

3rd Quarter 2013 Earnings Conference Call

Thursday October 24, 2013 – 10 am CT



MANUFACTURING
EXCELLENCE

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, October 24, 2013. The replay by telephone will be available through October 27, 2013

- 800-406-7325 – Conference ID #4643781
- 303-590-3030 – Conference ID #4643781, for International participants

Consolidated Financial Results



\$ millions except EPS	Third Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Sales	\$ 277.0	\$ 256.5	8 %	\$ 832.1	\$ 758.8	10 %
Gross Profit	150.9	139.9	8 %	460.3	411.6	12 %
% of Sales	54.5 %	54.6 %	(0.1) pts	55.3 %	54.3 %	1.0 pts
Operating Earnings	69.7	56.3	24 %	216.4	166.8	30 %
% of Sales	25.2 %	22.0 %	3.2 pts	26.0 %	22.0 %	4.0 pts
Net Earnings	\$ 56.1	\$ 37.1	51 %	\$ 166.1	\$ 106.9	55 %
% of Sales	20.3 %	14.5 %	5.8 pts	20.0 %	14.1 %	5.9 pts
Diluted Earnings Per Share	\$ 0.89	\$ 0.60	48 %	\$ 2.65	\$ 1.73	53 %
<i>Diluted Shares in Millions</i>	63.0	61.8		62.7	61.6	

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

Dividends	\$ 9	\$ 4		\$ 24	\$ 8	
EPS Impact	\$ 0.14	\$ 0.06		\$ 0.38	\$ 0.13	

Consolidated Financial Results – Net Sales



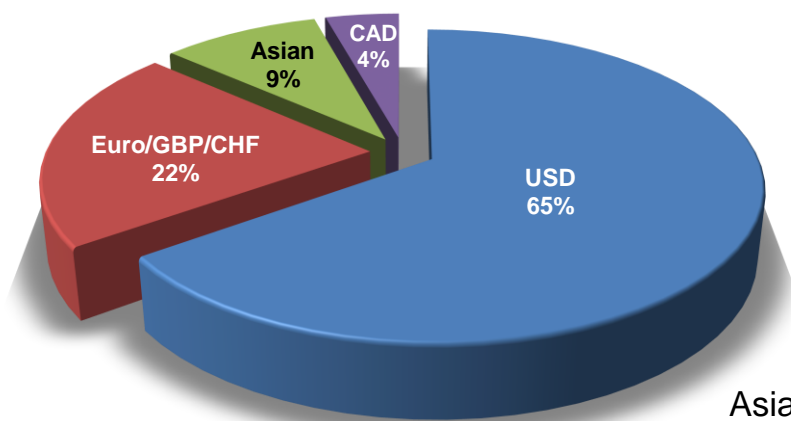
Third Quarter 2013

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	EMEA	Asia Pacific	
Volume and Price	1 %	24 %	3 %	15 %	4 %	(6)%	8 %
Currency	—	—	(1)%	—	4 %	(3)%	—
Total	1 %	24 %	2 %	15 %	8 %	(9)%	8 %

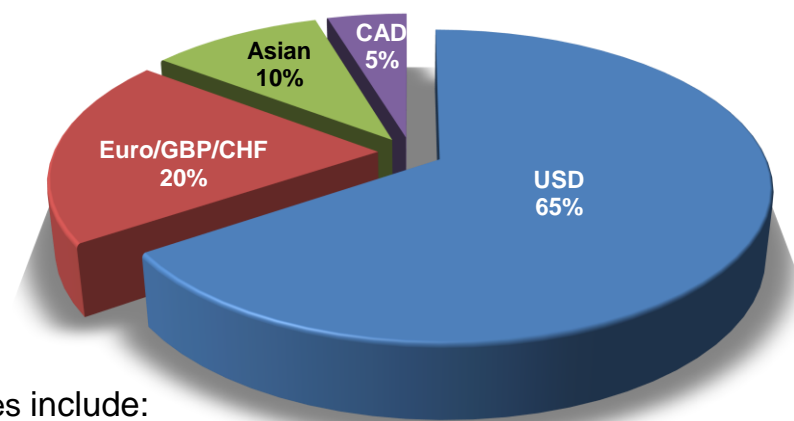
Year-to-Date September 2013

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	—	17 %	—	11 %	1 %	(3)%	6 %
Acquisitions	8 %	—	—	2 %	8 %	5 %	4 %
Currency	(1)%	1 %	—	—	2 %	(2)%	—
Total	7 %	18 %	—	13 %	11 %	—	10 %

Sales by Currency YTD Sept 2013

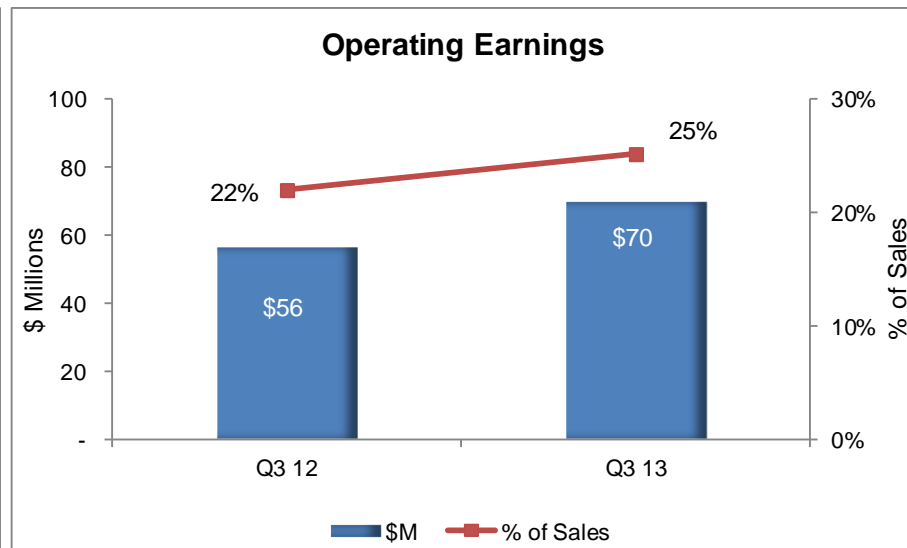
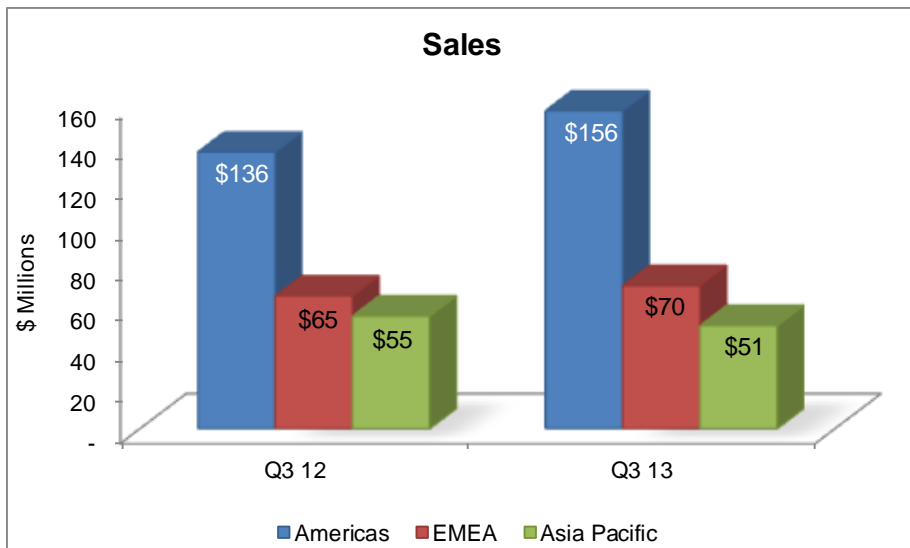


Sales by Currency YTD Sept 2012



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

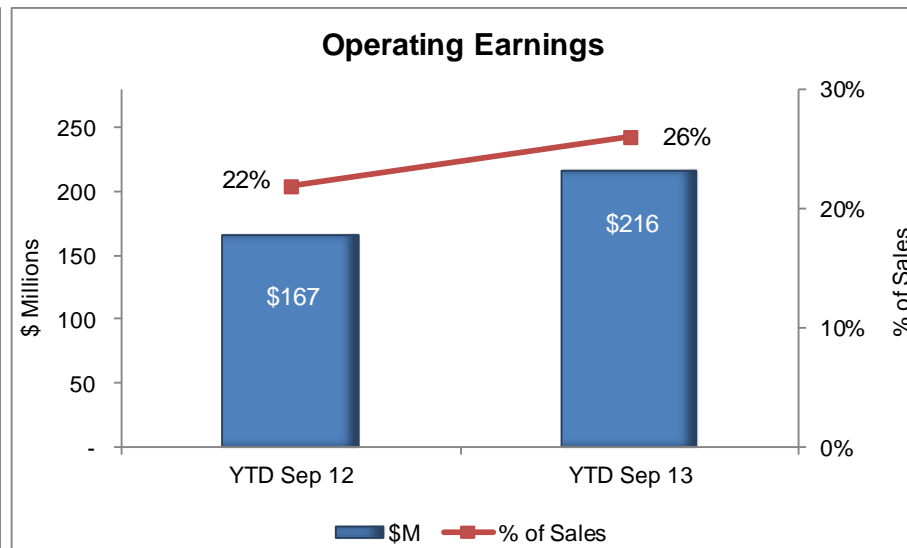
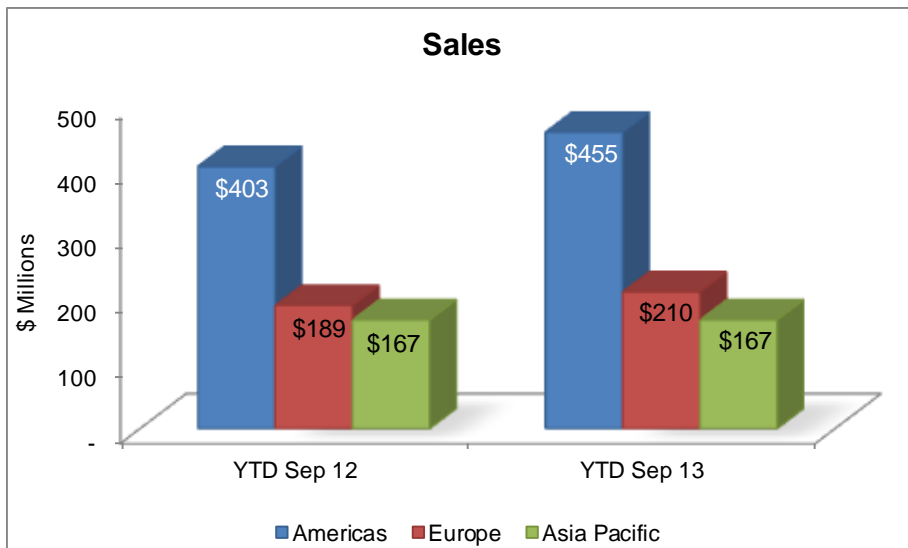
Consolidated Third Quarter 2013 Results



- Sales increase of 8% (no net impact from currency translation)
- Gross margin rate flat to third quarter 2012
 - Realized pricing plus manufacturing cost improvements offset by mix
- Operating expenses are down \$2 million
 - Operating expenses as a percentage of sales 29% for the quarter, down from 32½% in Q3 2012
 - No acquisition/divestiture expenses in the quarter, down \$3 million from Q3 2012

- Interest expense \$4 million down \$1 million from Q3 2012
- Liquid Finishing dividend \$9 million (post-tax), up from \$4M Q3 2012
- Tax rate of 24% is lower than third quarter 2012 rate of 32%
 - 2013 reduced by effect of additional \$5 million of dividend income (post-tax) from Liquid Finishing
 - R&D tax credit in 2013, not approved in 2012
 - 2013 includes impact of additional benefit from U.S. business credits and deductions

Consolidated Year-to-Date 2013 Results



- Sales increase of 10% (no net impact from currency translation)
- Gross margin rate up one percentage point from prior year
 - Realized pricing plus manufacturing cost improvements partially offset by mix
 - Purchase accounting had a negative impact on 2012 gross margin
- Operating expenses are down \$1 million
 - Acquisition/divestiture expenses \$1 million year-to-date, down \$14 million from 2012

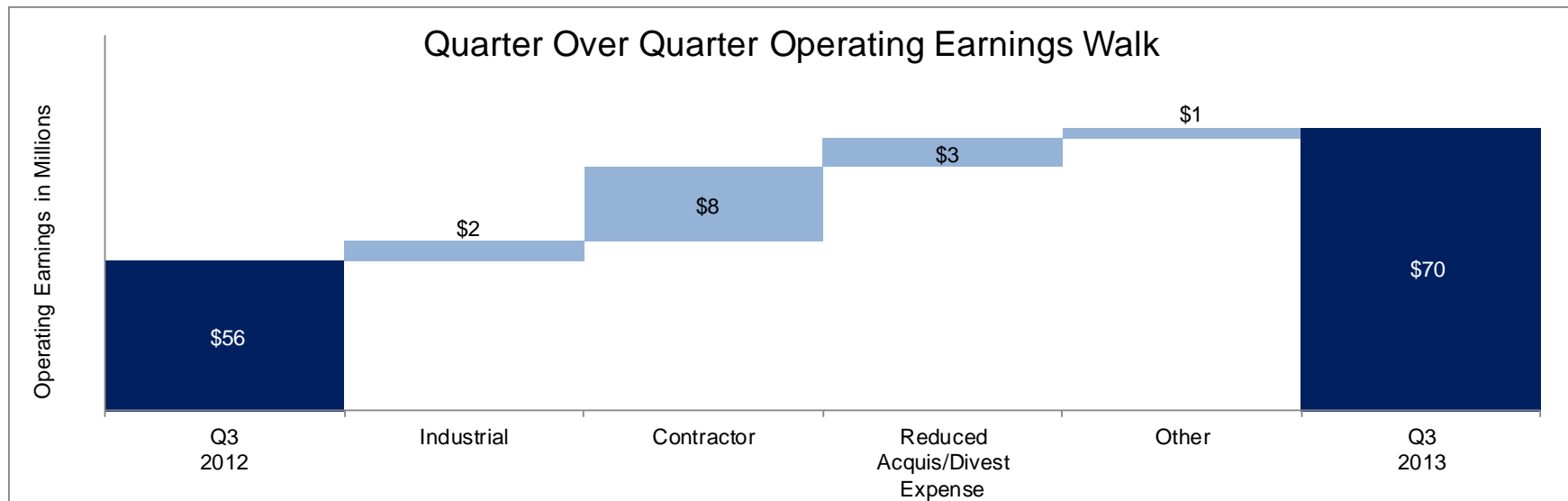
- Interest expense of \$14 million, flat compared to 2012
- Liquid Finishing dividend \$24 million (post-tax) compared to \$8 million in 2012
 - 2013 quarterly dividends of \$ 4 million in Q1, \$11 million in Q2 and \$9 million in Q3 vs. \$4 million in Q2 and Q3 2012
- Tax rate of 27% is lower than 2012 rate of 33%
 - 2013 reduced by effect of additional \$16 million dividend income (post-tax) from Liquid Finishing
 - R&D tax credit reinstated; full year 2012 effect (\$3 million) and 2013 credit recognized in 2013

Consolidated Results

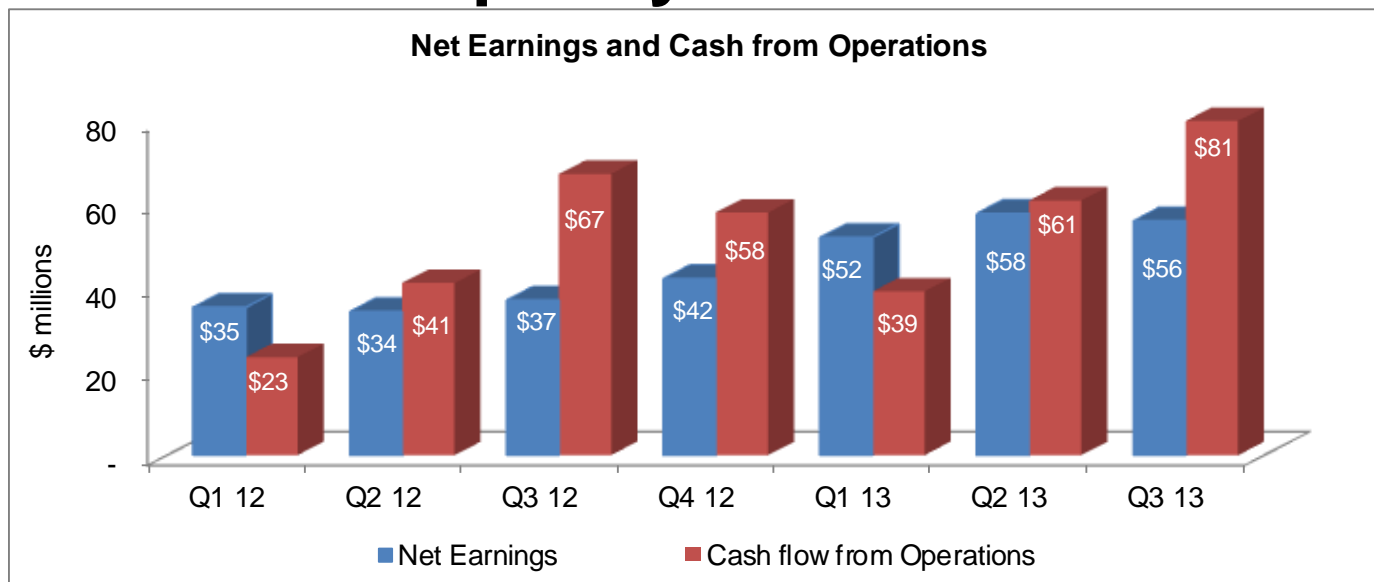


Change in Operating Earnings

	Third Quarter		Year-to-Date	
2012 Operating Earnings (\$M and % of sales)	\$ 56	22 %	\$ 167	22 %
Translation effect	—	—	(2)	—
Pricing, product cost and mix	11	—	43	—
Effect of 2012 purchase accounting	—	—	7	1
Acquisition/divestiture costs reduction	3	1	13	2
Volume effect on expense leverage	—	2	(12)	1
2013 Operating Earnings (\$M and % of sales)	<u>\$ 70</u>	<u>25 %</u>	<u>\$ 216</u>	<u>26 %</u>



Cash Flow and Liquidity



2013 year-to-date cash flow from operations \$181 million versus \$132 million in 2012

- Cash uses year-to-date
 - Net payments on long-term line of credit \$152 million
 - Capital expenditures \$15 million
 - Dividends paid \$46 million
 - Share repurchases \$28 million
- Working capital – 9 months change
 - Increases in accounts receivable \$24 million and in inventories \$11 million, in line with volume growth

Long-term debt \$404 million; down \$152 million from year-end

- Interest expense \$14 million year-to-date

Liquid Finishing dividend (post-tax) \$24 million for the year

Acquisition of Finishing Businesses



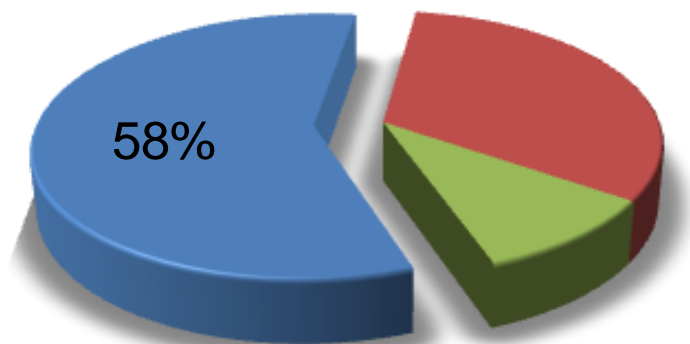
- The purchase of the finishing businesses of Illinois Tool Works Inc. was completed in April 2012 and included Powder Finishing and Liquid Finishing equipment operations, technologies and brands. Results of the Powder Finishing business have been included in the Industrial segment since the acquisition
- 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, and its financial results have not been consolidated with those of the Company
 - Income is recognized based on dividends from current earnings of the Liquid Finishing businesses; \$24 million (post-tax) in 2013 year-to-date
- The FTC issued a proposed decision and order (the “Decision and Order”) in May 2012, which requires Graco to sell the Liquid Finishing business assets, no later than 180 days from the date the order becomes final. The FTC has not yet issued its final Decision and Order
- Graco has retained an investment bank to help market the Liquid Finishing businesses and identify potential buyers

Other Discussion Items



- Total future costs of the divestiture expected to be approximately \$10 million, though the timing and final amount may be affected by the sales and regulatory review processes
- Tax rate for fourth quarter is expected to be approximately 28-29% and the full year approximately 27-28%
 - Q4 Liquid Finishing dividend expected to be approximately \$4 million (post-tax)
- Capital expenditures expected to be in the range of \$20 million for 2013
- Modest share repurchases continuing in fourth quarter

Industrial Equipment Results



September YTD Industrial Segment Sales as % of Consolidated



Sales (\$M)	Third Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Americas	\$ 69	\$ 67	3 %	\$ 205	\$ 192	7 %
EMEA	52	47	10	152	134	13
Asia Pacific	36	41	(11)	123	121	2
Total	\$ 157	\$ 155	1 %	\$ 480	\$ 447	7 %
Operating Earnings	\$ 49	\$ 47	5 %	\$ 156	\$ 139	13 %
% of sales	32 %	30 %		33 %	31 %	

Industrial Equipment Results



Change in % of sales

2012 Operating Earnings (percentage of sales)

Translation effect

Pricing, product cost and mix

Effect of 2012 purchase accounting

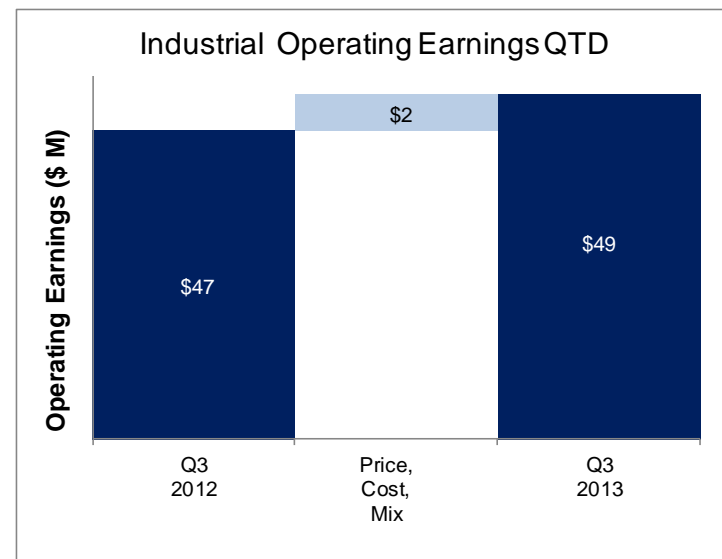
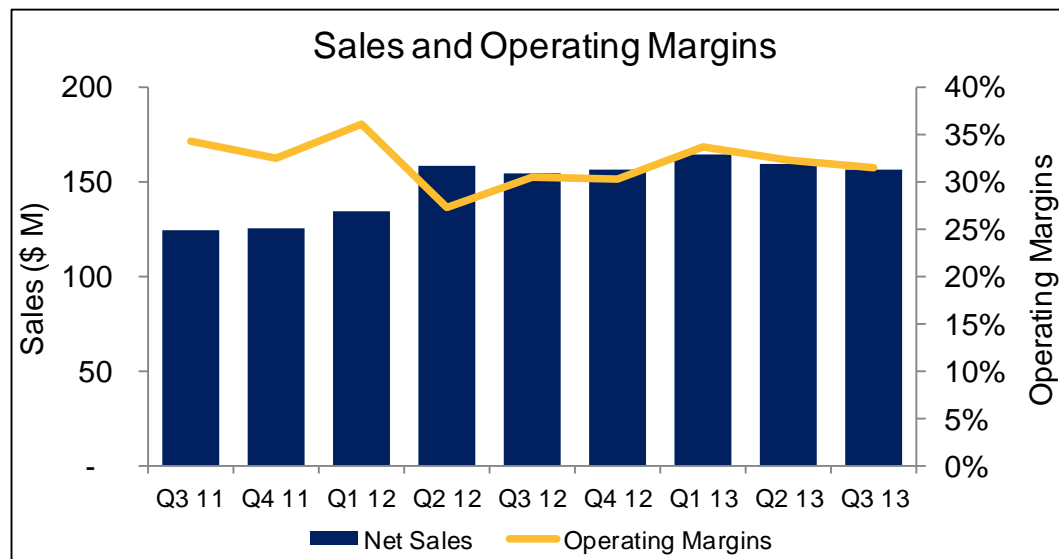
Volume effect on expense leverage

2013 Operating Earnings (percentage of sales)

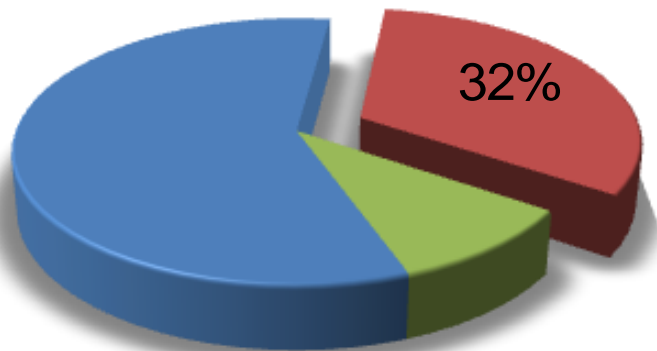
Third Quarter

Year-to-Date

30 %	31 %
—	—
1	—
—	2
1	—
<u>32 %</u>	<u>33 %</u>



Contractor Equipment Results



September YTD Contractor Sales as % of Consolidated



Sales (\$ M)	Third Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Americas	\$ 67	\$ 49	38 %	\$ 188	\$ 150	26 %
EMEA	17	16	4	51	49	3
Asia Pacific	9	10	(8)	30	30	(1)
Total	\$ 93	\$ 75	24 %	\$ 269	\$ 229	18 %
Operating Earnings	\$ 21	\$ 13	67 %	\$ 62	\$ 43	44 %
% of sales	23 %	17 %		23 %	19 %	

Contractor Equipment Results



Change in % of sales

2012 Operating Earnings (percentage of sales)

Translation effect

Volume, pricing, product cost and mix

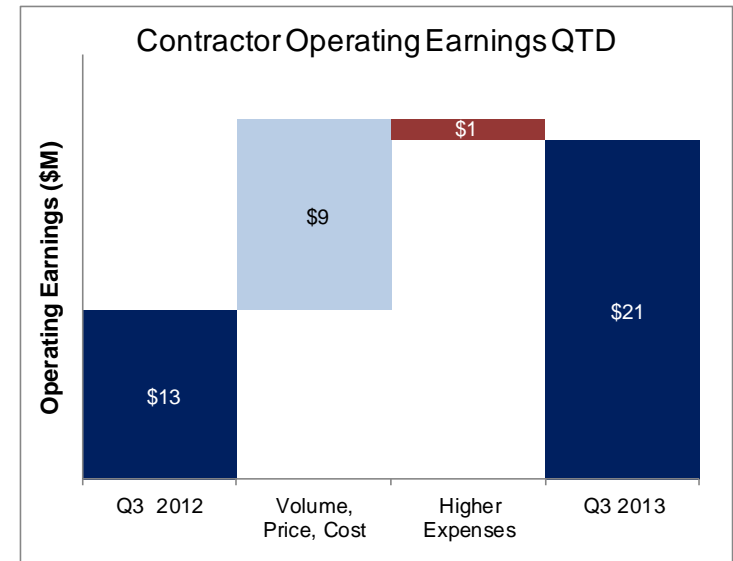
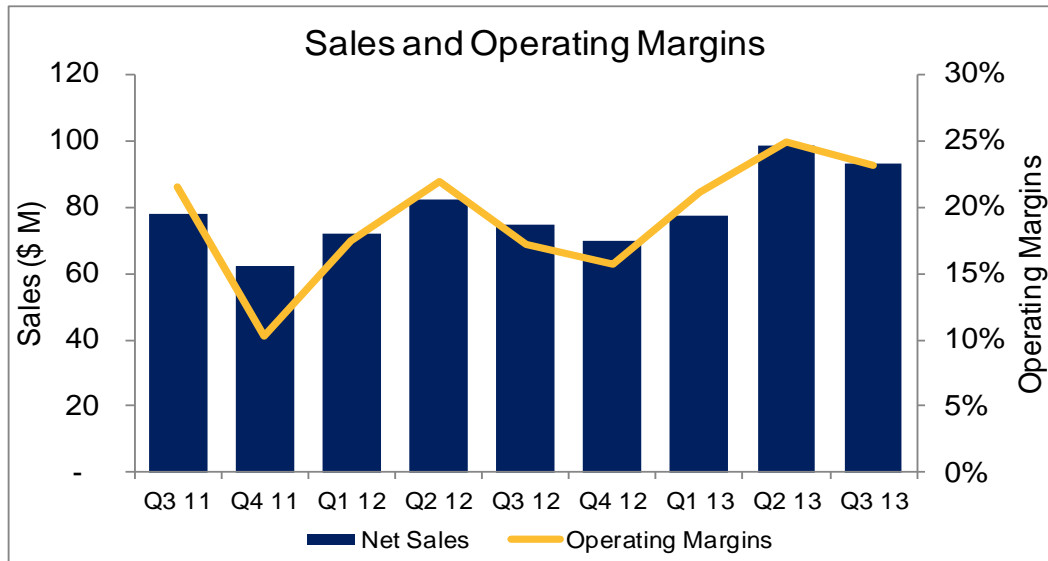
Expense/volume leverage

2013 Operating Earnings (percentage of sales)

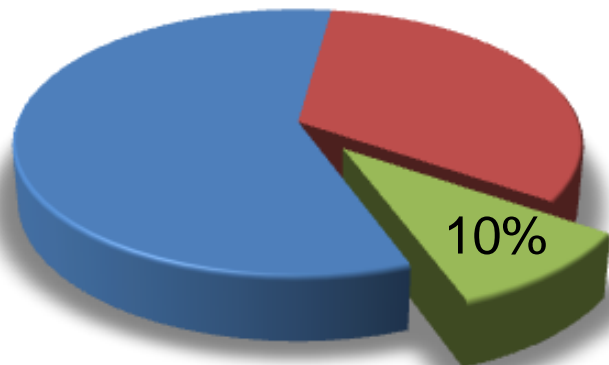
Third Quarter

Year-to-Date

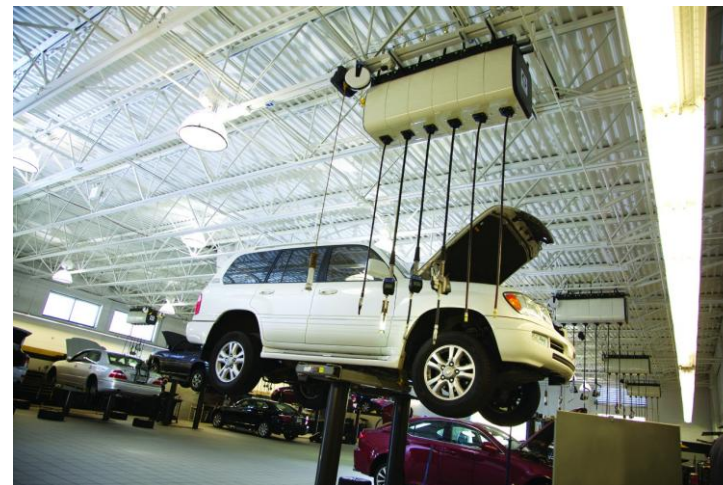
17 %	19 %
—	—
—	1
6	3
23 %	23 %



Lubrication Equipment Results



September YTD Lubrication Sales as % of Consolidated



Sales (\$ M)	Third Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Americas	\$ 20	\$ 20	—	\$ 61	\$ 61	—
EMEA	2	2	(5)%	8	6	19 %
Asia Pacific	5	5	14	14	16	(11)
Total	\$ 27	\$ 27	2	\$ 83	\$ 83	—
Operating Earnings	\$ 5	\$ 5	3 %	\$ 17	\$ 17	2 %
% of sales	20 %	20 %		21 %	21 %	

Lubrication Equipment Results



Change in % of sales

2012 Operating Earnings (percentage of sales)

Translation effect

Pricing, product cost, mix

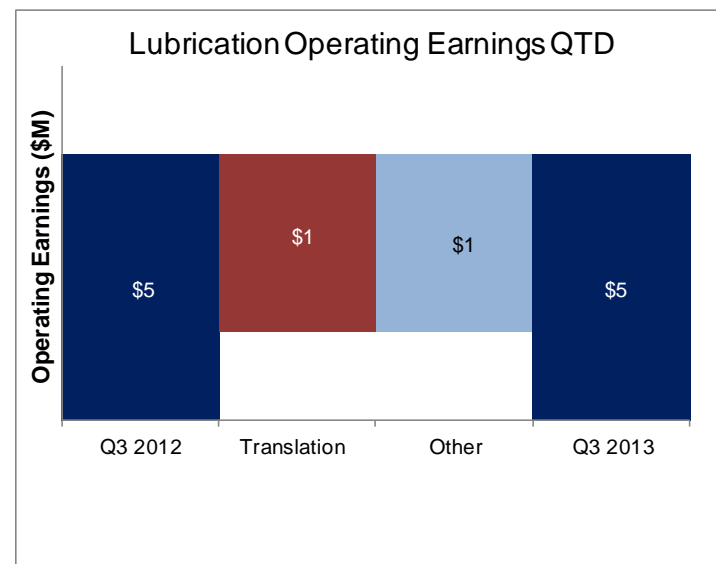
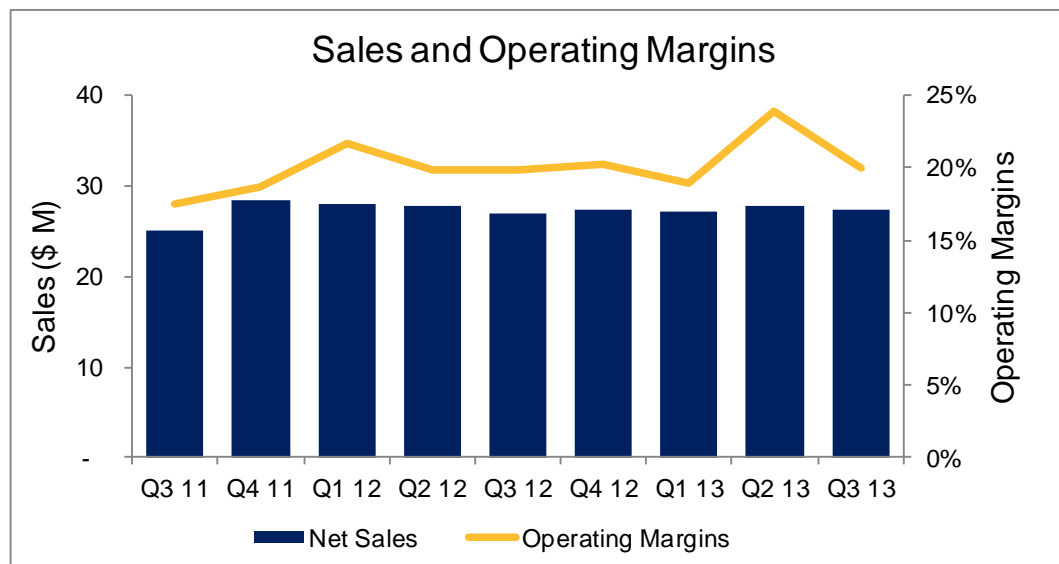
Volume effect on expense leverage

2013 Operating Earnings (percentage of sales)

Third Quarter

Year-to-Date

20 %	21 %
(1)	—
(3)	—
4	—
<u>20 %</u>	<u>21 %</u>



INNOVATION IN FLUID HANDLING



move

measure

mix

control

dispense

spray

MANUFACTURING EXCELLENCE