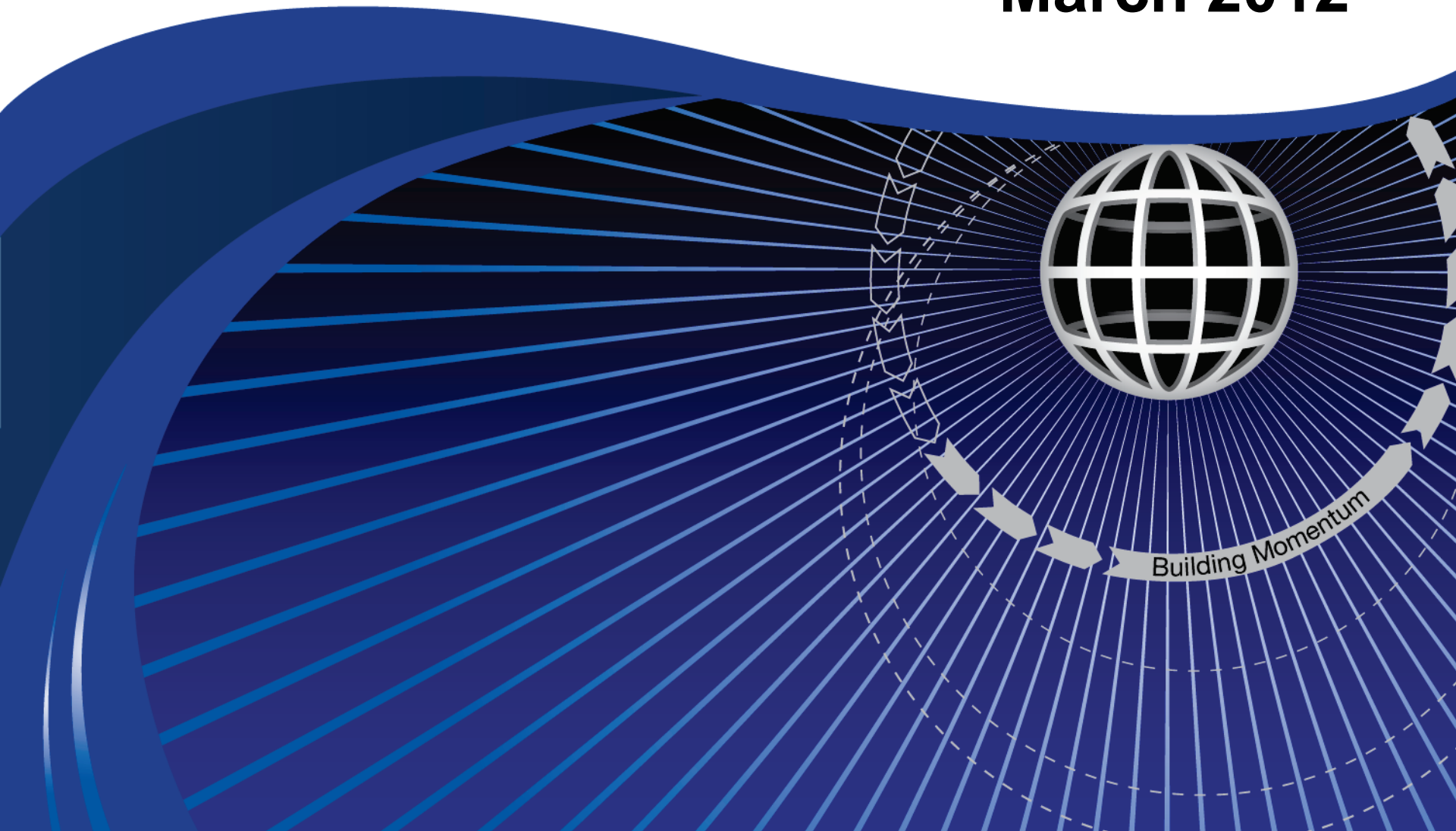




# Investor Presentation

March 2012





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, and Exhibit 99 to, the Company's Form 10-K, and most recent Form 10-Q.












## 2011 Highlights

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- Record sales
- New peak sales in Asia Pacific and Latin America
- Industrial Segment achieved new peaks in both sales and operating earnings
- Lubrication Segment eclipsed \$100 million in sales and doubled operating earnings from the prior year, both new peaks
- Diluted EPS matched its prior high



# Planning for Growth in 2012

|                     | Americas  | Europe  | Asia Pacific  |
|---------------------|---|---|---|
| Industrial Segment  | <br>Favorable: Gen Industrial;<br>Automotive; Ag; Heavy Machinery<br>Challenging: Construction | <br>Favorable: Gen Ind; Automotive;<br>Emerging EMEA; N Europe<br>Challenging: Const; S Europe | <br>Favorable: Gen Industrial;<br>Automotive; Heavy Machinery<br>Challenging: Construction |
| Contractor Segment  | <br>Improving: Pro Paint<br>Challenging: Gen Construction &<br>DIY                             | <br>Challenging: Construction &<br>Southern Europe   | <br>Favorable: Emerging Markets<br>Stable: General Construction                            |
| Lubrication Segment | <br>Favorable: Industrial Lubrication;<br>Vehicle Services                                    | <br>Favorable: Industrial Lubrication<br>Challenging: Southern Europe                         | <br>Favorable: Mining, Industrial<br>Lubrication; Heavy Equipment                         |



# Business Overview

- ❖ Opportunities and Strategies
- ❖ Building Momentum
- ❖ Company Performance

Building Momentum



# Business Overview

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- Graco manufactures equipment to pump, meter, mix and dispense a wide variety of fluids
  - Difficult to handle materials with high viscosities
  - Abrasive and corrosive properties
  - Multiple component materials that require precise ratio control
- Outstanding reputation for premium products
  - Broad range for a variety of end markets
  - New product development investments consistently above peers
  - Manufacturing and engineering drive reliability and quality



# Graco's Formula for Margin Generation

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- High customer value
- Manufacturing and engineering excellence





# High Customer Value, Strong Product Differentiation







# Manufacturing and Engineering Excellence

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- 90%+ of production is based in the United States
  - High quality, efficient, engaged labor force
  - Centralization allows for leverage of overheads
- Continuous improvement culture
  - Unique Graco cost to produce measurement tool
- Ongoing capital investment approaching 3% of revenues
  - Plant efficiency
  - Cost reductions
- New product development initiatives include value engineering focus
- Low overall warranty costs



# Business Overview

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## **Strong financial performance and operating leverage**

- 20% revenue growth in 2011; 28% growth in 2010
- Incremental operating earnings leverage on organic revenue growth of 35% to 45%; 2011 was 44%

## **Well-positioned channel partners**

- Sales primarily through independent distributors – approximately 30,000 outlets worldwide
- Selective relationships with big box retailers

## **Aftermarket provides a recurring revenue stream**






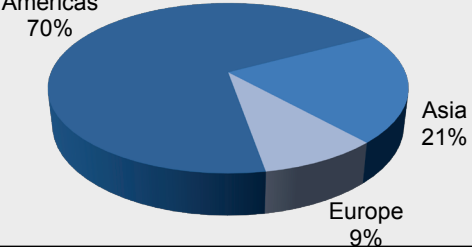
- Parts and accessories account for approximately 40% of annual revenues

## **A global business**

- More than 45% of sales from outside the Americas



# An Introduction to our Segments

| Business  | Rational Competitors                  | Global Market Size | 2011 YOY Revenue Growth | Geographic Mix   |
|---|---------------------------------------|--------------------|-------------------------|--|
| <b>Industrial</b><br>    | ITW, Exel, Idex, IR, Dover and Wagner | \$2.0 billion      | 23%                     | 2011 Sales - \$502M<br>   |
| <b>Contractor</b><br>    | Wagner                                | \$0.5 billion      | 13%                     | 2011 Sales - \$291M<br>   |
| <b>Lubrication</b><br> | Lincoln, Vogel, BEKA, Samoa, & RAASM  | \$1.1 billion      | 32%                     | 2011 Sales - \$103M<br> |



# Industrial Equipment – Paint Spraying





# Industrial Equipment – Multi Component Paint Spraying







# Industrial Equipment – Protective Coating





# Industrial Equipment – Fast-Set Foam Insulation







# Industrial Equipment – Sealants & Adhesives







# Industrial Equipment – Composites











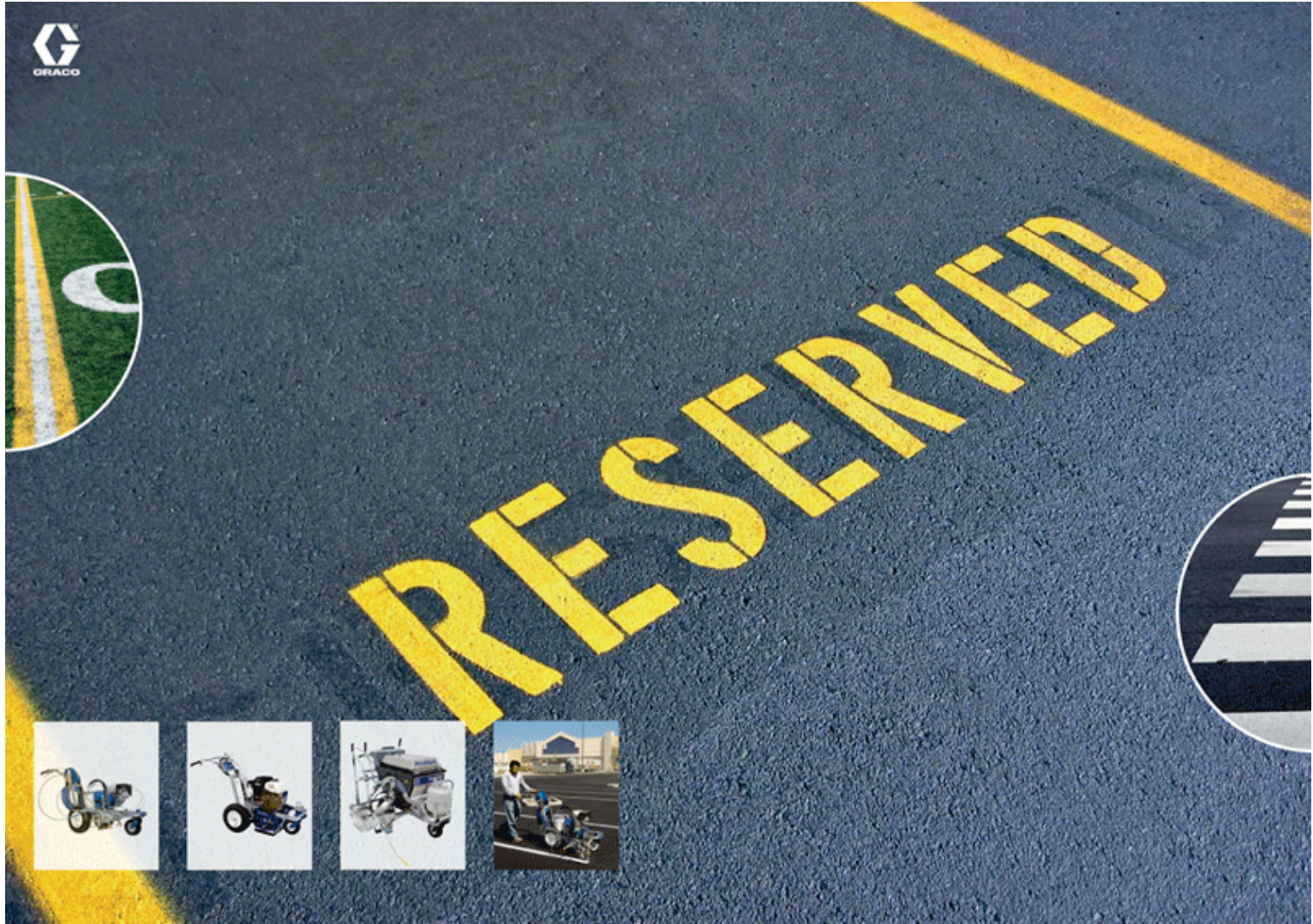
# Contractor Equipment – Painting & Texturing







# Contractor Equipment – Striping







# Lubrication Equipment – Vehicle Services





# Lubrication Equipment – Industrial







❖ Business Overview

➤ **Opportunities and Strategies**

❖ Building Momentum

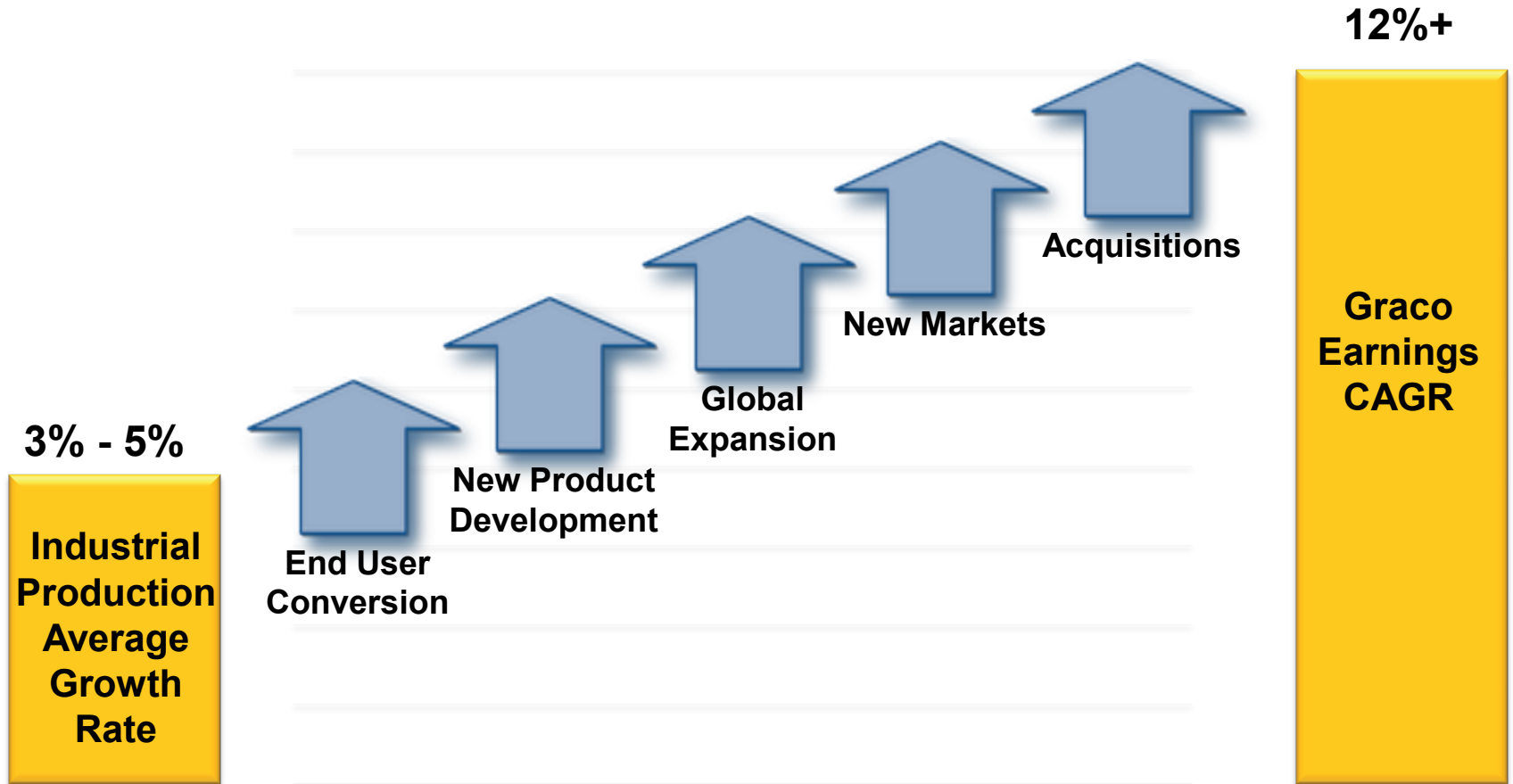
❖ Company Performance

Building Momentum





# Graco's Growth Plans and Earnings Drivers



- New applications in adjacent markets
  - Sanitary
  - Composites
  - Alternative energy
- Material changes driving demand
  - High performance multiple component materials
  - Low - or no - VOC coatings
  - Green initiatives
- Customer ROI-based new products
  - Integration of equipment with factory data and control systems
  - Reducing energy consumption
- International market trends resulting in new installations
  - Industrialization and wage inflation in developing markets driving automation
  - Factory relocations to low-cost geographies





# Contractor Equipment

- Conversion of end users from manual application methods to equipment is a major focus outside North America
  - In Europe and Asia, spray equipment penetration is less than 40% in developed countries and less than 10% in developing countries
- Application of texture and cementitious materials
- Entry level product & channel expansion
- Expanding pavement maintenance product line & channel





# Lubrication Equipment

- Focused on expanding international markets and presence
  - Rapidly adding resources for specialized global marketing and selling
  - Developing products to meet local market needs
  - Building global channel
- Industrial lubrication market targeted opportunities
  - Expanding product offering
  - Improving cost position



- ❖ Business Overview
- ❖ Opportunities and Strategies

# ➤ **Building Momentum**

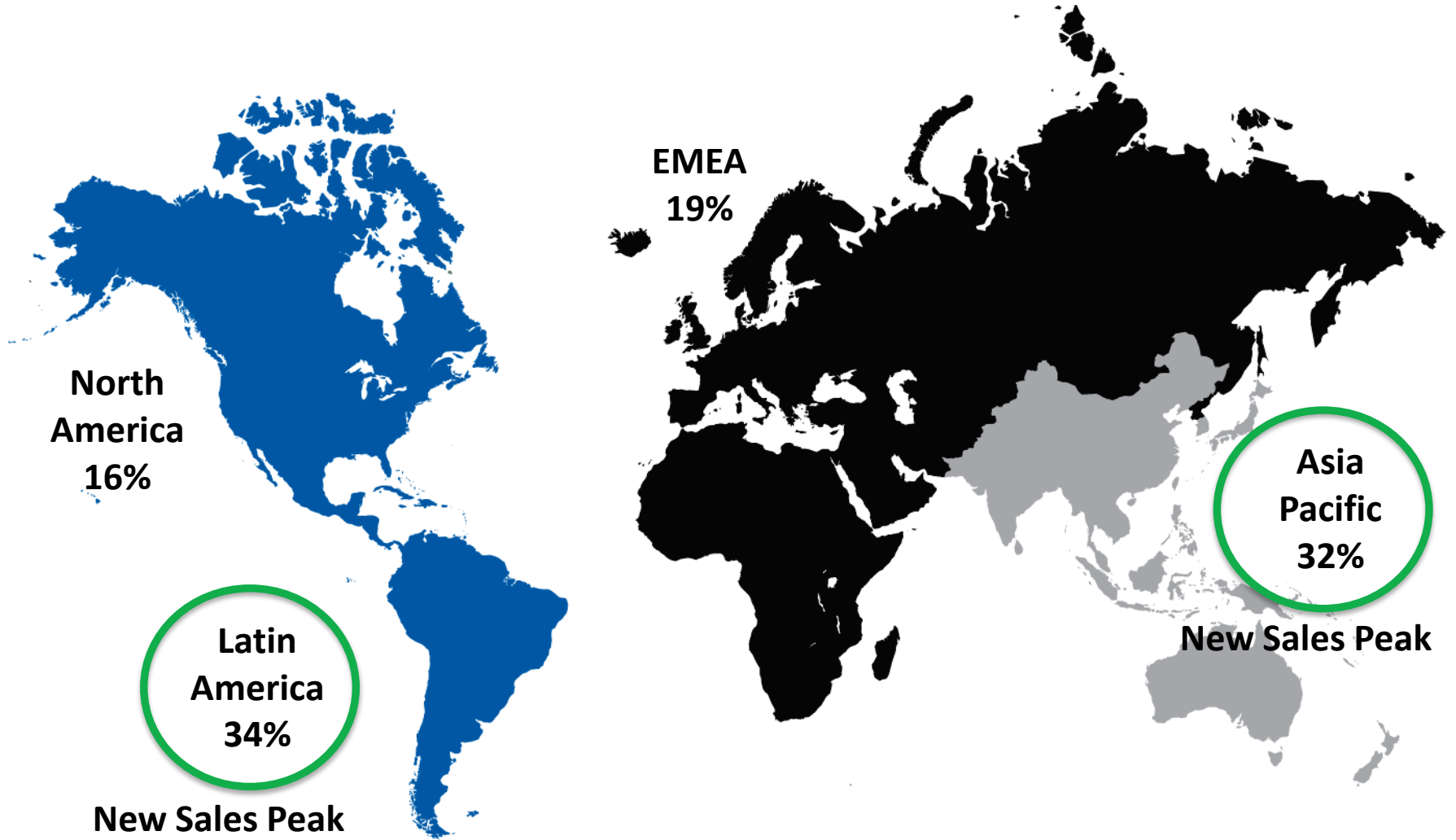
- ❖ Company Performance

Building Momentum





# Double-Digit Growth Worldwide in 2011



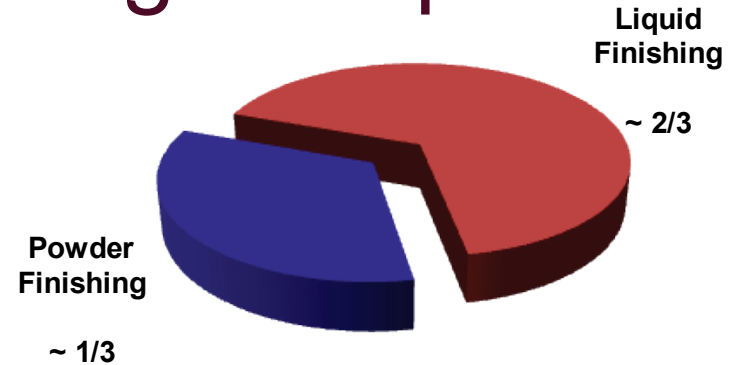


# Graco to Acquire on April 2, 2012 for \$650 million

## **ITW** Finishing Group

2011 Revenues\* \$375 million

2011 EBITDA\* \$80 million



### Powder Finishing



### Liquid Finishing – Held Separate



\* Unaudited, provided by ITW



# Powder Finishing – Strong Strategic Fit

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- Well established brand name
  - High quality
  - A technology leader
- Large installed base
- Access to attractive end markets
- Desirable emerging market exposure
- Strong and growing global distribution base
- Scale to drive long-term growth worldwide





# FTC Order to Hold Separate and Maintain Assets

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- Intent is maintain business and its momentum while FTC considers a settlement proposal from Graco
- Liquid Finishing businesses to be run completely independent of Graco
  - Wholly-owned, but no Graco involvement or influence
  - Day-to-day operations under existing management
  - Supervision by a trustee that reports to the FTC
- Will be accounted for as a cost investment under GAAP
- FTC will complete its consideration of the settlement proposal and determine what portion, if any, Graco can keep and what it must divest



# Targeting Growth Through New Products and Markets

## New Product Development Expense as a Percentage of Revenues



### Peer group includes:

- Colfax
- Dover
- Dresser Rand
- Flowserve
- IDEX
- Illinois Tool Works
- Ingersoll Rand
- Nordson
- Robbins & Myers
- Watts Water Technologies

<sup>1</sup> Reported for 2010

<sup>2</sup> Reported for 2011



# Lubrication – Opening Up New Markets

## Graco Industrial Lubrication Solution



*Combination Frac/Blender unit bound for West Texas*



### Bottom-line Benefits:

#### Consistent Performance

Continually monitored on-site lubrication regardless of length of operational schedules—24 hours a day, 7 days a week, Graco can lube it.

#### Equipment Cost-Savings

Protect your equipment from contamination, over or under lubrication and mechanical failure caused by improper lubrication.

#### Predictable Maintenance

Allows longer time between scheduled maintenance to keep your equipment working on the site.



# Contractor – Expansion of Handheld Line

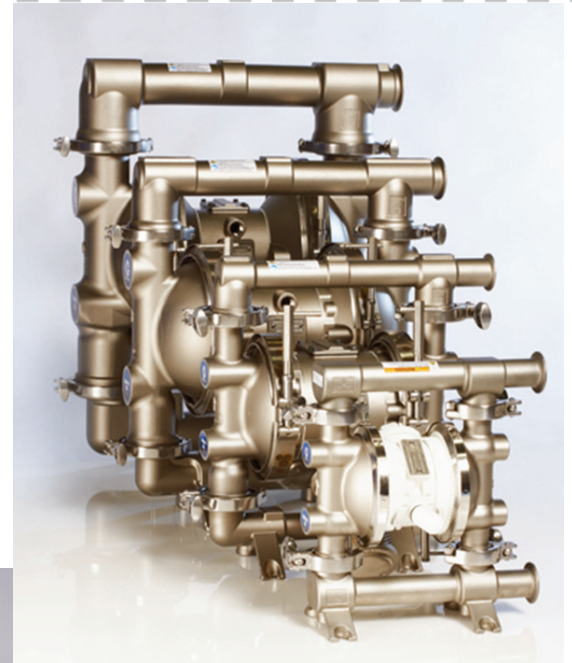
- Heavy duty handheld, designed for protective and marine coatings
- Will be the world's most powerful handheld airless sprayer
  - 4000 PSI in the palm of your hand
  - can handle very difficult materials
- Product will be available in 2H 2011





# Industrial – Expanding Process Capabilities

- SaniForce line expansion
  - ½” FDA Compliant
- Process Pumps
  - 3” Family
  - 30% more efficient
  - More materials for more applications







# Industrial – Integrated Proportioning System

- For foam or polyurea
- Innovative design re-purposes wasted heat from the engine to heat the A & B materials
- System's smaller generator saves the contractor about \$7,000 in diesel fuel costs annually
- Proprietary Graco Control Architecture enables advanced data features:
  - Stores up to 24 chemical recipes
  - Tracks, monitors and saves project information
  - Download data onto USB drive



**Reactor E-30i Integrated Proportioning System**

- ❖ Business Overview
- ❖ Opportunities and Strategies
- ❖ Building Momentum

# ❖ Company Performance

Building Momentum



## Financial Results – Full Year

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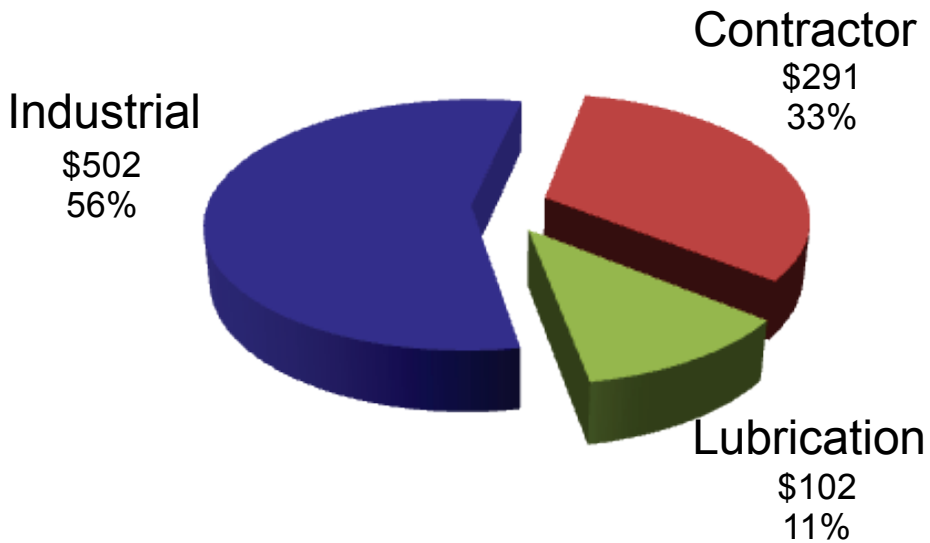
| (\$ Millions except EPS) | <u>2011</u> | <u>2010</u> | <u>Change</u> |
|--------------------------|-------------|-------------|---------------|
| Sales                    | \$ 895.3    | \$ 744.1    | 20%           |
| Gross Profit Rate        | 55.9%       | 54.2%       |               |
| Operating Expenses       | 280.7       | 250.3       | 12%           |
| Operating Earnings       | 219.5       | 153.1       | 43%           |
| Net Earnings             | \$ 142.3    | \$ 102.8    | 38%           |
| Earnings Per Share       | \$ 2.32     | \$ 1.69     | 37%           |



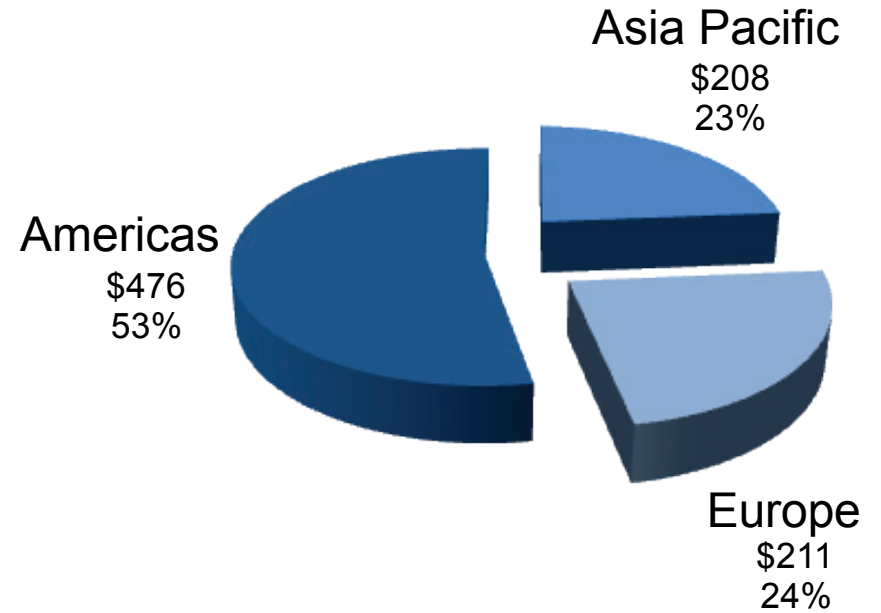


# 2011 Sales \$895 Million

Segment  
\$'s millions



Geography  
\$'s millions

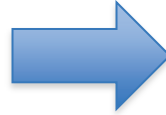




# Cash Deployment Priorities

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## Organic Growth Investments



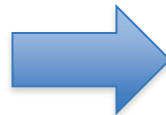
- International footprint
- Product development
- Production capacity and capabilities

## Acquisitions



- Supplement to organic growth
- Leverage our strengths

## Dividends/Share Repurchase



- Dividend payout ratio 25-30%
- 6 million authorized share repurchase - 10% of outstanding shares approved September 2009



# Key Investment Attributes

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- Strategies that will drive long-term above-market growth
- Premium products that provide a strong ROI for end users
- Leading market positions
- Serves niche markets where customers are willing to purchase quality, technology-based products
- Products perform critical functions
- Consistent investments in capital and growth initiatives
- Shareholder-minded management
- Financial strength



**Move – Measure – Control – Dispense – Apply**

**Building Momentum**



Building Momentum

**Financial  
Summary  
For Q4 2011 -  
Appendix**



# Fourth Quarter 2011 Results

---

- Sales for the quarter up 9 percent compared to fourth quarter last year
- Sales were up in all segments; regionally, sales were up 9 percent in the Americas 20 percent in Asia Pacific, and flat in Europe
  - Currency translation did not have a material effect on sales
- Fourth quarter gross profit margin of 54 percent was consistent with last year as favorable effects of increased production volume were offset by higher material costs
- Operating expenses were flat, including transaction costs for pending acquisition, and decreases in marketing and selling
- Backlog decreased \$3M from the end of prior quarter
- Net earnings increased by 13 percent compared to fourth quarter last year and diluted EPS was 50 cents

Note: Fiscal fourth quarter 2010 included an extra week as compared to fiscal fourth quarter 2011.





# 2011 Results

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- Sales year-to-date up 20 percent compared to prior year
- Sales were up in all segments and geographies, including 17 percent in the Americas, 19 percent in Europe, and 32 percent in Asia Pacific
  - The overall year-to-date growth rate of 20% includes 2 percentage points from currency translation
- Year-to-date gross profit margin of 56 percent, up from 54 percent last year, reflecting favorable effects of higher production volume, currency translation and pricing, partially offset by higher material costs
- Operating expenses were up 12 percent, including currency translation and volume related marketing and selling, headcount adds, and transaction costs for pending acquisition
- Backlog decreased \$7M as compared to prior year-end
- Net earnings increased by 38 percent compared to last year and diluted EPS was \$2.32



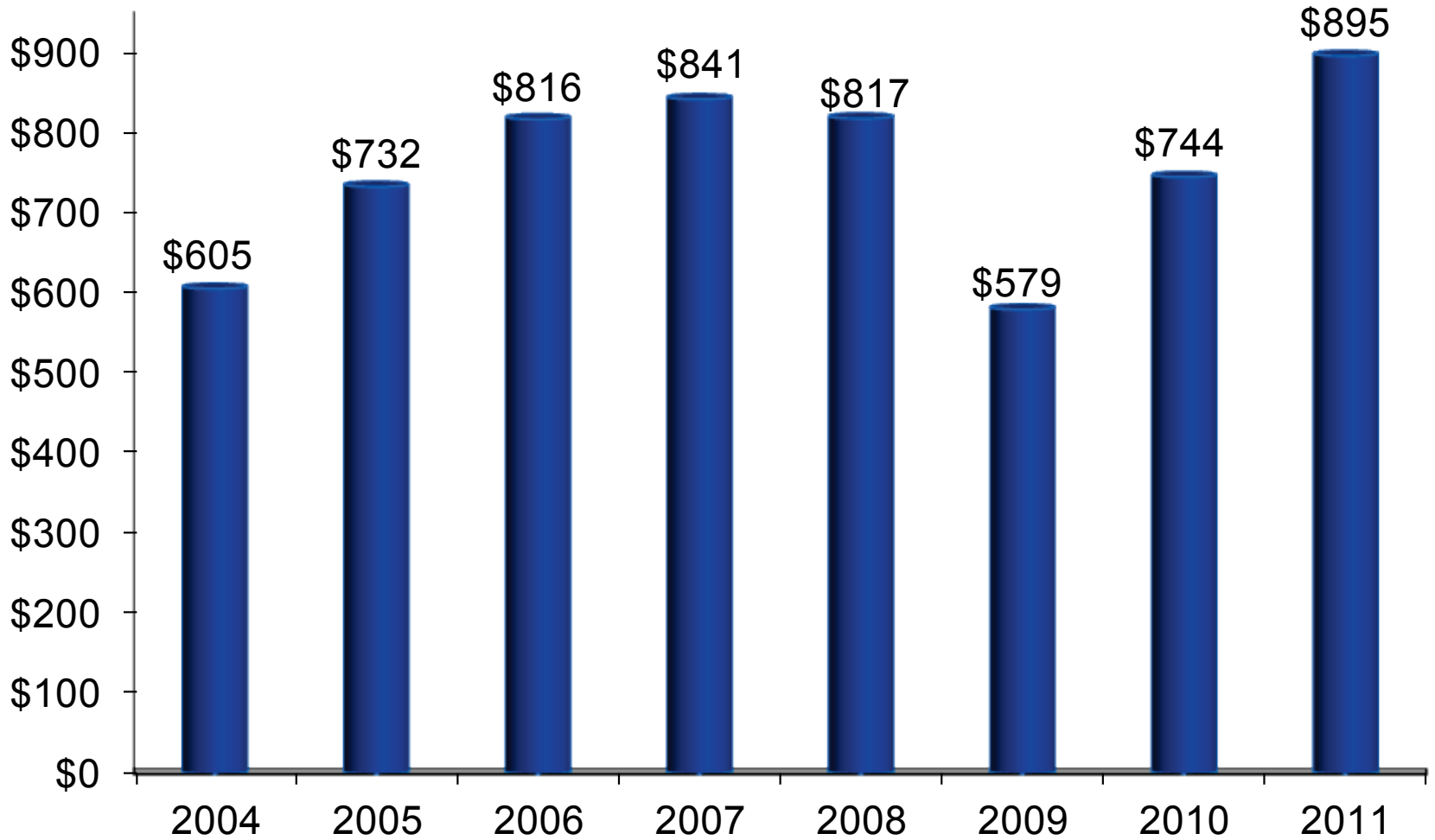
Building Momentum

# Financial Summary For 2011 - Appendix



# Annual Sales (\$ Millions)

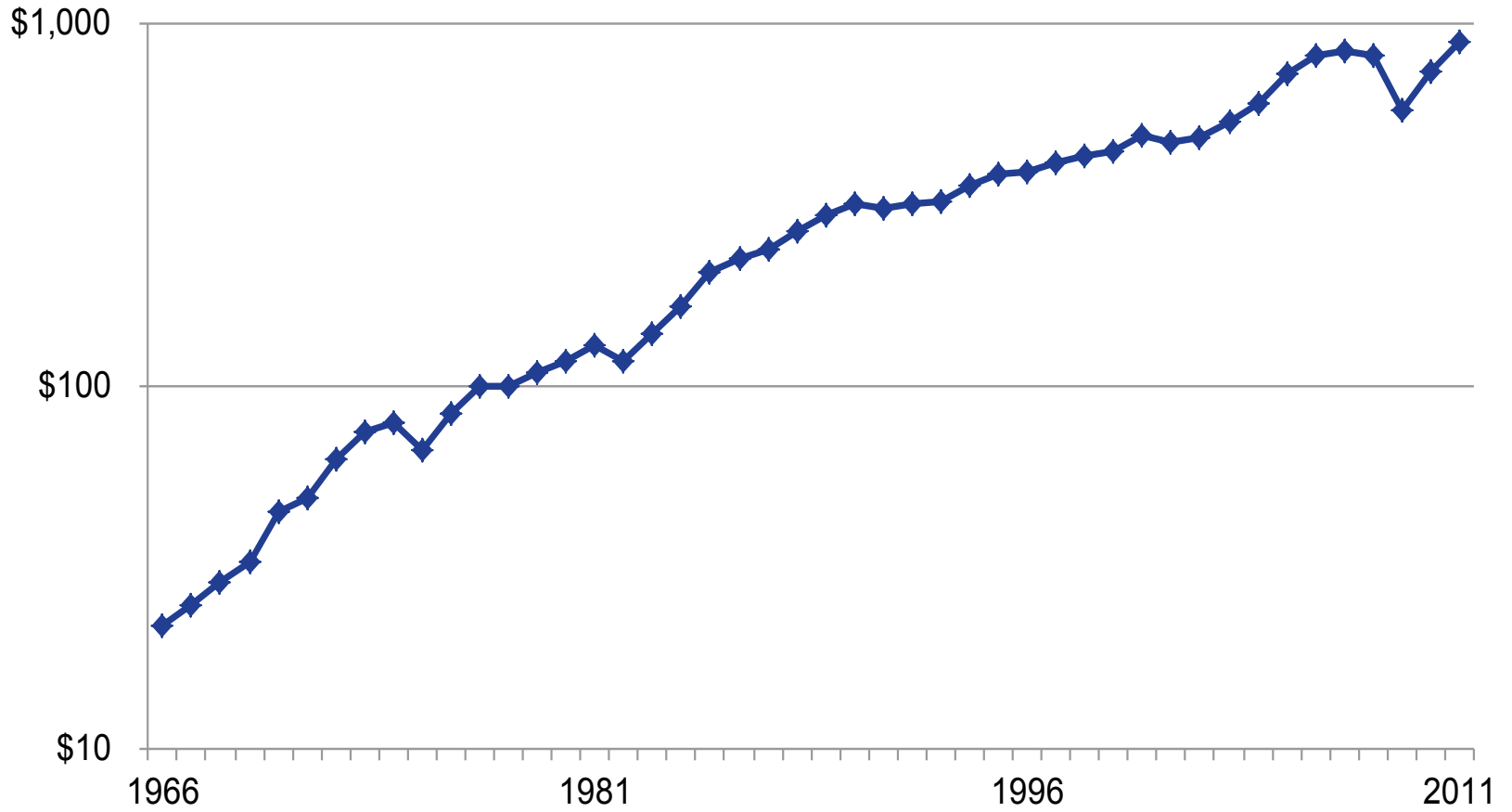
Target: 6-7% Organic  
10%+ Overall





# Historic Sales (\$ Millions)

CAGR 9%

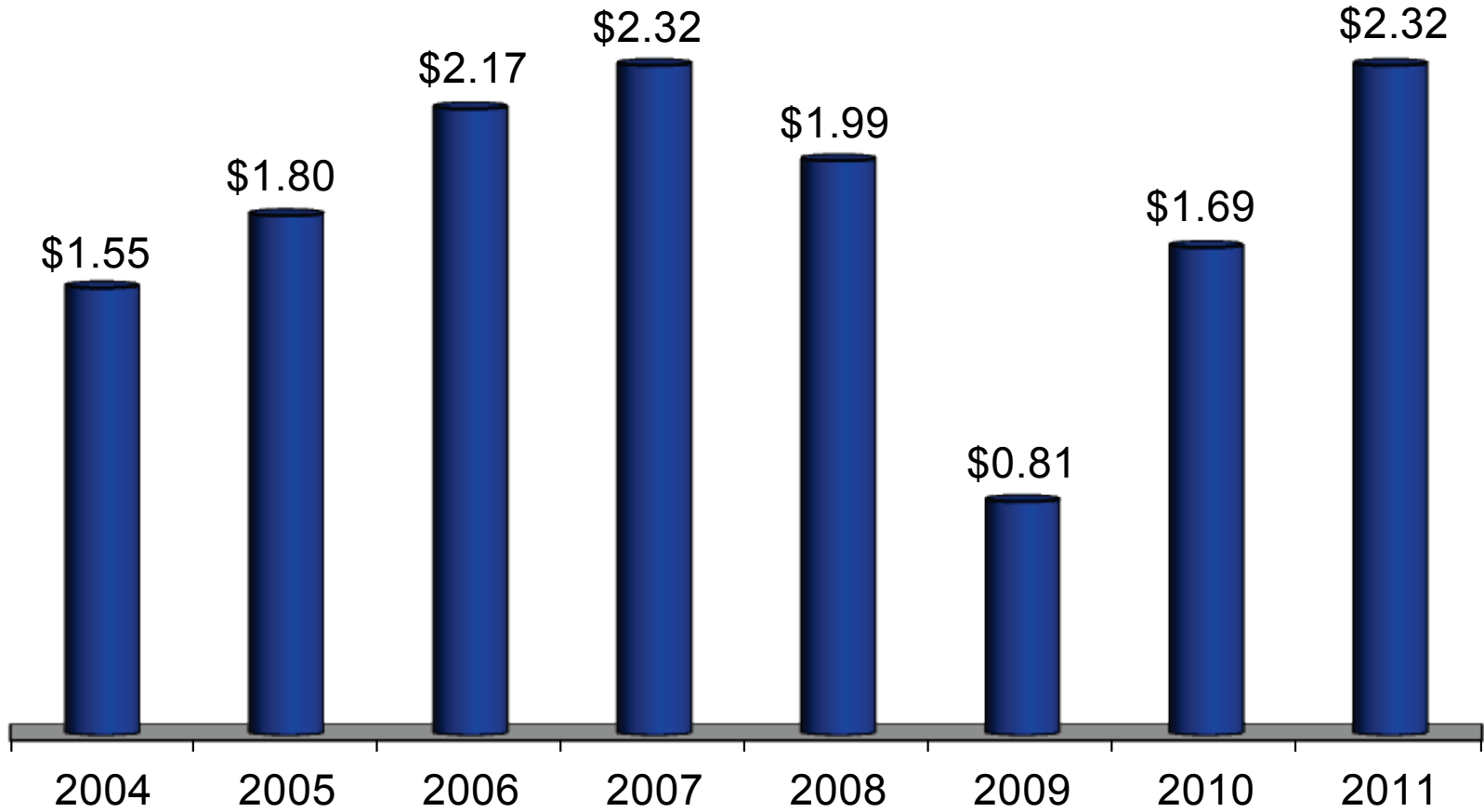






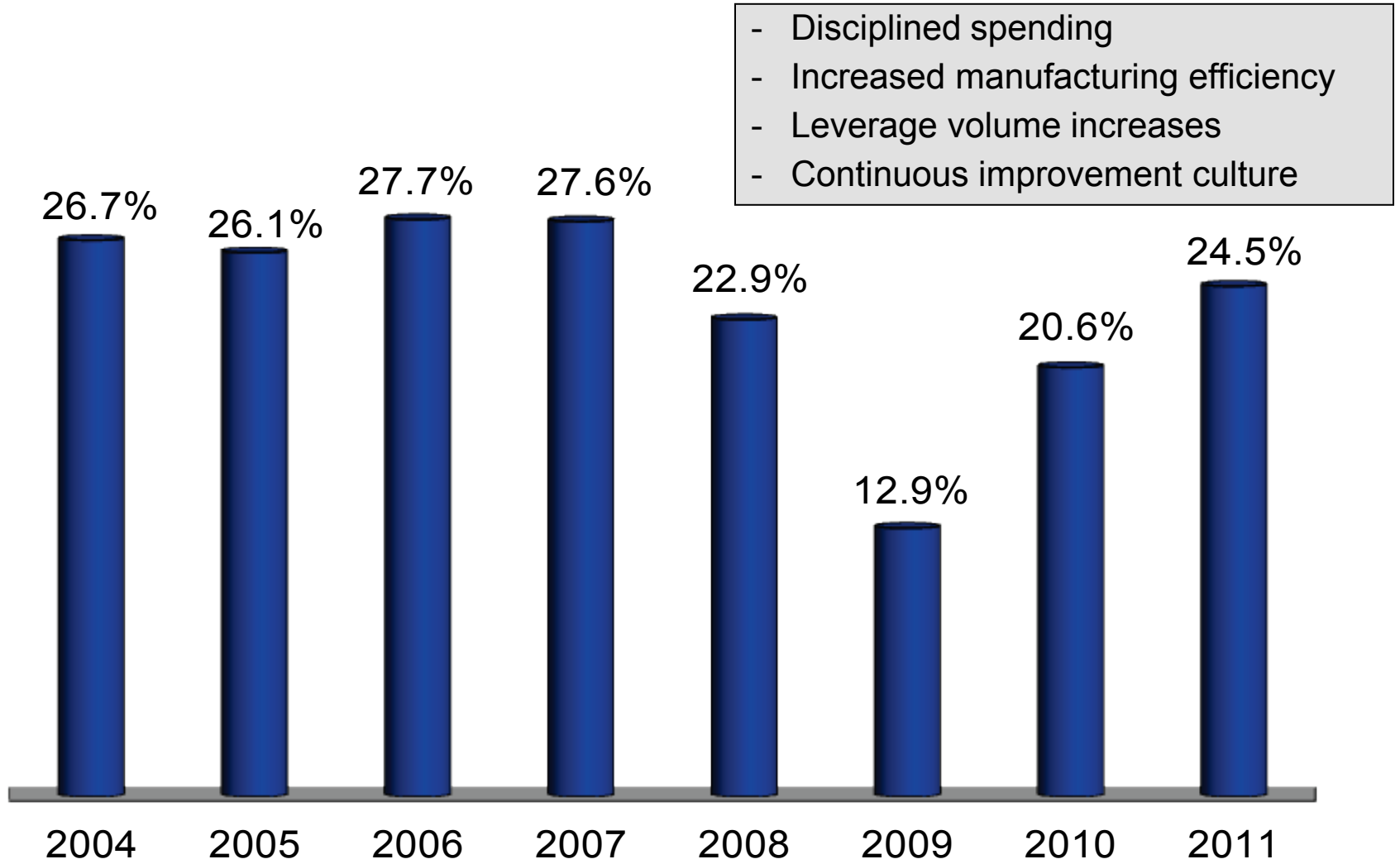
# Earnings Per Share

Target: 12%+





# Operating Margin





# Strong Cash Generation

| (\$ Millions)        | <u>2011</u>   | <u>2010</u>  | <u>2009</u>   | <u>2008</u>   | <u>2007</u>   | <u>2006</u>   | <u>2005</u>   |
|----------------------|---------------|--------------|---------------|---------------|---------------|---------------|---------------|
| Operating Cash Flows | \$ 162        | \$ 101       | \$ 147        | \$ 162        | \$ 177        | \$ 156        | \$ 153        |
| % of Net Income      | 114%          | 98%          | 300%          | 134%          | 116%          | 104%          | 121%          |
| Capital Expenditures | <u>24</u>     | <u>17</u>    | <u>11</u>     | <u>27</u>     | <u>37</u>     | <u>34</u>     | <u>20</u>     |
| Free Cash Flow       | <u>\$ 138</u> | <u>\$ 84</u> | <u>\$ 136</u> | <u>\$ 135</u> | <u>\$ 140</u> | <u>\$ 122</u> | <u>\$ 133</u> |
| Dividends            | \$ 51         | \$ 48        | \$ 45         | \$ 45         | \$ 43         | \$ 39         | \$ 36         |
| Acquisitions         | -             | -            | -             | 55            | -             | 31            | 111           |
| Share Repurchases *  | <u>21</u>     | <u>11</u>    | <u>(6)</u>    | <u>101</u>    | <u>206</u>    | <u>76</u>     | <u>32</u>     |
|                      | <u>\$ 72</u>  | <u>\$ 59</u> | <u>\$ 39</u>  | <u>\$ 201</u> | <u>\$ 249</u> | <u>\$ 146</u> | <u>\$ 179</u> |

\* Net of shares issued

| (\$ Millions)      | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|--------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| EBITDA             | \$251       | \$187       | \$109       | \$222       | \$261       | \$252       | \$213       |
| Debt, Net of Cash  | \$ 6        | \$ 69       | \$ 93       | \$186       | \$121       | \$ 12       | \$ (10)     |
| Debt to EBITDA     | 2%          | 37%         | 85%         | 84%         | 46%         | 5%          |             |
| Operating Earnings | \$220       | \$153       | \$ 74       | \$187       | \$232       | \$226       | \$191       |
| Interest Expense   | \$ 9        | \$ 4        | \$ 5        | \$ 8        | \$ 3        | \$ 1        | \$ 1        |

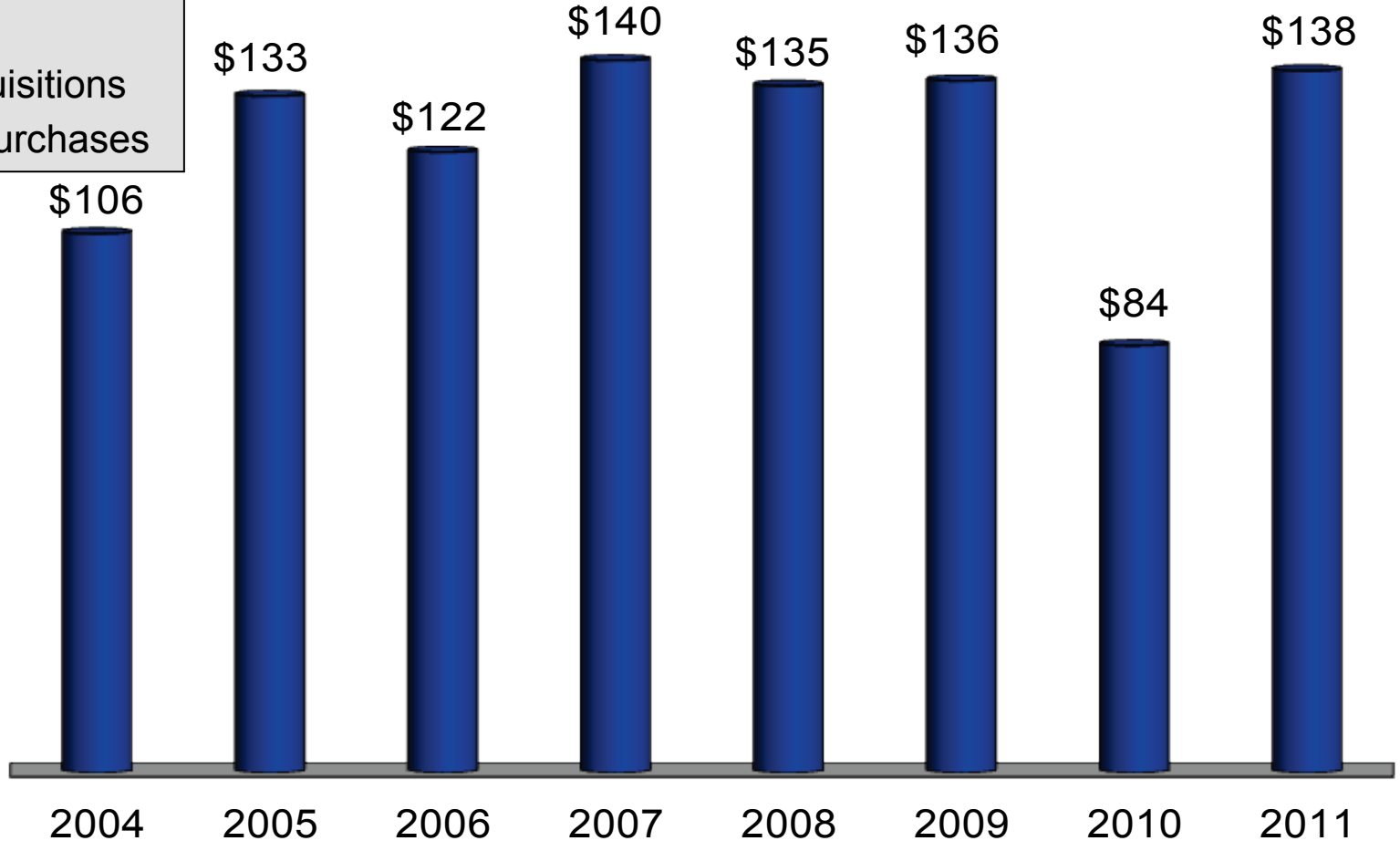




# Free Cash Flow *(\$ Millions)*

Strong cash flow for:

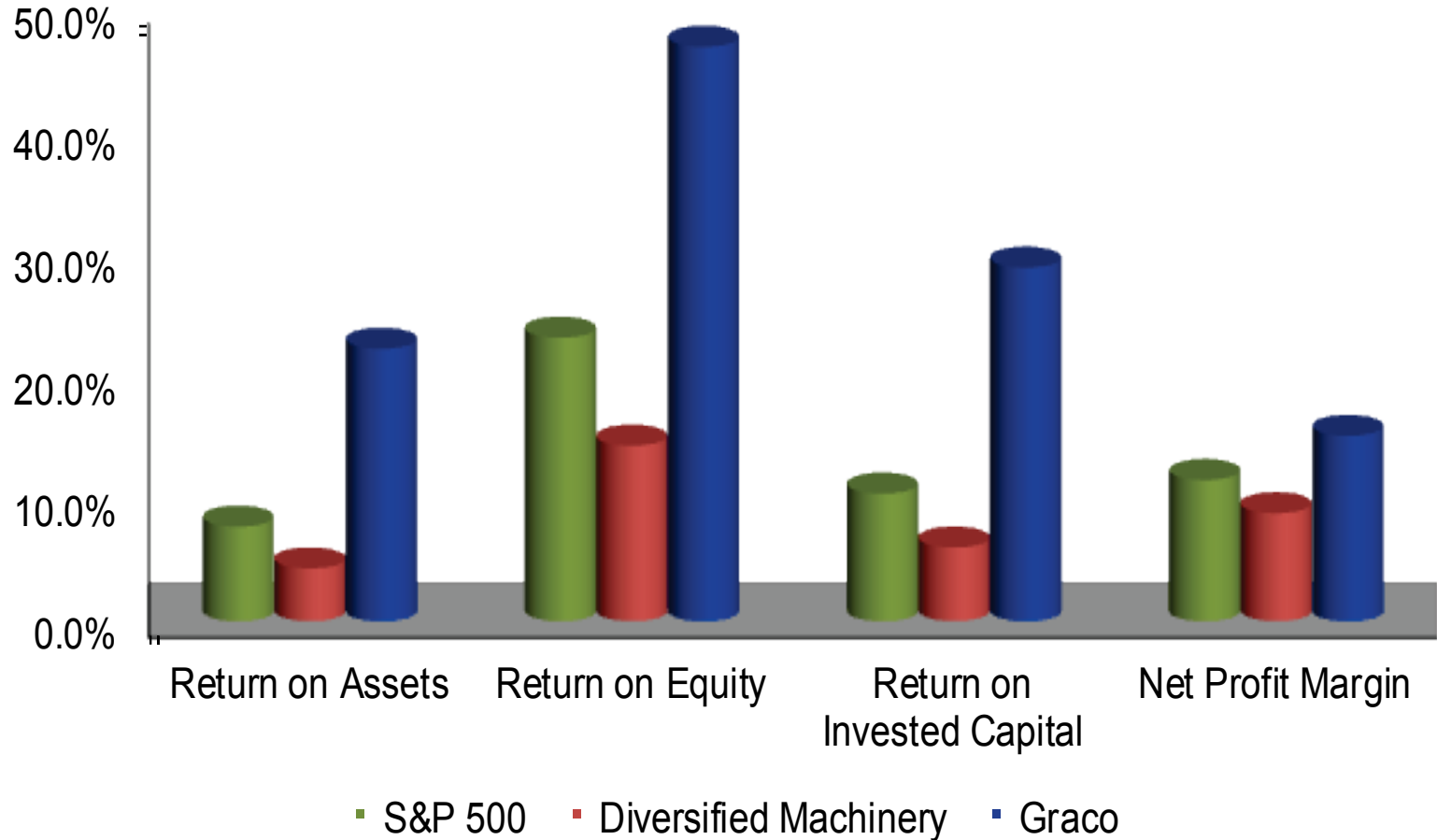
- Dividends
- Cash acquisitions
- Share repurchases



Cash provided by operating activities less property, plant and equipment additions plus proceeds from sale of property



# Capital Efficiency – 5 Year Average

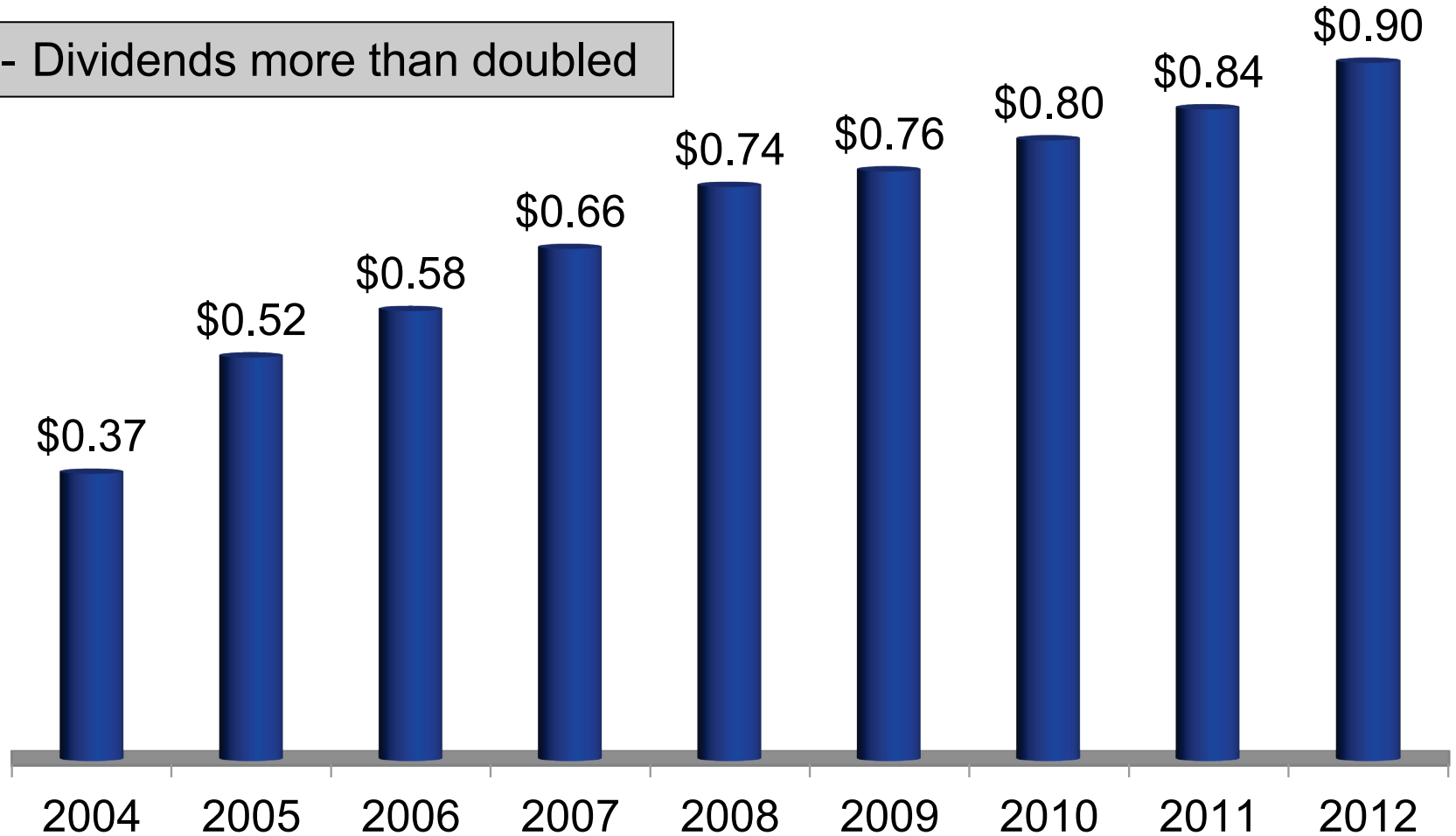


Source: Interactive Data, 2012 Thomson Reuters



# Annual Dividend Growth

- Dividends more than doubled



Note: Annual dividends rate, excludes special dividend of \$1.50 paid in 2004



**Move – Measure – Control – Dispense – Apply**

**Building Momentum**