



1st Quarter 2018 Earnings Conference Call

April 26, 2018

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 April 25, 2018.

Conference Call Logistics



The release, accompanying slides and replay webcast are available online at www.graco.com/ir

Telephone replay will be available after 2 p.m. ET, April 26, 2018. The replay by telephone will be available through April 30, 2018

- ▶ 888-203-1112 – Conference ID #3053454
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Financial Results



Statement of Earnings First Quarter

\$ in millions except per share amounts

	2018	2017	Change
Sales	\$ 406	\$ 341	19 %
Gross Profit	222	186	20 %
% of Sales	54.7 %	54.6 %	0.1 pts
Operating Earnings	112	87	28 %
% of Sales	27.5 %	25.7 %	1.8 pts
Net Earnings	\$ 86	\$ 61	41 %
% of Sales	21.0 %	17.8 %	3.2 pts
Diluted Earnings Per Share	\$ 0.49	\$ 0.35	40 %
<i>Diluted Shares in Millions</i>	175.6	173.1	
<i>Net Earnings, Adjusted (1)</i>	\$ 84	\$ 57	48 %
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.48	\$ 0.33	45 %

(1) Net earnings and diluted earnings per share for 2018 and 2017 have been adjusted to provide a more consistent basis of comparison of on-going results.

See page 17 for a reconciliation of the adjusted non-GAAP measurements to GAAP.

Financial Results

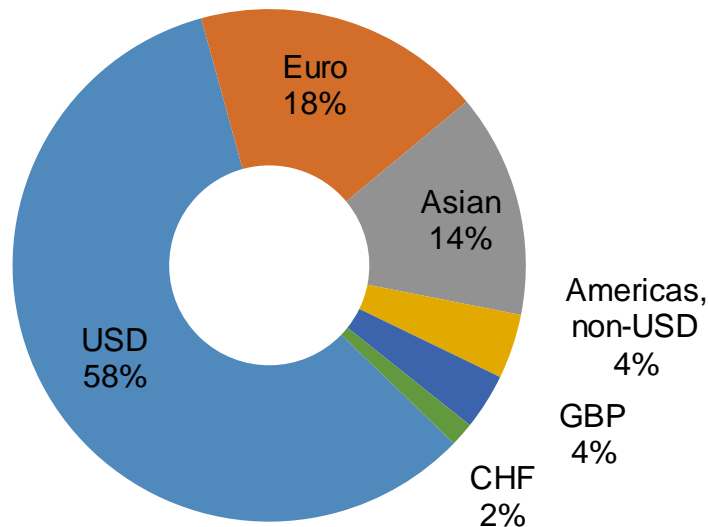


Components of Net Sales Change

First Quarter March 2018

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	13 %	10 %	11 %	9 %	8 %	23 %	11 %
Acquisitions	5 %	1 %	1 %	1 %	7 %	5 %	3 %
Currency	7 %	3 %	3 %	1 %	13 %	8 %	5 %
Total	25 %	14 %	15 %	11 %	28 %	36 %	19 %

2018 Sales by Currency



Asian currencies include:
AUD, CNY, KRW, JPY

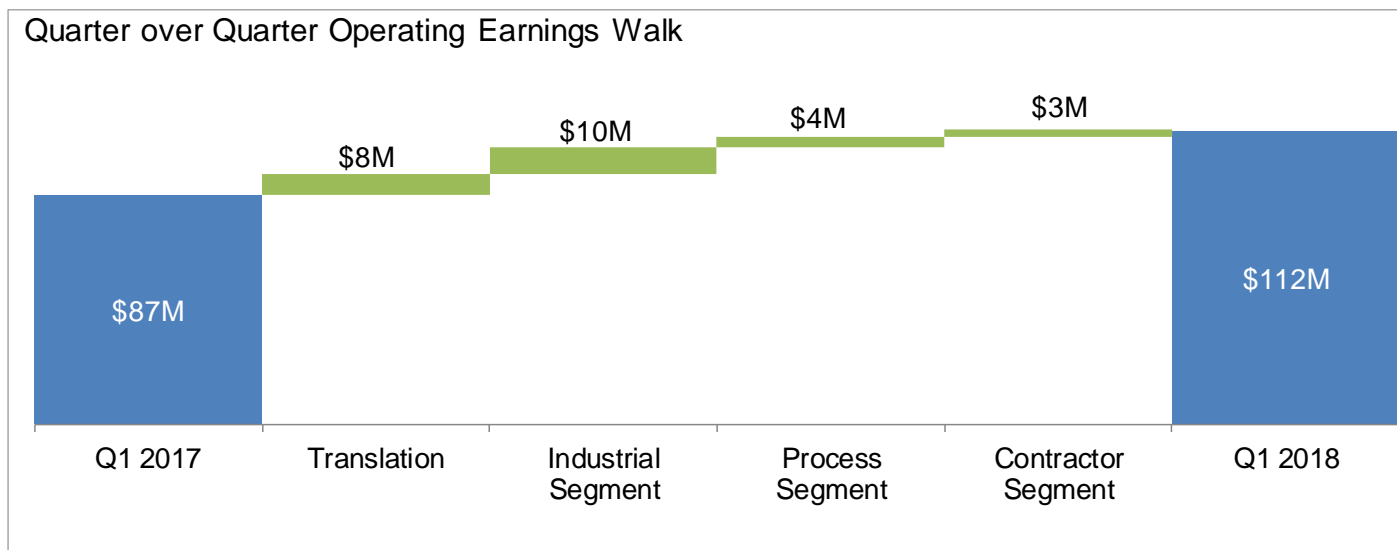
Americas currencies include:
CAD, BRL, MXN

Operating Earnings



Change in Operating Earnings

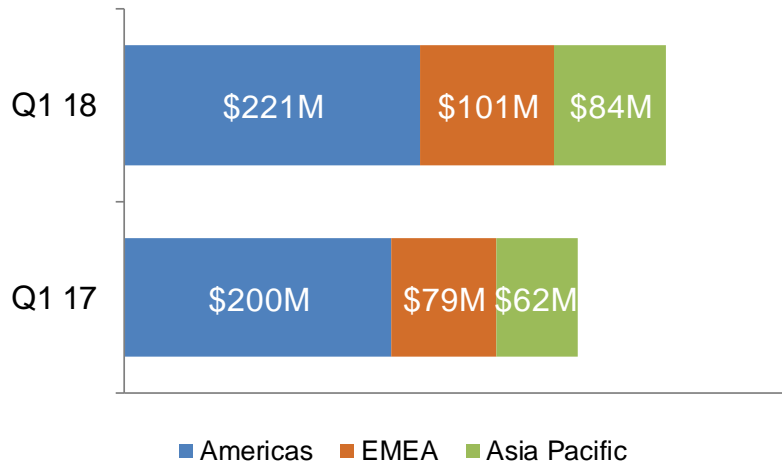
	First Quarter	
2017 Operating Earnings (\$M and % of sales)	\$ 87	26 %
Translation effect	8	1
Volume, product and channel mix, price and cost	23	0
Volume and earnings based incentives and market-driven share-based compensation	(3)	(1)
Effect of acquisitions on operating earnings	1	(1)
Volume effect on expense leverage	(4)	2
2018 Operating Earnings (\$M and % of sales)	<u>\$ 112</u>	<u>27 %</u>



First Quarter 2018 Results

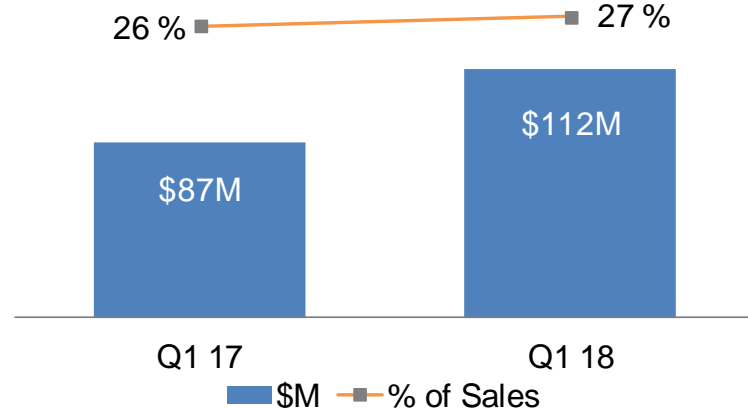


Sales



- ▶ Sales increase of 19%
 - Favorable effect of currency translation rates increased sales by approximately \$14 million, 5 percentage points
 - Acquired businesses sales of \$11 million account for 3 percentage points of growth
- ▶ Gross margin rate up 0.1 percentage point from first quarter 2017
 - Favorable effects from currency translation was mostly offset by the impact of lower average gross margin rates of acquired operations (including \$1M of purchase accounting)
 - Favorable realized pricing offset by unfavorable product and channel mix
- ▶ Operating earnings are up \$24 million, or 28%, from first quarter 2017
 - Higher sales volume, positive impact of currency translation and acquired operations driving increase
 - Volume and earnings based incentives and market-driven share-based compensation also increased expense by \$3 million
- ▶ The effective tax rate for the quarter was 20%, down 5 percentage points from first quarter last year
 - 2018 rate benefited approximately 8 percentage points from U.S. federal income tax reform legislation
 - Excess tax benefits related to stock option exercises reduced the 2018 tax provision \$1 million, 1 percentage point, compared to \$4 million or 4 percentage points in 2017

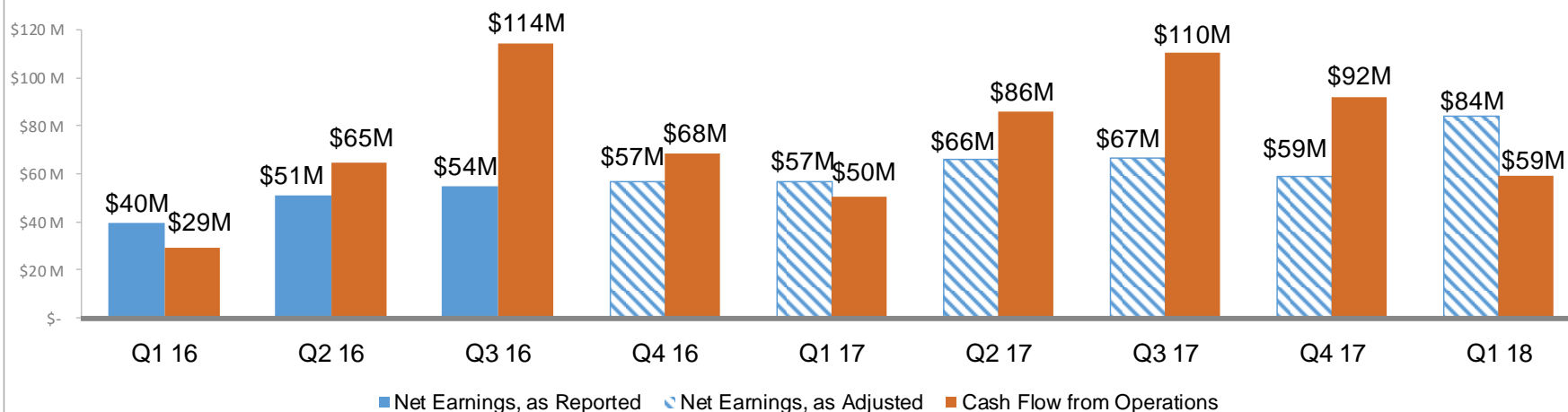
Operating Earnings



Cash Flow and Liquidity

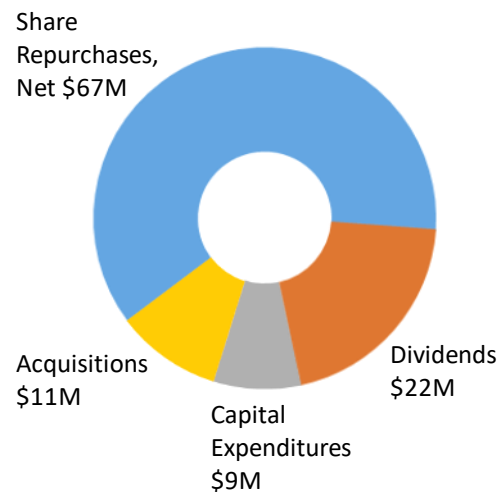


Net Earnings, as Adjusted, and Cash from Operations



See Q1 2018 non-GAAP reconciliation on page 17

2018 Significant Uses of Cash












- ▶ Net cash provided by operating activities was \$59 million in first quarter 2018 vs. \$50 million in first quarter 2017
- ▶ Debt, including notes payable, was \$297 million - up \$65 million from year end
 - Interest expense down \$0.8 million from 2017
- ▶ Share repurchases, net of shares issued, totaled \$67 million

- ▶ Capital expenditure expectations are approximately \$40 million in 2018, excluding bricks and mortar
 - Planning and design for several production and distribution facilities that are nearing capacity is underway. Current estimate of 2018 projects is approximately \$35 million with additional projects expected in 2019 and 2020
- ▶ Adoption of the new revenue recognition accounting standard in the first quarter had no significant impact on operating results
- ▶ Unallocated corporate expenses in 2018 are expected to be approximately \$28 million
 - Certain components of pension cost, previously classified as unallocated corporate expenses, were reclassified to other non-operating income and expenses with the first quarter adoption of a new accounting standard. Prior year results were restated to conform to the current year classification
- ▶ In the first quarter, we repurchased 2.1 million shares and we may make further share repurchases going forward
- ▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2017, the favorable movement in foreign currencies would increase sales approximately 2% and increase earnings approximately 6%, with the greatest benefit in the first half of the year
- ▶ The effective tax rate was 20% for the quarter, down 5 percentage points from the first quarter of 2017. The 2018 rate benefited approximately 8 percentage points from U.S. federal tax reform legislation passed in 2017. First quarter 2018 also benefited \$1 million, 1 percentage point, from excess tax benefits related to stock option exercises, compared to \$4 million and 4 percentage points in first quarter 2017. Exclusive of the excess tax benefits, the effective tax rate for the quarter was 22%
- ▶ The effective tax rate for second quarter and the full year is expected to be approximately 22%, excluding any impact from excess tax benefits related to stock option exercises

Current Environment and Outlook



Constant currency basis and excluding acquisitions completed in the prior 12 months

	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Change Q1 2018 9%	Sales Change Q1 2018 8%	Sales Change Q1 2018 23%	Sales Change Q1 2018 11%
Industrial Segment	Environment Unchanged  Sales Change Q1 2018 7%	Environment Unchanged  Sales Change Q1 2018 10%	Environment Unchanged  Sales Change Q1 2018 24%	Sales Change Q1 2018 13%
Contractor Segment	Environment Unchanged  Sales Change Q1 2018 9%	Environment Unchanged  Sales Change Q1 2018 15%	Environment Improved  Sales Change Q1 2018 11%	Sales Change Q1 2018 11%
Process Segment	Environment Improved  Sales Change Q1 2018 13%	Environment Unchanged  Sales Change Q1 2018 (8%)	Environment Unchanged  Sales Change Q1 2018 25%	Sales Change Q1 2018 10%
Full Year 2018 Outlook	Outlook Raised Mid-to-High Single-digit	Outlook Raised Mid-to-High Single-digit	Outlook Raised Mid-to-High Single-digit	Outlook Raised Mid-to-High Single-digit

Demand in the first quarter continued to be broad-based across products and geographies. We are raising our full-year 2018 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. Industrial segment demand in the first quarter was consistent with our full-year Company outlook, with segment sales outgrowing bookings; we expect the Industrial segment's second quarter growth to moderate and the first half sales growth to be consistent with the full-year Company outlook. Regionally, we expect to achieve mid-to-high single-digit growth for the full-year 2018.

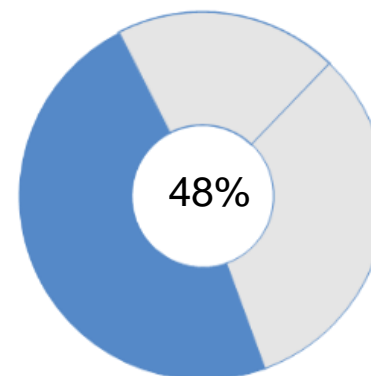
Industrial Segment Results



Sales

\$ in millions	First Quarter		Change
	2018	2017	
Americas	\$ 74	\$ 69	7 %
EMEA	60	44	37
Asia Pacific	61	43	40
Total	\$ 195	\$ 156	25 %
Operating Earnings	\$ 69	\$ 54	29 %
% of sales	35 %	34 %	

2018 Industrial Segment Sales as % of Graco



2018 Components of Net Sales Change

		Current Environment
		First Quarter
Americas		
Volume & Price	7 %	<ul style="list-style-type: none"> • Favorable: Construction markets • Stable: Tier one auto, protective coatings • Challenging: Heavy machinery, South America
Acquisitions	0 %	
Currency	0 %	
Total	7 %	
EMEA		
Volume & Price	10 %	<ul style="list-style-type: none"> • Favorable: Construction markets, aerospace • Stable: Western Europe, general industrial, truck & trailer • Challenging: Geopolitical
Acquisitions	12 %	
Currency	15 %	
Total	37 %	
Asia Pacific		
Volume & Price	24 %	<ul style="list-style-type: none"> • Favorable: Tier one auto, adhesive dispense • Stable: General industrial, containers, construction • Challenging: Marine, agriculture • Spotty: Project activity
Acquisitions	7 %	
Currency	9 %	
Total	40 %	
Segment Total		
Volume & Price	13 %	
Acquisitions	5 %	
Currency	7 %	
Total	25 %	

Industrial Segment Results

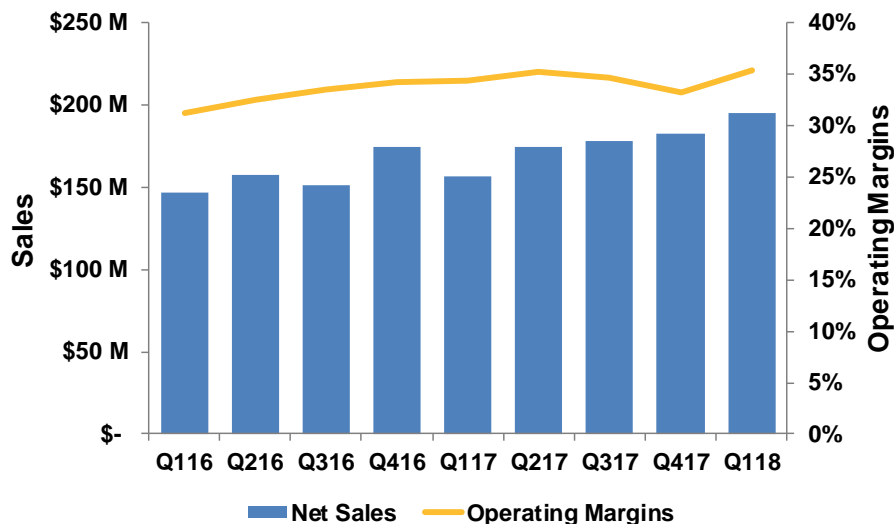


Change in % of sales

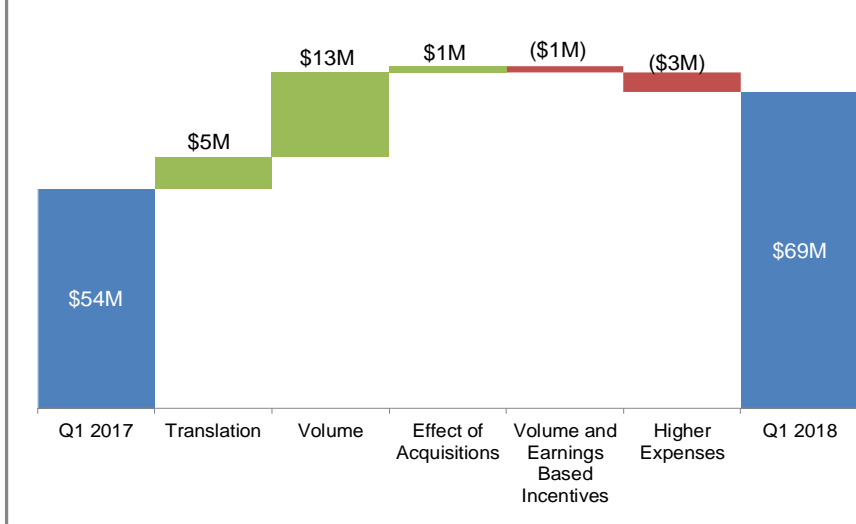
First Quarter

2017 Operating Earnings (% of sales)	34 %
Translation effect	1
Product and channel mix, net of favorable volume, price	0
Effect of acquired business operations	(1)
Expense leverage	1
2018 Operating Earnings (% of sales)	<u>35 %</u>

Industrial Segment Sales and Operating Margins



Industrial Operating Earnings QTD



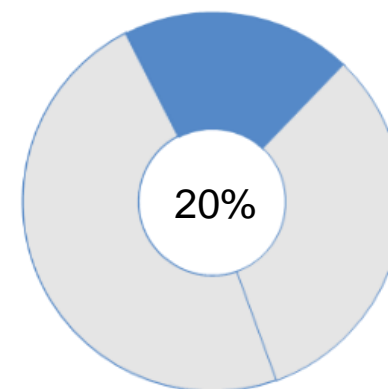
Process Segment Results



Sales

\$ in millions	First Quarter		Change
	2018	2017	
Americas	\$ 51	\$ 45	15 %
EMEA	15	15	1
Asia Pacific	14	10	32
Total	\$ 80	\$ 70	14 %
Operating Earnings	\$ 18	\$ 13	31 %
% of sales	22 %	19 %	

2018 Process Segment Sales as % of Graco



2018 Components of Net Sales Change

Current Environment

	First Quarter
Americas	
Volume & Price	13 %
Acquisitions	2 %
Currency	0 %
Total	15 %
EMEA	
Volume & Price	(8)%
Acquisitions	1 %
Currency	8 %
Total	1 %
Asia Pacific	
Volume & Price	25 %
Acquisitions	1 %
Currency	6 %
Total	32 %
Segment Total	
Volume & Price	10 %
Acquisitions	1 %
Currency	3 %
Total	14 %



- Favorable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications
- Bottom: Oil & natural gas



- Favorable: Technology, sanitary
- Stable: Chemical, environmental
- Challenging: Offshore oil & natural gas, geopolitical



- Stable: Process applications
- Bottom: Mining

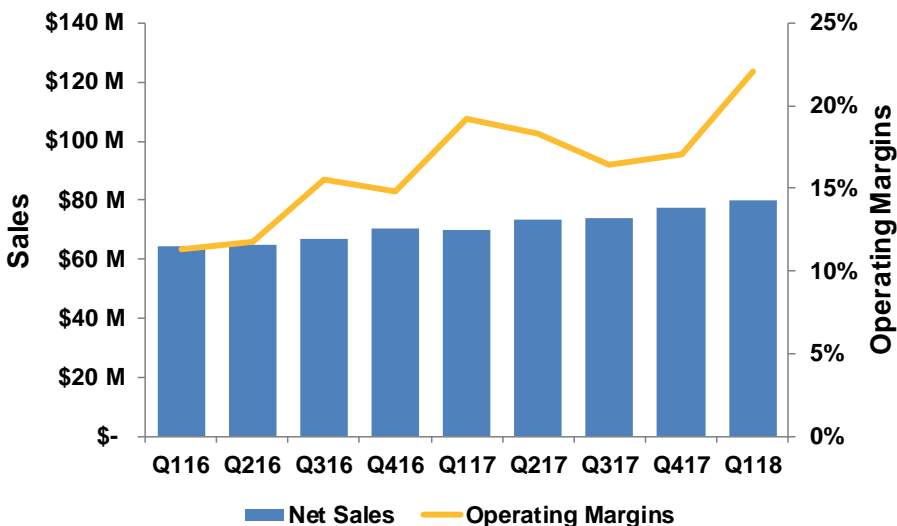
Process Segment Results



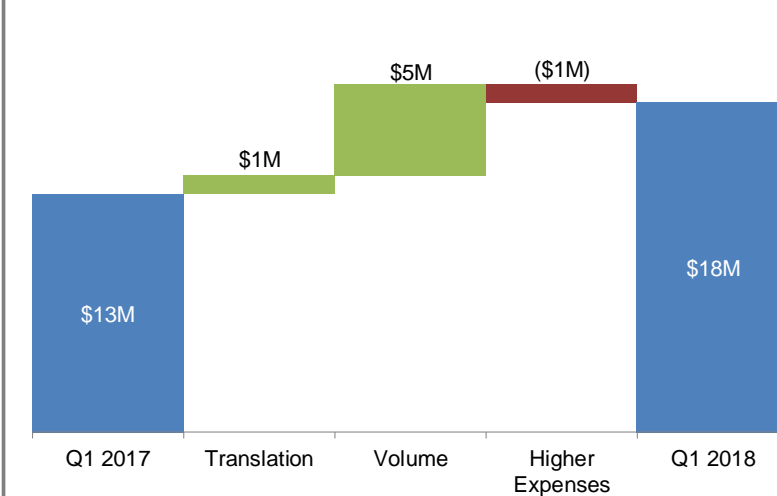
Change in % of sales First Quarter

2017 Operating Earnings (% of sales)	19 %
Translation effect	0
Volume, price, cost and mix	1
Volume and earnings based incentives	(1)
Expense leverage	3
2018 Operating Earnings (% of sales)	<u>22 %</u>

Process Segment Sales and Operating Margins



Process Operating Earnings QTD



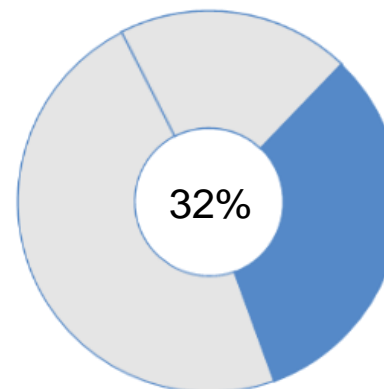
Contractor Segment Results



Sales

\$ in millions	First Quarter		Change
	2018	2017	
Americas	\$ 96	\$ 86	11 %
EMEA	26	20	30
Asia Pacific	9	8	16
Total	\$ 131	\$ 114	15 %
Operating Earnings	\$ 31	\$ 26	21 %
% of sales	24 %	23 %	

2018 Contractor Segment Sales as % of Graco



2018 Components of Net Sales Change

	First Quarter
Americas	
Volume & Price	9 %
Acquisitions	2 %
Currency	0 %
Total	11 %
EMEA	
Volume & Price	15 %
Acquisitions	0 %
Currency	15 %
Total	30 %
Asia Pacific	
Volume & Price	11 %
Acquisitions	0 %
Currency	5 %
Total	16 %
Segment Total	
Volume & Price	11 %
Acquisitions	1 %
Currency	3 %
Total	15 %



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



- Favorable: Western Europe, emerging markets
- Challenging: Geopolitical, 2017 comparables



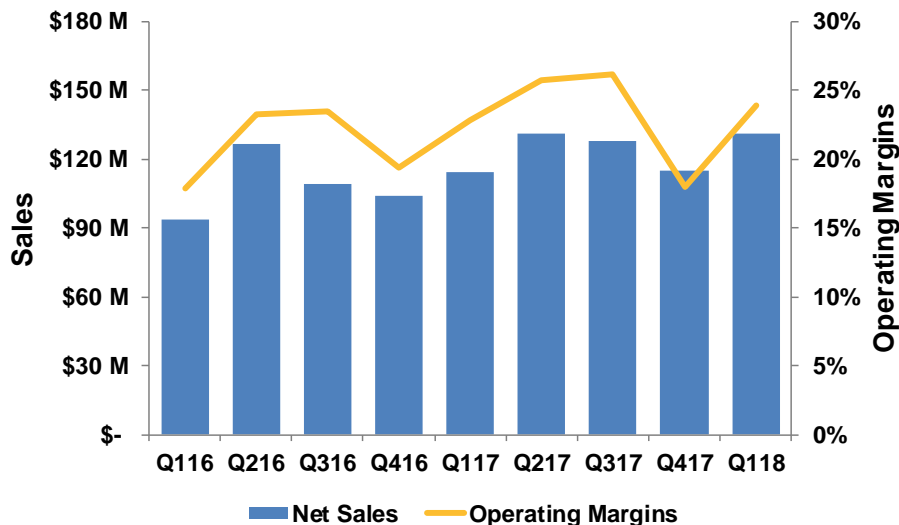
- Favorable: SE Asia, Australia
- Stable: Pavement products
- Challenging: General construction, equipment adoption rates

Contractor Segment Results

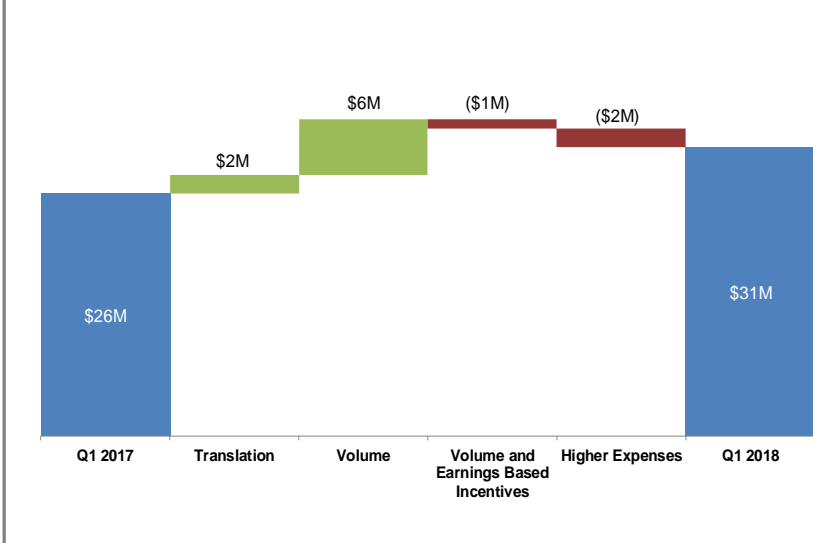


Change in % of sales	First Quarter
2017 Operating Earnings (% of sales)	23 %
Translation effect	1
Product and channel mix, volume, product cost	0
Volume and earnings based incentives	(1)
Expense leverage	1
2018 Operating Earnings (% of sales)	<u>24 %</u>

Contractor Segment Sales and Operating Margins



Contractor Operating Earnings QTD



Non-GAAP Disclosure Reconciliation



Tax benefits related to stock option exercises have caused significant fluctuation in the Company's effective tax rate. Excluding the impacts presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective tax rate, net earnings and diluted earnings per share follows:

Non-GAAP Reconciliation	First Quarter		
	2018	2017	Change
\$ in millions except per share amounts			
Income taxes, as reported	\$ 21.9	\$ 20.8	5 %
Excess tax benefit from option exercises	1.4	3.7	
Income taxes, adjusted	<u>\$ 23.3</u>	<u>\$ 24.5</u>	(5)%
Effective income tax rate			
As reported	20.4%	25.6%	
Adjusted	21.7%	30.0%	
Net earnings, as reported	\$ 85.5	\$ 60.7	41 %
Excess tax benefit from option exercises	(1.4)	(3.7)	
Net earnings, adjusted	<u>\$ 84.1</u>	<u>\$ 57.0</u>	48 %
Weighted Average Diluted Shares, in millions	175.6	173.1	
Diluted Earnings per Share			
As reported	\$ 0.49	\$ 0.35	40 %
Adjusted	\$ 0.48	\$ 0.33	45 %



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mix

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