



2nd Quarter 2019 Earnings Conference Call

July 25, 2019

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 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 July 24, 2019.

Conference Call Logistics

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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, July 25, 2019. The replay by telephone will be available through July 29, 2019.

- ▶ 888-203-1112 – Conference ID #9658513
- ▶ 719-457-0820 – with the same conference ID #, for International participants

Financial Results

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Statement of Earnings	Second Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
\$ in millions except per share amounts						
Sales	\$ 428	\$ 425	1 %	\$ 833	\$ 831	0 %
Gross Profit	227	230	(1)%	443	452	(2)%
% of Sales	53.0 %	54.1 %	(1.1) pts	53.2 %	54.4 %	(1.2) pts
Operating Earnings	112	113	(1)%	217	225	(4)%
% of Sales	26.2 %	26.7 %	(0.5) pts	26.0 %	27.1 %	(1.1) pts
Net Earnings	\$ 88	\$ 89	(1)%	\$ 175	\$ 175	0 %
% of Sales	20.6 %	21.0 %	(0.4) pts	21.0 %	21.0 %	(0.0) pts
Diluted Earnings Per Share	\$ 0.51	\$ 0.51	0 %	\$ 1.02	\$ 1.00	2 %
<i>Diluted Shares in Millions</i>	172.0	173.3		171.5	174.5	
<i>Net Earnings, Adjusted (1)</i>	\$ 86	\$ 83	4 %	\$ 166	\$ 167	(0)%
<i>Diluted Earnings Per Share, Adjusted (1)</i>	\$ 0.50	\$ 0.48	4 %	\$ 0.97	\$ 0.96	1 %

(1) Net earnings and diluted earnings per share for 2019 and 2018 have been adjusted to provide a more consistent basis of comparison of on-going results. See page 18 for a reconciliation of the adjusted non-GAAP financial measures to GAAP.

Sales



Components of Net Sales Change

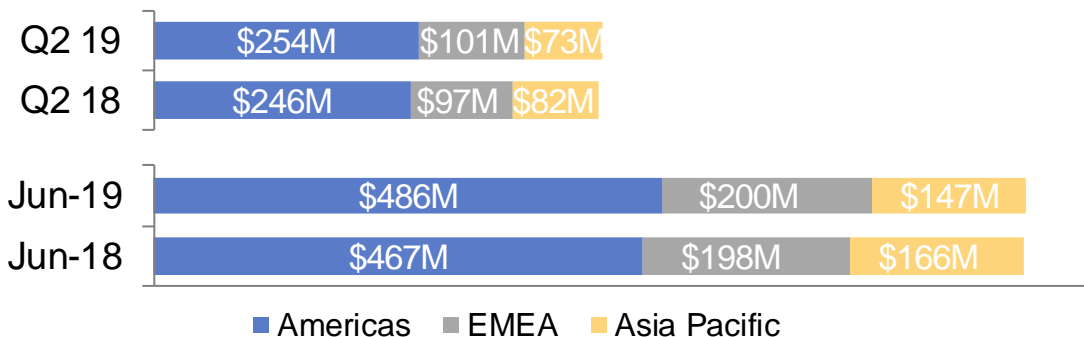
Second Quarter 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	2 %	1 %	5 %	4 %	10 %	(6)%	3 %
Acquisitions	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(3)%	(1)%	(1)%	(1)%	(6)%	(4)%	(2)%
Total	(1)%	0 %	4 %	3 %	4 %	(10)%	1 %

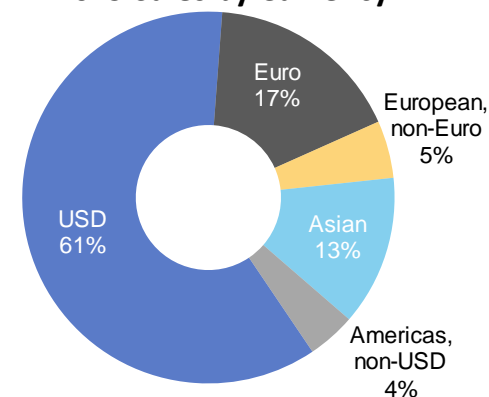
Year-to-Date June 2019

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	1 %	6 %	3 %	4 %	7 %	(7)%	3 %
Acquisitions	0 %	0 %	0 %	0 %	0 %	0 %	0 %
Currency	(3)%	(2)%	(2)%	0 %	(6)%	(4)%	(3)%
Total	(2)%	4 %	1 %	4 %	1 %	(11)%	0 %

Sales by Region



2019 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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2018 Operating Earnings (\$M and % of sales)

Translation effect

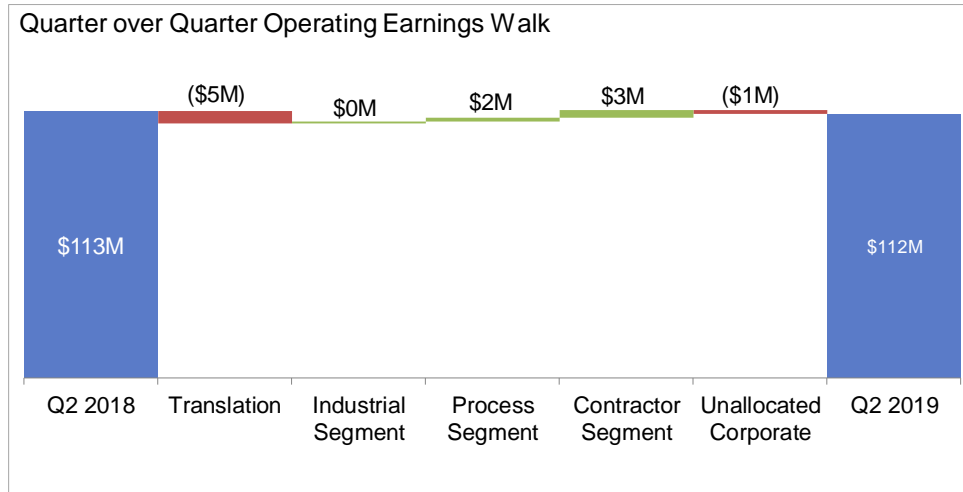
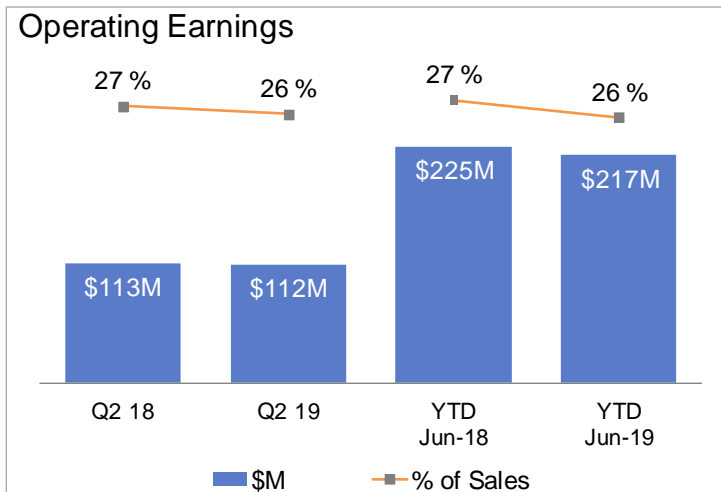
Price and cost, product and channel mix

Unallocated corporate expense, stock compensation

Volume effect on expense leverage

2019 Operating Earnings (\$M and % of sales)

Second Quarter		Year-to-Date	
\$ 113	27 %	\$ 225	27 %
(5)	(1)	(11)	(1)
4	(1)	6	(1)
(1)	0	(2)	0
1	1	(1)	1
<u>\$ 112</u>	<u>26 %</u>	<u>\$ 217</u>	<u>26 %</u>



Second Quarter 2019

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Sales	<ul style="list-style-type: none">▶ Changes in currency translation rates offset underlying growth. For the second quarter, sales up 1 percent (up 3 percent at consistent currency rates)
Gross Margin	<ul style="list-style-type: none">▶ Rate down 1.1 percentage points from second quarter 2018<ul style="list-style-type: none">▪ Unfavorable effect of currency translation▪ Realized pricing offset adverse impacts of higher material costs▪ Gross margin rate also affected by unfavorable factory volumes as well as unfavorable channel and product mix
Operating Earnings	<ul style="list-style-type: none">▶ Decreased \$1 million, or 1%, from second quarter 2018<ul style="list-style-type: none">▪ Currency translation rates decreased operating earnings by approximately \$5 million partially offset by increases in underlying sales volume
Other Expense	<ul style="list-style-type: none">▶ Decreased \$3 million<ul style="list-style-type: none">▪ Lower exchange losses on net assets of foreign operations and lower market-based pension costs
Taxes	<ul style="list-style-type: none">▶ The effective tax rate for the quarter was 18%, up 3 percentage points from second quarter 2018<ul style="list-style-type: none">▪ Increase due primarily to a decrease in excess tax benefits related to stock option exercises

June 2019 Year to Date

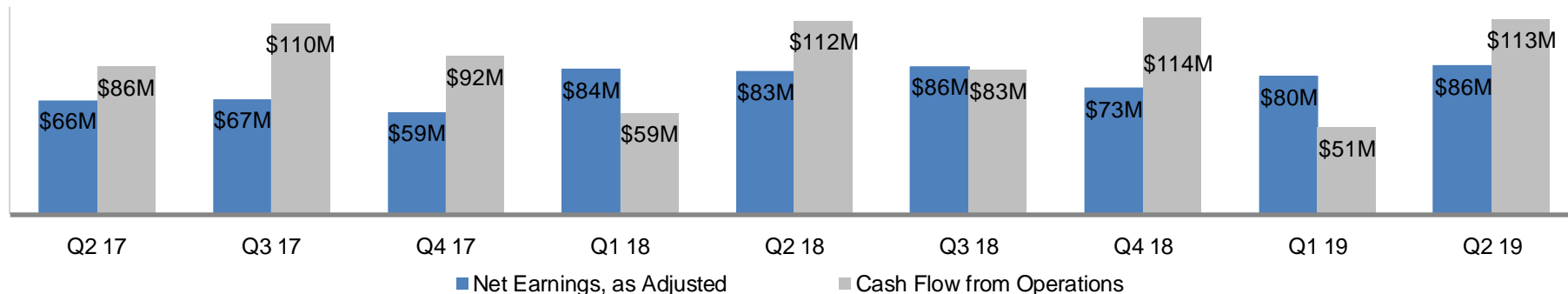
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Sales	<ul style="list-style-type: none">▶ Underlying growth was offset by currency translation rates compared to last year. Sales up 3 percent at consistent currency rates
Gross Margin	<ul style="list-style-type: none">▶ Rate down 1.2 percentage points from 2018<ul style="list-style-type: none">▪ Unfavorable effect of currency translation driving nearly half of the decrease, realized pricing partially offset adverse impacts of higher material costs and unfavorable channel and product mix
Operating Earnings	<ul style="list-style-type: none">▶ Decreased \$8 million, or 4%, from 2018<ul style="list-style-type: none">▪ Currency translation rates decreased operating earnings by approximately \$11 million▪ Lower gross margin rates offset by improved expense leverage
Other Expense	<ul style="list-style-type: none">▶ Decreased \$4 million<ul style="list-style-type: none">▪ Lower market-based pension costs and lower exchange losses on net assets of foreign operations
Taxes	<ul style="list-style-type: none">▶ The effective tax rate for the year to date was 16%, down 2 percentage points from the comparable period last year<ul style="list-style-type: none">▪ Decrease due to net benefits from U.S. tax reform provisions and non-recurring tax planning activities

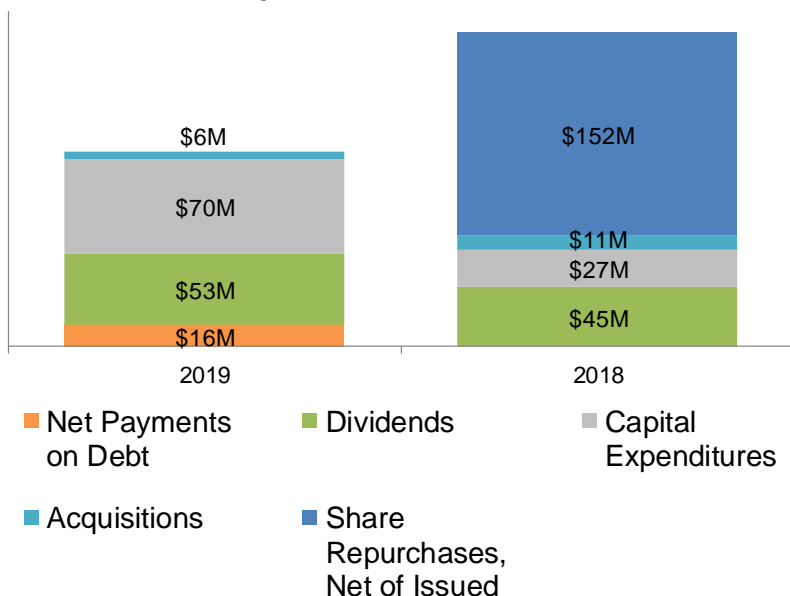
Cash Flow and Liquidity



Net Earnings, as Adjusted, and Cash from Operations



Significant Uses of Cash



- ▶ Net cash provided by operating activities was \$164 million in 2019 vs. \$171 million in 2018
- ▶ Capital expenditures of \$70 million, including building expansion projects to increase production and distribution capacity
- ▶ Debt, including notes payable, was \$261 million - down \$16 million from December 2018
 - Subsequent to the end of second quarter, prepaid \$75 million of private placement debt due in January, 2020
 - Interest expense down \$0.2 million from 2018
- ▶ No shares repurchased through June 2019
 - \$2.4 million of 2018 repurchases settled in the first quarter 2019

Other Discussion Items










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Cap Ex	<ul style="list-style-type: none">▶ Capital expenditure expectations of approximately \$40 million in 2019, excluding brick and mortar. Current estimate of 2019 building projects to increase production and distribution capacity is approximately \$110-\$115 million<ul style="list-style-type: none">▪ Additional building project investments of approximately \$35 million anticipated in 2020 - 2021
Expenses	<ul style="list-style-type: none">▶ Unallocated corporate expenses in 2019 are expected to be approximately \$31 million
Shares	<ul style="list-style-type: none">▶ Through June 2019 we made no share repurchases. We may make opportunistic repurchases going forward
Currency	<ul style="list-style-type: none">▶ At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2018, the unfavorable movement in foreign currencies would be a headwind on 2019 of approximately 1½% on sales and 3% on earnings, with the impact moderating in the second half of the year
Taxes	<ul style="list-style-type: none">▶ The effective tax rate for the third quarter and the full year is expected to be between 20% - 21%, excluding any impact from excess tax benefits related to stock option exercises and other one time items
Tariffs & Materials	<ul style="list-style-type: none">▶ Incremental impact of U.S. tariffs, retaliatory tariffs and higher material costs expected to be approximately \$25 million for the full year 2019

2019 Environment and Outlook

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

	Americas	EMEA	Asia Pacific	Total
Current Environment	Sales Q2 2019 4% 2019 4%	Sales Q2 2019 10% 2019 7%	Sales Q2 2019 (6%) 2019 (7%)	Sales Q2 2019 3% 2019 3%
Industrial Segment	Environment Unchanged  Sales Q2 2019 2% 2019 6%	Environment Unchanged  Sales Q2 2019 10% 2019 7%	Environment Downgraded  Sales Q2 2019 (6%) 2019 (10%)	Sales Q2 2019 2% 2019 1%
Process Segment	Environment Unchanged  Sales Q2 2019 1% 2019 6%	Environment Unchanged  Sales Q2 2019 2% 2019 6%	Environment Downgraded  Sales Q2 2019 3% 2019 4%	Sales Q2 2019 1% 2019 6%
Contractor Segment	Environment Unchanged  Sales Q2 2019 6% 2019 2%	Environment Unchanged  Sales Q2 2019 12% 2019 9%	Environment Downgraded  Sales Q2 2019 (16%) 2019 (5%)	Sales Q2 2019 5% 2019 3%
Full Year 2019 Outlook	Outlook Unchanged Mid-single-digit	Outlook Unchanged Mid-single-digit	Outlook Lowered Low single-digit decline	Outlook Lowered Low single-digit

Given the slow start to the year, we are lowering our full year 2019 worldwide outlook to low single digit organic sales growth on a constant currency basis.

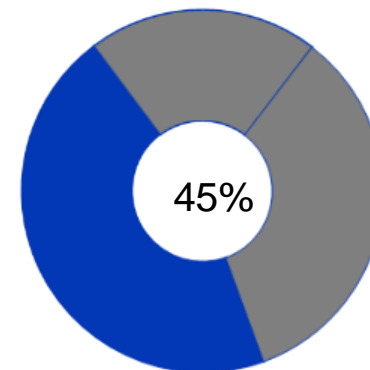
Industrial Segment Results

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\$ in millions

	Second Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 81	\$ 79	2 %	\$ 162	\$ 153	5 %
EMEA	59	56	5	117	\$ 117	0
Asia Pacific	49	55	(11)	99	\$ 116	(14)
Total	\$ 189	\$ 190	(1)%	\$ 378	\$ 386	(2)%
Operating Earnings	\$ 64	\$ 67	(4)%	\$ 130	\$ 136	(5)%
% of sales	34 %	35 %		34 %	35 %	

2019 Industrial Segment Sales as % of Graco



Components of Net Sales Change Environment

	Second Quarter	Year-to-Date	Environment
Americas			● Favorable: General industrial ● Stable: Automotive, truck & trailer, wood
Volume & Price	2 %	6 %	
Acquisitions	0 %	0 %	
Currency	0 %	(1)%	
Total	2 %	5 %	
EMEA			● Stable: General industrial, truck & trailer ● Challenging: Automotive, developing economies
Volume & Price	10 %	7 %	
Acquisitions	0 %	0 %	
Currency	(5)%	(7)%	
Total	5 %	0 %	
Asia Pacific			● Favorable: General industrial, alternative energy ● Stable: Construction ● Challenging: Automotive, marine, China ● Spotty: Project activity
Volume & Price	(6)%	(10)%	
Acquisitions	0 %	0 %	
Currency	(5)%	(4)%	
Total	(11)%	(14)%	
Segment Total			
Volume & Price	2 %	1 %	
Acquisitions	0 %	0 %	
Currency	(3)%	(3)%	
Total	(1)%	(2)%	

Industrial Segment Results

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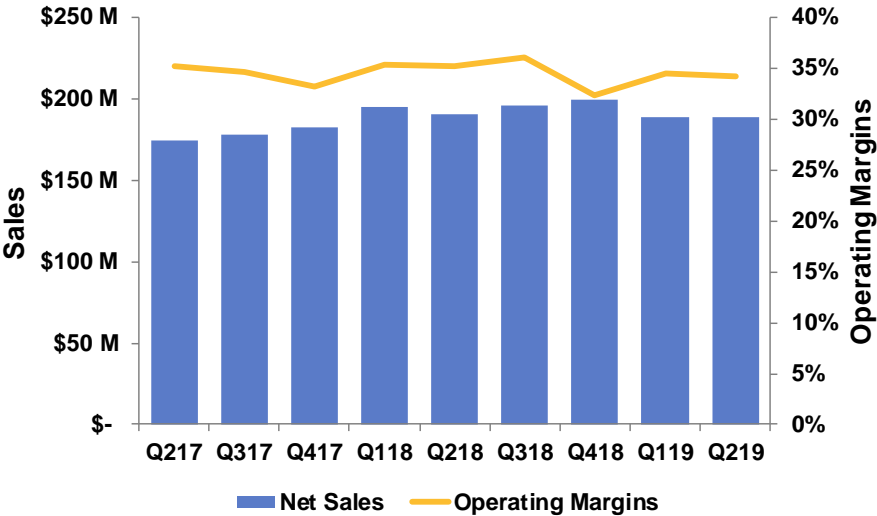
Change in % of sales

- 2018 Operating Earnings (% of sales)
- Translation effect
- Product and channel mix, volume, cost
- Volume effect on expense leverage
- 2019 Operating Earnings (% of sales)

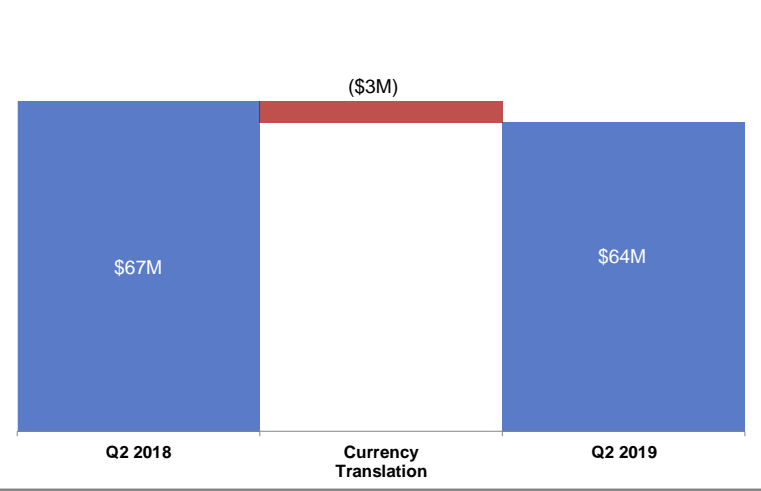
Second Quarter Year-to-Date

35 %	35 %
(1)	(1)
(1)	(1)
1	1
<u>34 %</u>	<u>34 %</u>

Industrial Segment Sales and Operating Margins



Industrial Segment Operating Earnings QTD



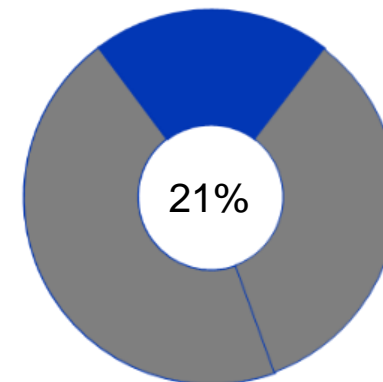
Process Segment Results

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\$ in millions

	Second Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 55	\$ 55	1 %	\$ 112	\$ 106	6 %
EMEA	14	14	(1)	30	29	2
Asia Pacific	16	16	(1)	30	30	0
Total	\$ 85	\$ 85	0 %	\$ 172	\$ 165	4 %
Operating Earnings	\$ 18	\$ 17	8 %	\$ 38	\$ 35	10 %
% of sales	22 %	20 %		22 %	21 %	

2019 Process Segment Sales as % of Graco



Components of Net Sales Change Environment

	Second Quarter	Year-to-Date	
Americas			
Volume & Price	1 %	6 %	
Acquisitions	0 %	0 %	
Currency	0 %	0 %	
Total	1 %	6 %	
EMEA			
Volume & Price	2 %	6 %	
Acquisitions	1 %	0 %	
Currency	(4)%	(4)%	
Total	(1)%	2 %	
Asia Pacific			
Volume & Price	3 %	4 %	
Acquisitions	0 %	0 %	
Currency	(4)%	(4)%	
Total	(1)%	0 %	
Segment Total			
Volume & Price	1 %	6 %	
Acquisitions	0 %	0 %	
Currency	(1)%	(2)%	
Total	0 %	4 %	

- Favorable: Technology, sanitary, vehicle services, industrial lubrication, environmental applications
- Stable: Chemical, onshore oil & natural gas

- Favorable: Technology, sanitary, environmental
- Stable: Western Europe, chemical
- Challenging: Offshore oil & natural gas

- Favorable: Technology
- Stable: Process applications, mining

Process Segment Results



Change in % of sales

2018 Operating Earnings (% of sales)

Translation effect

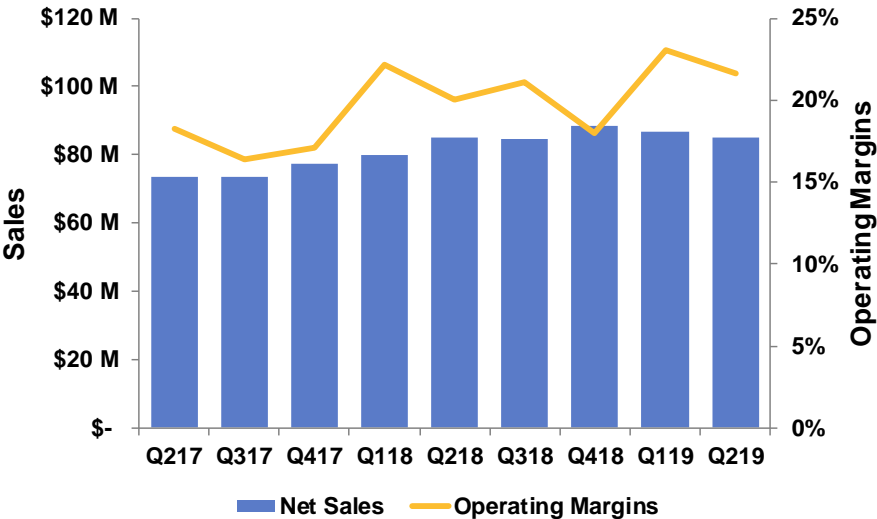
Volume effect on expense leverage

2019 Operating Earnings (% of sales)

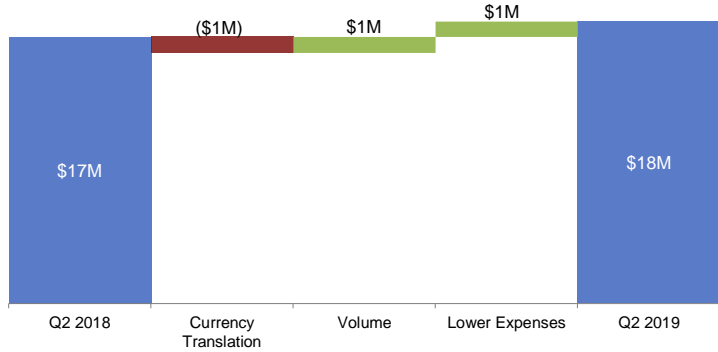
Second Quarter Year-to-Date

20 %	21 %
0	0
2	1
22 %	22 %

Process Segment Sales and Operating Margins



Process Segment Operating Earnings QTD



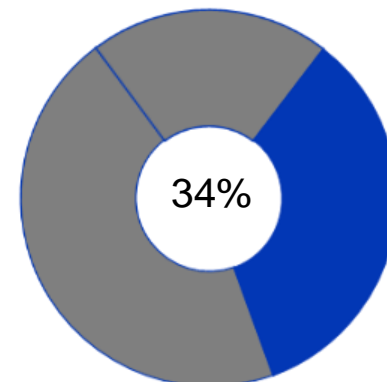
Contractor Segment Results



\$ in millions

	Second Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Sales						
Americas	\$ 118	\$ 112	6 %	\$ 212	\$ 208	2 %
EMEA	28	26	7	53	52	2
Asia Pacific	9	11	(21)	19	20	(10)
Total	\$ 155	\$ 149	4 %	\$ 284	\$ 280	1 %
Operating Earnings	\$ 40	\$ 38	4 %	\$ 67	\$ 70	(5)%
% of sales	26 %	26 %		23 %	25 %	

2019 Contractor Segment Sales as % of Graco



Components of Net Sales Change Environment

Second Quarter Year-to-Date

Americas

Volume & Price	6 %	2 %
Acquisitions	0 %	0 %
Currency	0 %	0 %
Total	6 %	2 %



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

EMEA

Volume & Price	12 %	9 %
Acquisitions	0 %	0 %
Currency	(5)%	(7)%
Total	7 %	2 %



- Stable: Western Europe, DIY
- Challenging: 2018 comparables

Asia Pacific

Volume & Price	(17)%	(5)%
Acquisitions	0 %	0 %
Currency	(4)%	(5)%
Total	(21)%	(10)%



- Stable: Australia, SE Asia, pavement products
- Challenging: General construction, equipment adoption rates, local competition

Segment Total

Volume & Price	5 %	3 %
Acquisitions	0 %	0 %
Currency	(1)%	(2)%
Total	4 %	1 %



Contractor Segment Results

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Change in % of sales

2018 Operating Earnings (% of sales)

Translation effect

Channel and product mix, product cost, volume

Volume effect on expense leverage

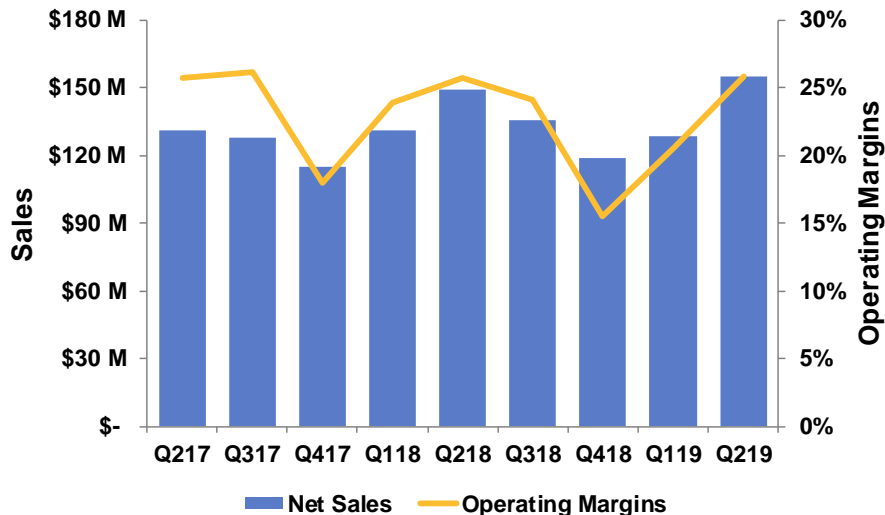
2019 Operating Earnings (% of sales)

Second Quarter

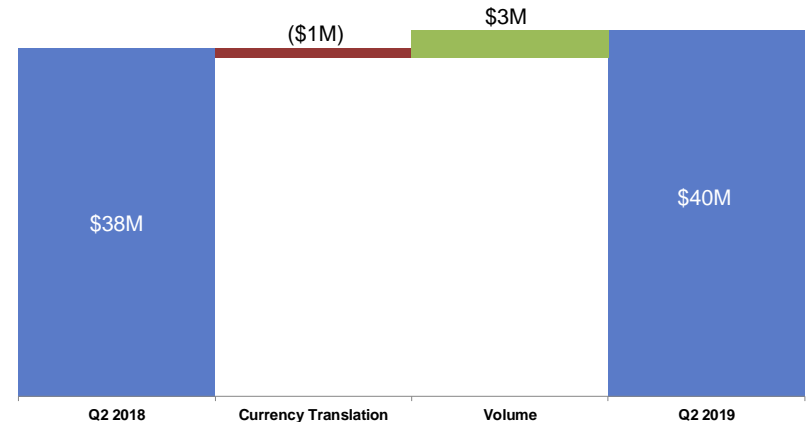
Year-to-Date

26 %	25 %
(1)	(1)
0	(1)
1	0
<u>26 %</u>	<u>23 %</u>

Contractor Segment Sales and Operating Margins



Contractor Segment Operating Earnings QTD



Financial Results Adjusted for Comparability

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

Non-GAAP Reconciliation \$ in millions except per share amounts	Second Quarter			Year-to-Date		
	2019	2018	Change	2019	2018	Change
Income taxes, as reported	\$ 19.7	\$ 16.1	22 %	\$ 33.6	\$ 38.0	(11)%
Excess tax benefit from option exercises	2.2	6.4		7.4	7.9	
Other non-recurring tax benefit	-	-		1.5	-	
Income taxes, adjusted	<u>\$ 21.9</u>	<u>\$ 22.5</u>	(3)%	<u>\$ 42.5</u>	<u>\$ 45.9</u>	(7)%
Effective income tax rate						
As reported	18%	15%		16%	18%	
Adjusted	20%	21%		20%	22%	
Net earnings, as reported	\$ 88.1	\$ 89.1	(1)%	\$ 174.9	\$ 174.7	0 %
Excess tax benefit from option exercises	(2.2)	(6.4)		(7.4)	(7.9)	
Other non-recurring tax benefit	-	-		(1.5)	-	
Net earnings, adjusted	<u>\$ 85.9</u>	<u>\$ 82.7</u>	4 %	<u>\$ 166.0</u>	<u>\$ 166.8</u>	(0)%
Weighted Average Diluted Shares, in millions	172.0	173.3		171.5	174.5	
Diluted Earnings per Share						
As reported	\$ 0.51	\$ 0.51	0 %	\$ 1.02	\$ 1.00	2 %
Adjusted	\$ 0.50	\$ 0.48	4 %	\$ 0.97	\$ 0.96	1 %



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