



# Investor Presentation

## 1st Quarter 2018

# 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 Part 1, Item 1A of the Company's Form 10-K, and the current Quarterly Report on Form 10-Q.



- ✓ **Overview**
- ◆ Enduring Business Model
- ◆ Strategies for Long-Term Growth
  - Invest in New Products
  - Target New Markets
  - Make Acquisitions
- ◆ Company Performance

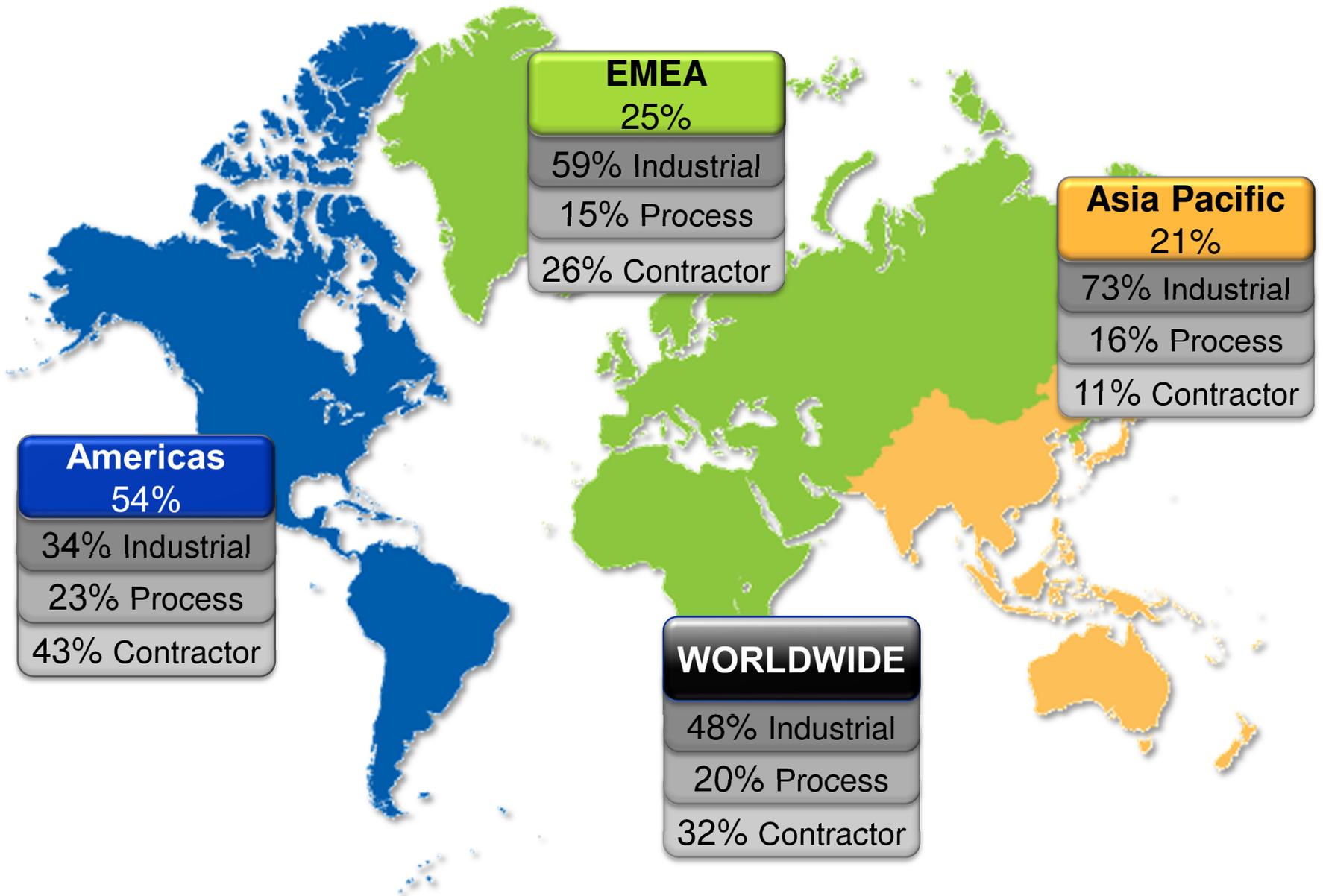
# Business Overview



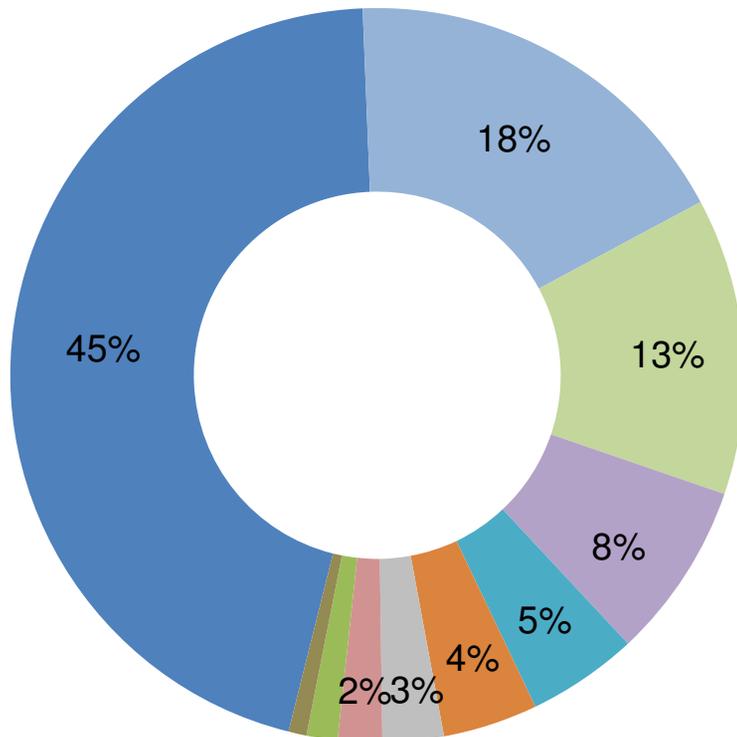
- ▶ Graco manufactures premium equipment to pump, move, meter, mix and dispense a wide variety of fluids and coatings
  - Difficult to handle materials with high viscosities
  - Abrasive and corrosive properties
  - Multiple component materials that require precise ratio control
  - Serving a broad number of end markets
  
- ▶ A strong business formula for sustained margin generation
  - High customer value through product differentiation
  - Manufacturing and engineering drive cost savings, reliability and quality



# Year-To Date March 2018 Sales – \$406 Million



# 2017 Sales by End Market



- ▶ Residential & Non-Residential Construction – 45%
- ▶ Industrial & Machinery – 18%
- ▶ Automotive – 13%
- ▶ Other – 8%
- ▶ Oil and Natural Gas – 5%
- ▶ Public Works – 4%
- ▶ Vehicle Services – 3%
- ▶ Mining – 2%
- ▶ White Goods – 1%
- ▶ Wood – 1%

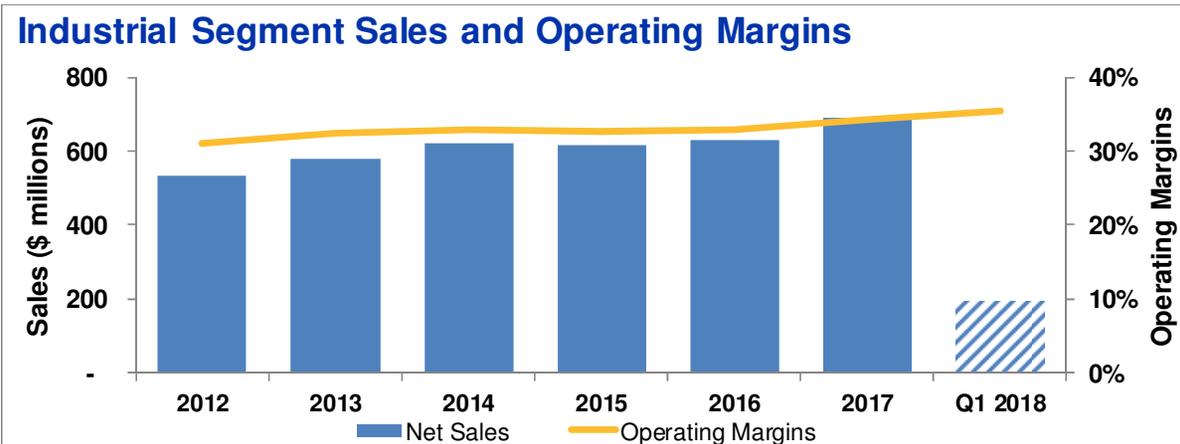
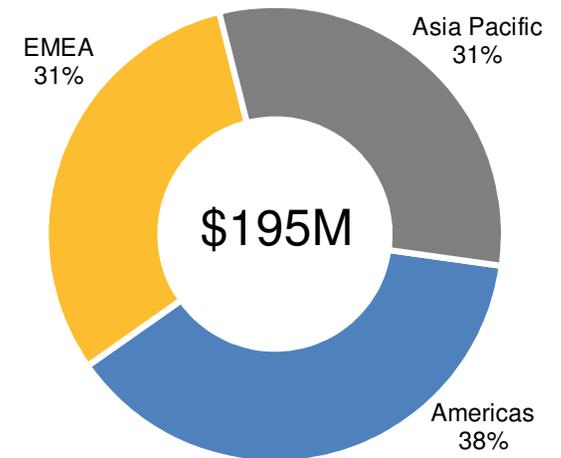
# Industrial Equipment Segment



- ▶ Growth Drivers and Trends
  - Factory movements and upgrades
  - Integration of equipment with factory data and control systems
  - Reducing energy consumption
  - Material changes driving demand
  
- ▶ Other Representative Industry Participants
  - Exel, Wagner, Carlisle Companies, Nordson and regional players



## Q1 2018 Sales



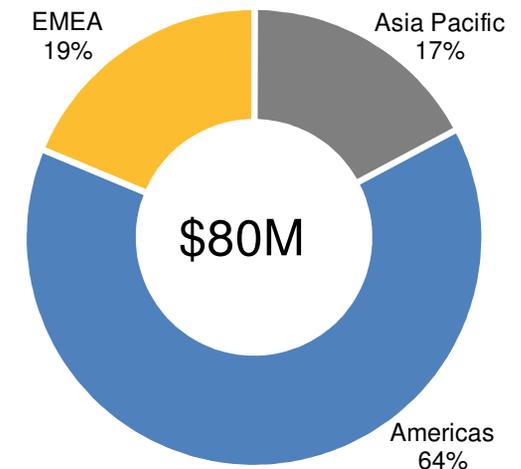
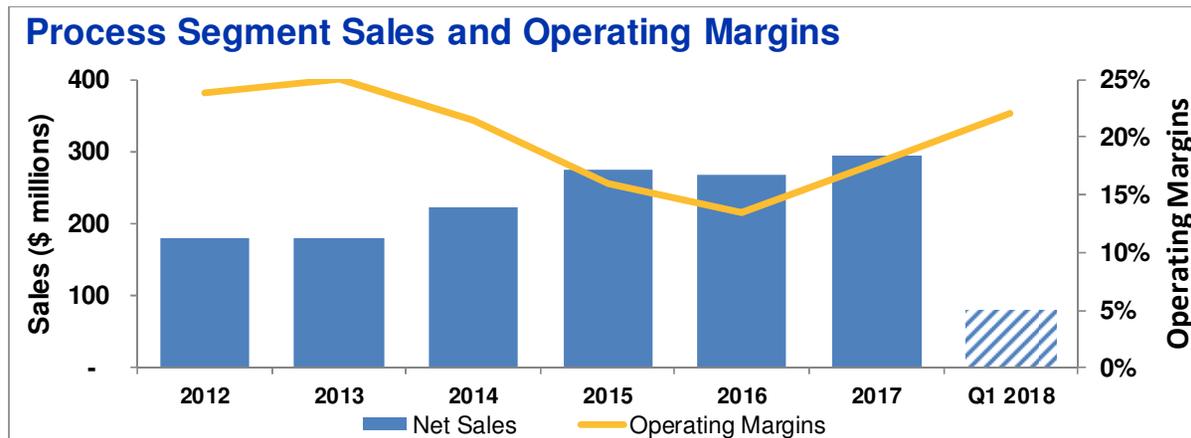
# Process Equipment Segment



- ▶ Growth Drivers and Trends
  - Targeting new products and new markets
  - Fill product lines for a single source solution
  - Focus on spec'ing in product at large OEM's
- ▶ Other Representative Industry Participants
  - IDEX, Dover, IR, Lincoln, Vogel, Bijur, Hannay, Coxreels and regional players



## Q1 2018 Sales



# Contractor Equipment Segment



## ► Growth Drivers and Trends

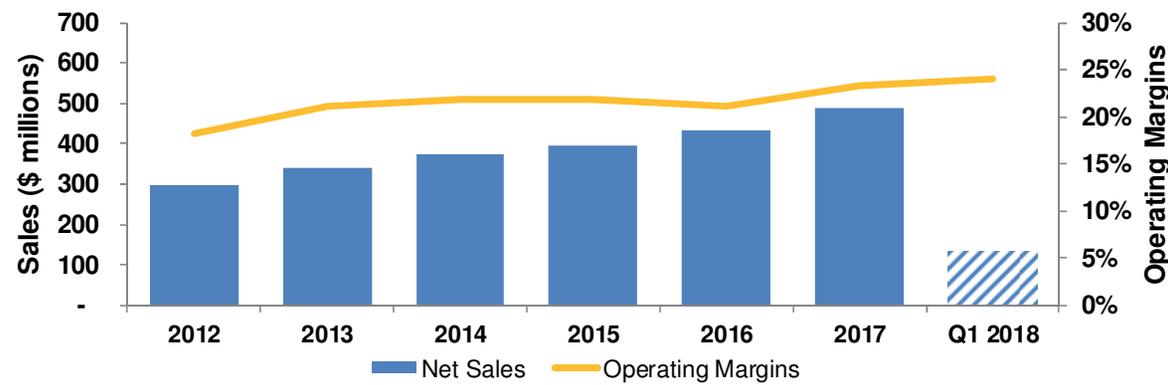
- Conversion of end users from manual application methods to equipment is a major focus outside North America
- Application of texture & cementitious materials
- Entry level product & channel expansion
- Expanding pavement maintenance product line and channel



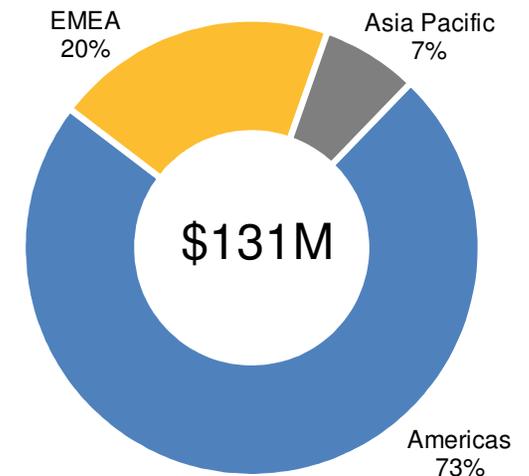
## ► Other Representative Industry Participants

- Wagner, Titan, Campbell Hausfeld, Bedford, QTech and regional players

**Contractor Segment Sales and Operating Margins**



## Q1 2018 Sales





- ◆ Overview
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- ◆ Strategies for Long-Term Growth
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- ◆ Company Performance

# High Customer Value, Strong Product Differentiation



# Manufacturing & Engineering Excellence



- ▶ 80%+ of production is based in the United States
  - High-quality, efficient, engaged labor force
  - Centralization allows for leverage of overheads
  - A currency mismatch of sales to COGS exists, however
- ▶ Continuous improvement culture
  - Unique Graco cost-to-produce measurement tool
- ▶ Ongoing capital investment
  - Plant efficiency
  - Cost reductions
  - Capacity
- ▶ New product development initiatives include value engineering focus
- ▶ Low overall warranty costs



# Low Volume, High Mix Delivers Customer ROI



Average Number of Units Sold Per Day	# of SKUs		2017 Sales (\$ in millions)	
0 - 1	58,000	93%	\$ 730	49%
2 - 5	2,900	5%	\$ 256	17%
6 - 10	700	1%	\$ 117	8%
11 - 15	300	0%	\$ 53	4%
Greater than 15	700	1%	\$ 319	22%
<b>Graco 2017 Sales</b>			<b>\$1,475</b>	



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# Growth Plans and Earnings Drivers



**3% - 5%**

**Industrial  
Production  
Average  
Growth  
Rate**

- ▶ **End User Conversion**
- ▶ **New Product Development**
- ▶ **New Markets**
- ▶ **Global Expansion**
- ▶ **Acquisitions**



**12%+**

**Graco  
Targeted  
Earnings  
CAGR**

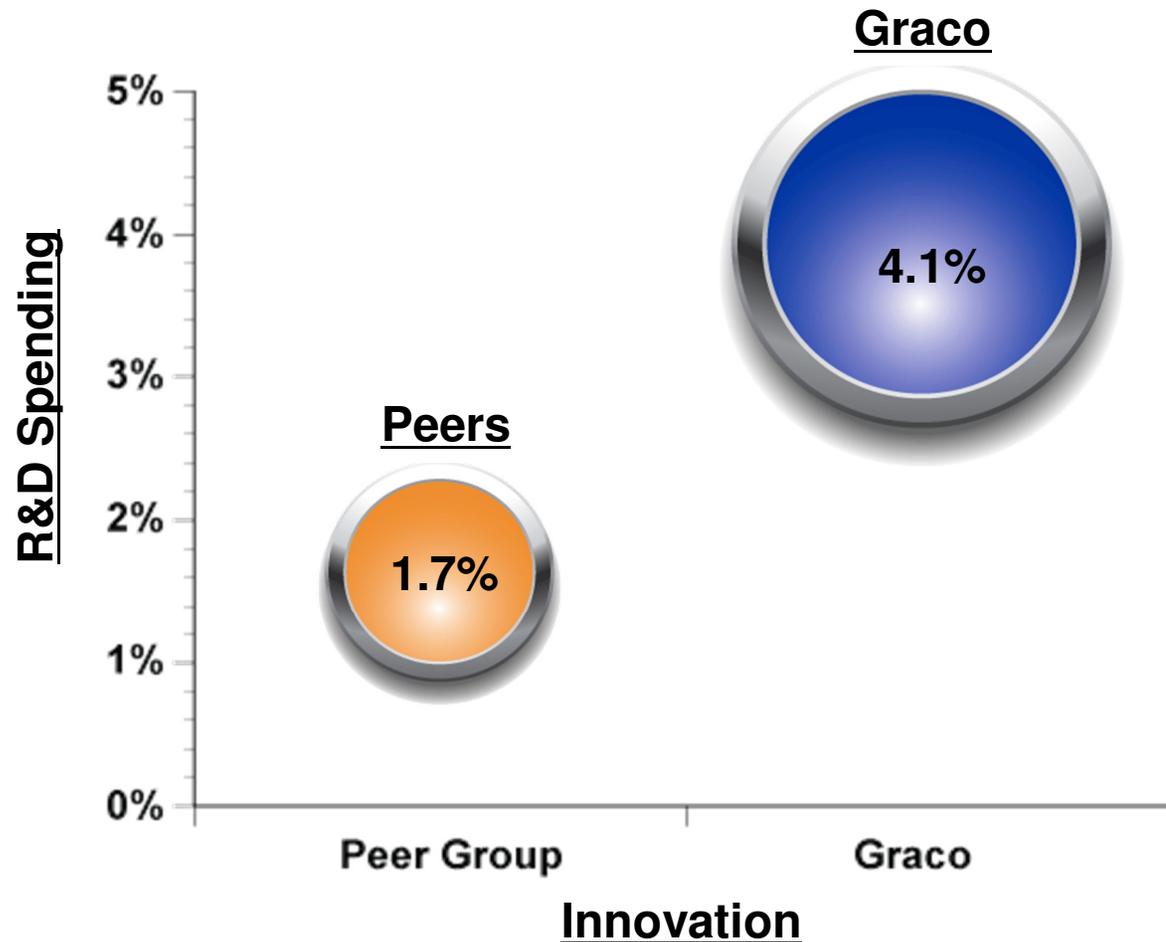


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# Targeting Growth Through New Products & Markets



New Product Development Expense as a Percentage of Revenues – 2017\*



\* Peer average R&D spending as a percentage of revenues based on 2017 data

# Industrial – King® Sprayer Packages



**New King pneumatic airless sprayers – powerful machines for the toughest protective coatings**

- ▶ New air motor exceeds the performance of the industry-standard legacy King platform
- ▶ Designed for waterproofing, fireproofing and protective coating applications, even in harsh conditions
- ▶ Easily operates multiple guns from one sprayer, increasing productivity



# Industrial – Reactor 2™ Mobile App



**Real-time status and remote control capability in the palm of the contractor's hand**

- ▶ Easy, efficient method to remotely monitor and adjust machine performance
- ▶ Key features
  - Turn machine and pump on/off remotely
  - Adjust temperatures and pressure (Electric Reactor)
  - Select between spray/park/jog modes
  - View material drum levels
  - Reset cycle count and material usage
  - Calculate chemical yield
  - Switch control between multiple systems
  - Plus view events and connect directly to [help.graco.com](http://help.graco.com)



# Industrial – ToughTek® F800e



## A powerful pump for any size fireproofing job

- ▶ Small, lightweight design allows contractor to move quickly between floors
- ▶ Ideal for applications where portability is needed
- ▶ For coating structural steel with cementitious fireproofing materials
- ▶ Improves productivity by spraying up to 40 bags per hour
- ▶ Plugs into standard 240V, 30A outlet



# Industrial – OptiStar® 4.0



## The new standard for powder gun control

- ▶ Control crucial coating parameters
- ▶ Obtain excellent results and measurable system optimization
  - Accurate powder output control
  - Eliminate overcharging of sensitive powders
  - 250 customized programs available
- ▶ Web-connectivity with new Electrostatic App (E-App)
  - Access relevant coating data via mobile device



# Contractor – TexSpray™ FastFinish™



## Fastest hopper gun texture spray system on the market

- ▶ Small-to-medium residential & non-residential applications
- ▶ Finish jobs 6X faster than traditional gravity-fed hopper gun systems
- ▶ Compact and portable system reduces operator fatigue
- ▶ Delivers the performance of a large spray rig in the palm of your hand



# Contractor – DutyMax™ GH™ 675DI



## Maximum power in a small package

- ▶ Commercial roofing applications
- ▶ Ideal for small-to-medium coating jobs traditionally completed by hand
- ▶ High-pressure spray rig delivers 6,750 psi in a small, compact and highly-portable package
- ▶ Perfect for hard-to-spray materials such as silicone, waterproofing and protective coatings



# Contractor – RoadLazer™ RoadPak™ HD



## High-productivity striping machine

- ▶ Truck-mounted line striping system delivers 2X higher paint output than previous models
- ▶ 5-gun capability – completes airport striping jobs in a single pass
- ▶ Pre-programmed for airport stripe patterns for faster set up
- ▶ Rear operator seat and joystick carriage control



# Process – Husky™ and SaniForce® 2150e



## Electric diaphragm pumps configurable for many applications

- ▶ Expanding Graco's presence in the electric pump market with larger size offerings
- ▶ Helps customers lower energy consumption, increase control, and decrease ownership and operation costs
- ▶ Reduces energy consumption up to 80% compared to air-operated pumps
- ▶ Alternative to other pump technologies (i.e., rotary lobe, progressive cavity, centrifugal, peristaltic)



Aluminum | Cast Iron



Stainless Steel



Polypropylene | Conductive Poly | PVDF



FDA Stainless Steel

# Process – Electric Grease Jockey®



## On-road and mobile automatic lubrication system

- ▶ Increases fleet revenue
  - Lubricates while vehicle is moving
  - Eliminates need to wait for shop time to manually lubricate
- ▶ Decreases operating costs
  - Extends component life by 4X
  - Saves on grease usage
- ▶ Easy-to-order and use
  - OEM install option
  - System easily adapts to different vehicles
  - Alerts when out of lubricant
- ▶ Reliable construction
  - Protects itself from motor burnout
  - CE rated, UV, chemical and impact-resistant construction





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# Recent Acquisitions by Segment



## Industrial

- ▶  **EcoQuip**<sup>®</sup>  
VAPOR ABRASIVE™ BLAST EQUIPMENT
- ▶  **GEO-BLASTER**<sup>®</sup>  
WET-ABRASIVE BLASTING EQUIPMENT
- ▶  **MULTIMAQ**<sup>™</sup>  
sprayway
- ▶  **machine**  
TECHNOLOGIES
- ▶  **hildebrand**  
TECHNOLOGY

## Process

- ▶  **QED**<sup>™</sup>  
Environmental Systems
- ▶  **ALCO**<sup>™</sup>  
VALVES GROUP
- ▶  **WHITE KNIGHT**<sup>™</sup>  
.....simply driven™
- ▶  **HiP**<sup>™</sup> High Pressure  
Equipment Company
- ▶  **EPS** Environmental  
Pump Solutions
- ▶  **Geotech**<sup>™</sup> &  **LANTEC**<sup>®</sup>  
A subsidiary of LANTEC
- ▶  **ATZ** | **APPLIED**  
TECHNOLOGIES
- ▶ *PROHYDRO, INC.* ▽

## Contractor



# ProHydro – Acquired March 2018



QED Environmental Systems acquired the assets of **ProHydro**, the developer and manufacturer of the **Snap Sampler**<sup>®</sup> passive groundwater sampling system

***PROHYDRO, INC.***

*CONSULTING HYDROGEOLOGY*

*SAMPLING EQUIPMENT DEVELOPMENT*

- ▶ Samples without purging for significant labor savings
- ▶ Designed for high sample accuracy and precision
- ▶ Eliminates collection, handling, disposal of purge water
- ▶ Preferred method for sampling low-yield wells
- ▶ Easy deployment in remote locations





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- ✓ **Company Performance**

# Graco Reported Q1 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>	<i>175.6</i>	<i>173.1</i>	
<i>Net Earnings, Adjusted (1)</i>	<i>\$ 84</i>	<i>\$ 57</i>	<i>48 %</i>
<i>Diluted Earnings Per Share, Adjusted (1)</i>	<i>\$ 0.48</i>	<i>\$ 0.33</i>	<i>45 %</i>

(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 following page for a reconciliation of the adjusted non-GAAP measurements to GAAP.

# 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)	
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# Q1 2018 Sales Data

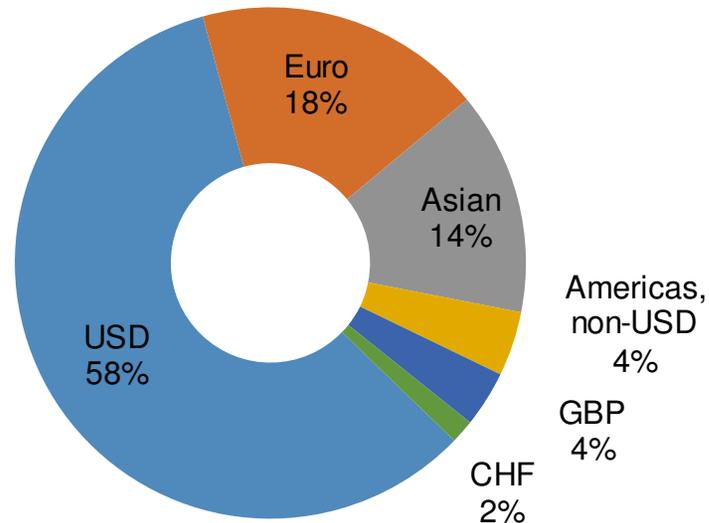


## Components of Net Sales Change

### 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 %
<b>Total</b>	<b>25 %</b>	<b>14 %</b>	<b>15 %</b>	<b>11 %</b>	<b>28 %</b>	<b>36 %</b>	<b>19 %</b>

## 2018 Sales by Currency



Asian currencies include:  
AUD, CNY, KRW, JPY

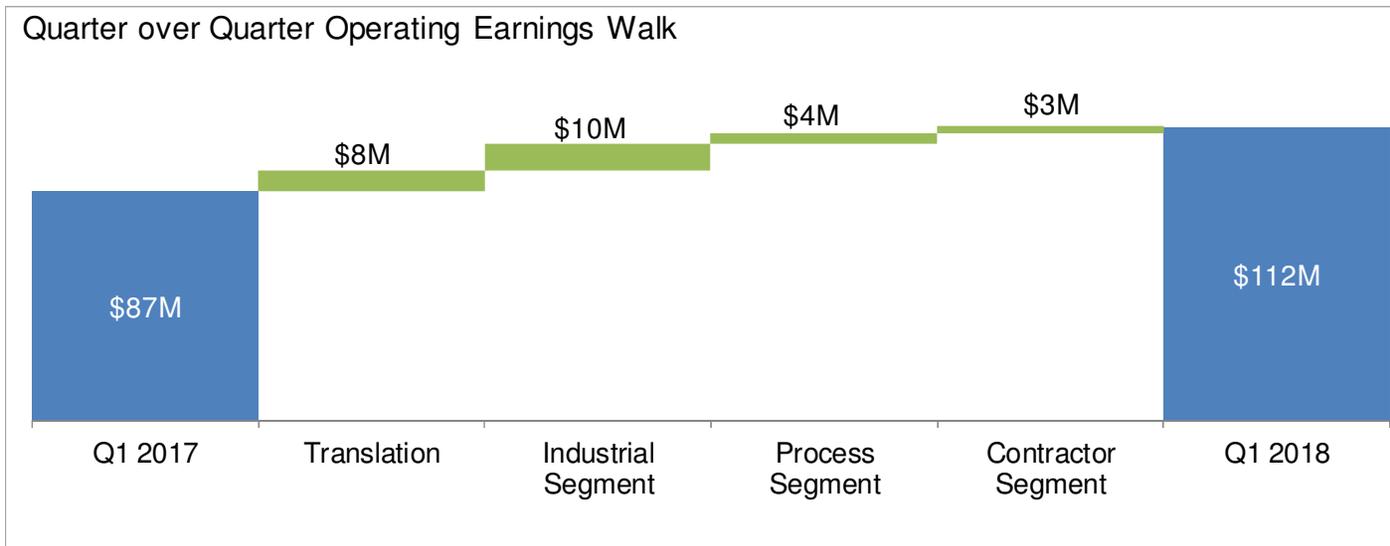
Americas currencies include:  
CAD, BRL, MXN

# Q1 2018 Operating Earnings



## Change in Operating Earnings

	First Quarter	
2017 Operating Earnings (\$M and % of sales)	\$ 87	26 %
Translation effect	8	1
Volume, 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>



# Notable Info from Q1 2018 Earnings Release & Call



- ▶ Capital expenditure expectations of 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 <b>Mid-to-High Single-digit</b>	Outlook Raised <b>Mid-to-High Single-digit</b>	Outlook Raised <b>Mid-to-High Single-digit</b>	Outlook Raised <b>Mid-to-High Single-digit</b>

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.

# Long-Term Cash Deployment Priorities



## Organic Growth

- ▶ International Footprint
- ▶ Product Development
- ▶ Production Capacity and Capabilities

## Acquisitions

- ▶ Supplement to Organic Growth
- ▶ Leverage Our Strengths

## Shareholder Return

- ▶ Solid Dividend History
- ▶ Approximately 6 Million Shares Remaining on Repurchase Authorization

# Key Investment Attributes



- ▶ Strategies that will drive long-term, above-market growth
- ▶ Premium products that provide a strong ROI for end users
- ▶ Leading industry positions
- ▶ Serve 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





# Financial Summary Q1 2018

Appendix

# Financial Results – First Quarter



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Net earnings, adjusted	\$ 84.1	\$ 57.0	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 %

# First Quarter 2018 Results



- ▶ Sales increased 19 percent; 5 percentage points from the favorable effect of currency translation and 3 percentage points from acquired businesses
- ▶ Gross profit margin rate up 0.1 percentage point compared to 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 expenses by \$3 million
- ▶ The effective income tax rate was 20% for the quarter, down 5 percentage points from first quarter last year. U.S. federal income tax reform legislation decreased the effective tax rate 8 percentage points. Excess tax benefits related to stock option exercises reduced the effective tax rate by 1 percentage point in 2018 and 4 percentage points in 2017
- ▶ Diluted earnings per share of \$0.49 included \$0.01 from excess tax benefits related to stock option exercises



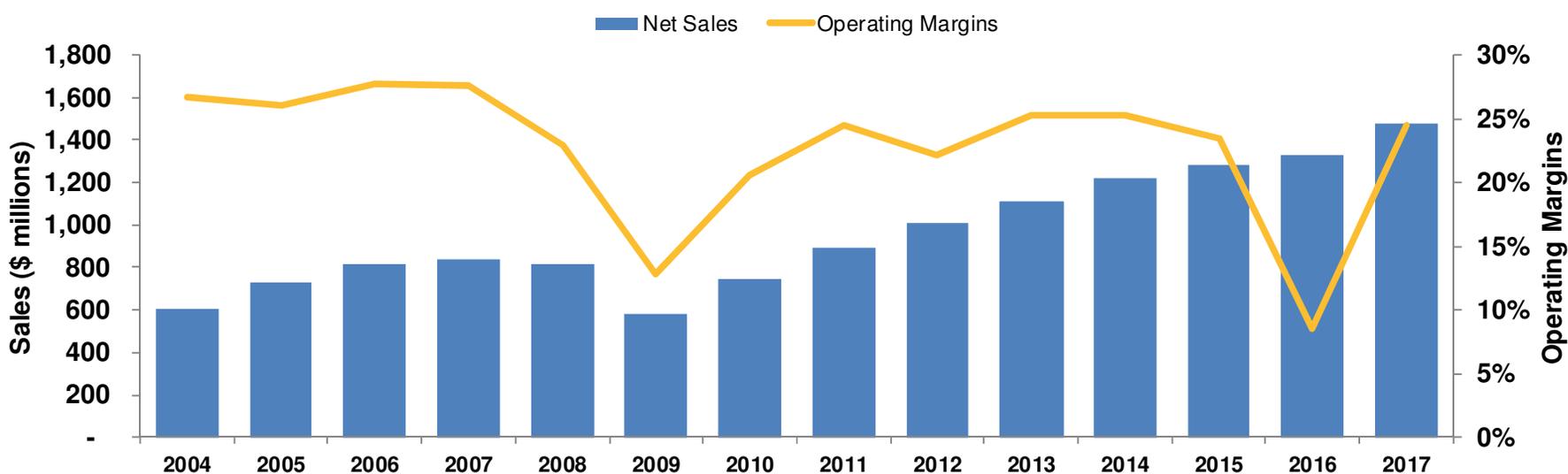
# Financial Summary 2017

## *Appendix*

# Financial Performance



## Sales and Operating Margin, as Reported



### Diluted EPS

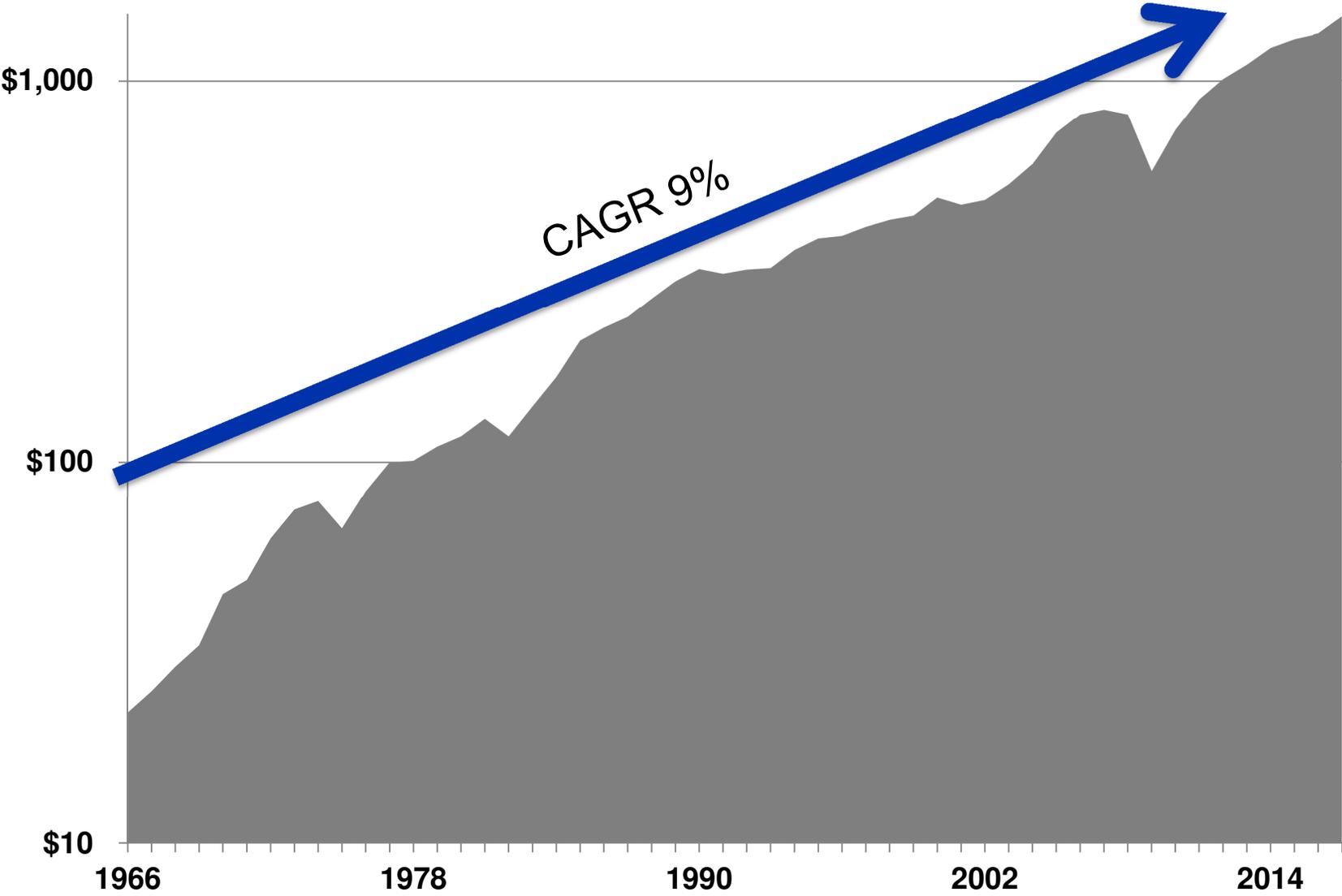
\$0.52	\$0.60	\$0.72	\$0.77	\$0.66	\$0.27	\$0.56	\$0.77	\$0.81	\$1.12	\$1.22	\$1.95	\$0.24	\$1.45
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Diluted EPS adjusted for 2017 3-for-1 stock split

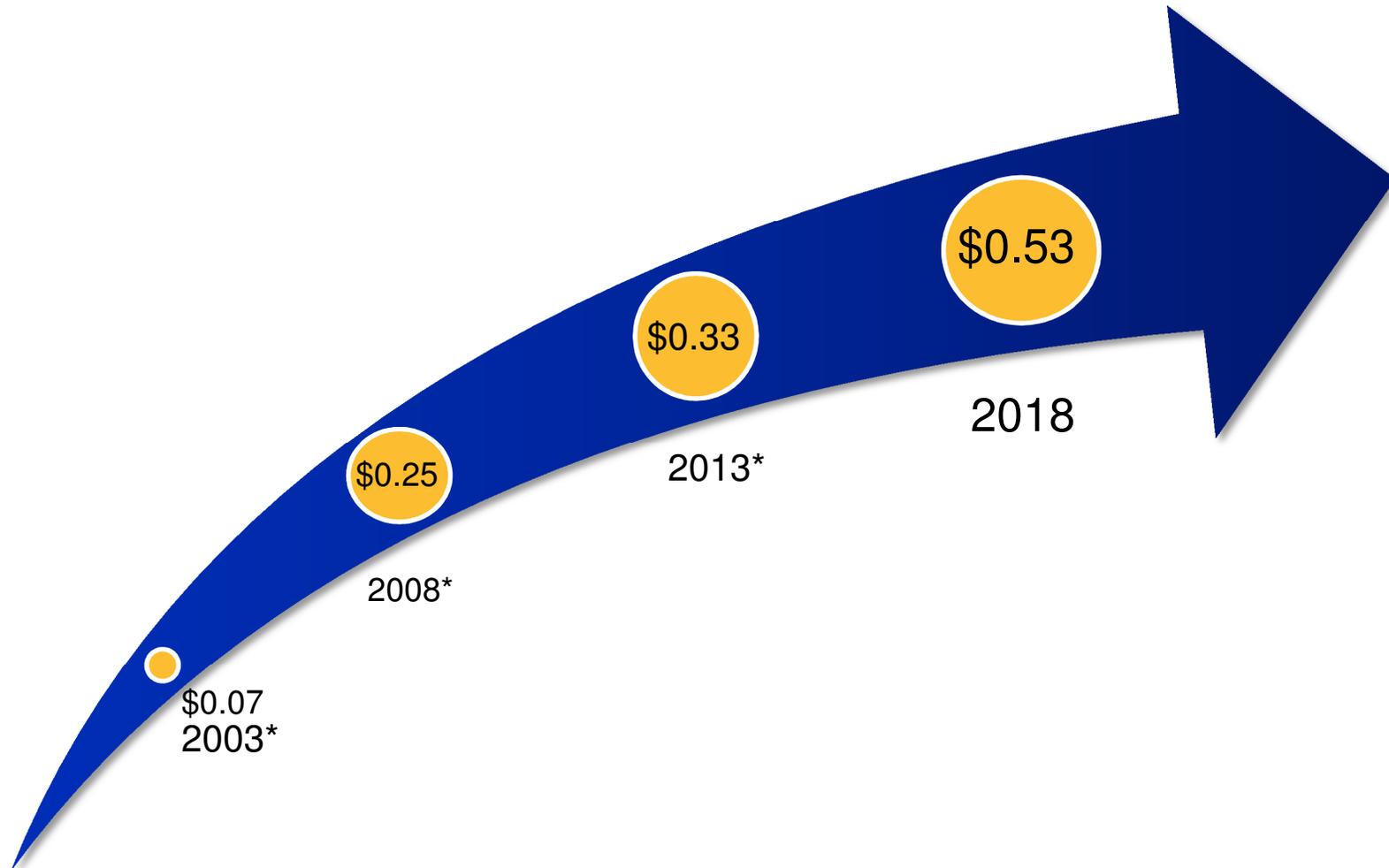
2017 – Pension loss settlement reduced operating earnings \$12 million and net earnings by \$8 million or \$0.04 per diluted share. A change in accounting for excess tax benefits related to stock option exercises, U.S. tax reform and tax planning benefits combined increased net earnings \$11 million or \$0.06 per diluted share

2016 – Impairment of intangible assets decreased operating earnings \$192 million and net earnings by \$161 million or \$0.94 per diluted share

# Historic Sales (\$ Millions)



# Stock Dividend Growth



\*Dividends adjusted for 2017 3-for-1 stock split

# Strong Cash Generation



(\$ Millions)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Operating Cash Flows	\$ 338	\$ 276	\$ 190	\$ 241	\$ 243	\$ 190	\$ 162	\$ 101	\$ 147	\$ 162
% of Net Income	134%	679%	55%	107%	115%	127%	114%	98%	300%	134%
Capital Expenditures	40	42	42	31	23	18	24	17	11	29
Free Cash Flow	\$ 298	\$ 234	\$ 148	\$ 210	\$ 220	\$ 172	\$ 138	\$ 84	\$ 136	\$ 133

2016 – Operating cash flows adjusted in 2017 to reflect change in accounting for excess tax benefits related to stock option exercises

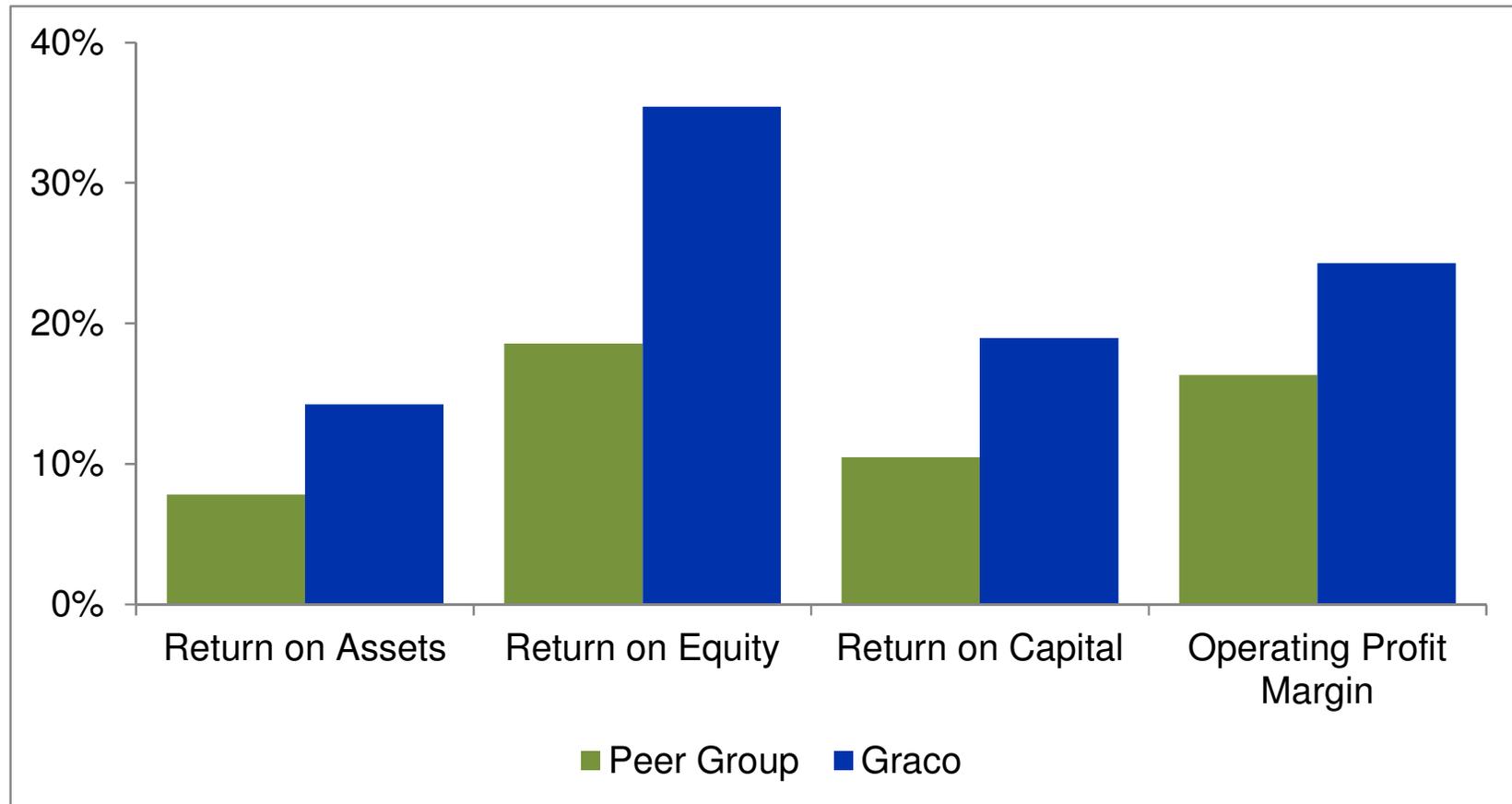
– Impairment of Intangibles, net of tax, charge of \$161 million was reflected in net income, \$191 million and related change in deferred taxes (\$31) million included in adjustments to reconcile net earnings

2015 - Divestiture of Liquid Finishing Held Separate assets net gain \$141 million reflected in net income, effect of taxes on the gain, transaction costs and foundation contribution are included in operating cash flows

(\$ Millions)	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008
Dividends	\$ 80	\$ 73	\$ 69	\$ 66	\$ 61	\$ 54	\$ 51	\$ 48	\$ 45	\$ 45
Acquisitions	28	49	189	185	12	667	2	-	-	55
Share Repurchases *	54	18	256	165	26	(29)	21	11	(6)	101
	\$ 162	\$ 140	\$ 514	\$ 416	\$ 99	\$ 692	\$ 74	\$ 59	\$ 39	\$ 201

\* Net of shares issued

# Capital Efficiency – 5 Year Average



2016 adjusted for impairment

Source: S&P Capital IQ



move

measure

mix

control

dispense

spray

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