



# **3<sup>rd</sup> Quarter 2021 Earnings Conference Call**

October 21, 2021

# Safe Harbor

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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 October 20, 2021.

# Conference Call Logistics

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

Telephone replay will be available after 2 p.m. ET October 21, 2021. The replay by telephone will be available through 2 p.m. ET October 28, 2021.

- ▶ 855-859-2056 – Conference ID #9251859
- ▶ 404-537-3406 – with the same conference ID #, for international participants

# Financial Results

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## Statement of Earnings

\$ in millions except per share amounts

### Net Sales

Third Quarter			September Year to Date		
2021	2020	Change	2021	2020	Change
\$ 486.7	\$ 439.3	11 %	\$1,448.0	\$1,179.8	23 %

### Gross Profit

% of Net Sales

248.2	229.0	8 %	759.4	610.1	24 %
51.0%	52.1%	(1.1) pts	52.4%	51.7%	0.7 pts

### Operating Earnings

% of Net Sales

124.6	125.0	0 %	386.7	259.6	49 %
26%	28%	(2) pts	27%	22%	5 pts

### Net Earnings

% of Net Sales

\$ 103.8	\$ 114.1	(9)%	\$ 319.6	\$ 215.8	48 %
21%	26%	(5) pts	22%	18%	4 pts

### Diluted Net Earnings Per Share

Diluted Shares in Millions

\$ 0.59	\$ 0.66	(11)%	\$ 1.83	\$ 1.26	45 %
174.8	171.7	2 %	174.4	171.6	2 %

Operating Earnings, Adjusted (1)

Net Earnings, Adjusted (1)

Diluted Net Earnings Per Share, Adjusted (1)

\$ 124.6	\$ 125.3	(1)%	\$ 386.7	\$ 294.8	31 %
\$ 100.3	\$ 101.8	(1)%	\$ 309.9	\$ 229.2	35 %
\$ 0.57	\$ 0.59	(3)%	\$ 1.78	\$ 1.34	33 %

(1) Operating earnings, net earnings and diluted net earnings per share for 2021 and 2020 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 5 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

# Financial Results Adjusted for Comparability

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Certain items have caused fluctuation in the Company's financial results. Excluding the impacts of these items presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements follows:

Non-GAAP Reconciliation	Third Quarter			September Year to Date		
	2021	2020	Change	2021	2020	Change
In millions except per share amounts						
<b>Operating earnings, as reported</b>	\$ 124.6	\$ 125.0	0 %	\$ 386.7	\$ 259.6	49 %
Impairment	-	0.3		-	35.2	
<b>Operating earnings, adjusted</b>	<u>\$ 124.6</u>	<u>\$ 125.3</u>	<u>(1)%</u>	<u>\$ 386.7</u>	<u>\$ 294.8</u>	<u>31 %</u>
<b>Income taxes, as reported</b>	\$ 17.9	\$ 6.9	160 %	\$ 59.6	\$ 29.4	103 %
Impairment tax benefit	-	-		-	1.2	
Excess tax benefit from option exercises	2.6	4.6		8.8	12.6	
Other non-recurring tax benefit	0.9	8.0		0.9	8.0	
<b>Income taxes, adjusted</b>	<u>\$ 21.4</u>	<u>\$ 19.5</u>	<u>10 %</u>	<u>\$ 69.3</u>	<u>\$ 51.2</u>	<u>35 %</u>
Effective income tax rate						
As reported	15%	6%		16%	12%	
Adjusted	18%	16%		18%	18%	
<b>Net earnings, as reported</b>	\$ 103.8	\$ 114.1	(9)%	\$ 319.6	\$ 215.8	48 %
Impairment, net	-	0.3		-	34.0	
Excess tax benefit from option exercises	(2.6)	(4.6)		(8.8)	(12.6)	
Other non-recurring tax benefit	(0.9)	(8.0)		(0.9)	(8.0)	
<b>Net earnings, adjusted</b>	<u>\$ 100.3</u>	<u>\$ 101.8</u>	<u>(1)%</u>	<u>\$ 309.9</u>	<u>\$ 229.2</u>	<u>35 %</u>
Weighted average diluted shares	174.8	171.7		174.4	171.6	
<b>Diluted earnings per share</b>						
As reported	\$ 0.59	\$ 0.66	(11)%	\$ 1.83	\$ 1.26	45 %
Adjusted	<u>\$ 0.57</u>	<u>\$ 0.59</u>	<u>(3)%</u>	<u>\$ 1.78</u>	<u>\$ 1.34</u>	<u>33 %</u>

# Net Sales



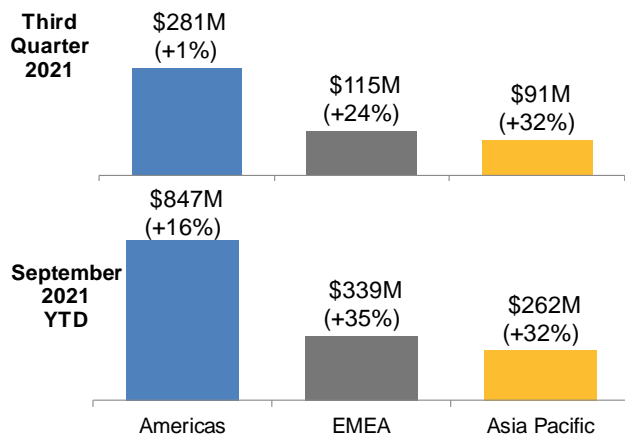
## September 2021 Quarter to Date

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	19 %	21 %	(5)%	1 %	20 %	27 %	9 %
Acquisitions	1 %	0 %	0 %	0 %	2 %	0 %	0 %
Currency	2 %	1 %	1 %	0 %	2 %	5 %	2 %
<b>Total</b>	<b>22 %</b>	<b>22 %</b>	<b>(4)%</b>	<b>1 %</b>	<b>24 %</b>	<b>32 %</b>	<b>11 %</b>

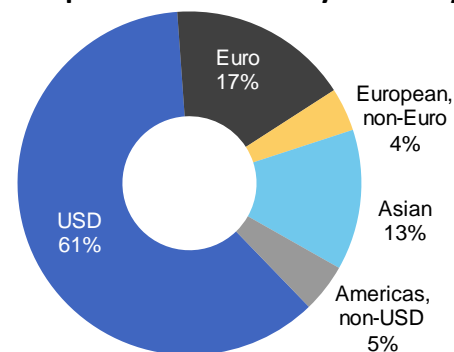
## September 2021 Year to Date

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	24 %	18 %	17 %	16 %	27 %	28 %	20 %
Acquisitions and Divestitures	1 %	(3)%	0 %	0 %	0 %	(3)%	0 %
Currency	4 %	2 %	2 %	0 %	8 %	7 %	3 %
<b>Total</b>	<b>29 %</b>	<b>17 %</b>	<b>19 %</b>	<b>16 %</b>	<b>35 %</b>	<b>32 %</b>	<b>23 %</b>

### Net Sales by Region



### 2021 Sept. YTD Net Sales by Currency



Asian currencies include: AUD, CNY, JPY, KRW. European, non-euro currencies include: CHF, GBP, RON. Americas, non-USD currencies include: BRL, CAD, MXN.

# Operating Earnings

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2020 Operating Earnings, as Reported (\$M and % of sales)

Non-cash impairment

2020 Operating Earnings, as Adjusted

Translation effect

Volume, net of product cost

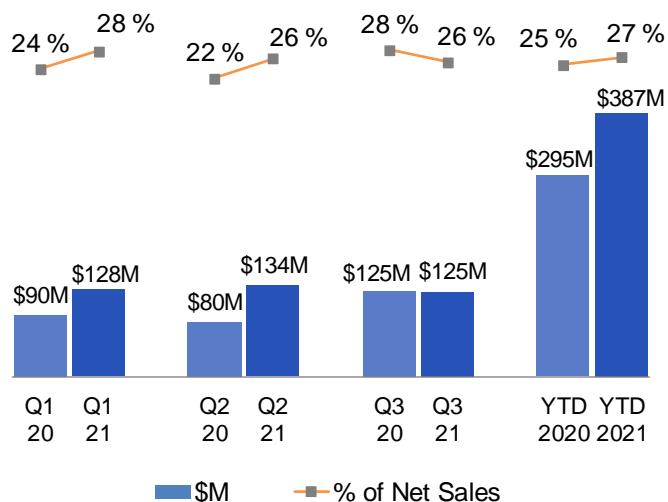
Increase in sales and earnings-based costs

Volume effect on expense leverage

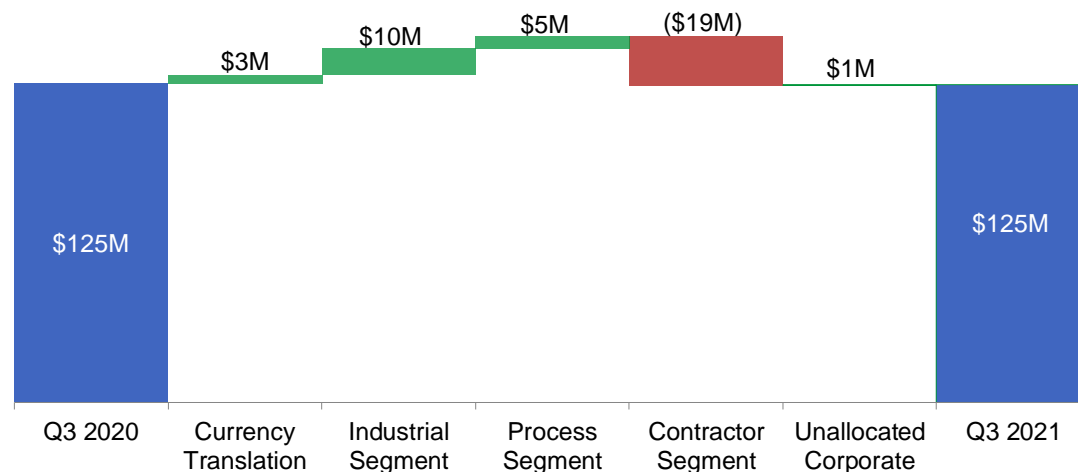
2021 Operating Earnings, as Reported (\$M and % of sales)

	Third Quarter		September Year to Date	
2020 Operating Earnings, as Reported	\$ 125	28 %	\$ 260	22 %
Non-cash impairment	-	0	35	3
2020 Operating Earnings, as Adjusted	\$ 125	28 %	\$ 295	25 %
Translation effect	3	1	16	1
Volume, net of product cost	14	(1)	133	0
Increase in sales and earnings-based costs	(7)	(2)	(33)	(2)
Volume effect on expense leverage	(10)	0	(24)	3
2021 Operating Earnings, as Reported	<b>\$ 125</b>	<b>26 %</b>	<b>\$ 387</b>	<b>27 %</b>

Operating Earnings, Excluding Impairment



Quarter Over Quarter Operating Earnings Walk



# Third Quarter 2021

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<b>Net Sales</b>	<ul style="list-style-type: none"><li>▶ Up 11 percent from 2020, up 9 percent at consistent translation rates</li></ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"><li>▶ Rate down 1.1 percentage points from third quarter 2020<ul style="list-style-type: none"><li>▪ Favorable effect of realized pricing, higher production volume and favorable effect of currency translation rates were not enough to offset the unfavorable impact of higher product costs</li></ul></li><li>▶ Incremental product cost related to material, labor and freight reduced gross margin \$14 million</li></ul>
<b>Operating Earnings</b>	<ul style="list-style-type: none"><li>▶ Comparable to third quarter 2020<ul style="list-style-type: none"><li>▪ Increase in volume and favorable effect of changes in currency translation rates offset by higher costs including volume driven sales and earnings-based costs</li></ul></li></ul>
<b>Other Expense</b>	<ul style="list-style-type: none"><li>▶ Decreased \$1 million<ul style="list-style-type: none"><li>▪ Driven by market value fluctuations on investments held to fund certain retirement benefits liabilities</li></ul></li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ Adjusted effective tax rate for the third quarter was 18%, compared to 16% in third quarter 2020<ul style="list-style-type: none"><li>▪ Effective rate adjusted to exclude the impacts of excess tax benefits from stock option exercises and foreign tax benefits</li></ul></li></ul>



# September Year to Date 2021

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<b>Net Sales</b>	<ul style="list-style-type: none"><li>▶ Up 23 percent from 2020, up 20 percent at consistent translation rates</li></ul>
<b>Gross Margin</b>	<ul style="list-style-type: none"><li>▶ Rate up 0.7 percentage point from 2020<ul style="list-style-type: none"><li>▪ Favorable effects of realized pricing, higher production volume, favorable currency translation rates and favorable product and channel mix partially offset by unfavorable impact of higher product costs</li></ul></li><li>▶ Incremental product cost related to material, labor and freight reduced gross margin \$24 million</li></ul>
<b>Operating Earnings</b>	<ul style="list-style-type: none"><li>▶ Operating earnings up \$127 million<ul style="list-style-type: none"><li>▪ 2020 non-cash impairment \$35M</li><li>▪ Increase in volume and favorable effect of changes in currency translation rates partially offset by higher expenses including volume driven sales and earnings-based costs</li></ul></li></ul>
<b>Other Expense</b>	<ul style="list-style-type: none"><li>▶ Decreased \$6 million<ul style="list-style-type: none"><li>▪ Driven by market value fluctuations on investments held to fund certain retirement benefits liabilities</li></ul></li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ Adjusted effective tax rate for September year to date was 18%, comparable to the same period in 2020<ul style="list-style-type: none"><li>▪ Effective rate adjusted to exclude the impacts of excess tax benefits from stock option exercises and foreign tax benefits</li></ul></li></ul>

# Outlook

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## 2021 Organic Net Sales by Segment - Compared to 2020

## Bookings










	July	August	September	6 Week Avg.
Industrial Segment	13%	23%	21%	35%
Process Segment	23%	31%	11%	51%
Contractor Segment	5%	(17%)	(2%)	8%
	11%	6%	10%	27%

- ▶ Broad based end market recovery in Industrial and Process with double digit growth in all reportable regions during the quarter
- ▶ Incoming order rates remain strong in Contractor despite tough comparisons to the second half of last year
- ▶ Demand levels for all segments remain strong and we expect this to continue for the balance of the year
- ▶ Uncertainty in the supply chain may affect certain end markets and geographies for the remainder of the year

# Outlook

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

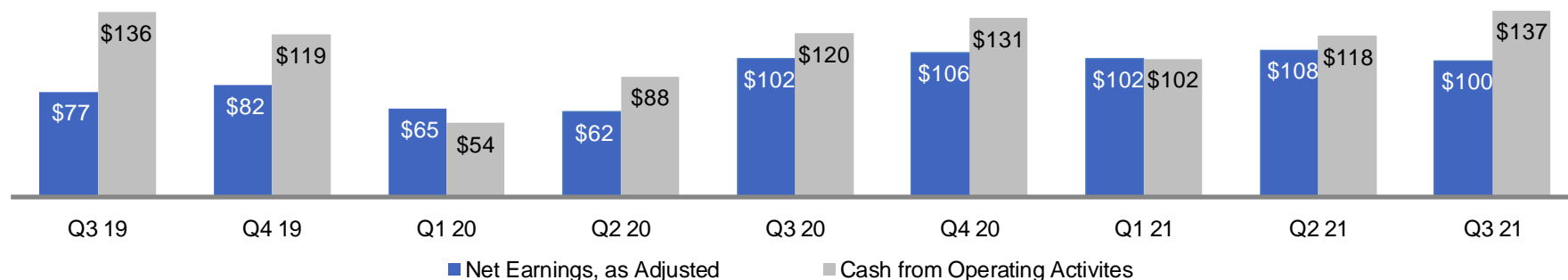
	Americas	EMEA	Asia Pacific	Total
Current Environment	Sales Growth Q3 2021 1% YTD 2021 16%	Sales Growth Q3 2021 20% YTD 2021 27%	Sales Growth Q3 2021 27% YTD 2021 28%	Sales Growth Q3 2021 9% YTD 2021 20%
Industrial Segment	 Sales Growth Q3 2021 14% YTD 2021 21%	 Sales Growth Q3 2021 24% YTD 2021 29%	 Sales Growth Q3 2021 21% YTD 2021 25%	Sales Growth Q3 2021 19% YTD 2021 24%
Process Segment	 Sales Growth Q3 2021 12% YTD 2021 14%	 Sales Growth Q3 2021 17% YTD 2021 11%	 Sales Growth Q3 2021 54% YTD 2021 40%	Sales Growth Q3 2021 21% YTD 2021 18%
Contractor Segment	 Sales Growth Q3 2021 (10%) YTD 2021 13%	 Sales Growth Q3 2021 12% YTD 2021 33%	 Sales Growth Q3 2021 14% YTD 2021 21%	Sales Growth Q3 2021 (5%) YTD 2021 17%
Full Year 2021 Outlook				<b>Mid to High Teen</b>

The Company continues to target mid to high teen organic sales growth on a constant currency basis for the full-year 2021. Demand levels for all segments remains strong across major end markets and product categories which we expect to continue for the balance of the year.

# Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operating Activities  
\$ in millions



## 2021 Significant Uses of Cash (\$M)

	2021	2020
Dividends	\$ 95	\$ 88
Capital Expenditures	83	46
Acquisitions	19	28
Share Repurchases, Net of Issued	-	46
Net Payments on Debt	-	-

- ▶ Net cash provided by operating activities was \$357 million in 2021 vs. \$263 million in 2020
  - Changes in working capital elements are in line with increased volumes
- ▶ Capital expenditures of \$83 million, including \$33 million on expansion projects
- ▶ Debt, including notes payable, was \$200 million – up \$28 million from December 2020
  - Interest expense for the year to date was \$7 million compared to \$9 million for the same period last year

# Other Discussion Items

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<b>Cap Ex</b>	<ul style="list-style-type: none"><li>▶ Capital expenditure expectations of approximately \$150 million in 2021, including approximately \$80 million in facilities expansion</li></ul>
<b>Expenses</b>	<ul style="list-style-type: none"><li>▶ Unallocated corporate expenses in 2021 are expected to be approximately \$26 - \$28 million</li></ul>
<b>Shares</b>	<ul style="list-style-type: none"><li>▶ No share repurchases were made through September. We may make share repurchases in 2021 via opportunistic open market transactions or short-dated accelerated share repurchase (“ASR”) programs</li></ul>
<b>Currency</b>	<ul style="list-style-type: none"><li>▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2020, the movement in foreign currencies would be a benefit of approximately 2% on net sales and 4% on earnings in 2021</li></ul>
<b>Taxes</b>	<ul style="list-style-type: none"><li>▶ We anticipate the effective tax rate for the fourth quarter and the full year to be between 18% - 19%, excluding any impact from excess tax benefits related to stock option exercises and other one time items. Actual results and mix of earnings may materially impact the expected tax rate</li></ul>
<b>Pension Settlement</b>	<ul style="list-style-type: none"><li>▶ We expect to recognize a non-cash pre-tax charge of approximately \$12 million in other non-operating expenses in the fourth quarter related to a partial settlement of our pension plans</li></ul>
<b>Fiscal Year 2021</b>	<ul style="list-style-type: none"><li>▶ There will be 53 weeks in fiscal 2021, with 14 weeks in the fourth quarter compared to 52 weeks in fiscal 2020, with 13 weeks in the fourth quarter</li></ul>

# Other Discussion Items –

## 2022 Change in Organizational Structure

- ▶ As previously announced, effective January 1, 2022, our high performance coatings and foam product offerings within the Applied Fluid Technologies division of the Industrial segment will be realigned and managed under the Contractor segment. High performance coatings and foam equipment consists of two-component proportioning systems to spray foam for insulating building walls, roofs, water heaters, refrigerators, hot tubs and other items, and polyurea coatings applied on storage tanks, pipes, roofs, truck beds, concrete and other items. These product offerings also include equipment that sprays specialty coatings for protection and fireproofing and vapor-abrasive blasting equipment. The change will allow segment leadership to address overlap of markets, products, end users and distributors between the contractor-focused businesses.
- ▶ Segment operating results will be reported under the new organizational structure in the first quarter of 2022, in connection with the effective date of the realignment. Historic segment information restated to conform to the new organizational structure is available as supplemental financial information on the Company's website at [www.graco.com](http://www.graco.com).

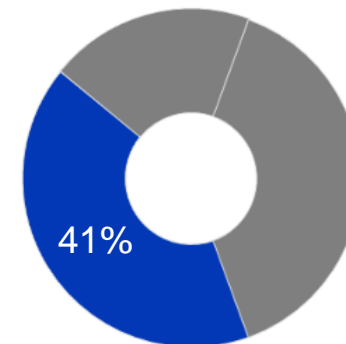
# Industrial Segment Results

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\$ in millions

	Third Quarter			September Year to Date		
	2021	2020	Change	2021	2020	Change
<b>Net Sales</b>						
Americas	\$ 87	\$ 76	14%	\$ 254	\$ 209	22%
EMEA	68	53	30	185	134	38
Asia Pacific	56	44	27	161	122	32
<b>Total</b>	<b>\$ 211</b>	<b>\$ 173</b>	<b>22%</b>	<b>\$ 600</b>	<b>\$ 465</b>	<b>29%</b>
<b>Operating Earnings</b>	<b>\$ 73</b>	<b>\$ 61</b>	<b>21%</b>	<b>\$ 208</b>	<b>\$ 148</b>	<b>40 %</b>
% of sales	35 %	35 %		35 %	32 %	

2021 Industrial Segment  
Sept. YTD Net Sales as % of Graco



Components of Net Sales Change

	Q3 2021	Sept. YTD 2021		Q3 2021	Sept. YTD 2021
<b>Americas</b>			<b>Asia Pacific</b>		
Volume & Price	14 %	21 %	Volume & Price	21 %	25 %
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	0 %	1 %	Currency	6 %	7 %
<b>Total</b>	<b>14 %</b>	<b>22 %</b>	<b>Total</b>	<b>27 %</b>	<b>32 %</b>
<b>EMEA</b>			<b>Segment Total</b>		
Volume & Price	24 %	29 %	Volume & Price	19 %	24 %
Acquisitions	3 %	2 %	Acquisitions	1 %	1 %
Currency	3 %	7 %	Currency	2 %	4 %
<b>Total</b>	<b>30 %</b>	<b>38 %</b>	<b>Total</b>	<b>22 %</b>	<b>29 %</b>

# Industrial Segment Results

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Change in % of net sales

## 2020 Operating Earnings

Currency Translation

Volume and product and channel mix

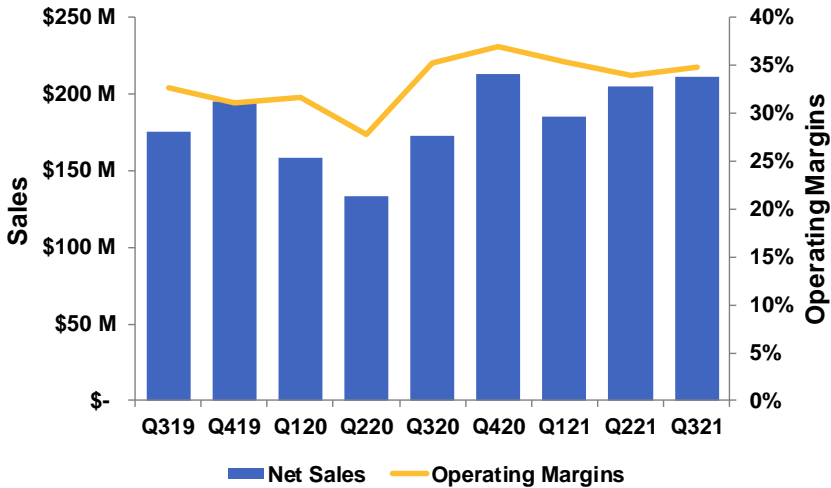
Increase in sales and earnings-based costs

Volume effect on expense leverage

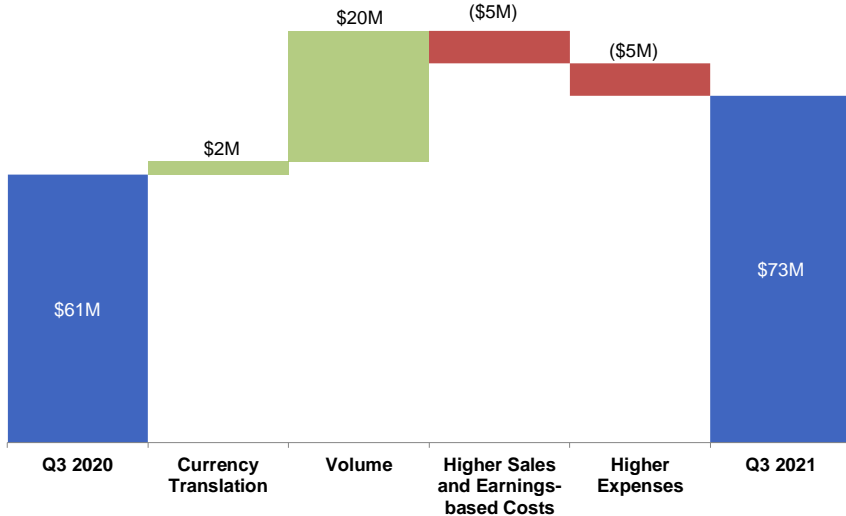
## 2021 Operating Earnings

	Third Quarter	Sept. Year to Date
	35 %	32 %
	1	1
	0	1
	(2)	(2)
	1	3
	<b>35 %</b>	<b>35 %</b>

Industrial Segment Net Sales and Operating Margins



Industrial Segment Operating Earnings QTD





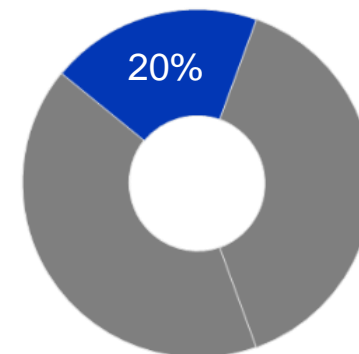
# Process Segment Results



\$ in millions

	Third Quarter			September Year to Date		
	2021	2020	Change	2021	2020	Change
<b>Net Sales</b>						
Americas	\$ 58	\$ 52	12%	\$ 175	\$ 153	14%
EMEA	14	12	20	44	41	9
Asia Pacific	24	15	58	66	49	34
<b>Total</b>	<b>\$ 96</b>	<b>\$ 79</b>	<b>22%</b>	<b>\$ 285</b>	<b>\$ 243</b>	<b>17%</b>
<b>Operating Earnings</b>	<b>\$ 22</b>	<b>\$ 16</b>	<b>33 %</b>	<b>\$ 65</b>	<b>\$ 46</b>	<b>41 %</b>
% of sales	22 %	21 %		23 %	19 %	

2021 Process Segment  
Sept. YTD Net Sales as % of Graco



## Components of Net Sales Change

	Q3 2021	Sept. YTD 2021		Q3 2021	Sept. YTD 2021
<b>Americas</b>			<b>Asia Pacific</b>		
Volume & Price	11 %	14 %	Volume & Price	54 %	40 %
Acquisitions & Divestitures	0 %	0 %	Acquisitions & Divestitures	0 %	(13)%
Currency	1 %	0 %	Currency	4 %	7 %
<b>Total</b>	<b>12 %</b>	<b>14 %</b>	<b>Total</b>	<b>58 %</b>	<b>34 %</b>
<b>EMEA</b>			<b>Segment Total</b>		
Volume & Price	17 %	11 %	Volume & Price	21 %	18 %
Acquisitions & Divestitures	0 %	(6)%	Acquisitions & Divestitures	0 %	(3)%
Currency	3 %	4 %	Currency	1 %	2 %
<b>Total</b>	<b>20 %</b>	<b>9 %</b>	<b>Total</b>	<b>22 %</b>	<b>17 %</b>

# Process Segment Results

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Change in % of net sales

## 2020 Operating Earnings

Currency Translation

Volume, product and channel mix

Effect of acquired and divested business operations

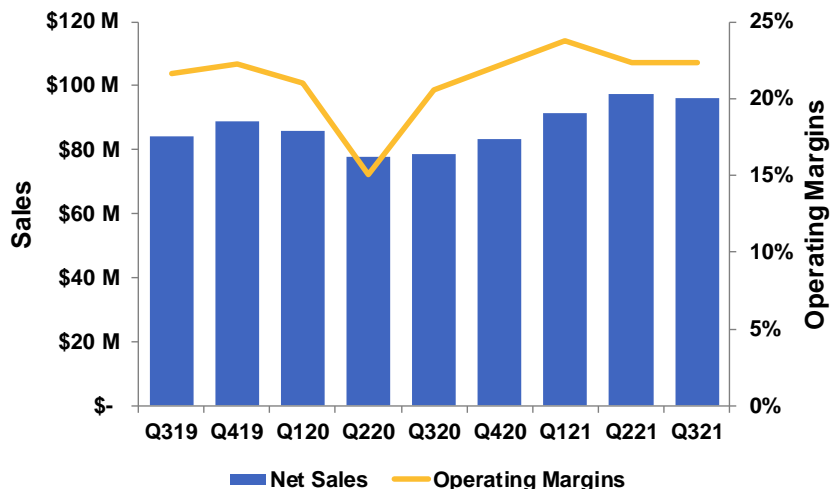
Increase in sales and earnings-based costs

Volume effect on expense leverage

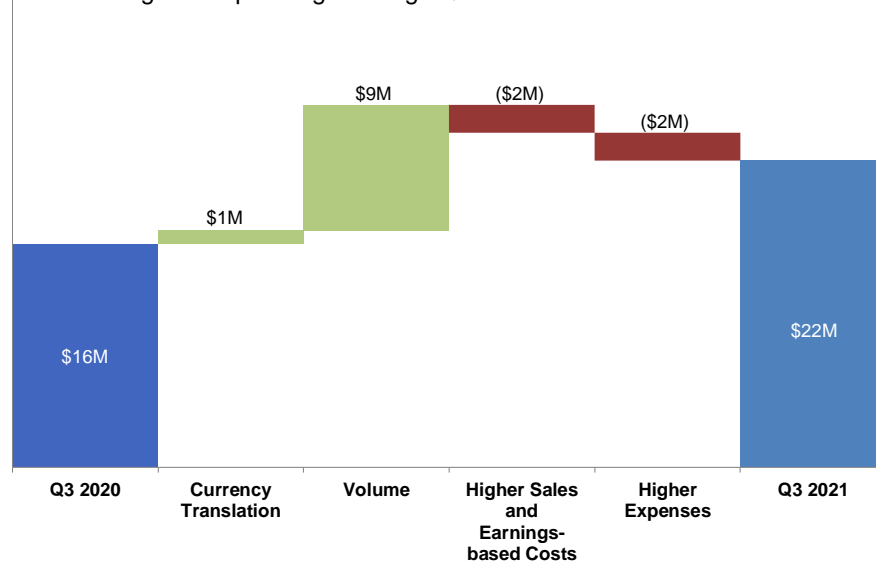
## 2021 Operating Earnings

	Third Quarter	Sept. Year to Date
	21 %	19 %
	0	1
	0	1
	0	1
	(3)	(2)
	4	3
	<b>22 %</b>	<b>23 %</b>

Process Segment Net Sales and Operating Margins



Process Segment Operating Earnings QTD



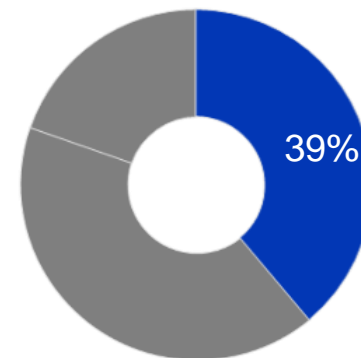
# Contractor Segment Results

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\$ in millions

	Third Quarter			September Year to Date		
	2021	2020	Change	2021	2020	Change
<b>Net Sales</b>						
Americas	\$ 134	\$ 149	(9)%	\$ 418	\$ 367	14%
EMEA	33	29	14	110	78	41
Asia Pacific	12	10	18	35	27	30
<b>Total</b>	<b>\$ 179</b>	<b>\$ 188</b>	<b>(4)%</b>	<b>\$ 563</b>	<b>\$ 472</b>	<b>19%</b>
<b>Operating Earnings</b>	<b>\$ 36</b>	<b>\$ 55</b>	<b>(34)%</b>	<b>\$ 134</b>	<b>\$ 125</b>	<b>8%</b>
% of sales	20 %	29 %		24 %	26 %	

2021 Contractor Segment  
Sept. YTD Net Sales as % of Graco



## Components of Net Sales Change



	Q3 2021	Sept. YTD 2021		Q3 2021	Sept. YTD 2021
<b>Americas</b>			<b>Asia Pacific</b>		
Volume & Price	(10)%	13 %	Volume & Price	14 %	21 %
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	1 %	1 %	Currency	4 %	9 %
<b>Total</b>	<b>(9)%</b>	<b>14 %</b>	<b>Total</b>	<b>18 %</b>	<b>30 %</b>
<b>EMEA</b>			<b>Segment Total</b>		
Volume & Price	12 %	33 %	Volume & Price	(5)%	17 %
Acquisitions	0 %	0 %	Acquisitions	0 %	0 %
Currency	2 %	8 %	Currency	1 %	2 %
<b>Total</b>	<b>14 %</b>	<b>41 %</b>	<b>Total</b>	<b>(4)%</b>	<b>19 %</b>

# Contractor Segment Results

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Change in % of net sales

## 2020 Operating Earnings

Currency translation

Product cost and product and channel mix

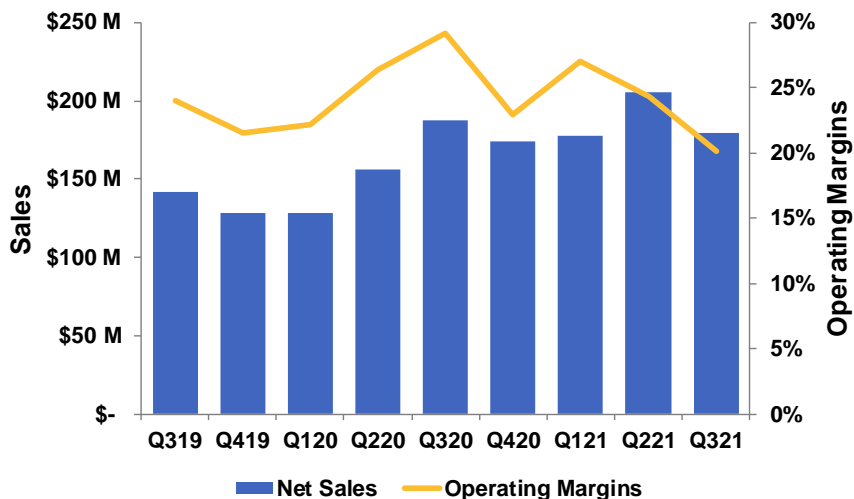
Increase in sales and earnings-based costs

Volume effect on expense leverage

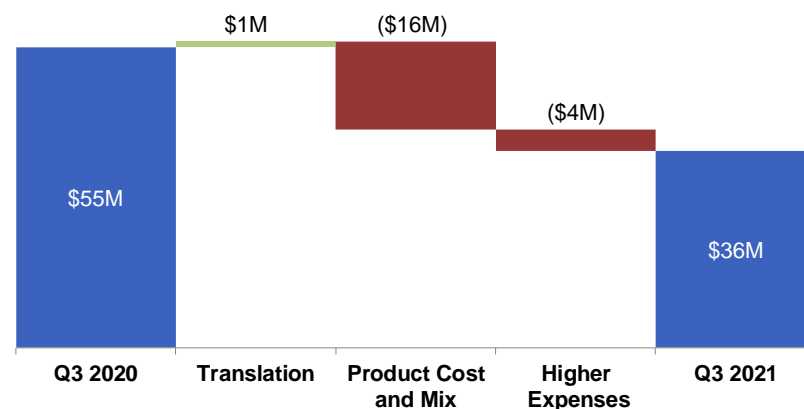
## 2021 Operating Earnings

	Third Quarter	Sept. Year to Date
	29 %	26 %
	0	1
	(6)	(2)
	0	(2)
	(3)	1
	<b>20 %</b>	<b>24 %</b>

Contractor Segment Net Sales and Operating Margins



Contractor Segment Operating Earnings QTD





**MOVE / MEASURE / MIX / CONTROL / DISPENSE / SPRAY**

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