



# 2<sup>nd</sup> Quarter 2017 Earnings Conference Call

July 27, 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 July 26, 2017.

# Conference Call Logistics

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The release, accompanying slides and replay web cast are available online at [www.graco.com/ir](http://www.graco.com/ir)

Telephone replay will be available after 2 p.m. ET, July 27, 2017. The replay by telephone will be available through July 31, 2017

- ▶ 888-203-1112 – Conference ID #8781897
- ▶ 719-457-0820 – with the same conference ID #, for International participants

# Financial Results



Statement of Earnings	Second Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
\$ in millions except per share amounts						
Sales	\$ 379	\$ 348	9 %	\$ 720	\$ 653	10 %
Gross Profit	204	185	10 %	389	347	12 %
% of Sales	53.7 %	53.2 %	0.5 pts	54.1 %	53.1 %	1.0 pts
Operating Earnings	99	78	26 %	185	139	33 %
% of Sales	26.0 %	22.5 %	3.5 pts	25.6 %	21.3 %	4.3 pts
Net Earnings	\$ 80	\$ 51	57 %	\$ 141	\$ 90	55 %
% of Sales	21.0 %	14.6 %	6.4 pts	19.5 %	13.9 %	5.6 pts
Diluted Earnings						
Per Share	\$ 1.38	\$ 0.89	55 %	\$ 2.43	\$ 1.59	53 %
<i>Diluted Shares in Millions</i>	57.9	57.0		57.8	56.9	

The increase in diluted EPS includes:

- ▶ \$0.23 for the quarter and \$0.28 for year to date from a required change in accounting for stock compensation adopted in first quarter 2017, see page 6
- ▶ \$0.01 for the quarter and \$0.02 for year to date from reduced intangible amortization expense resulting from the impairment charge recorded in fourth quarter 2016

# Financial Results



## Components of Net Sales Change

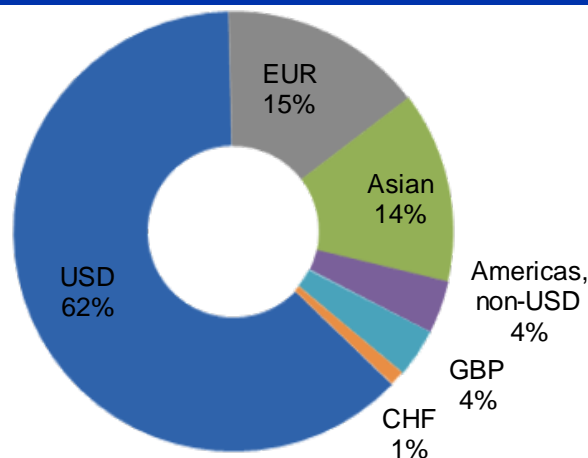
### Second Quarter June 2017

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	13 %	15 %	5 %	7 %	12 %	20 %	10 %
Acquisitions	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(2)%	(2)%	(1)%	0 %	(3)%	(2)%	(1)%
<b>Total</b>	<b>11 %</b>	<b>13 %</b>	<b>4 %</b>	<b>7 %</b>	<b>9 %</b>	<b>18 %</b>	<b>9 %</b>

### Year-to-Date June 2017

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	10 %	13 %	12 %	11 %	11 %	16 %	11 %
Acquisitions	1 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(2)%	(2)%	0 %	0 %	(4)%	(2)%	(1)%
<b>Total</b>	<b>9 %</b>	<b>11 %</b>	<b>12 %</b>	<b>11 %</b>	<b>7 %</b>	<b>14 %</b>	<b>10 %</b>

### 2017 YTD Sales by Currency



Asian currencies include:  
AUD, CNY, KRW, JPY

Americas currencies include:  
CAD, BRL, MXN

# Change in Accounting for Stock Compensation



A required change in accounting for stock compensation, FASB ASU 2016-09 “Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting”, was adopted in first quarter 2017. Impact on second quarter and the year to date:

- ▶ Net effect on diluted EPS was an increase of \$0.23 for the quarter and \$0.28 for the year to date
- ▶ Excess tax benefits, previously credited to equity, reduced the tax provision by \$14 million for the quarter, \$17 million for the year to date and decreased the effective tax rate by 14 and 10 percentage points, respectively
- ▶ New accounting standard also changed certain calculations for diluted average shares outstanding with the effect of increasing diluted outstanding shares by 0.5 million in the quarter and year to date

# Operating Earnings



## Change in Operating Earnings

2016 Operating Earnings (\$M and % of sales)

Translation effect

Volume, price and cost

Effect of 2016 inventory step-up, acquisition costs and 2017 acquired business operations, net

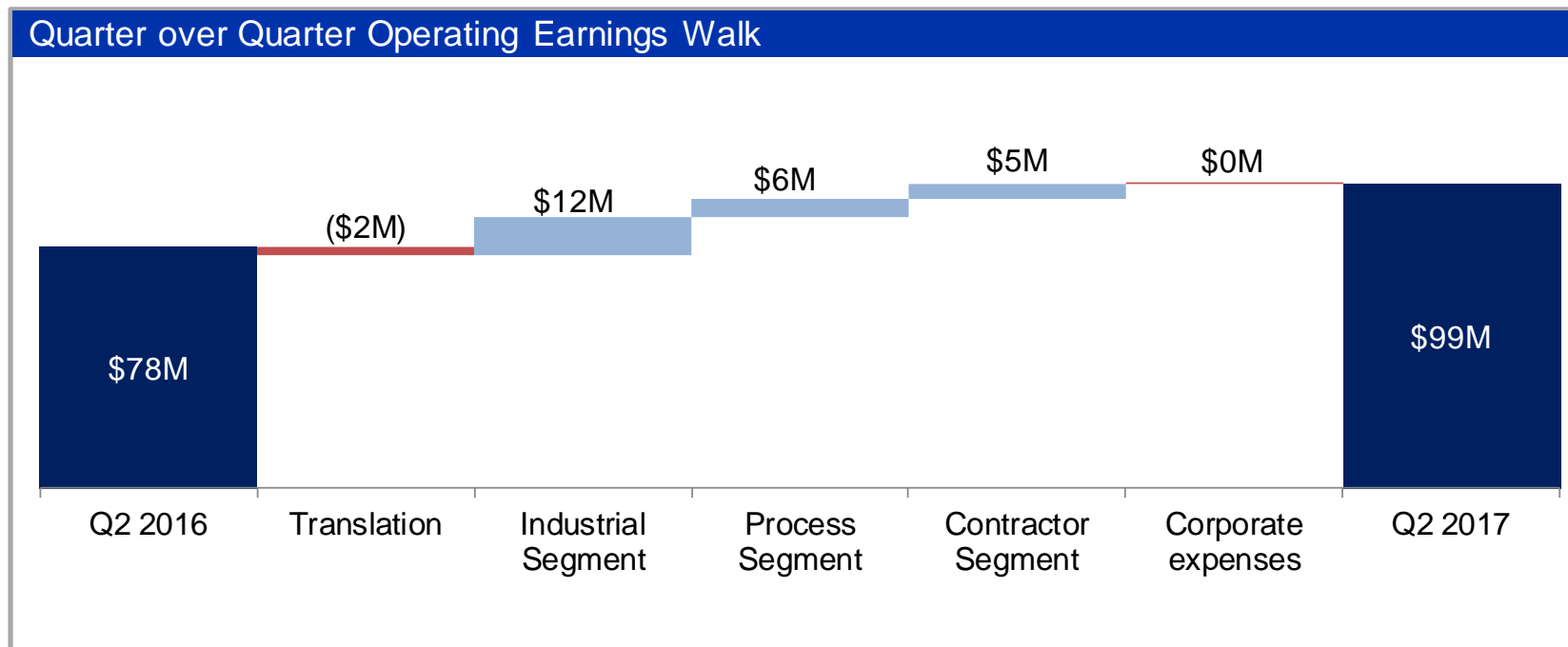
Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment

Unallocated corporate expenses (primarily central warehouse)

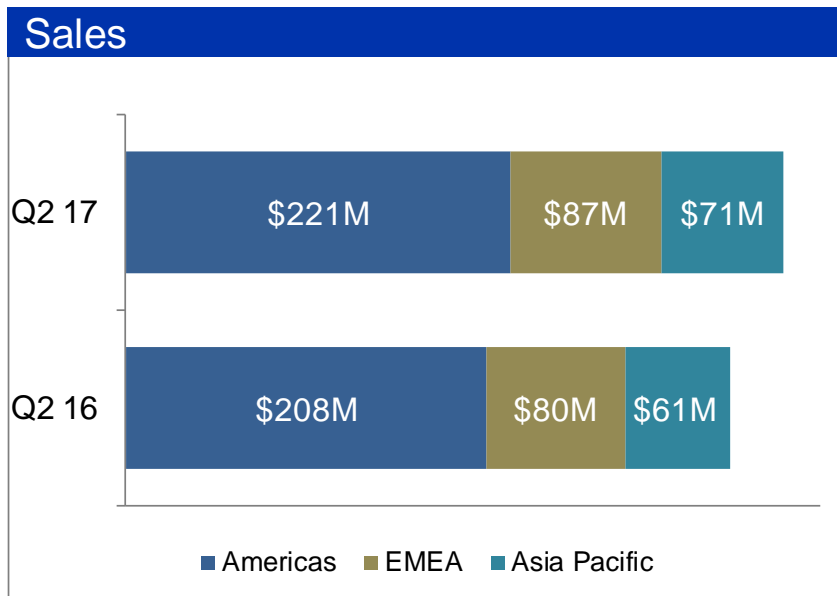
Volume effect on expense leverage

2017 Operating Earnings (\$M and % of sales)

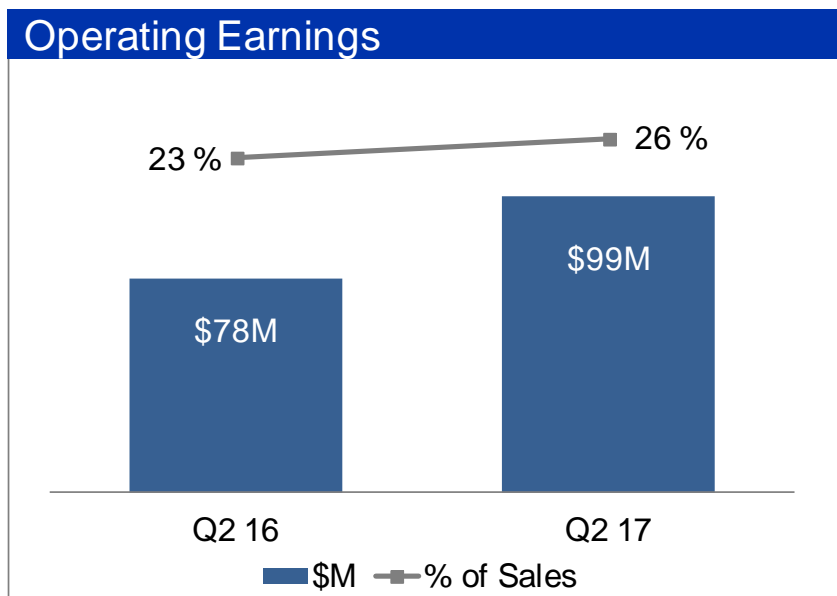
	Second Quarter		Year-to-Date	
2016 Operating Earnings (\$M and % of sales)	\$ 78	23 %	\$ 139	21 %
Translation effect	(2)	(1)	(4)	—
Volume, price and cost	21	1	48	1
Effect of 2016 inventory step-up, acquisition costs and 2017 acquired business operations, net	(1)	—	—	—
Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment	1	—	2	—
Unallocated corporate expenses (primarily central warehouse)	—	—	1	—
Volume effect on expense leverage	2	3	(1)	4
2017 Operating Earnings (\$M and % of sales)	\$ 99	26 %	\$ 185	26 %



# Second Quarter 2017 Results



- ▶ Sales increase of 9% (at consistent currency translation rates up 10%)
  - Acquired businesses had no significant impact on the quarter
  - Unfavorable effect of currency translation rates decreased sales by approximately \$4 million
- ▶ Gross margin rate up 0.5 percentage point from second quarter 2016
  - Higher production volume and realized pricing more than offset unfavorable impact of mix
- ▶ Operating earnings are up \$21 million, or 26%, from second quarter 2016
  - Higher sales volume and expense leverage
  - Lower intangible amortization related to the 2016 Oil and Natural Gas impairment
- ▶ Tax rate for the quarter was 17%, down from 31% in the second quarter last year
  - 2017 rate benefited from the first quarter adoption of a change in accounting for stock compensation. Excess tax benefits reduced the tax provision \$14 million and reduced the effective tax rate by 14 percentage points

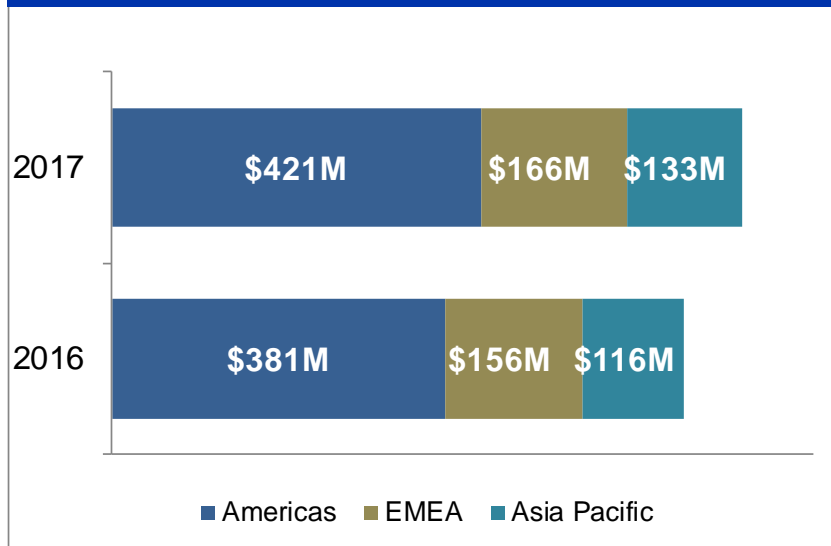




# June Year-to-Date 2017 Results

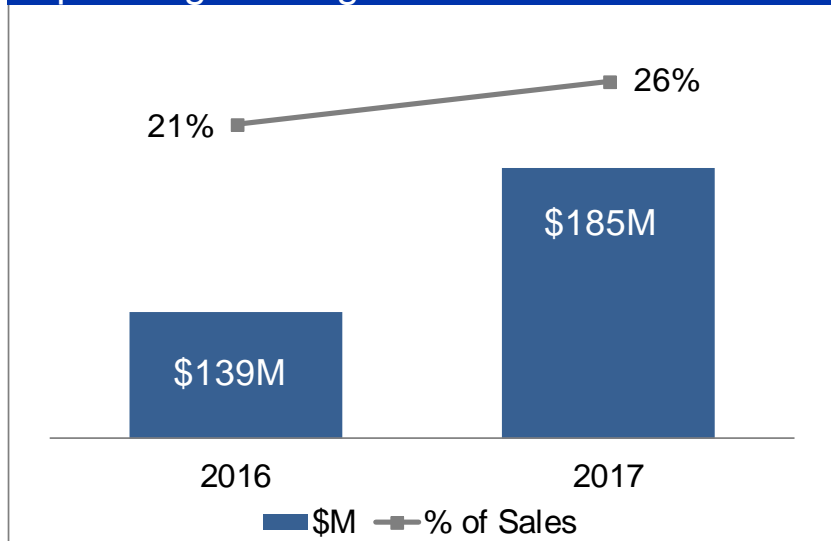


## Sales



- ▶ Sales increase of 10% (at consistent currency translation rates up 11%)
  - Acquired businesses had no significant impact
  - Unfavorable effect of currency translation rates decreased sales by approximately \$8 million
- ▶ Gross margin rate up 1.0 percentage point from June 2016
  - Higher production volume, lower manufacturing cost and realized pricing more than offset unfavorable impact of mix
- ▶ Operating earnings are up \$46 million, or 33%, from June 2016
  - Higher sales volume and expense leverage
  - Net effect of year-over-year inventory step-up, acquisition costs and 2017 acquired business operations
  - Lower intangible amortization related to the 2016 Oil and Natural Gas impairment
  - Lower unallocated corporate expenses, primarily central warehouse
- ▶ Tax rate for the quarter was 21%, down from 31% year-to-date June 2016
  - 2017 rate benefited from the adoption of a change in accounting for stock compensation. Excess tax benefits reduced the tax provision \$17 million and reduced the effective tax rate by 10 percentage points

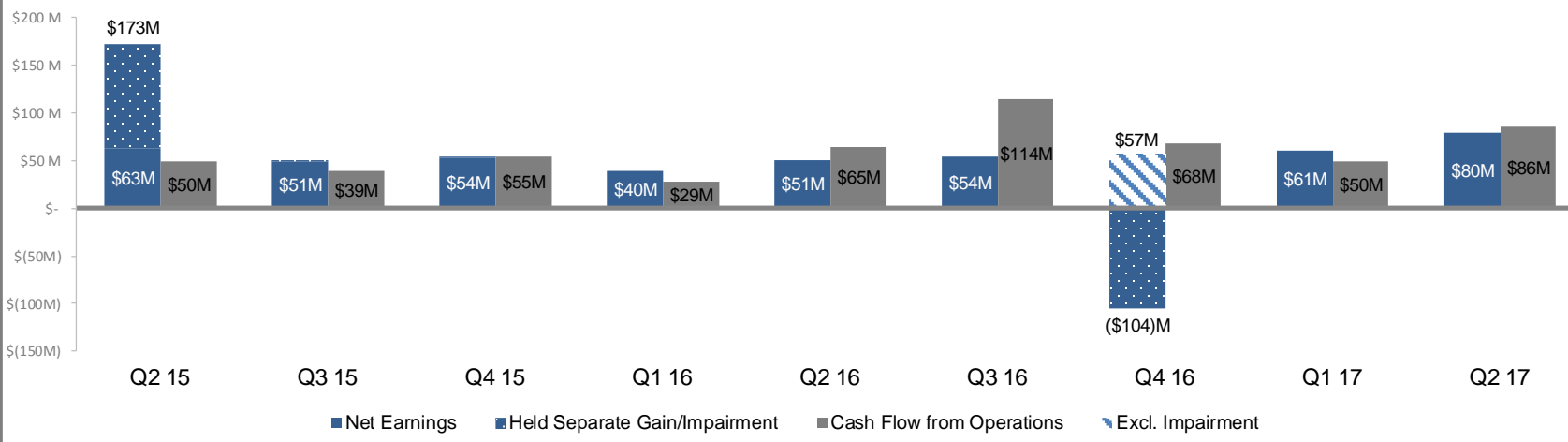
## Operating Earnings



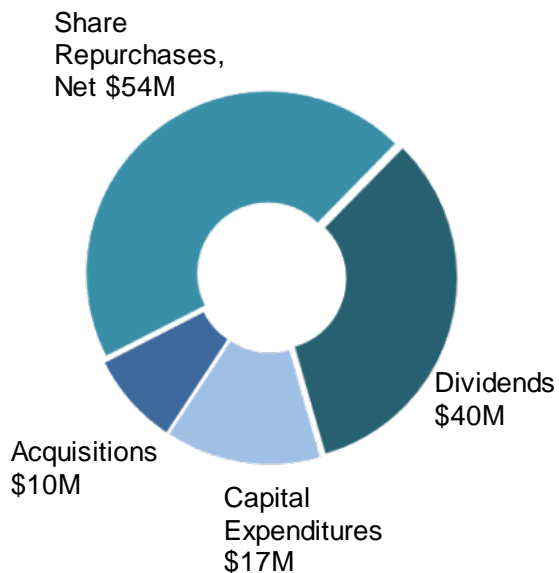
# Cash Flow and Liquidity



## Net Earnings and Cash from Operations



## 2017 Significant Uses of Cash












- ▶ Net cash provided by operating activities was \$136 million in 2017 vs. \$94 million in 2016
- ▶ Changes in working capital: accounts receivable, inventory, in line with volume growth
- ▶ Debt, including notes payable, was \$322 million; up \$7 million from year-end
  - Current portion of long-term debt, \$75 million
  - Interest expense down \$0.8 million from June 2016
- ▶ Repurchased 850,000 shares of stock and issued 1,010,000 shares, resulting in a net cash outlay of \$54 million
  - Common stock outstanding at the end of the quarter, 56.0 million

- ▶ Capital expenditure expectations of approximately \$40 million in 2017
  - Currently evaluating brick and mortar requirements for 2018 as Contractor and other production and distribution facilities near capacity
- ▶ Unallocated corporate expenses in 2017 are expected to be approximately \$31 million
- ▶ 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
- ▶ No shares were repurchased in second quarter; we may make further share repurchases via short-dated accelerated share repurchase programs or open market transactions
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2016, foreign currency translation would have no impact for the full year 2017, with favorable currency effect in the second half of 2017, particularly in Q4, offsetting the unfavorable effect experienced during the first half
- ▶ The tax rate was 17% for the quarter and 21% year to date, below the 31% rate in 2016. The adoption of a change in accounting for stock compensation benefited 2017 by reducing the tax provision \$14 million for the quarter and \$17 million for the year to date, decreasing the tax rate for the quarter and year to date by 14 and 10 percentage points, respectively. Exclusive of the change in accounting, the effective rate for the quarter and year to date was 31%
- ▶ The effective tax rate for third quarter and the full year is expected to be approximately 30% to 31%, excluding any impact from the change in accounting for stock compensation
- ▶ Fourth quarter 2016 included an extra week compared to our normal fiscal calendar

# 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 Q2 2017 7% YTD 2017 11%	Sales Growth Q2 2017 12% YTD 2017 11%	Sales Growth Q2 2017 20% YTD 2017 16%	Sales Growth Q2 2017 10% YTD 2017 11%
Industrial Segment	 Sales Growth Q2 2017 9% YTD 2017 7%	 Sales Growth Q2 2017 12% YTD 2017 8%	 Sales Growth Q2 2017 19% YTD 2017 18%	Sales Growth Q2 2017 13% YTD 2017 10%
Contractor Segment	 Sales Growth Q2 2017 2% YTD 2017 12%	 Sales Growth Q2 2017 14% YTD 2017 16%	 Sales Growth Q2 2017 7% YTD 2017 4%	Sales Growth Q2 2017 5% YTD 2017 12%
Process Segment	 Sales Growth Q2 2017 13% YTD 2017 12%	 Sales Growth Q2 2017 9% YTD 2017 12%	 Sales Growth Q2 2017 33% YTD 2017 17%	Sales Growth Q2 2017 15% YTD 2017 13%
Full Year 2017 Outlook	<b>Mid-to-high Single-digit</b>	<b>Mid-to-high Single-digit</b>	<b>Mid-to-high Single-digit</b>	<b>Mid-to-high Single-digit</b>

Demand in the second quarter remained broad-based across products and geographies and continues to exceed our expectations. As a result, we are raising our full-year 2017 outlook to mid-to-high single-digit organic sales growth on a constant currency basis worldwide, from a prior outlook of mid single-digit growth. We expect to achieve mid-to-high single-digit growth in each geographic region for the full year 2017.

► Fourth quarter 2016 included an extra week compared to our normal fiscal calendar

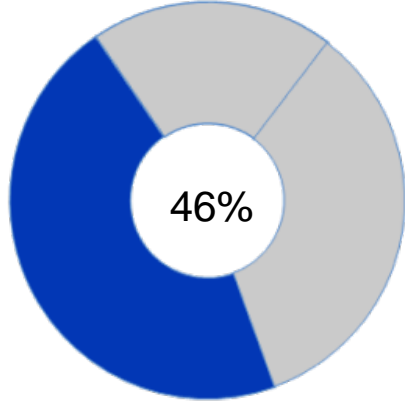
# Industrial Segment Results



## Sales

\$ in millions	Second Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 76	\$ 69	9 %	\$ 145	\$ 134	8 %
EMEA	50	46	9	94	90	5
Asia Pacific	49	42	17	92	80	16
<b>Total</b>	<b>\$ 175</b>	<b>\$ 157</b>	<b>11 %</b>	<b>\$ 331</b>	<b>\$ 304</b>	<b>9 %</b>
Operating Earnings	\$ 62	\$ 51	21 %	\$ 115	\$ 97	19 %
% of sales	35 %	33 %		35 %	32 %	

## 2017 YTD Industrial Segment Sales as % of Graco



## 2017 Components of Net Sales Change

### Second Quarter Year-to-Date

	Second Quarter	Year-to-Date
<b>Americas</b>		
Volume & Price	9 %	7 %
Acquisitions	0 %	1 %
Currency	0 %	0 %
<b>Total</b>	<b>9 %</b>	<b>8 %</b>
<b>EMEA</b>		
Volume & Price	12 %	8 %
Acquisitions	0 %	0 %
Currency	(3)%	(3)%
<b>Total</b>	<b>9 %</b>	<b>5 %</b>
<b>Asia Pacific</b>		
Volume & Price	19 %	18 %
Acquisitions	1 %	1 %
Currency	(3)%	(3)%
<b>Total</b>	<b>17 %</b>	<b>16 %</b>
<b>Segment Total</b>		
Volume & Price	13 %	10 %
Acquisitions	0 %	1 %
Currency	(2)%	(2)%
<b>Total</b>	<b>11 %</b>	<b>9 %</b>

### Current Environment

- Americas** (Yellow circle):
  - Favorable: construction markets
  - Stable: Tier one auto
  - Challenging: Protective coatings, heavy machinery, agriculture, South America
- EMEA** (Green circle):
  - Favorable: construction markets
  - Stable: Western Europe, general industrial, truck & trailer
  - Challenging: Geopolitical, Q4 comparables
- Asia Pacific** (Green circle):
  - Stable: General industrial, adhesive dispense
  - Challenging: Marine, agriculture, construction
  - Spotty: Project activity



# Industrial Segment Results



## Change in % of sales

Second Quarter    Year-to-Date

2016 Operating Earnings (% of sales)

33 %

32 %

Translation effect

(1)

(1)

Volume, product and channel mix, price

0

1

Expense leverage

3

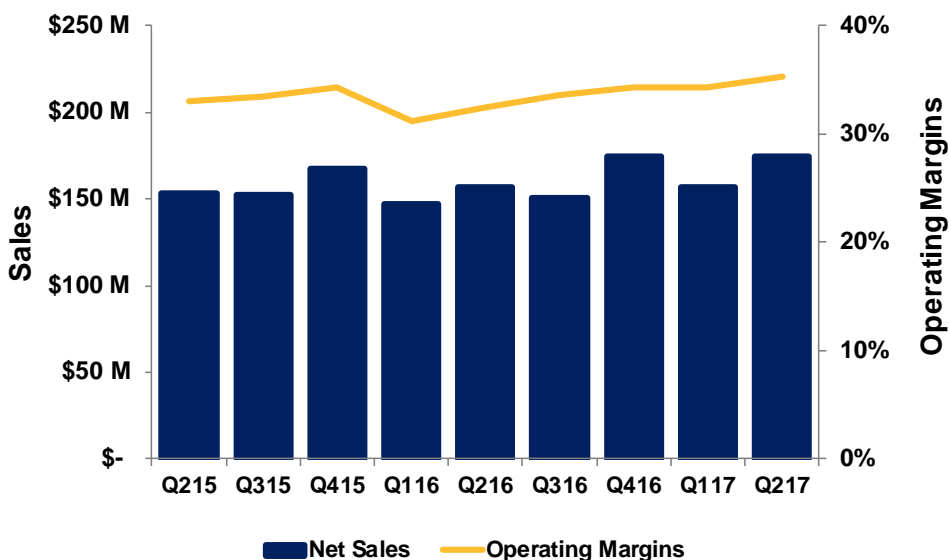
3

2017 Operating Earnings (% of sales)

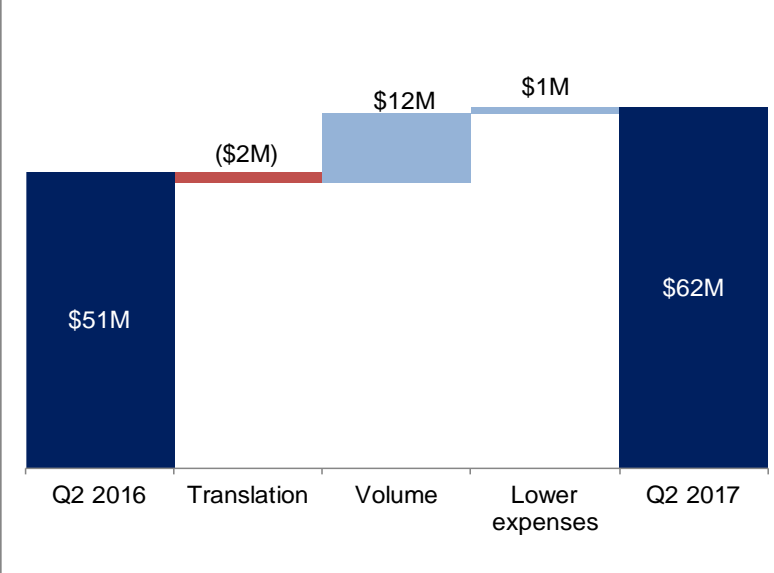
35 %

35 %

## Industrial Segment Sales and Operating Margins



## Industrial Operating Earnings QTD



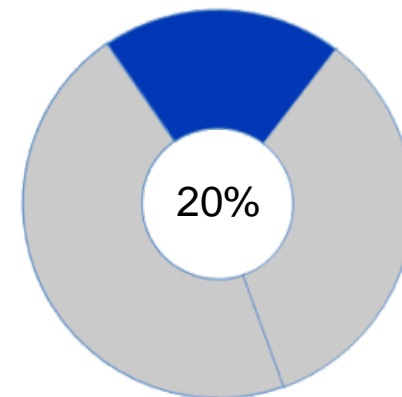
# Process Segment Results



## Sales

\$ in millions	Second Quarter			Year-to-Date		
	2017	2016	Change	2017	2016	Change
Americas	\$ 46	\$ 41	13 %	\$ 91	\$ 81	12 %
EMEA	14	14	3	29	28	5
Asia Pacific	13	10	30	23	20	15
<b>Total</b>	<b>\$ 73</b>	<b>\$ 65</b>	<b>13 %</b>	<b>\$ 143</b>	<b>\$ 129</b>	<b>11 %</b>
Operating Earnings	\$ 13	\$ 8	76 %	\$ 27	\$ 15	80 %
% of sales	18 %	12 %		19 %	12 %	

## 2017 YTD Process Segment Sales as % of Graco



## 2017 Components of Net Sales Change

## Current Environment



### Second Quarter Year-to-Date

	Second Quarter	Year-to-Date
<b>Americas</b>		
Volume & Price	13 %	12 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
<b>Total</b>	<b>13 %</b>	<b>12 %</b>
<b>EMEA</b>		
Volume & Price	9 %	12 %
Acquisitions	0 %	0 %
Currency	(6)%	(7)%
<b>Total</b>	<b>3 %</b>	<b>5 %</b>
<b>Asia Pacific</b>		
Volume & Price	33 %	17 %
Acquisitions	0 %	0 %
Currency	(3)%	(2)%
<b>Total</b>	<b>30 %</b>	<b>15 %</b>
<b>Segment Total</b>		
Volume & Price	15 %	13 %
Acquisitions	0 %	0 %
Currency	(2)%	(2)%
<b>Total</b>	<b>13 %</b>	<b>11 %</b>



- Favorable: Environmental applications, technology, sanitary
- Stable: Industrial lubrication
- Bottom: Oil & natural gas
- Spotty: Project activity



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



- Stable: Process applications
- Bottom: Mining

# Process Segment Results



## Change in % of sales

Second Quarter Year-to-Date

2016 Operating Earnings (% of sales)

Translation effect

Volume, cost, price, product and channel mix

Effect of 2016 inventory step-up and acquisition costs, net

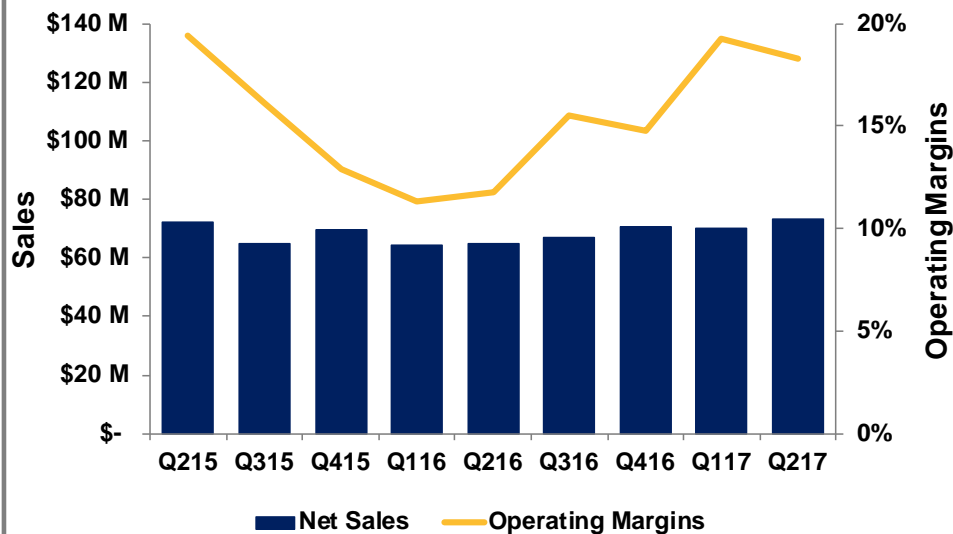
Decrease in intangible amortization related to 2016 Oil and Natural Gas impairment

Expense leverage

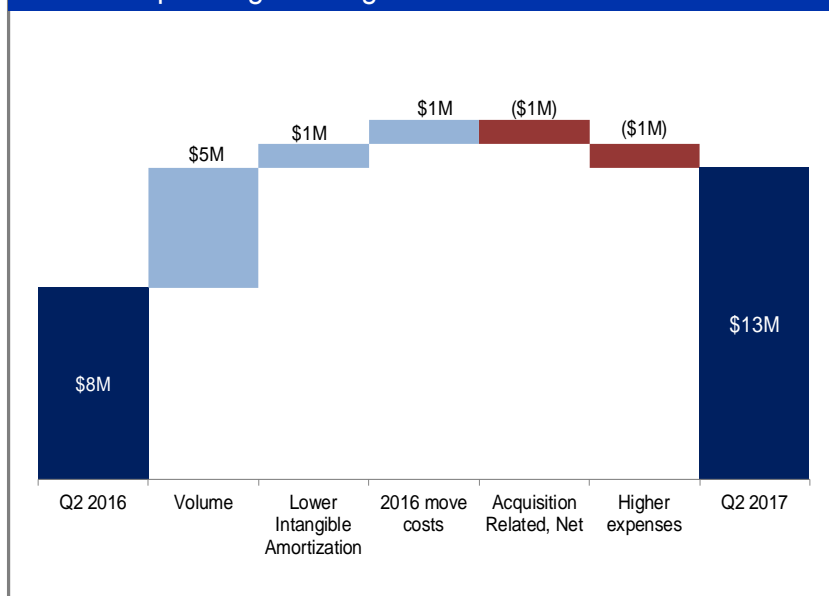
2017 Operating Earnings (% of sales)

12 %	12 %
0	0
1	1
(1)	0
1	1
5	5
<b>18 %</b>	<b>19 %</b>

## Process Segment Sales and Operating Margins



## Process Operating Earnings QTD





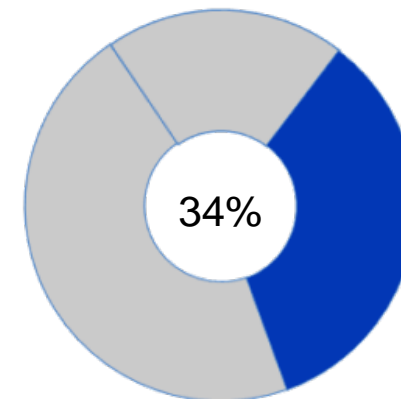
# Contractor Segment Results



## Sales

\$ in millions	Second Quarter		Change	Year-to-Date		Change
	2017	2016		2017	2016	
Americas	\$ 99	\$ 97	2 %	\$ 185	\$ 165	12 %
EMEA	23	21	10	43	39	12
Asia Pacific	9	8	6	17	16	4
<b>Total</b>	<b>\$ 131</b>	<b>\$ 126</b>	<b>4 %</b>	<b>\$ 245</b>	<b>\$ 220</b>	<b>12 %</b>
Operating Earnings	\$ 34	\$ 29	15 %	\$ 60	\$ 46	30 %
% of sales	26 %	23 %		24 %	21 %	

## 2017 YTD Contractor Segment Sales as % of Graco



## 2017 Components of Net Sales Change

	Second Quarter	Year-to-Date
<b>Americas</b>		
Volume & Price	2 %	12 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
<b>Total</b>	<b>2 %</b>	<b>12 %</b>
<b>EMEA</b>		
Volume & Price	14 %	16 %
Acquisitions	0 %	0 %
Currency	(4)%	(4)%
<b>Total</b>	<b>10 %</b>	<b>12 %</b>
<b>Asia Pacific</b>		
Volume & Price	7 %	4 %
Acquisitions	0 %	0 %
Currency	(1)%	0 %
<b>Total</b>	<b>6 %</b>	<b>4 %</b>
<b>Segment Total</b>		
Volume & Price	5 %	12 %
Acquisitions	0 %	0 %
Currency	(1)%	0 %
<b>Total</b>	<b>4 %</b>	<b>12 %</b>

## Current Environment

- Stable: Residential and commercial construction
- Focus Sectors: Pro paint, general construction, DIY
- Challenging: Q4 comparables
- Favorable: Western Europe, emerging markets
- Challenging: Geopolitical, second half comparables
- Stable: Pavement products
- Challenging: General construction, equipment adoption rates

# Contractor Segment Results



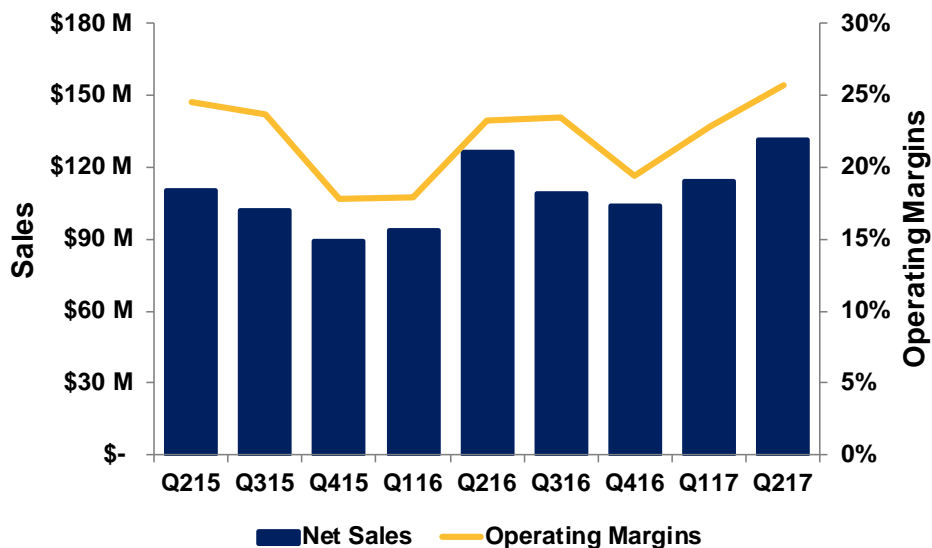
## Change in % of sales

## Second Quarter Year-to-Date

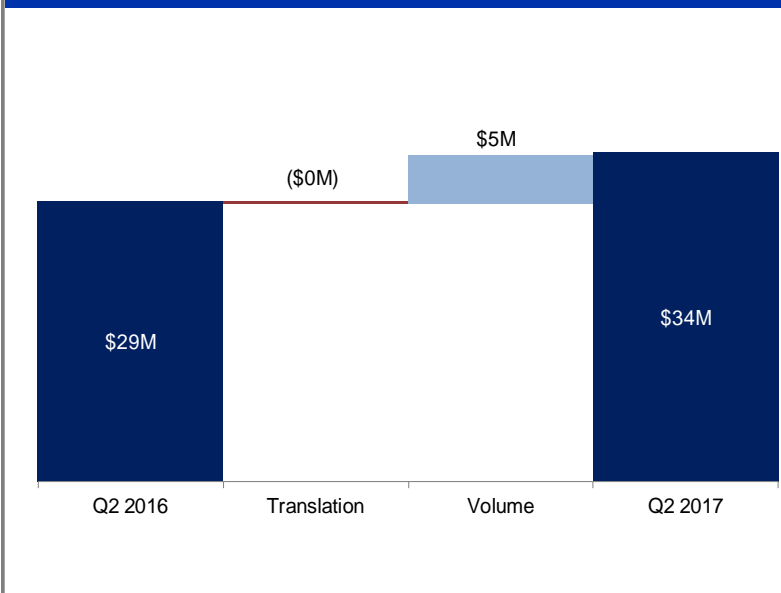
2016 Operating Earnings (% of sales)  
 Translation effect  
 Volume, cost, product and channel mix  
 Expense leverage  
 2017 Operating Earnings (% of sales)

23 %	21 %
0	0
2	1
1	2
<b>26 %</b>	<b>24 %</b>

## Contractor Segment Sales and Operating Margins



## Contractor Operating Earnings QTD





move

measure

mix

control

dispense

spray

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