



Investor Presentation

1st Quarter 2016

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 the Company's Form 10-K, and the current Quarterly Report on Form 10-Q.



✓ Overview

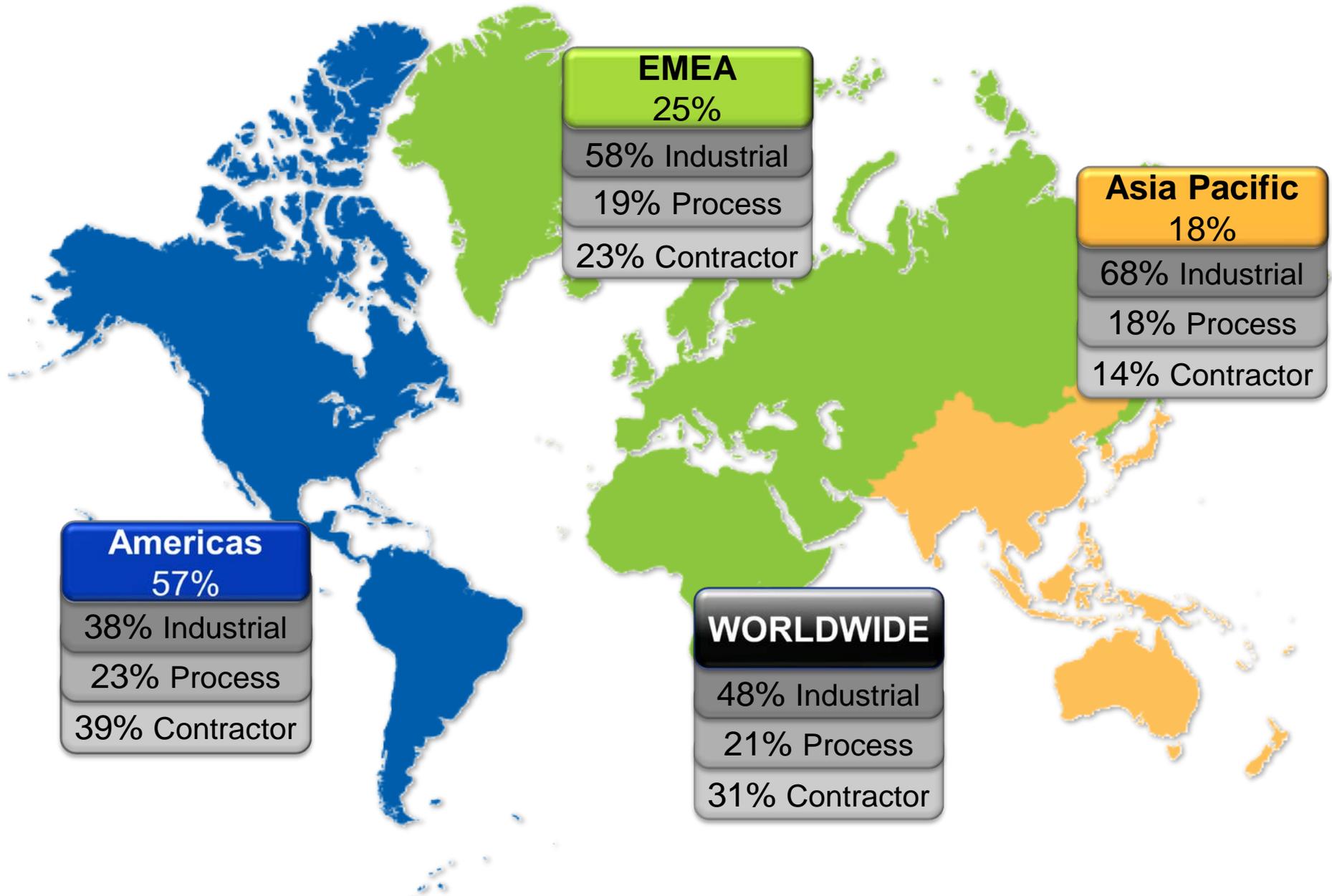
- ◆ Enduring Business Model
- ◆ Strategies for Long-Term Growth
 - Invest in New Products
 - Target New Markets
 - Make Acquisitions
- ◆ Company Performance

Business Overview

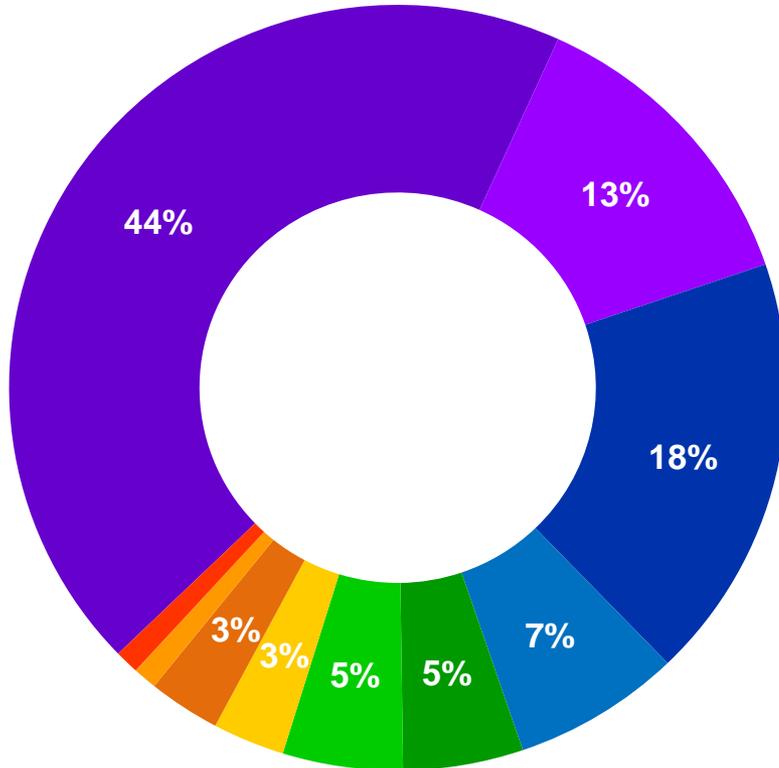
- Graco manufactures premium equipment to pump, move, meter, mix and dispense a wide variety of fluids and coatings
 - Difficult to handle materials with high viscosities
 - Abrasive and corrosive properties
 - Multiple component materials that require precise ratio control
 - Serving a broad number 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 2016 Sales – \$305 Million



2014 Sales by End Market*



- ▶ Residential & Non-Residential Construction – 44%
- ▶ Automotive – 13%
- ▶ Industrial & Machinery – 18%
- ▶ Other – 7%
- ▶ Oil and Natural Gas – 5%
- ▶ Public Works – 5%
- ▶ Vehicle Services – 3%
- ▶ Mining – 3%
- ▶ Wood – 1%
- ▶ White Goods – 1%

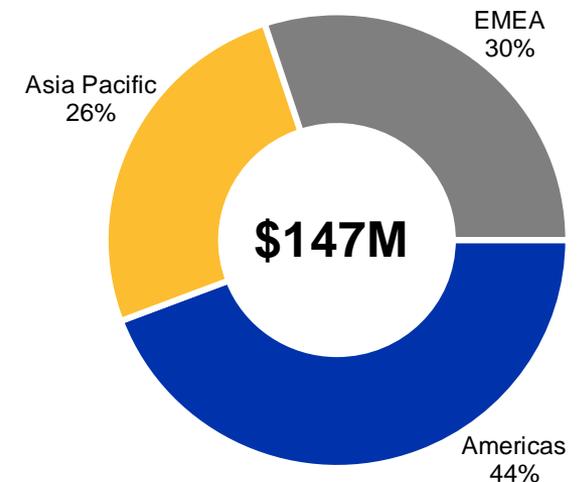
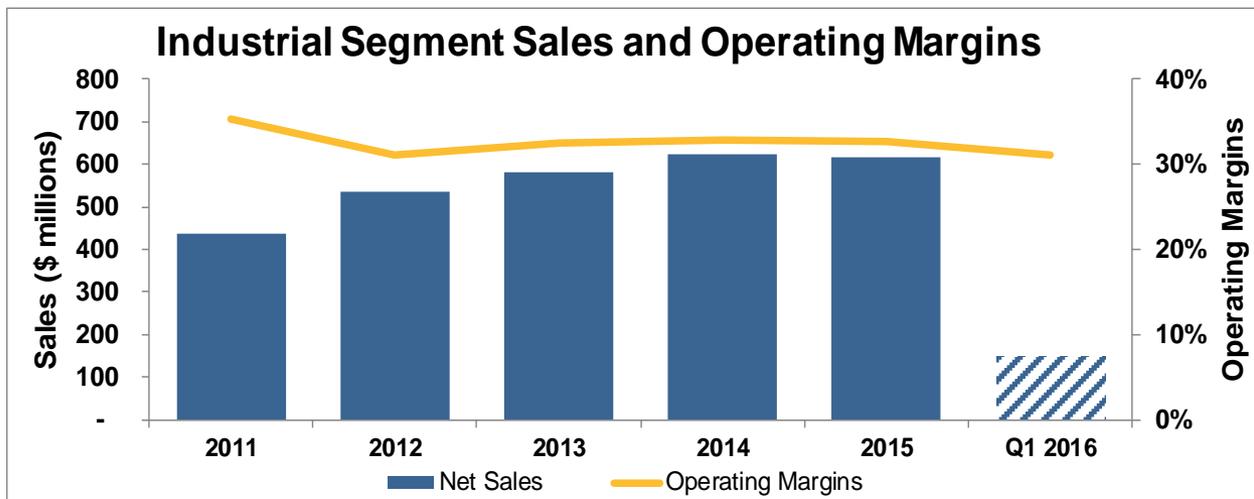
* Proforma for acquisitions completed prior to year-end 2015. Graco management estimate.

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 and regional players



Q1 2016 Sales

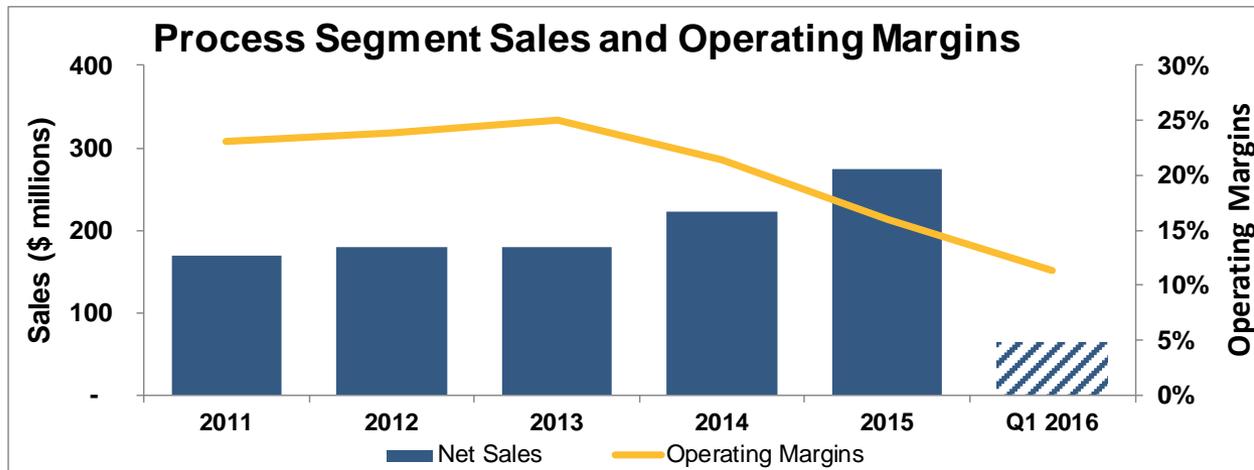
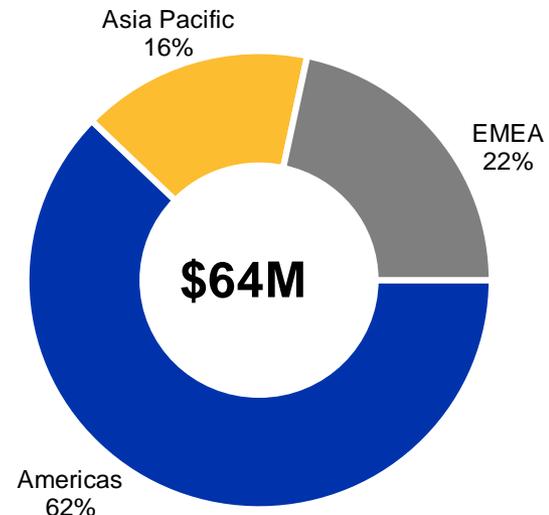


Process Equipment Segment

- Growth Drivers and Trends
 - Fill product lines for a single source solution
 - Targeting competition in the industrial lubrication market
- Other Representative Industry Participants
 - Idex, Dover, IR, Lincoln, Vogel, Bijur, Hannay, Coxreels, and regional players



Q1 2016 Sales

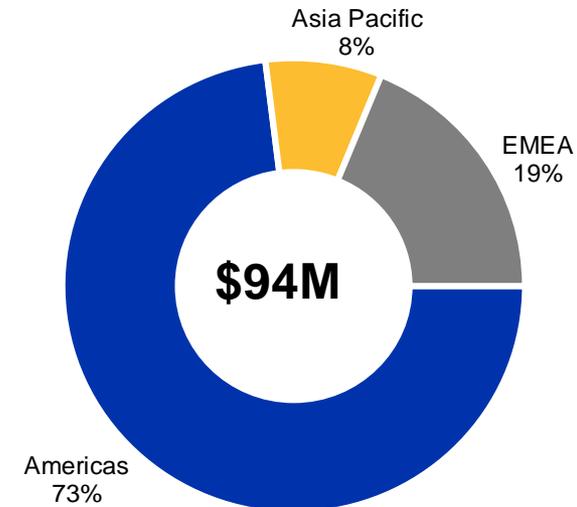


Contractor Equipment Segment

- Growth Drivers and Trends
 - Conversion of end users from manual application methods to equipment is a major focus outside North America
 - Application of texture and cementitious materials
 - Entry level product and channel expansion
 - Expanding pavement maintenance product line and channel
- Other Representative Industry Participants
 - Wagner, TTI, Campbell Hausfeld, Larius, Bedford, QTech, and regional players



Q1 2016 Sales





◆ Overview

✓ **Enduring Business Model**

◆ Strategies for Long-Term Growth

- Invest in New Products
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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	2014 Sales (\$ in millions)
0 - 1	39,188 (91%)	\$516 (49%)
2 - 5	2,552 (6%)	\$197 (19%)
6 - 10	612 (1%)	\$85 (8%)
11 - 15	216 (1%)	\$45 (4%)
Greater than 15	547 (1%)	\$217 (20%)
Legacy Graco Total	43,115	\$1,060
Plus: Acquired and Non Graco-branded		\$164
Graco 2014 Sales		\$1,224



- ◆ Overview
- ◆ Enduring Business Model

✓ **Strategies for Long-Term Growth**

- Invest in New Products
- Target New Markets
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- ◆ Company Performance

Growth Plans and Earnings Drivers





- ◆ Overview
- ◆ Enduring Business Model

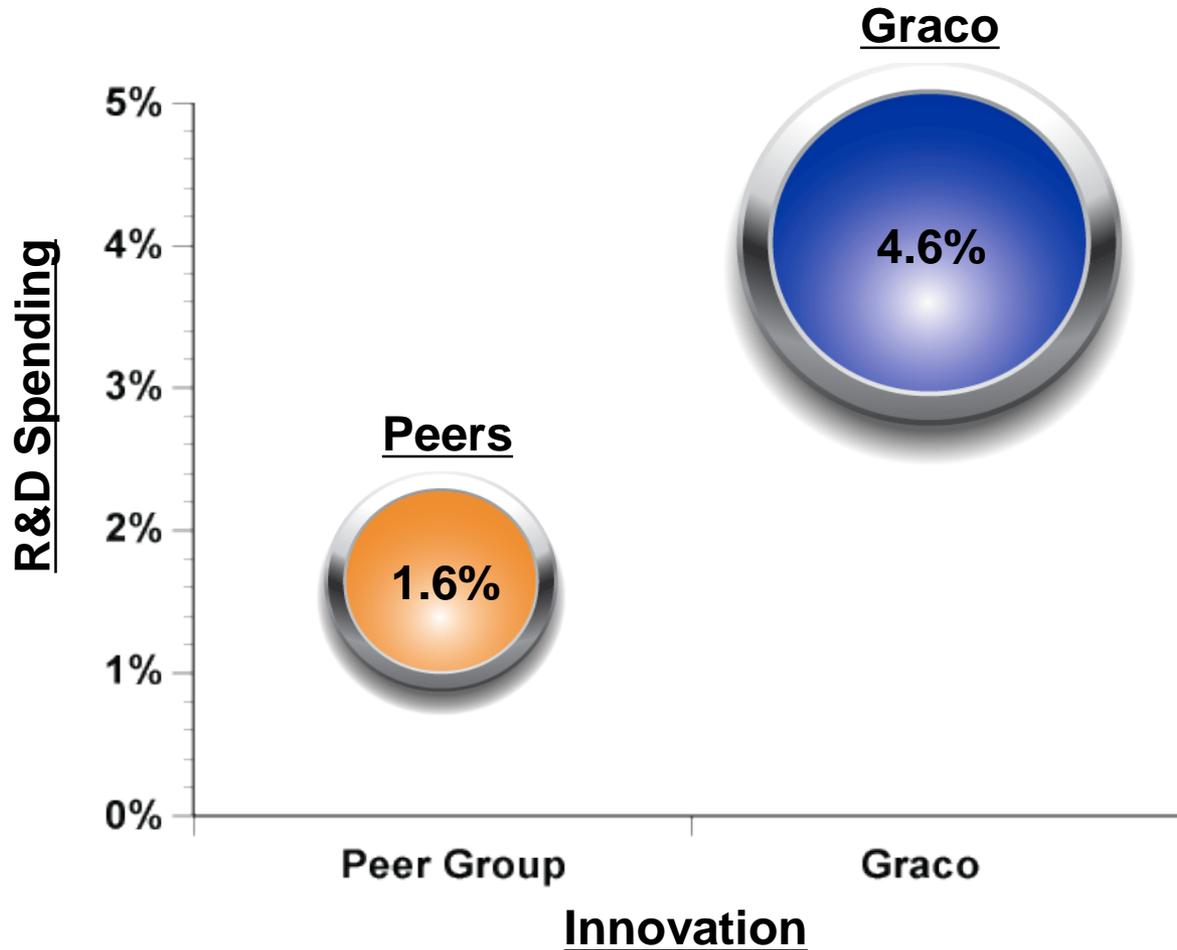
- ✓ **Strategies for Long-Term Growth**

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- ◆ Company Performance

Targeting Growth Through New Products & Markets

New Product Development Expense as a Percentage of Revenues – 2015



Contractor – Paint Sprayers



Home Center Products

- New “Pro” performance features
 - ProXChange™ “No Tools” pump repair cartridge
 - Longer life / higher output
 - Heavy-duty drive
- Patents pending

Pro Products

- Common platform delivers economies of scale for entry-level markets
- ProXChange “No Tools” pump repair cartridge
- Special models for fine finish applications
- Patents pending



Magnum[®]
ProX



Common Platform:
← - Motor →
- Drive
- Pump



FinishPro™ GX™ 19 AIRLESS

Texture Applications

- 3 new interior / exterior options
- Graco exclusive “Pro” features
 - 50% more air and fluid output
 - “SmartStart” system extends pump and compressor life
 - “Wide Tex” spray tips for higher production spraying
- Patents pending

Pavement Striping Applications

- New LineLazer V – 5th generation
- #1 selling airless line striping system worldwide
- 3 new model options
- Graco exclusive “Pro” features
 - “Automatic” striping guns
 - “SmartControl” digital tracking
 - “Auto Layout” parking lot system
- Patents pending

TexSpray RTX™



LineLazer® V

Everyday Striping



High Production



High Production Reflective



Process – Saniforce® 1040-e



Electric driven diaphragm pump for food and beverage applications

1 Durable Pump Technology

- Handles slurries and abrasives all without damage to the pump
- Gentle on shear sensitive material

2 Diaphragm Pump

- Runs dry
- No rotating or moving fluid seals
- Self priming

3 Electric Drive

- Reduce energy consumption and operating costs
- Increase pump control
- Accurately meter fluid

4 Motor Options

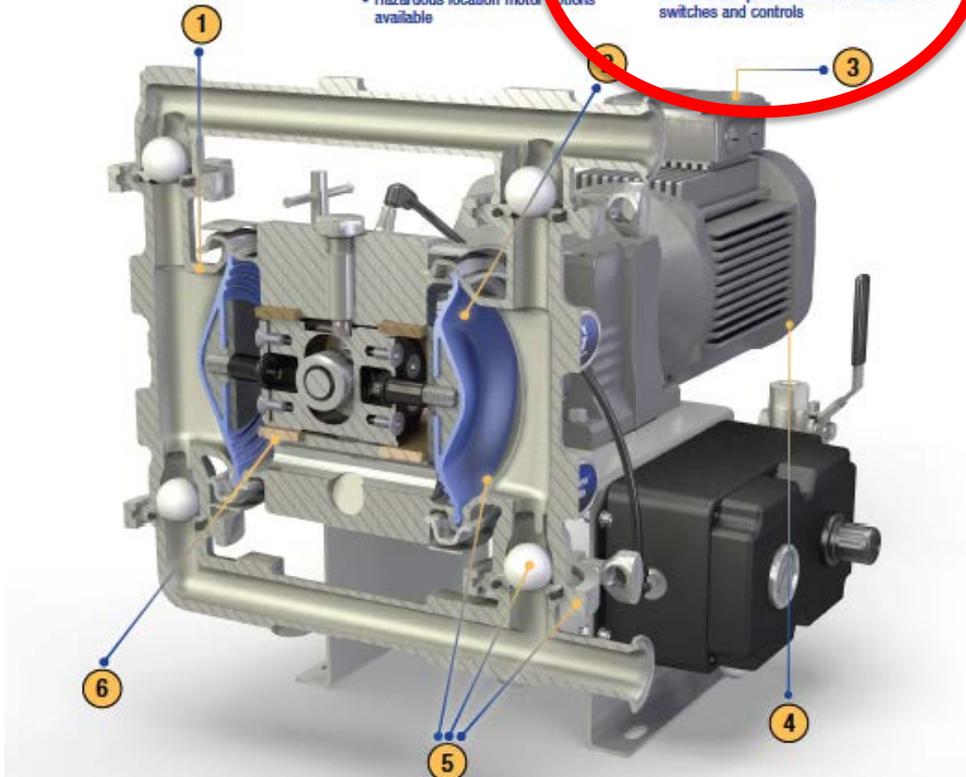
- Operate on 120v, 240v or 480v power
- Available in AC or Brushless DC
- Hazardous location motor options available

5 Fluid Section

- Create a pump designed with multiple material offerings for manifolds, seats, balls, and diaphragms

6 Patent Pending Air Charged Drive

- Increase diaphragm life without compromising your fluid
- Ability to reduce pulsation on fluid outlet
- Stalls under pressure without additional switches and controls



Process – LubePro™ Pumps

Robust platform of injector-based automatic lubrication systems

- Industry proven Fireball pump air cylinder and piston design
- High-strength, shatter resistant reservoir
- Cycles and vents lubricant injectors in as little as 10 seconds



High Pressure Diaphragm Pumps

- Superior durability for abrasive materials
- Innovative design ensures easy access to critical components for fast, online repair
- Minimal solvent to flush and consistent startup pressure make it perfect for multiple color change and piggable systems
- Pumps are easily configurable for custom installations





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◆ Enduring Business Model

✓ **Strategies for Long-Term Growth**

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✓ **Target New Markets**

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◆ Company Performance

Industrial – ToughTek®



- Expands our presence in the construction industry
- Handles cementitious materials
 - Stuccos, self-leveling flooring, fireproofing, repair mortars, grouts
- Piston pump technology
 - Fireproofing sprayers
 - Stucco / EIFS sprayers
- Rotor/stator pumps
 - Continuous mixers
 - Mortar pumps
 - Mixing pumps



**ToughTek F680e
Fireproofing Pump**



**ToughTek S340e
Stucco Pump**



P25 Mortar Pump



MP25 Mixing Pump



D35 Continuous Mixer

Industrial – EcoQuip[®] 2



- EcoQuip 2 sets new standards for Vapor Abrasive Blasting
 - Faster, easier, and more reliable than existing systems
 - Up to 92% less dust than traditional dry blasting
 - Much less water than traditional water based methods (around 1 qt./min)
- Expand into new markets
 - Coating removal
 - Concrete repair and restoration
 - Surface cleaning
 - Steel surface preparation



Coating Removal



Concrete Repair & Restoration



Concrete Cleaning



Concrete Surface Preparation



Steel Surface Preparation

Process – PSB High-Purity Pumps



High Purity Diaphragm Pumps for Chemical Delivery & Dispense

- Leak-free check caps with tongue-&-groove seals
- High-density PTFE prevents frequent tiebolt retorque
- Durable machined design with minimal parts
- Process-safe PTFE, PFA fluid paths ideal for high-purity chemicals
- Reliable, safe operation; no exposed metals
- Internal, non-stall shuttle valve saves space and eliminates resets
- Pneumatic Logic™ provides dead-head operation without stall



PSB Series Pumps

[PSB Series](#) air-operated double-diaphragm (AODD) pumps feature PTFE/PFA fluid paths for high-purity chemical delivery, dispense and transfer applications. They are capable of 106 LPM flow rates and 5.5 Bar (80 PSI) air pressures. PSB100 pumps are direct retrofit replacements for obsolete chemical delivery pumps.





◆ Overview

◆ Enduring Business Model

✓ **Strategies for Long-Term Growth**

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✓ **Make Acquisitions**

◆ Company Performance

Recent Acquisitions

- **QED**TM
Environmental Systems
- **EcoQuip**[®]
VAPOR ABRASIVETM BLAST EQUIPMENT
- **Alco Valves Group**TM
- **Geo-Blaster**[®]
WET-ABRASIVE BLASTING EQUIPMENT
- **MULTIMAQ**TM
sprayway
- **WHITE KNIGHT**[™]
.....simply driven™
- **HiP**TM High Pressure Equipment Company
- **machine**
TECHNOLOGIES
- **EPS** Environmental
Pump Solutions
- **hildebrand**
TECHNOLOGY
- **Geotech & LANJTEC**[®]
A subsidiary of LANJTEC

Geotechnical Instruments – UK manufacturer of portable and fixed landfill gas analyzers and biogas analyzers used for monitoring, compliance, and control of landfill and biogas processes

Landtec – Manufactures landfill gas wellheads and accessories



Landfill



Biogas



**Wastewater
Anaerobic
Digestion**



Medical Gas



- ◆ Overview
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✓ **Company Performance**

Financial Results



\$ millions except EPS	First Quarter		
	2016	2015	Change
Sales	\$ 304.9	\$ 306.5	(1)%
Gross Profit	161.8	162.1	(0)%
% of Sales	53.1 %	52.9 %	0.2 pts
Operating Earnings	60.9	65.2	(7)%
% of Sales	20.0 %	21.3 %	(1.3) pts
Held Separate Investment Income, Net	-	(29.5)	
Net Earnings	\$ 39.6	\$ 68.8	(43)%
% of Sales	13.0 %	22.5 %	(9.5) pts
Diluted Earnings Per Share	\$ 0.70	\$ 1.14	(39)%
<i>Diluted Shares in Millions</i>	56.7	60.5	

Net earnings in the first quarter of 2015 included net investment income of \$30 million from the Liquid Finishing businesses that were sold in the second quarter of 2015:

	First Quarter	
	2016	2015
Adjusted Net Earnings	\$ 39.6 M	\$ 39.1 M
Diluted EPS as adjusted	\$ 0.70	\$ 0.65

See page 31 for reconciliation of the adjusted non-GAAP financial measures to GAAP

Non-GAAP Reconciliation



- Net earnings in the first quarter of 2015 included \$30 million (\$0.49 per diluted share) of net investment income from Liquid Finishing
- The Liquid Finishing businesses were sold in the second quarter of 2015. Second quarter 2015 net earnings included net gain on the sale of \$110 million (\$1.85 per diluted share)
- Results excluding Liquid Finishing investment income and expense provide a more consistent base of comparison of on-going results
- Calculation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

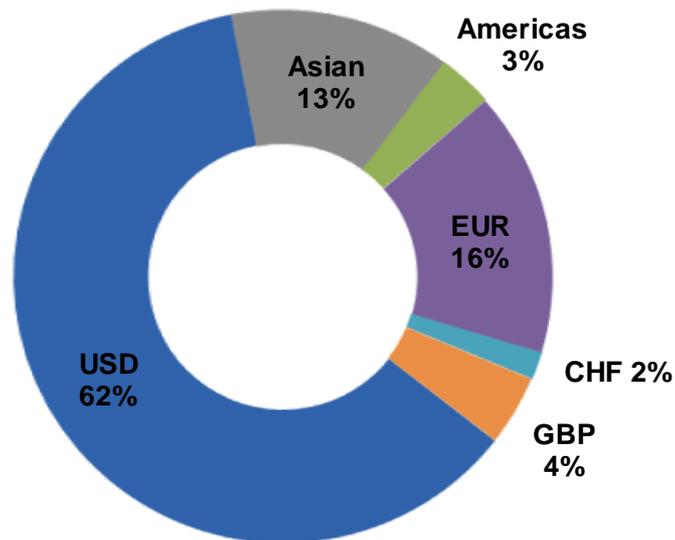
	<u>First Quarter</u>	
	<u>2016</u>	<u>2015</u>
Net earnings as reported	\$ 39.6	\$ 68.8
Held Separate investment (income), net	-	(29.5)
Income tax effect on Held Separate income	-	(0.2)
Adjusted net earnings	<u>\$ 39.6</u>	<u>\$ 39.1</u>
Diluted EPS as reported	\$ 0.70	\$ 1.14
Diluted EPS as adjusted	0.70	0.65

Components of Net Sales Change

First Quarter March 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	(11)%	(1)%	(7)%	10 %	6 %	(1)%
Acquisitions	2 %	8 %	-	1 %	3 %	3 %	2 %
Currency	(2)%	(2)%	(1)%	-	(3)%	(3)%	(2)%
Total	3 %	(5)%	(2)%	(6)%	10 %	6 %	(1)%

Sales by Currency 2016



Asian currencies include:
AUD, CNY/RMB, KRW,
JPY

Americas currencies
include:
CAD, BRL, MXN

Operating Earnings



Change in Operating Earnings

2015 Operating Earnings (\$M and % of sales)

Translation effect

Mix, pricing and product cost

Effect of acquired businesses operations on operating earnings leverage

Effect of 2015 inventory step-up and acquisition costs, net of 2016

Incremental investment in growth initiatives

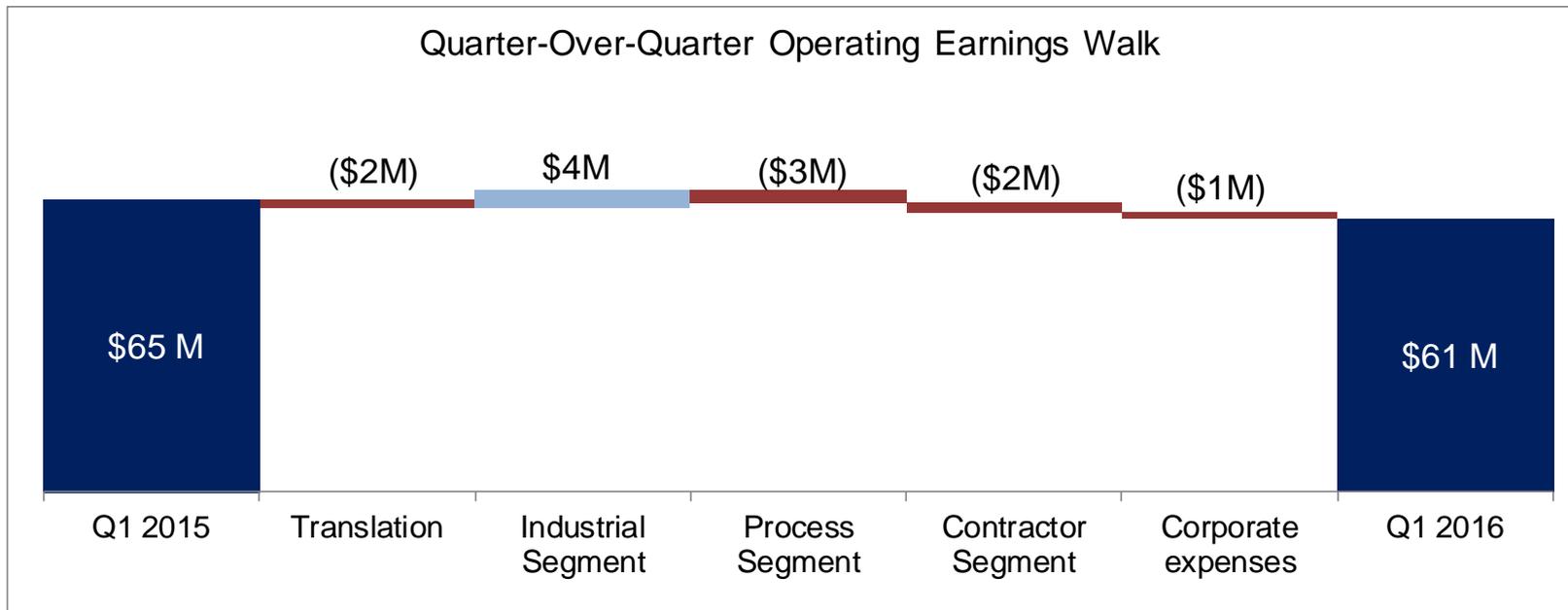
Unallocated corporate expenses (pension, stock compensation)

Volume effect on expense leverage

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

First Quarter

\$ 65	21 %
(2)	—
(2)	—
1	—
2	1
(1)	—
(1)	(1)
(1)	(1)
<u>\$ 61</u>	<u>20 %</u>



First Quarter 2016 Results



- Sales decreased 1 percent (at consistent currency translation rates, sales increase 1 percent); acquired businesses account for 2 percentage points of growth
- Gross profit margin consistent with first quarter 2015
 - Favorable effects of realized pricing and reduced acquisition related purchase accounting effects offset the impact lower factory volume and product mix
- Operating expenses were \$4 million (4 percent) higher than first quarter 2015. Increase included expenses of acquired operations of \$3 million. Unallocated corporate expenses, primarily stock compensation and pension, increased \$1 million
- Net earnings in the first quarter of 2015 included \$30 million (\$0.49 per diluted share) of net investment income from the Liquid Finishing businesses

Notable Info from Q1 2016 Earnings Release & Call

- Capital expenditure expectations of approximately \$40 million in 2016 do not include building expansion for the Contractor business which is nearing capacity
- Unallocated corporate expenses may vary by quarter; full year 2016 expenses are expected to be similar to 2015
- Opportunistic share repurchases may continue via open market transactions and/or short-dated accelerated share repurchase programs
- Changes in currency translation rates decreased first quarter sales and net earnings by \$5 million and \$2 million respectively. At current rates, we expect a modest currency headwind for the second quarter and an insignificant effect from currency translation for the full year
- The effective tax rate was 31% for the quarter, above the 22% rate in first quarter 2015
 - The 2015 rate benefited from the \$30 million in post-tax dividends from Liquid Finishing
 - First quarter 2016 benefited from foreign earnings taxed at lower rates than the U.S. and the R&D tax credit that was not reinstated in first quarter 2015
- The tax rate for second quarter and the full year is expected to be approximately 31%

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 2016 (7%)	Sales Change Q1 2016 10%	Sales Change Q1 2016 6%	Sales Change Q1 2016 (1%)
Industrial Segment	 Sales Change Q1 2016 (4%)	 Sales Change Q1 2016 11%	 Sales Change Q1 2016 10%	Sales Change Q1 2016 3%
Contractor Segment	 Sales Change Q1 2016 (8%)	 Sales Change Q1 2016 29%	 Sales Change Q1 2016 8%	Sales Change Q1 2016 (1%)
Process Segment	 Sales Change Q1 2016 (12%)	 Sales Change Q1 2016 (12%)	 Sales Change Q1 2016 (7%)	Sales Change Q1 2016 (11%)
Full Year 2016 Outlook	Mid Single Digits	Low Single Digits	Low Single Digits	Low-to-Mid Single Digits

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

- ▶ Dividend Payout Ratio ~30%
- ▶ Approximately 4 Million Shares Remaining on 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
- 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





Financial Summary 2015

Appendix

Financial Results – Full Year



(\$ Millions except EPS)	<u>2015</u>	<u>2014</u>	<u>Change</u>
Sales	\$ 1,286.5	\$ 1,221.1	5%
Gross Profit Rate	53.2%	54.6%	
Operating Expenses	382.6	357.8	7%
Operating Earnings	302.1	308.9	(2%)
Net Earnings	\$ 345.7	\$ 225.6	53%
Earnings Per Share	\$ 5.86	\$ 3.65	61%

In April, the Company sold the Liquid Finishing business assets acquired in 2012. Calculation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

	<u>2015</u>	<u>2014</u>
Net earnings as reported	\$ 345.7	\$ 225.6
Held Separate investment (income), net	(191.6)	(26.0)
Income tax effect on Held Separate income	50.2	(0.8)
Adjusted net earnings	<u>\$ 204.3</u>	<u>\$ 198.8</u>
Diluted EPS as reported	\$ 5.86	\$ 3.65
Diluted EPS as adjusted	3.46	3.22

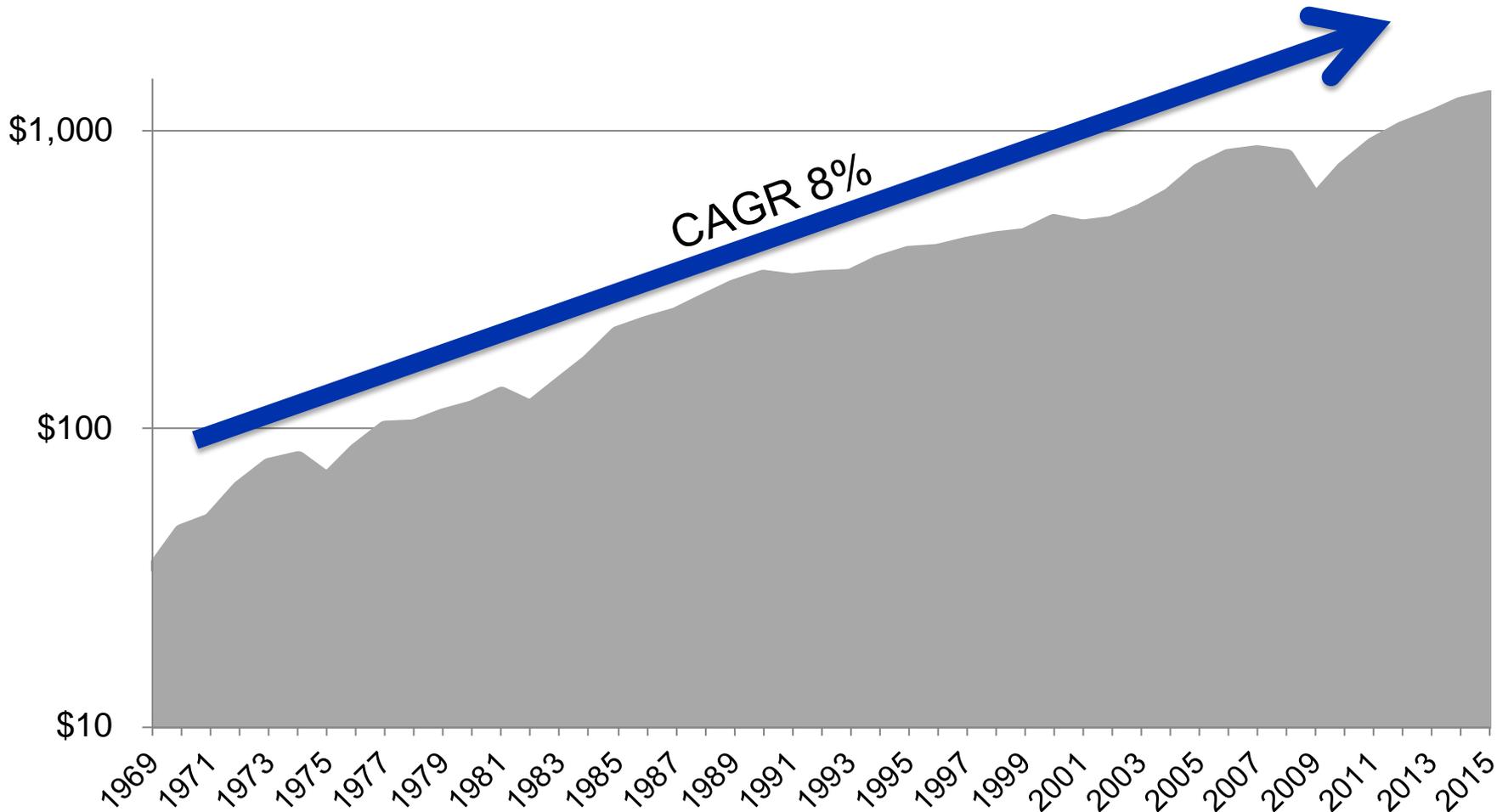
Financial Performance



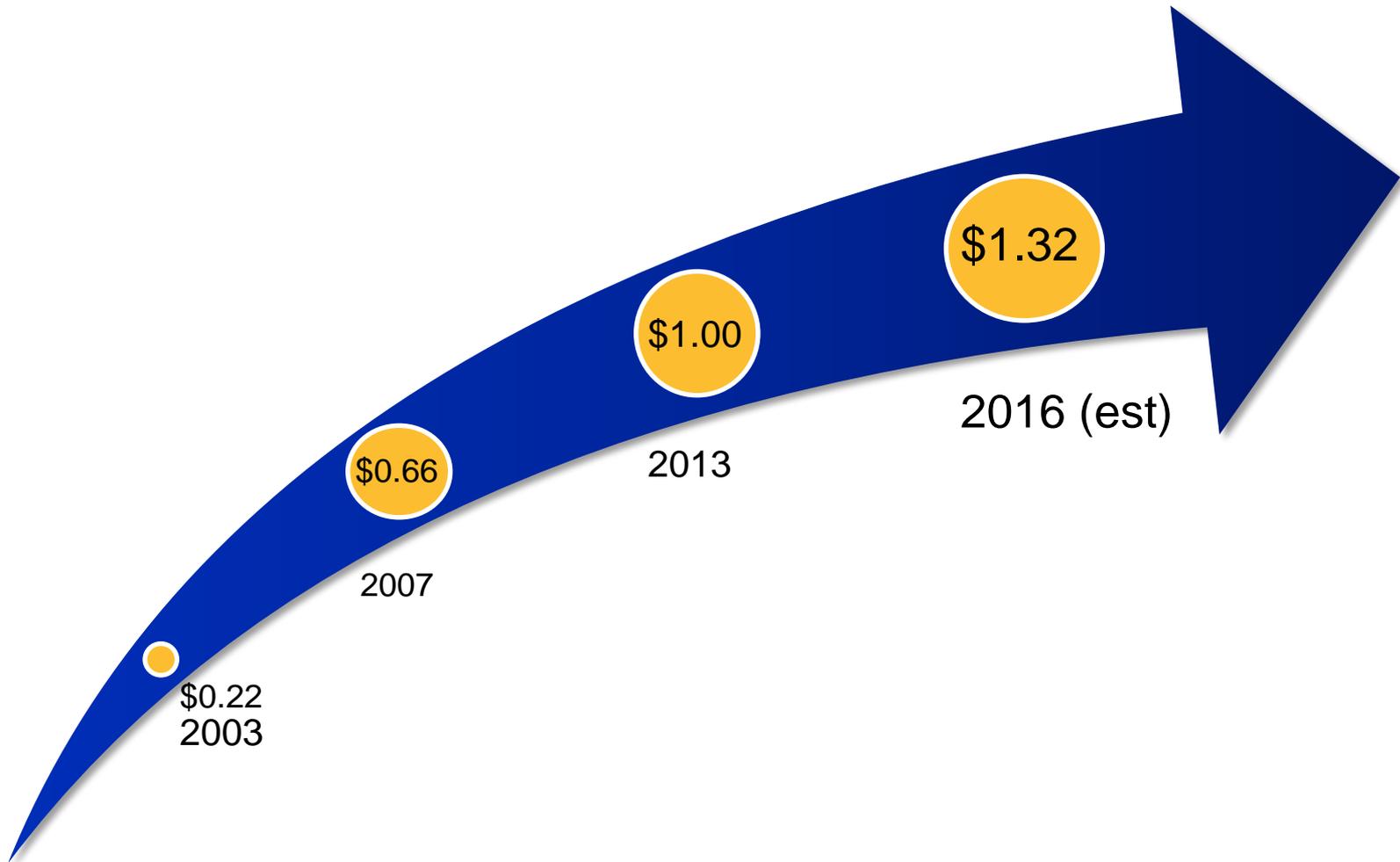
Sales and Operating Margin



Historic Sales (\$ Millions)



Stock Dividend Growth



Strong Cash Generation



(\$ Millions)	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating Cash Flows	\$ 190	\$ 241	\$ 243	\$ 190	\$ 162	\$ 101	\$ 147	\$ 162	\$ 177
% of Net Income	55%	107%	115%	127%	114%	98%	300%	134%	116%
Capital Expenditures	42	31	23	18	24	17	11	29	37
Free Cash Flow	\$ 148	\$ 210	\$ 220	\$ 172	\$ 138	\$ 84	\$ 136	\$ 133	\$ 140

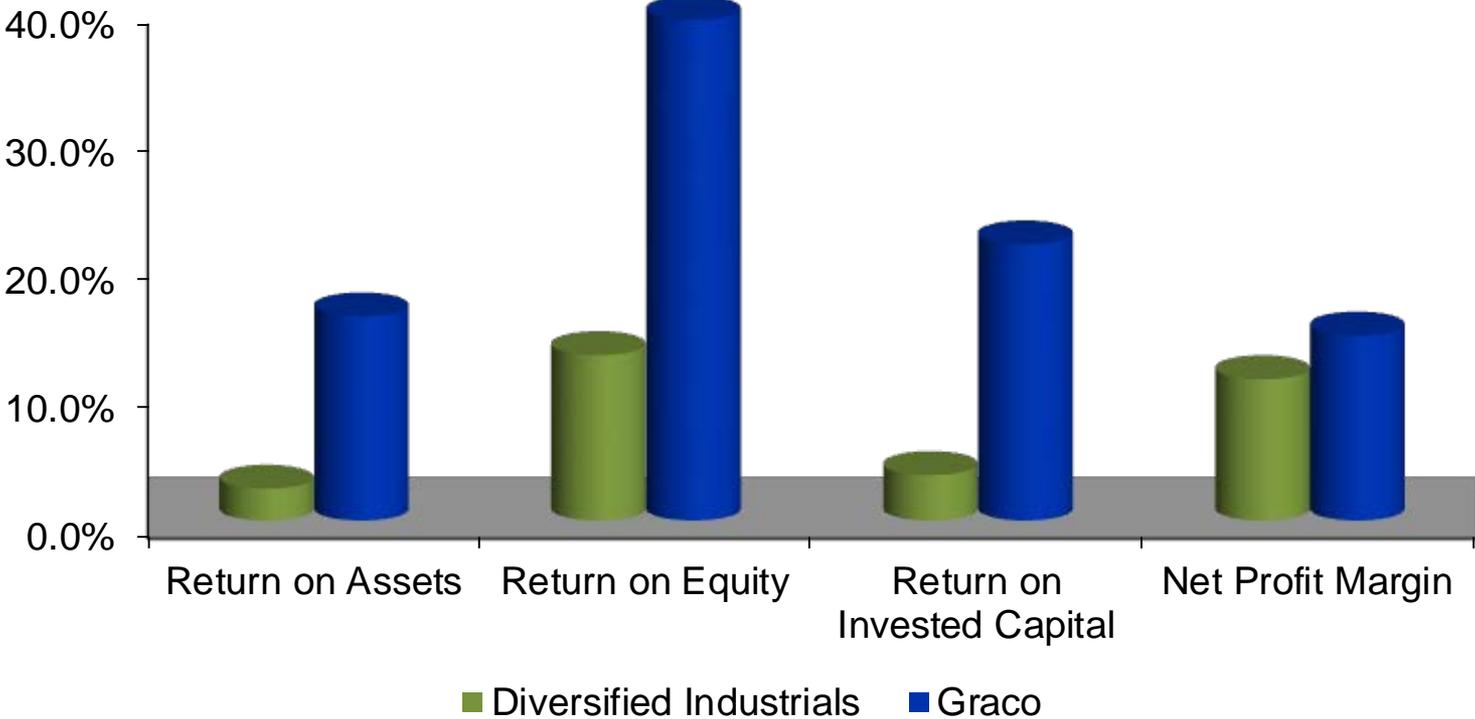
Divestiture of Liquid Finishing Held Separate assets - sale completed in Q2 2015

- Gain on the sale, net of expenses, was \$141 million and reflected in net income.
- Effect of taxes on the gain, transaction costs & foundation contribution are included in operating cash flows: payments total \$67 million in 2015

(\$ Millions)	2015	2014	2013	2012	2011	2010	2009	2008	2007
Dividends	\$ 69	\$ 66	\$ 61	\$ 54	\$ 51	\$ 48	\$ 45	\$ 45	\$ 43
Acquisitions	189	185	12	667	2	-	-	55	-
Share Repurchases *	256	165	26	(29)	21	11	(6)	101	206
	\$ 514	\$ 416	\$ 99	\$ 692	\$ 74	\$ 59	\$ 39	\$ 201	\$ 249

* Net of shares issued

Capital Efficiency – 5 Year Average



Source: Interactive Data, MSN Money



move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

www.graco.com