fourth Quarter	Year-to-Date
Volume & Price	(11)%	(12)%
Acquisitions	11 %	12 %
Currency	(9)%	(5)%
Total	(9)%	(5)%



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

Asia Pacific	Fourth Quarter	Year-to-Date
Volume & Price	(4)%	(8)%
Acquisitions	4 %	4 %
Currency	(1)%	(2)%
Total	(1)%	(6)%



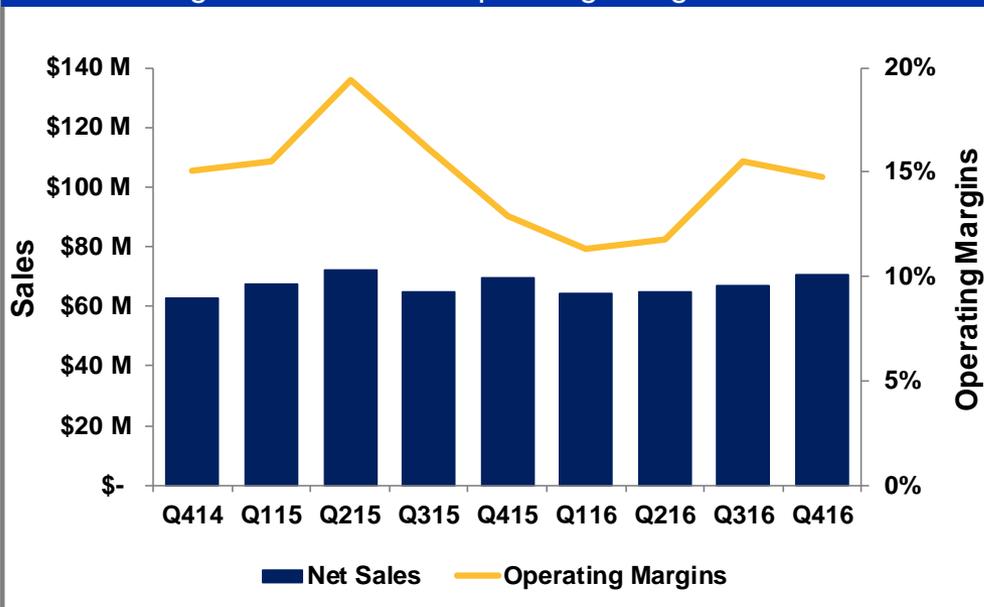
- Stable: Process applications
- Challenging: Mining, oil & natural gas

Segment Total	Fourth Quarter	Year-to-Date
Volume & Price	(1)%	(7)%
Acquisitions	5 %	6 %
Currency	(2)%	(2)%
Total	2 %	(3)%

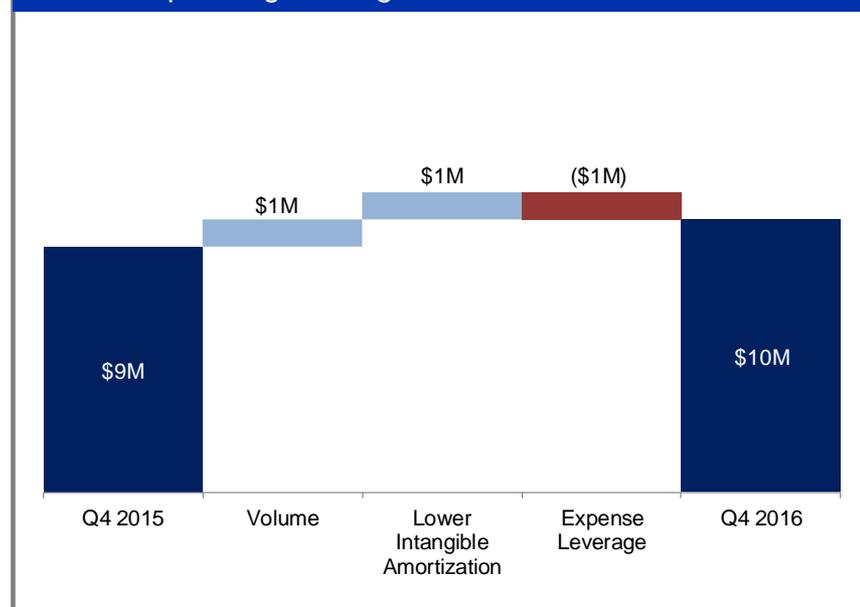
Process Segment Results

Change in % of sales	Fourth	Full Year
2015 Operating Earnings (% of sales)	13 %	16 %
Translation effect	0	0
Price, cost, mix	2	0
Effect of acquisition operations, inventory step-up and acquisition costs, net	(1)	1
Decrease in intangible amortization related to non-cash impairment	2	0
Expense leverage	(1)	(4)
2016 Operating Earnings (% of sales)	<u>15 %</u>	<u>13 %</u>

Process Segment Sales and Operating Margins



Process Operating Earnings QTD



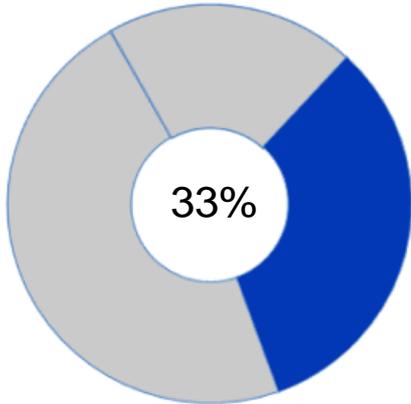
Contractor Segment Results



Sales

\$ in millions	Fourth Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
Americas	\$ 76	\$ 64	17 %	\$ 325	\$ 299	9 %
EMEA	19	16	19	74	63	18
Asia Pacific	9	9	8	34	35	(3)
Total	\$ 104	\$ 89	17 %	\$ 433	\$ 397	9 %
Operating Earnings	\$ 20	\$ 16	27 %	\$ 92	\$ 86	6 %
% of sales	19 %	18 %		21 %	22 %	

2016 Contractor Segment Sales as % of Graco



2016 Components of Net Sales Change

Fourth Quarter Year-to-Date

	Fourth Quarter	Year-to-Date
Americas		
Volume & Price	17 %	9 %
Acquisitions	0 %	0 %
Currency	0 %	(0)%
Total	17 %	9 %
EMEA		
Volume & Price	22 %	19 %
Acquisitions	0 %	0 %
Currency	(3)%	(1)%
Total	19 %	18 %
Asia Pacific		
Volume & Price	8 %	(1)%
Acquisitions	0 %	0 %
Currency	(0)%	(2)%
Total	8 %	(3)%
Segment Total		
Volume & Price	17 %	10 %
Acquisitions	0 %	0 %
Currency	(0)%	(1)%
Total	17 %	9 %

Current Environment



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



- Favorable: Western Europe
- Stable: Emerging markets
- Challenging: Currency, geopolitical



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

Contractor Segment Results



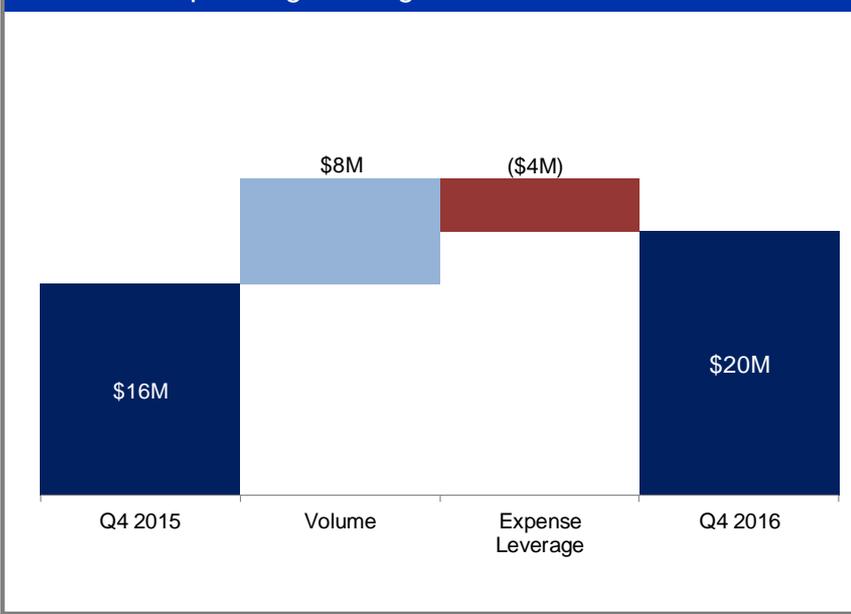
Change in % of sales Fourth Quarter Year-to-Date

2015 Operating Earnings (% of sales)	18 %	22 %
Translation effect	0	0
Expense leverage	1	(1)
2016 Operating Earnings (% of sales)	19 %	21 %

Contractor Segment Sales and Operating Margins



Contractor Operating Earnings QTD





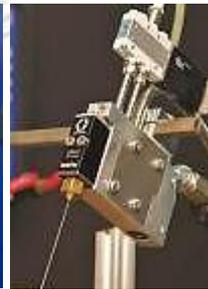
move



measure



mix



control



dispense



spray

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