



Investor Presentation

2010 Results



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



Business Overview

- Graco manufactures equipment to pump, meter, mix and dispense a wide variety of fluids
 - We specialize in difficult to handle materials with high viscosities, and
 - Abrasive or corrosive properties, and
 - Multiple component materials that require precise ratio control
- We are global, with more than 45% of our sales coming from outside the Americas
- We sell primarily through independent 3rd party distributors - approximately 30,000 outlets worldwide
- Parts and accessories account for approximately 40% of our annual revenue

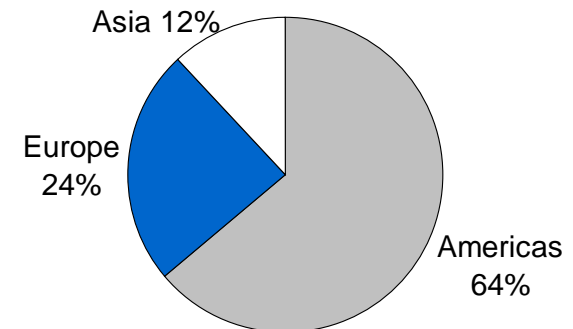
Contractor Equipment

Market Dynamics

- Graco served market is approximately \$450 - \$500M
- Major end-markets include new residential construction, commercial construction, remodel and repaint
- Applications include painting, texture, fine finish, cleaning, and pavement maintenance
- Channel includes paint retailers, equipment houses and rental centers
- Wagner is the most significant worldwide competitor



2010 Sales - \$257M



Contractor Equipment

Growth Opportunities

- 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



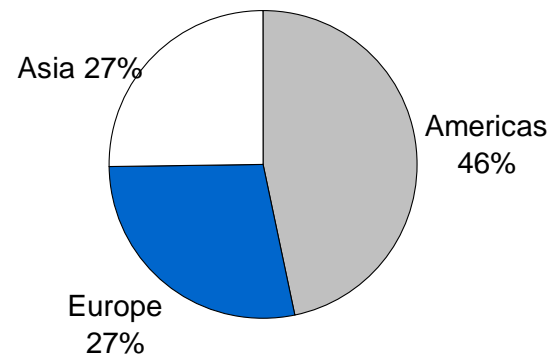
Industrial Equipment

Market Dynamics

- Graco served market is approximately \$2.0B worldwide
 - Liquid Finishing and Process Equipment \$900M
 - Sealant and Adhesive \$600M
 - Protective Coatings, Foam and In-Plant Polyurethane \$500M
- Products sold through independent 3rd party value adding distributors
- End users require equipment “solutions” vs. product in a box
- End user purchases are ROI driven
- Likelihood of new entrants low in certain markets, rational competitors including ITW, Exel, Idex, IR, Dover and Wagner
- Strong Graco brand name and large installed base



2010 Sales - \$409M



Industrial Equipment

Growth Opportunities

- Expand internationally
 - Industrialization and wage inflation in developing markets
 - Factory relocations to low-cost geographies
- Enter new adjacent markets
 - Sanitary
 - Composites
 - Alternative energy
- Capitalize on material changes
 - High performance multiple component materials
 - Low - or no - VOC coatings
 - “Green” initiatives
- Develop new products
 - Integration of equipment with factory data and control systems
 - Reduce energy consumption
 - Expand offering and fill gaps
- Acquisitions



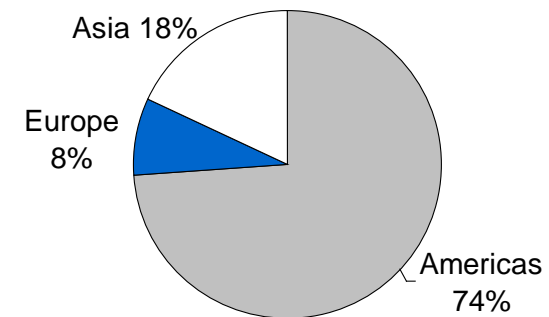
Lubrication Equipment

Market Dynamics

- Worldwide Lubrication Equipment market is approximately \$1.1B worldwide
 - Vehicle Service Equipment - \$400M
 - Industrial Lubrication Equipment - \$700M
- Products sold through independent 3rd party distributors, through oil jobbers and direct to OEM's
- Entrenched, stable competition in each market segment
- Major competitors include Lincoln, Vogel, BEKA, Samoa



2010 Sales - \$78M



Lubrication Equipment

Growth Opportunities

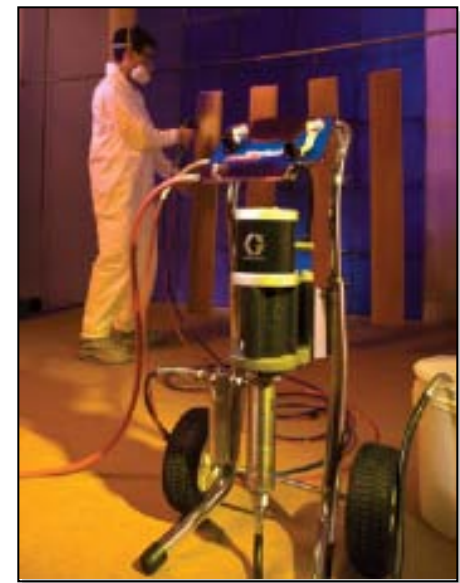
- Expand internationally
 - Historical investment and focus has been U.S.
 - Implemented specialized selling organization in Europe in 2009
 - Developing products to meet local market needs
 - Building channel

- Industrial lubrication market
 - Entered via small acquisitions
 - Expanding product offering and improving cost position



Targeting Growth with New Products

- Invested nearly \$38M in product development in 2010
 - 5% of revenue
- Targeting 30% of sales from products developed in the last 3 years
 - 2010 was 27%
- Increased emphasis on expanding product offering into new markets



New Product Example: Graco HFR™ Metering System



- Versatile, precision-controlled, fixed ratio meter, mix and dispense system
 - Handles a variety of two-component materials
 - Polyurethane foams, polyurethane elastomers, epoxies, silicones and polyureas

Markets Served

- Automotive, construction, recreation, solar, medical, electronics, refrigeration and more



New Product Example: Diaphragm Pumps

- 30% more energy efficient than leading competitors
- 20% increase in fluid flow compared to current offering
- Expanded line for a wider range of applications/chemicals

Markets Served

- Process and General Industry



New Product Example: Handheld Professional Sprayer



- Breakthrough technology delivers professional airless quality spray in a hand held cordless tool

Markets Served

- Professional Painting Contractor
- Consumer



Targeting Growth Through Global Expansion



Targeting Growth through Channel Expansion

- Expanded entry level spray equipment channel
 - Entry level product stocked in more than 5,000 U.S. retail locations



Targeting Growth in New Markets



- Pavement Maintenance
- Alternative Energy
- Composites
- Industrial Lubrication
- Sanitary



Example: New Market – Line Striping - Thermoplastic

ThermoLazer™

- 100% incremental launched 2H 2009
- Leverages existing LineDriver™ platform



Example: New Market – Line Removal

GrindLazer™

- 100% incremental launched Q1 2010
- Leverages existing LineDriver™ platform



Graco Manufacturing

- Aligned with divisions, co-located with product development to speed new product development and improve initial launch cost and quality
- Measured on annual cost change and expected to achieve zero or better year-to-year total cost change
 - Graco has been on the Lean journey for 20 years
 - Our approach is focused on total cost, not inventory turns
- Cost-To-Produce is a unique tool Graco has developed to measure progress on cost reduction
- Primarily U.S. based, with strategic capabilities in Europe and Asia
 - Sourcing is global





Financial Summary For 2010

Fourth Quarter 2010 Results

- Sales for the quarter up 35 percent compared to fourth quarter last year
- Sales were up in all segments; regionally, sales were up 35 percent in the Americas, up 33 percent in Europe, and up 37 percent in Asia Pacific
- Fourth quarter gross profit margin of 54½ percent was above last year as production increased
- Operating expenses were up 30 percent related to volume, including incentives
- Backlogs increased \$6M from the end of prior quarter
- Net earnings were up 57% from fourth quarter last year and diluted EPS was 44 cents

Summary – 2010

- Sales up 28%
 - Asia the strongest, up 46% (up 41% at consistent exchange rates)
 - Europe up 25% (up 29% at consistent exchange rates)
 - Americas up 24%
- Gross margin up 3½ percentage points
- Operating profit margin up 8 percentage points
- Earnings per share up 109%
- \$49M in dividends and \$24M in common stock purchased

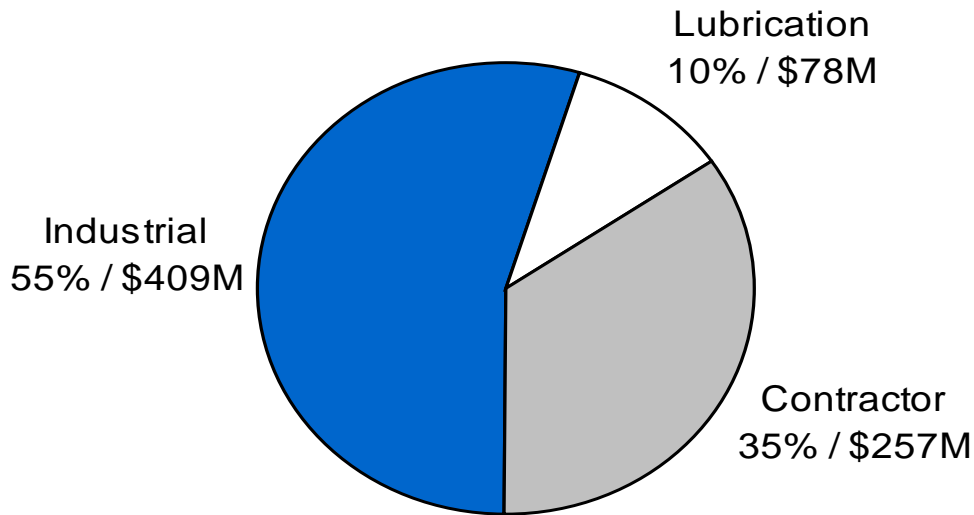
Financial Results

(\$ Millions except EPS)	Full Year		Change
	2010	2009	
Sales	\$744.1	\$579.2	28%
Gross Profit Rate	54.2%	50.6%	
Operating Expenses	250.3	218.3	15%
Operating Earnings	153.1	74.5	106%
Net Earnings	\$102.8	\$49.0	110%
Earnings Per Share	\$1.69	\$0.81	109%

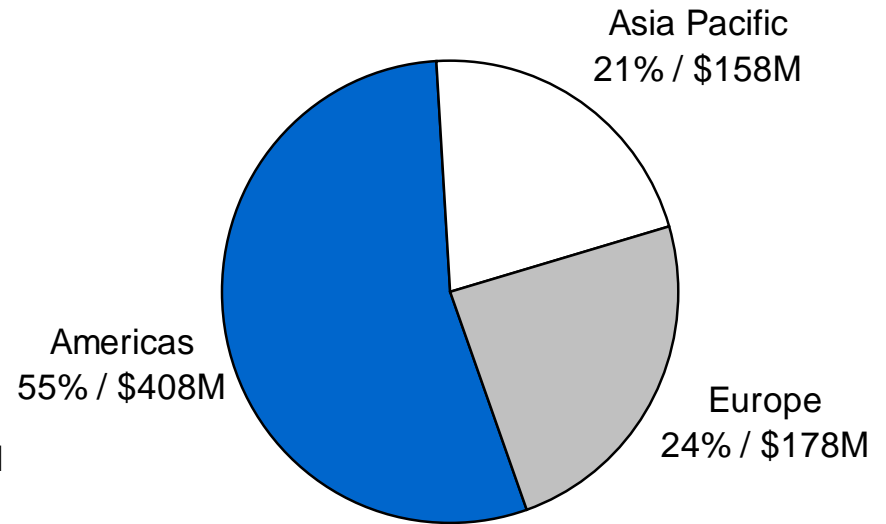
2010 – Full Year of Sales

\$744M

Segment

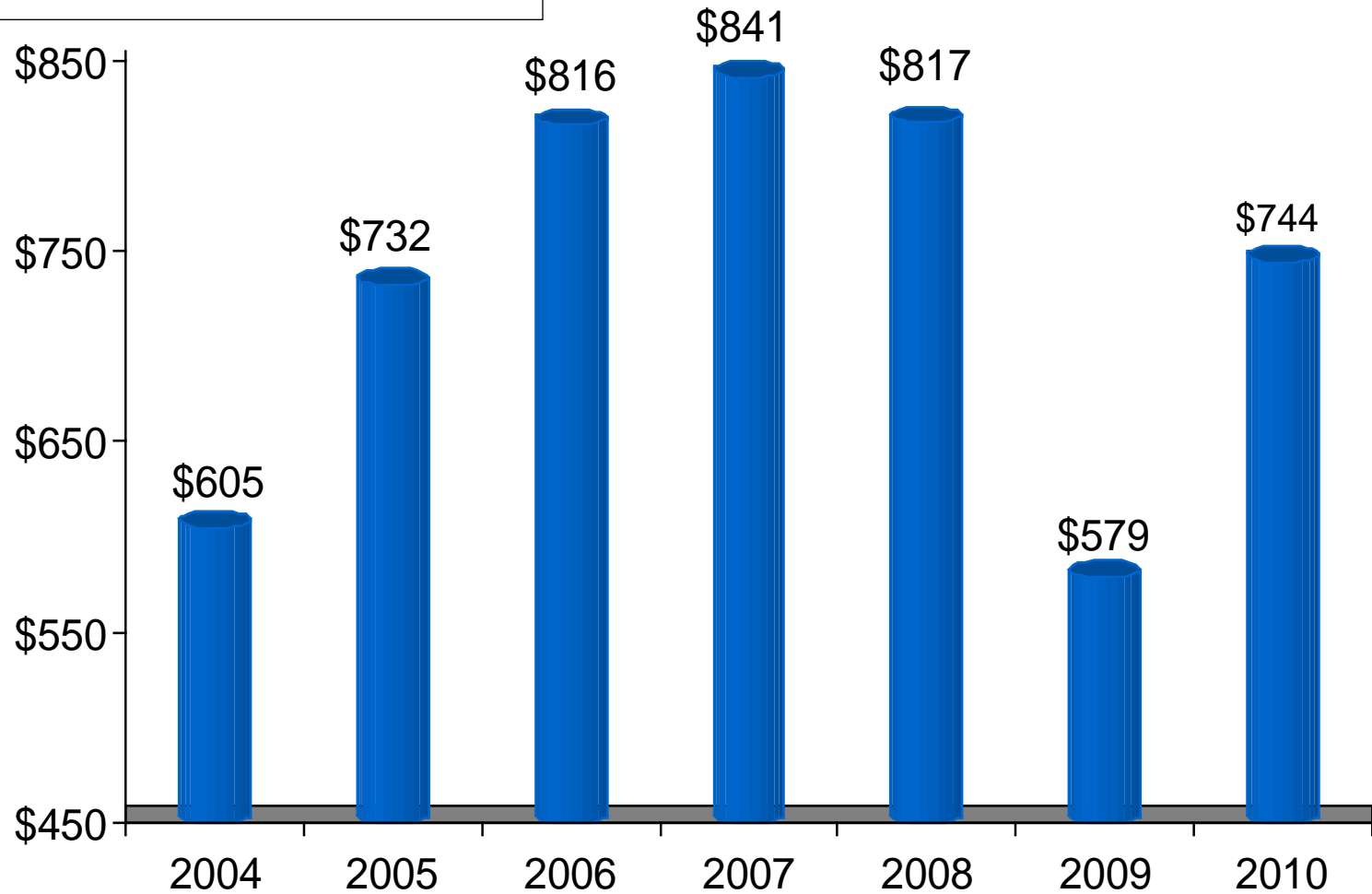


Geography

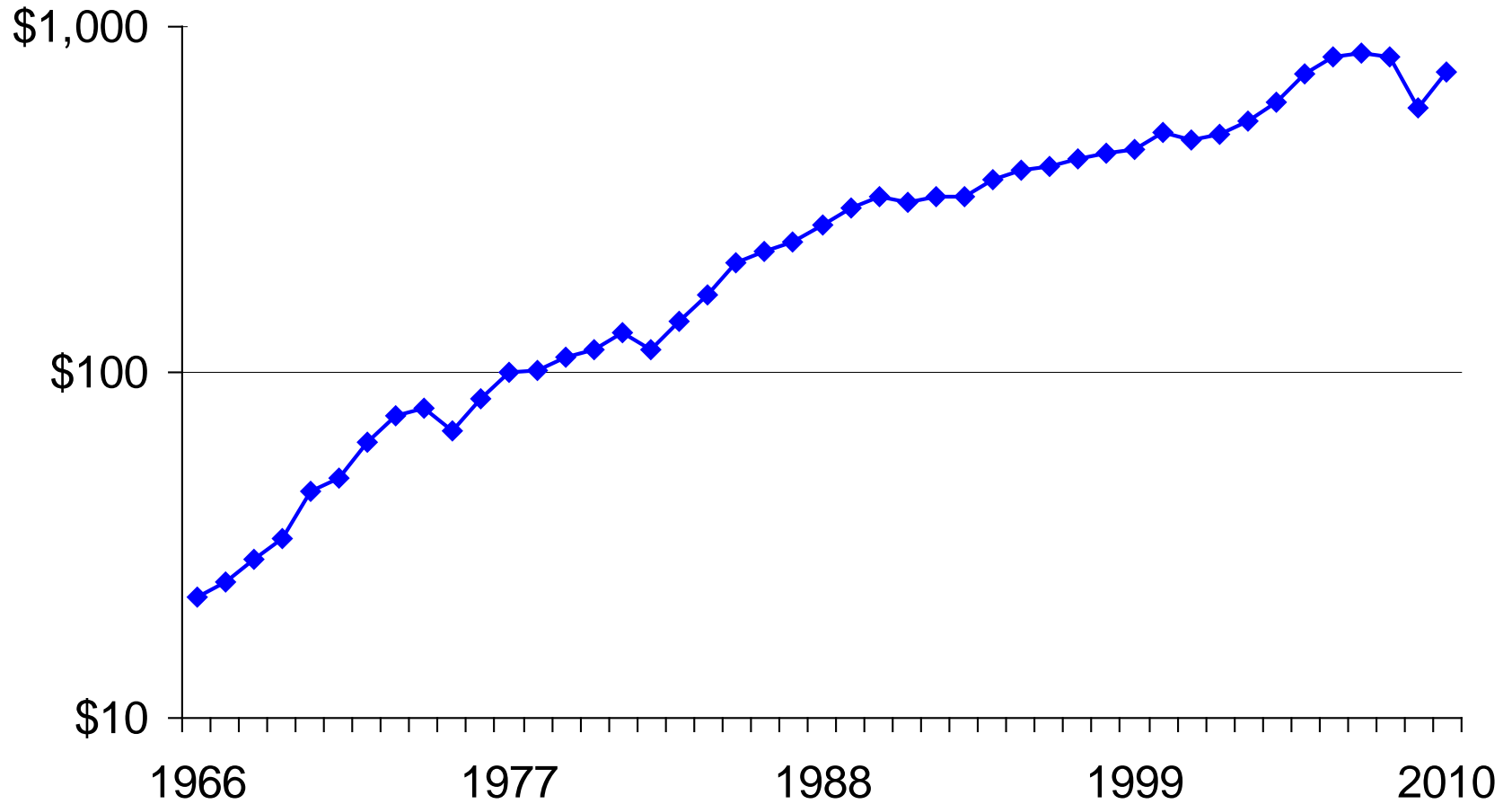


Annual Sales (\$ Millions)

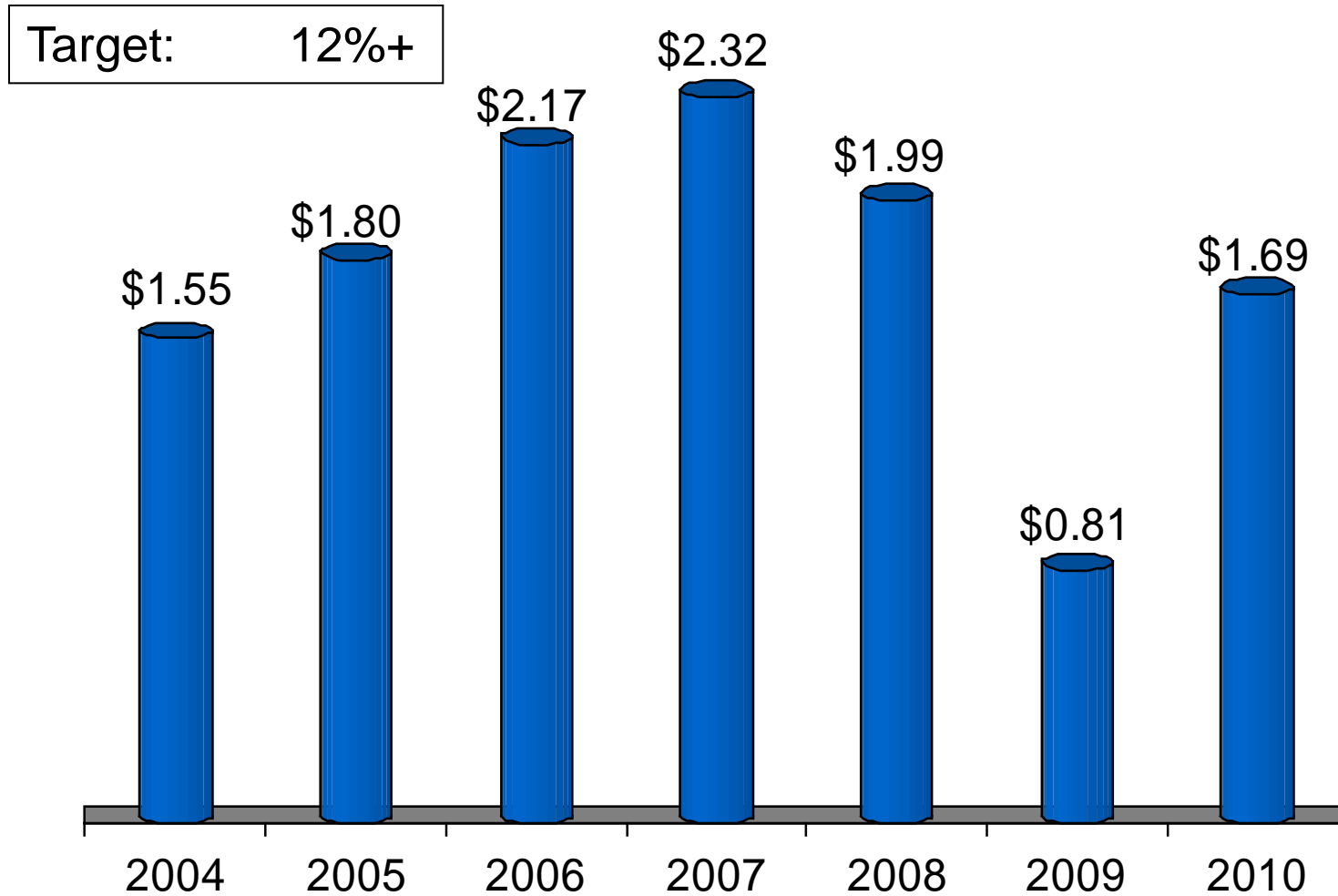
Target: 6-7% Organic
10%+ Overall



Historic Sales (\$ Millions)

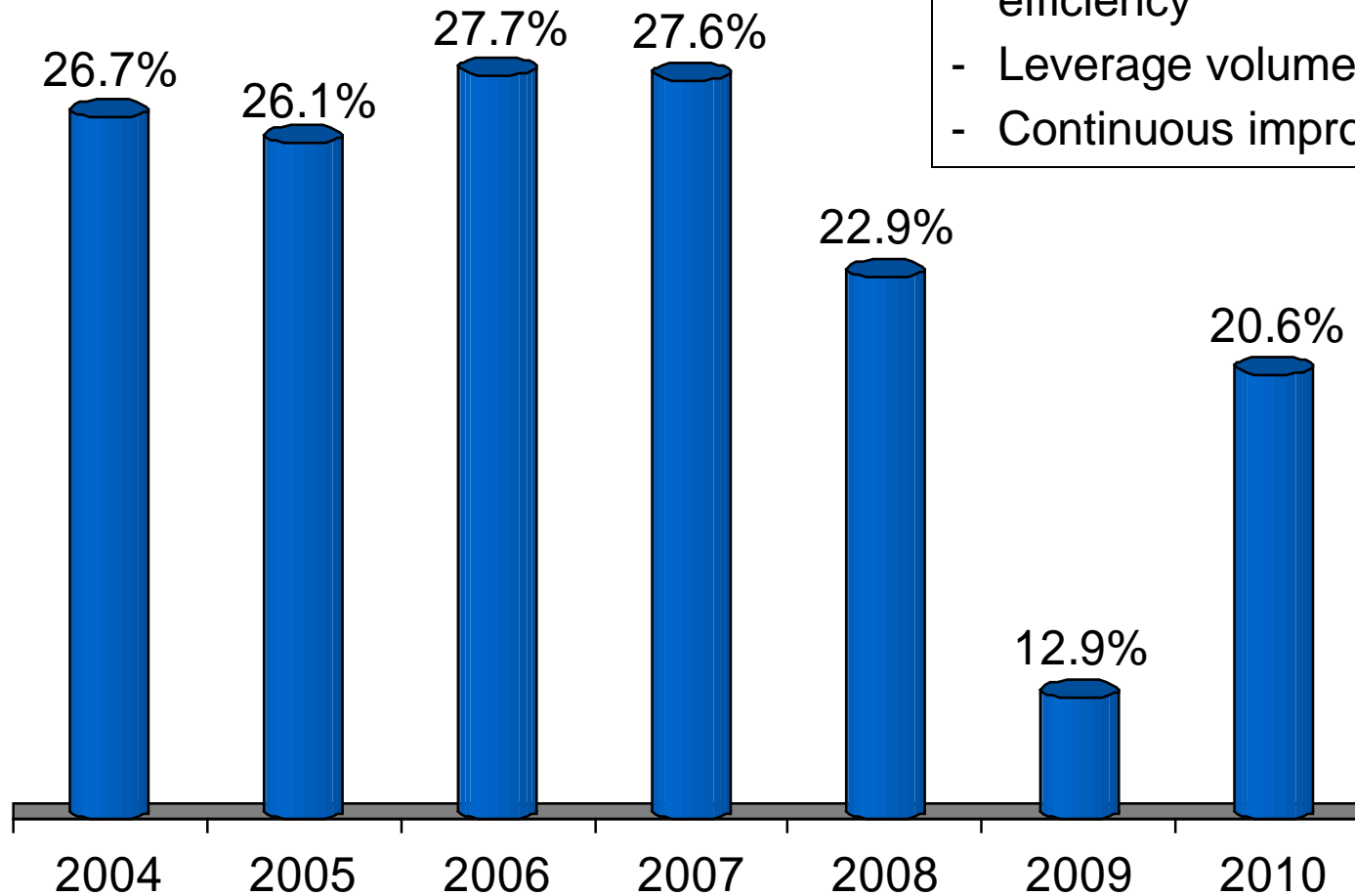


Earnings Per Share



Operating Margin

- Disciplined spending
- Increased manufacturing efficiency
- Leverage volume increases
- Continuous improvement culture





Strong Cash Generation

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Cash Flows	\$ 101	\$ 147	\$ 162	\$ 177	\$ 156	\$ 153	\$ 123
% of Net Income	98%	300%	134%	116%	104%	121%	113%
Capital Expenditures	<u>17</u>	<u>11</u>	<u>27</u>	<u>37</u>	<u>34</u>	<u>20</u>	<u>17</u>
Free Cash Flow	<u>\$ 84</u>	<u>\$ 136</u>	<u>\$ 135</u>	<u>\$ 140</u>	<u>\$ 122</u>	<u>\$ 133</u>	<u>\$ 106</u>
Dividends	\$ 48	\$ 45	\$ 45	\$ 43	\$ 39	\$ 36	\$ 130
Acquisitions	-	-	55	-	31	111	-
Share Repurchases *	<u>11</u>	<u>(6)</u>	<u>101</u>	<u>206</u>	<u>76</u>	<u>32</u>	<u>26</u>
	<u>\$ 59</u>	<u>\$ 39</u>	<u>\$ 201</u>	<u>\$ 249</u>	<u>\$ 146</u>	<u>\$ 179</u>	<u>\$ 156</u>

* Net of shares issued



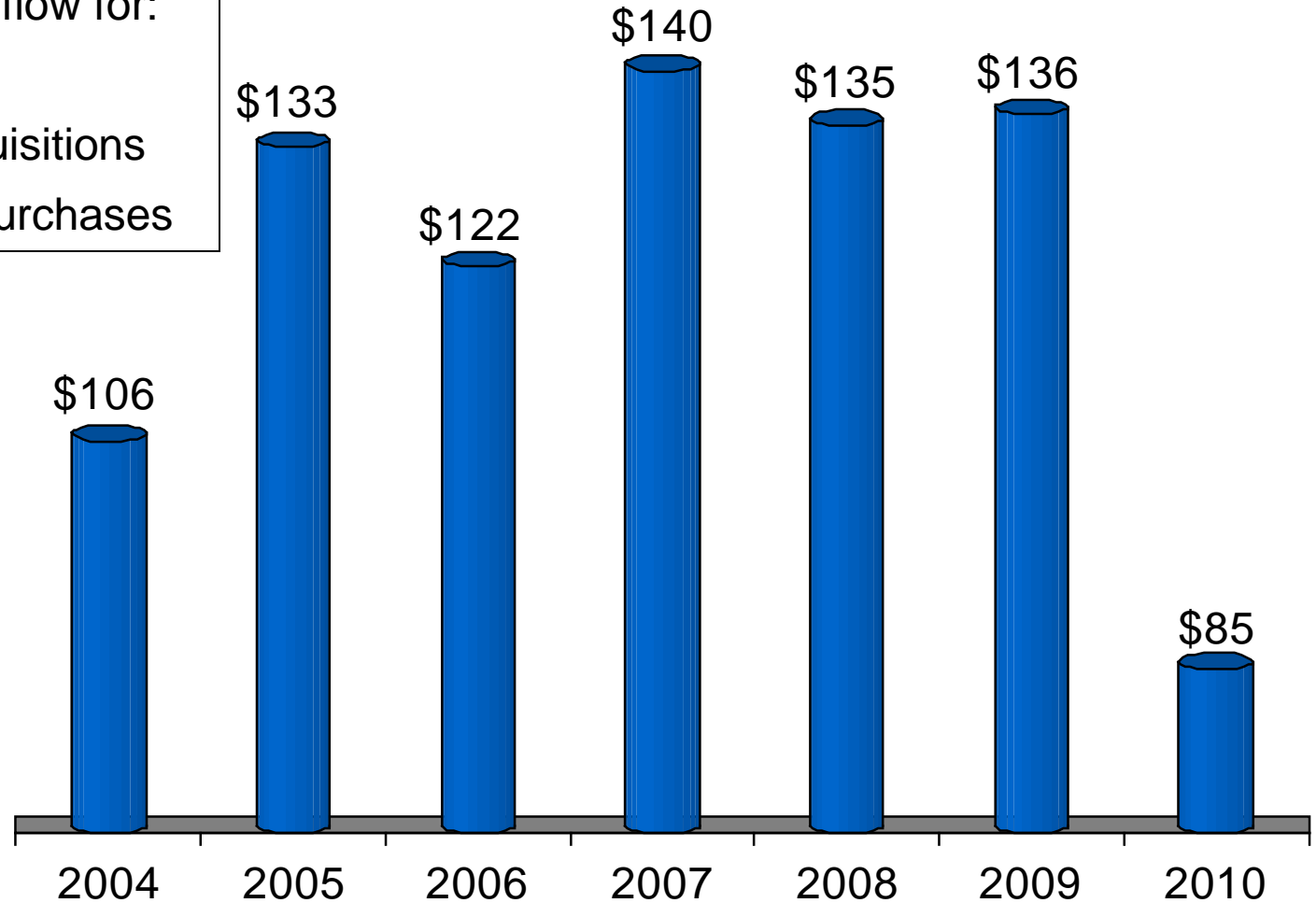
Leverage

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
EBITDA	\$ 187	\$ 109	\$ 222	\$ 261	\$ 252	\$ 213	\$ 179
Debt, Net of Cash	\$ 69	\$ 93	\$ 186	\$ 121	\$ 12	\$ (10)	\$ (55)
Debt to EBITDA	37%	85%	84%	46%	5%		
Operating Earnings	\$ 153	\$ 74	\$ 187	\$ 232	\$ 226	\$ 191	\$ 162
Interest Expense	\$ 4	\$ 5	\$ 8	\$ 3	\$ 1	\$ 1	\$ 0.5

Free Cash Flow (\$ Millions)

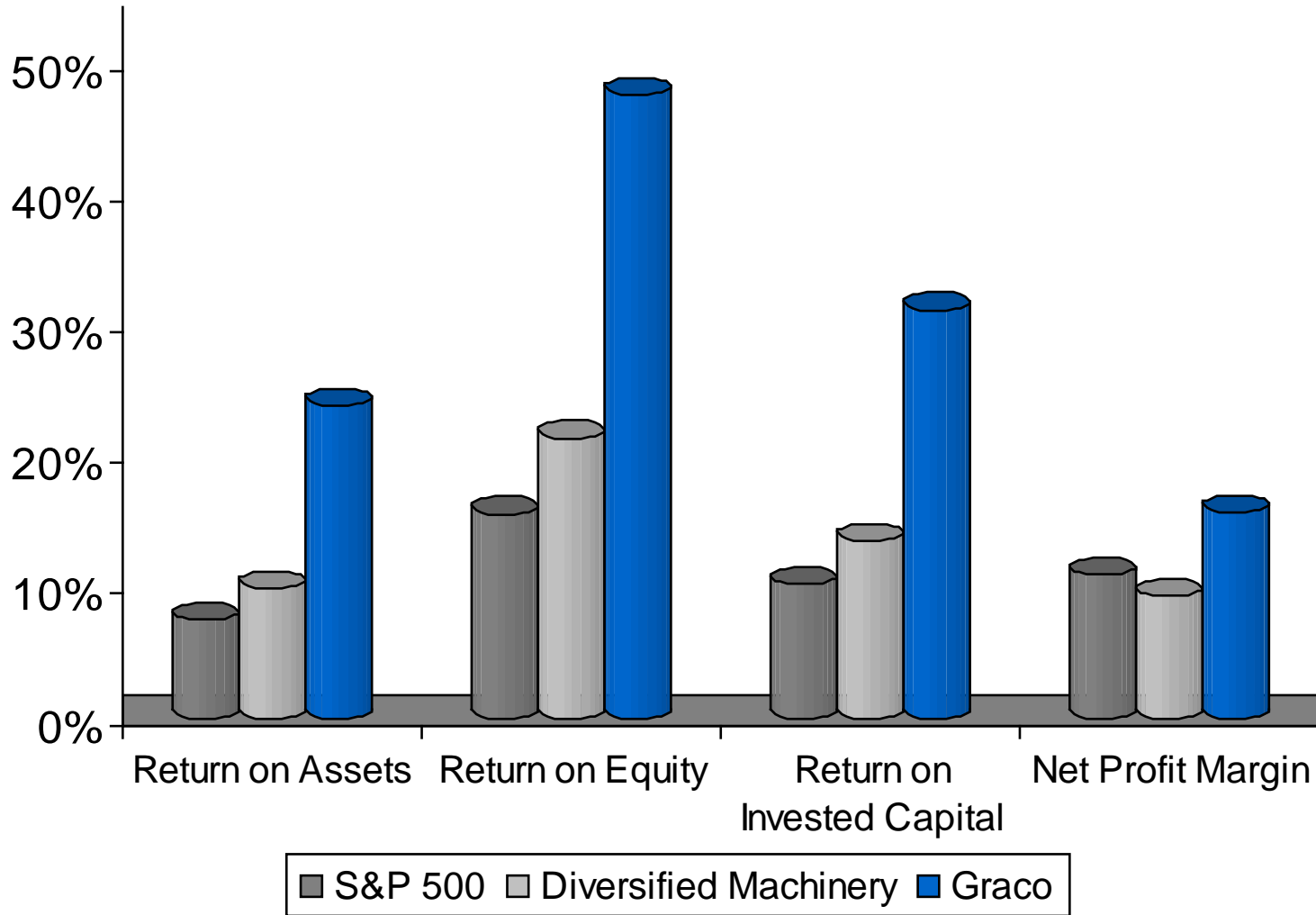
Strong cash flow for:

- 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, 2011 Thomson Reuters

Cash Deployment Priorities

Organic Growth Investments →

- International footprint
- Product development
- Production capacity & capabilities

Acquisitions →

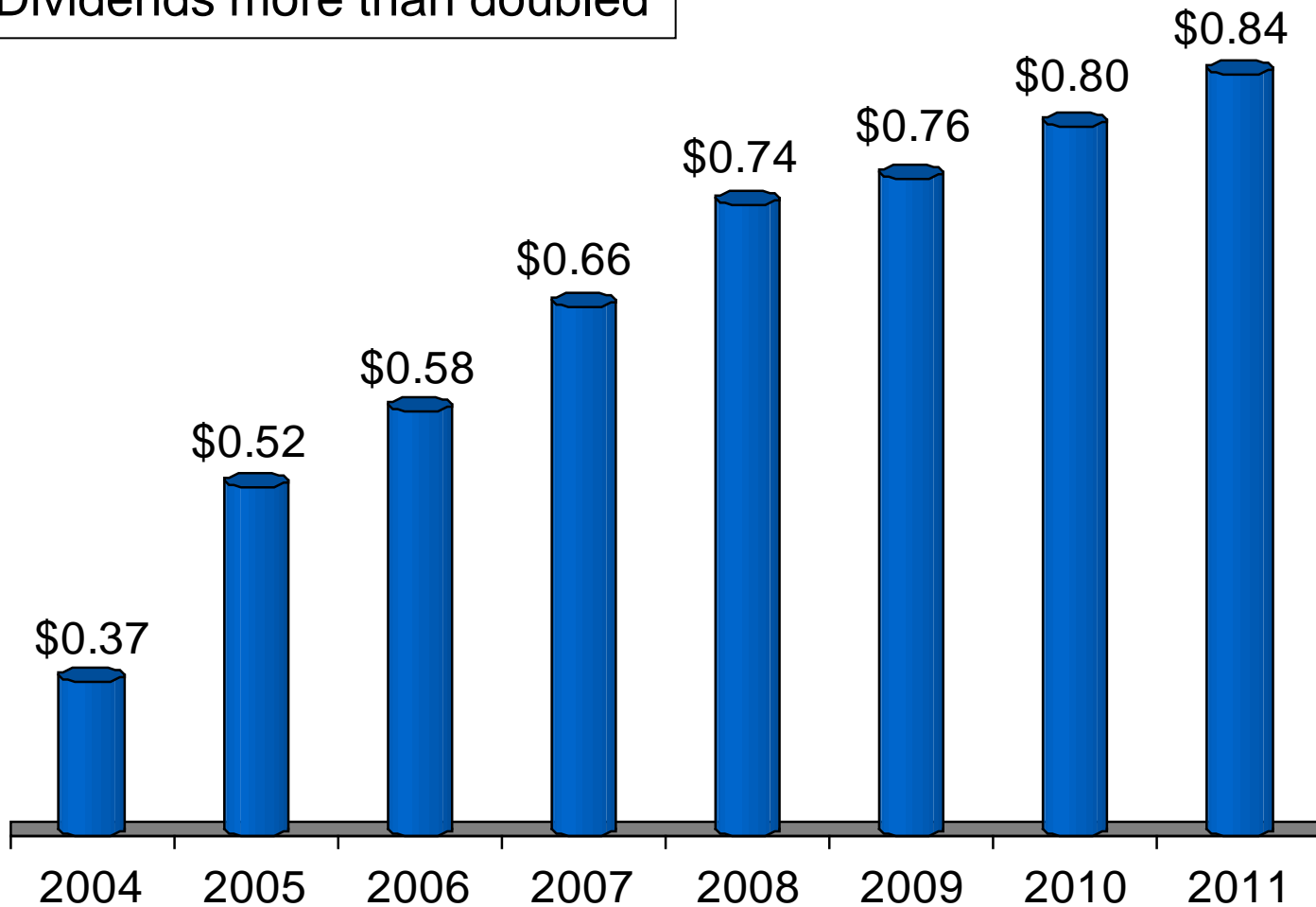
- Supplement to organic growth
- Leverage our strengths

Dividends/Share Repurchase →

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

Annual Dividend Growth

- Dividends more than doubled



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

Key Investment Attributes

- 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

Spray

