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PRESENTATION

Operator

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Good morning and welcome to the Third Quarter Conference Call for Graco, Inc. If you wish to access the replay for this call, you may do so by dialing 1 (888) 203-1112 within the United States or Canada. The dial-in number for international callers is (719) 457-0820. The conference ID number is 944-4495. The replay will be available through 2 p.m. Eastern Time on Monday, October 28, 2019. Graco has additional information available in a PowerPoint slide presentation, which is available as part of the webcast player.

(Operator Instructions) During this call, various remarks may be made by management about their expectations, plans and prospects for the future. These remarks constitute forward-looking statements for the purposes of the safe harbor provisions of the Private Securities Litigation Reform Act. Actual results may differ materially from those indicated as a result of various risk factors, including those identified in Item 1A of the company's 2018 annual report on Form 10-K and in Item 1A of the company's most recent quarterly report on Form 10-Q. Those reports are available on the company's website at www.graco.com and the SEC's website at www.sec.gov. Forward-looking statements reflect management's current views and speak only as of the time they are made. The company undertakes no obligation to update these statements in light of new information or future events. I will now turn the conference over to Caroline Chambers, Executive Vice President, Corporate Controller and Information Systems.

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems, Corporate Controller & Principal Accounting Officer*

Good morning. I'm here this morning with Pat McHale and Mark Sheahan. Our conference call slides have been posted on our website and provide additional information that may be helpful. Sales totaled $401 million for the third quarter, a decrease of 4% from the third quarter of last year at actual currency translation rates and a decrease of 2% at consistent currency translation rates. Net earnings totaled $84 million for the quarter or $0.49 per diluted share. After adjusting for the impact of excess tax benefits from stock option exercises and other nonrecurring tax items, net earnings totaled $77 million or $0.45 per diluted share. Gross margin rates decreased by nearly 1.5 percentage points compared to the third quarter last year. Approximately half of the decline was due to the negative effect of unfavorable factory volumes. Gross margin rates were also affected by unfavorable product and channel mix and changes in currency translation rates. Realized pricing continues to offset the effect of higher material costs and tariffs. At current production levels, unfavorable factory volumes are expected to continue as a headwind for us in the fourth quarter similar to the effect in the third quarter.

Operating expenses were approximately $3 million lower in the third quarter as compared to a year ago as reductions in volume and earnings base expenses offset higher product development costs. The reported income tax rate was 13% for the quarter, approximately 1 percentage point lower than last year primarily due to the revaluation of deferred taxes pursuant to a tax rate change in a foreign jurisdiction. The effect of the tax rate change was partially offset by the effects of decreases in the excess tax benefits related to stock option exercises as compared to last year. After adjusting for the effect of excess tax benefits from stock option exercises and other nonrecurring tax benefits, our tax rate was 20%.

Excluding any effects from tax -- excess tax benefits related to stock option exercises and other onetime items, our tax rate is expected to be 20% to 21% for both the fourth quarter and the full year. Cash flow from operations totaled $136 million in the third quarter. We repaid the current portion of our long-term debt, $75 million, in the third quarter as well. Capital expenditures were $32 million this quarter, including investments in facility expansion. Looking forward, we expect capital expenditures for machinery and equipment of approximately $35 million and investment in facility expansion of approximately $100 million to $105 million for the full year.

As the U.S. dollar continues to strengthen the effect of currency translation will also continue to be unfavorable. At current rates, the unfavorable effect of currency translation for the full year is expected to be approximately 2% on sales and 4% on earnings assuming the same mix of business as the prior year. I'll turn the call over to Pat now for further comments.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Thank you, Carol, and good morning, everyone. All of my comments this morning are on organic constant currency basis. Third quarter was much weaker than we expected, particularly in Asia Pacific where we had double-digit revenue declines across segments. Globally, we experienced broad weakening across most in-plant product categories.

Many manufacturing customers are postponing factory investments, citing uncertainty as well as softening end-market demand in specific areas. Contractor was a bright spot with good performance in both the Americas and Europe as construction markets remained stable and continue to provide growth opportunities. I'll make some comments on the individual segments.

Industrial segment declined high single-digits for the quarter, driven by weakening demand in most of our end markets. Automotive project demand was down substantially, particularly in Asia Pacific where it's a large component of our Industrial segment. The trade wars, both U.S./China and Japan/Korea are definitely taking a toll on manufacturing activity and reducing customers' appetite for factory investments in Asia Pacific. While the general Industrial business is better than automotive, it's pretty clear now that softness in Industrial is spreading globally. Process segment declined low single digits for the quarter, bringing our year-to-date organic growth rate down to low single digits.

Overall demand in this segment was mixed. Our environmental, oil and natural gas and semiconductor end markets remained generally favorable. Additionally, we continue to get good growth from our technology products. On the flip side, Process segment product line's more closely associated with in-plant applications whether automotive or general industrial are seeing similar unfavorable trends that we noted in our Industrial segment comments.

The Contractor segment met expectations, delivering its second consecutive quarter of mid-single-digit revenue growth. Construction markets in the Americas and EMEA are decent, and customers are willing to invest in new equipment. New products contributed nicely to top line sales growth. In our main Americas market, out-the-door sales remained positive in both paint store and home center channels.

Moving on to our regional perspective. Asia Pacific demand weakened further with double-digit declines in every reportable segment this quarter. EMEA was modestly positive in the quarter despite weak automotive demand, particularly in Germany. Construction markets in EMEA appear stable while the PMI in industrial production numbers are going the wrong way. North America demand in residential and nonresidential construction remained stable while as mentioned, we're seeing signs of weakening in industrial activity.

Regarding profitability. Contractor and Process segment profitability was okay in the quarter, with a large revenue decline in our higher-profit Industrial segment resulted in high decremental margins for the segment and for the company as a whole. Lower factory volumes created significant headwinds for us and the reduction in sales in our higher-margin segments along with growth in our lower-margin Contractor segment reduced the overall profit percentages. Price realization remains favorable year-to-date. We're managing discretionary expenses carefully and continue full speed ahead on spending to support our long-term growth initiatives.

Moving onto our outlook. Given current conditions, we're lowering our full year 2019 worldwide outlook and expect flat revenue to 2018 on an organic and constant currency basis. Despite the softening outlook, we intend to execute our long-term playbook with continued investment in new products, facilities, processes and people. This strategy has worked well for us during previous rough patches, and we intend to be well positioned to capitalize on opportunities when our markets turn more favorable. Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Matt Summerville.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

A couple of questions. First, Pat, can you maybe give a little more granularity just in terms of the linearity you saw across the 3 regions as the quarter unfolded and whether or not you've seen any incremental inflection one way or the other here in October thus far or is it more of the same?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. I'd say it's hard to say that, that was a clear trend through the quarter. We have so many different product lines, end markets and regions. But certainly, as early as July, we can see that things were getting softer. And I would say that I'm not seeing anything that's given me great reason to be overly optimistic that any of the trends are going to change as we head into the fourth quarter here.

Matt J. Summerville - *D.A. Davidson & Co., Research Division - MD & Senior Analyst*

And then just with respect to the various brick-and-mortar projects you're undertaking, can you maybe update as to where you're at with those and how should we be thinking about any related P&L impacts, either in the latter part of '19 or as we move through 2020?

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

Yes. Matt, it's Mark. We're more or less on track with what we said we were going to do from a brick-and-mortar standpoint. Of course, the big expenditure this year is up in Rogers with our Contractor equipment group where we're expanding substantially.

That facility is really scheduled to be fully completed, done by first quarter of 2020. And most of the production space will be available to that group up there by the end of this year. Don't expect any P&L -- meaningful P&L impact here in 2019 and then in 2020, of course, as the facility comes online, we'll have some incremental depreciation, which we have expected.

Operator

Our next question comes from Saree Boroditsky.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Just starting on APAC, you lowered the outlook across the board, and I believe you guys were just out there in China in early September. So maybe to talk about what you saw when you were there and what were the major factors that caused you to lower your outlook.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. So we saw softening in Asia Pacific as we moved through the quarter and so there was no real big surprises, I would say. When we got there in September, things already looked pretty rough. And as we met with the teams both on the production side and talked about the activity at our supply base as well as talking to our commercial people around what's happening with our in-plant customers, particularly in automotive but also to a lesser extent in general industrial, it was pretty clear that the -- across product lines, across business units and even within our supply base that the trade war and the slowdown in automotive in China is really putting some strain, I think, on industrial activity across the board over there.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Got it. And then you commented earlier on APAC auto being project-driven but just on autos in general, it's now listed as challenging across all regions. So could you provide more color on that, if that's related to production in part sales? Or are you also seeing a general slowdown in project activity?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

No. We've definitely seen, particularly in Asia Pacific, a slowdown in project activity. I would say that in the Americas, the production level is still decent. However, it's not growing, it's off-peak. And I think that's definitely putting a little hesitancy in some of the capital investments that we see. But in general, the main pain that we're getting in automotive is coming out of Asia Pacific and really, China in particular.

Saree Emily Boroditsky - *Jefferies LLC, Research Division - Equity Analyst*

Do you think that's more of a one-time thing or do you expect that to continue going forward?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

It's hard to say. I mean, there's a lot of news reports that the Chinese government is going to try to stimulate automotive production as we go into 2020 with some incentives. So I suppose, given some sort of government intervention that could turn. But as of right now, I'm not seeing anything that looks overly positive.

Operator

Our next question comes from Jeffrey Hammond.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Pat, can you just push out some of the mix dynamics? I think you said product mix was negative. What's driving that?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So from a big-picture standpoint, our Industrial is our highest margin, and we get high margins overseas as well. So when you see that the hit that we take both in Asia Pacific and Industrial on a margin percentage standpoint, when that declines vis-à-vis the offset on growth in Contractor, which is lower-margin, the math there doesn't work very well. And I can let Mark weigh in if he wants to bring any more clarity to that.

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

Yes. I think that's accurate. And if you look at decremental margins in the quarter and on a year-to-date basis, it's really coming out of that Industrial group. The other 2 segments are actually performing in line with what we were expecting in terms of incremental margins.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

Okay. And then, can -- I guess just a little more context on this Asia weakness. I mean, the extent is pretty dramatic. And just wanted to get some context on what you've seen in past cycles? Where -- is this just a completely different environment or historically, you see these sharp declines and then snapbacks or?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So personally, I've been here almost 30 years. The only big crash that I've personally had to deal with was '08. and I don't think there's a lot of similarity between the causes of what happened in '08 and what's going on right now. Obviously, the trade wars are having an impact. I'm not sure that's the only issue that they're having. I would anticipate that they may have struggled with growth even without the trade wars to some extent, just given what we've seen happen to the automotive industry over there. So I don't really know how this one's going to play out. I haven't seen anything that looks exactly like it before. I think if you look at global industrial indicators, and if you take a look at folks that are reporting now and what their industrial business is doing. There's definitely room to be concerned. However, the consumer and construction markets seem okay. So I think, on one hand, you can hope that the consumer and the construction market to pull industrial out of a little recession. On the flip side, this could be some warning signs, canary in the coal mines. So I'll leave it to you guys to figure that one out.

Jeffrey David Hammond - *KeyBanc Capital Markets Inc., Research Division - MD & Equity Research Analyst*

And then just last one, Europe, I guess, compared to some of the PMI data and what we're hearing from other companies, it kind of continues to be a little more resilient than I would've thought. Just maybe speaking to the industrial and in-plant in Europe, what are you seeing from quoting and order activity?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. We generally don't share details on orders. I would just say I'd refer to the comment that I made here earlier where I don't see anything changing here as we've entered into the fourth quarter versus the trends that we saw in Q3.

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

And I would just add that our Contractor business in Europe, when you look at our aggregate number, is a meaningful piece of that region now and that business has done well. And that probably makes our European numbers look a little bit better than maybe some of the things that you're seeing from other industrial companies.

Operator

Our next question comes from Joe Ritchie.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

So maybe just focus first on Industrial, just the decremental margins in that business. So clearly, look, the organic growth was lower than expected. And I think, Pat, you mentioned some comments around mix impacting this business. But how should we be thinking about the decrementals in this business moving forward assuming that the growth backdrop remains tepid, to say the least?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. I think you can pretty much figure that if we have declines in revenue and industrial, you're going to see substantial decremental margins. We don't intend to cut our engineering groups or cut our sales teams. And we'll have some pressure on factory volumes.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. Does that -- if this kind of sustains itself then going into 2020? Does that change your planning process to any degree?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

No. Not really. I mean, we started a product development project. We're talking about anywhere from 12 to 24 months. And to start and stop those things really doesn't make a lot of sense. It might make a quarter or 2 look better, but I don't think that it's the right long-term move for our shareholders or for the company. So we will stick to our knitting, and we make adjustments all the time based upon what we think the long-term is going to be. But we don't change our investment strategy much because of a hiccup here or there.

Joseph Alfred Ritchie - *Goldman Sachs Group Inc., Research Division - VP & Lead Multi-Industry Analyst*

Got it. And then any -- maybe the flip side of this is like, obviously, Contractor had a nice quarter. Just any color you can give us on product introductions that you're expecting through the end of this year and then any initial thoughts on how to think about 2020.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So the Contractor new products generally launch in the first half of the year. We try to do that. That's really when the key selling season, and painting season and get the channel loaded. So I don't anticipate that the -- there's going to be anything new that's going to be substantial that's going to happen in the second half of '19, but we continue to harvest the delta between products that we have this -- last half of this year that we didn't have the last half of last year that were launched here in the first half of the year. So I think it's going to be a, I would say, a more normal cycle as you've seen in the past in terms of Contractor and new product impact.

Operator

Our next question comes from Deane Dray.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - MD of Multi-Industry & Electrical Equipment*

Pat, maybe just go back to some of your macro comments because you do touch so many different end markets. But can you expand on your point when you said that you thought that the slowing was spreading globally? It seems like the epicenter of the weakness is Asia, and you've clarified that. But just could you expand on the thought about what's spreading?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. We've been chasing the falling knife all year, as you're well aware in terms of our outlook and what -- where we thought the business was going to go. So we haven't -- our crystal ball looks more like a bowling ball here for the last 6 or 9 months a black ball with holes in it. But when I take a look at what's happening in Asia and how bad that's getting and then I take a look at some of the weaker results that we're getting in EMEA and the Americas. And I look at really the connectivity between manufacturing geographies now, I mean they're really not independent of each other.

It's really difficult to say that China is going to go into the tank but Germany's not going to be affected, America's not going to be affected or Korea's not going to be affected. So I think when you see the kinds of decline that we're seeing in Asia Pacific and a little bit of softening that we're seeing in EMEA and the Americas industrial not just Graco but other folks that are reporting. To me, it seems pretty clear that, that connection between all the regions is going to play itself out a little bit here.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - MD of Multi-Industry & Electrical Equipment*

Okay. That's helpful. And then just -- I'm characterizing the actual slowing that you're seeing because customer hesitancy to pull the trigger on factory investments. Are there outright project cancellations going on? And is this -- if you look at your competitor landscape, are they seeing the same things? I just want to make sure that this isn't any way a share loss.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So we haven't seen any project cancellations to any great extent. It's typically been projects that are getting moved out. And major projects get tracked at Graco, and we know if we win them or lose them. And we're pretty confident that we're not losing share. I think this is just a hesitancy to invest and things that getting pushed back. And politics might be able to have a finger in that turnaround if there is some sort of resolution on some of the trade issues that are out there that might take away some of the uncertainty and get some of these projects going again, if it doesn't drag on too long. I guess if it drags on too long that could be another problem. But I don't think that we're losing share. We don't get a lot of clean competitive data to look at. I think that one of our competitors, you can look them up yourself, they reported this week end and their results were on the industrial side that line up pretty well were actually more challenged than ours. So I feel pretty good that we have the knowledge that we're not losing any share.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - MD of Multi-Industry & Electrical Equipment*

That's helpful. And then the extent of your products that go through distribution broadly, where does this inventory destocking, has that run its course? Are you still seeing some of that? So if you're measuring the sell-in versus sell-through, where and how might that look today?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. In our Industrial and Process segments, I don't think that inventory stocking or destocking is generally a factor for us, and I don't think we talk about it much. Sometimes we talk about it as related to Contractor, that's more of a retail model. But our Industrial and Process segment product offerings are so diverse and it's low volume, high mix kind of stuff, and we ship fast. But typically, our distributors are stocking the spare parts and kind of the everyday stuff that they need to keep their customers going. But the majority of what they're selling, they're ordering from Graco and that there is a pretty short cycle between that happening. So I don't think inventory stocking or destocking is going to be a reason for our performance. I think it's going to really be pretty connected to what's happening at the end market in Industrial and Process.

Deane Michael Dray - *RBC Capital Markets, LLC, Research Division - MD of Multi-Industry & Electrical Equipment*

Got it. And then just last, it's not so much of the question, it's more of a comment that -- I thought your response on the decrementals on the Industrial were just refreshingly candid. Just to say that you're not going to mortgage your future and cut sales and cut engineering costs and the decrementals are just going to be in these situations, higher. And I appreciate the comments.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Good. And I'd just say that, that was a strategy that we took back when things went to hell in 2008. And we feel really good about how we came out of that. We were positioned very well. Our people were still on board. We had our sales coverage, and our new product development was full speed ahead. So I'm not expecting or hoping that this was going to be like 2008, but I think our strategies are effective long-term and we'll take a bit of short-term pain.

Operator

(Operator Instructions) Our next question comes from Walter Liptak.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Just to follow on the last one and understanding that you are to keep investing your business, you got the game plan that you follow through The Great Recession. It's part of the game plan, I guess, is there some cost that you can take out? Can you bring SG&A levels down? Or is there some manufacturing overhead costs that you can reduce to, kind of, offset some of those decrementals?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So we've talked about it before, and Caroline may weigh in here in a second but we have a percentage of our expense, not a huge percentage but it's tied to things like growth rebates for distributors or incentive plans for the employees that work here. And those things automatically adjust as we do better or as we do worse and those things have been adjusting down, and you've seen that show up in a reduction in our overall expenses.

But we also look at other sort of discretionary spending. Every headcount that we think that we need, whether it was because of a retirement or because of a growth initiative, we look at it with some extra scrutiny during times like this. We take a look at travel and things like that but in the big picture, most of our expenses is related to the people that we have. And if we want to make a great big move, we would need to get rid of a whole bunch of people. And we don't intend to do that. We intend to keep the folks that we have. We have good people here and their long service. And so I think you're going to see this happen on the margins. And I can let Caroline weigh in just a little bit on the variable piece.

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems, Corporate Controller & Principal Accounting Officer*

Yes. That's correct. We absolutely take a look at that, and we make sure we're monitoring what's going on there in our forecast and use those to drive our incentive accruals and bringing them down accordingly. And we redeploy resources where they're needed and can make the best use of those in the factories as well.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

I always find it a little bit interesting when somebody hits a couple of tough quarters and all of a sudden they find millions of dollars worth of savings. We look for those savings every year. We run our zero-cost game in our factory every year. Our incentive program are set up for improvement in revenue and profit every year. So I guess, if there was millions of dollars of savings that I could just find now because we had a couple of rough quarters, I probably wasn't doing my job last year.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. That was my next question so I won't ask that one. What about inventory levels? It sounds like you're going to be lowering inventory levels, where would you like to be as you exit fourth quarter? And what impact is that going to have on absorption?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

So those come down through our systems here. With our high-volume -- excuse me, our low-volume high mix kind of production, we've got pretty sophisticated tools in place to try to predict what's going to happen with demand and try to react to what's happening actually in demand. And those systems, although there is a lag in them, of course, as the business is trended down, those things are working hard to try to adjust. And so that causes us to put out less purchase orders for supply components and drive less production through our machines. Certainly, as we've seen this slowdown, we have had, I'll say that double whammy that you referred to, where we've got lower demand out the door plus our systems are driving us to lower production rates, that has been painful here in the third quarter. And as Caroline mentioned, we expect similar levels of pain going through the fourth quarter. That could ease a little bit sometime in the next year if things stabilize but the down -- yes, there's a bit of a double whammy there.

Caroline M. Chambers - *Graco Inc. - Executive VP of Information Systems, Corporate Controller & Principal Accounting Officer*

And as Pat said, we've already seen some of that in the third quarter. So I expect the rate of decline to be about the same in the fourth, given our outlook on the top line.

Walter Scott Liptak - *Seaport Global Securities LLC, Research Division - MD & Senior Industrials Analyst*

Okay. Great. And then the share repurchase in the press release you alluded to, maybe being more opportunistic. If you just refresh us on how much is available on the share buyback program?

Mark W. Sheahan - *Graco Inc. - CFO & Treasurer*

I think we have about 21 million shares available for repurchasing. And again, we're going to be opportunistic, we kind of dipped our toe in the water here a little bit in Q3 and let's see what happens going forward, similar approach to what we've taken historically.

Operator

Your next question comes from Bryan Blair.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

You mentioned the delta between your Industrial results and a competitor who released couple of days ago. And I assume part of that difference is attributable to the much larger parts and accessories presence you have globally? I was just wondering if you could offer a little more color on original equipment versus aftermarket trends, specifically in the Industrial segment.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

Yes. So what I can say is when I looked at the report on our sales of parts and accessories for the third quarter compared to our historical norms that they're right in where they've always been at about -- our legacy business right about that 40% of our sales. So although project activity's been down, I think production volumes have been down a little bit as well. And the one area where a distributor could decide that they wanted to make some adjustments would be on parts and accessories. If they had 10 in stock and things were slow, they could set the reorder point at 6 instead of 8 or whatever. So it's pretty hard to get our arms around that. But just looking at the facts, the facts say that our parts and accessories business is -- still runs just about 40% of our legacy business.

Bryan Francis Blair - *Oppenheimer & Co. Inc., Research Division - Director & Senior Analyst*

Okay. Appreciate the color. Then a quick follow up, sorry if I missed any commentary in this front. But M&A environment, Pat, you've said -- M&A targets, the seller expectations have been lofty for a while. Has there been any reset there as we've had some increasing macro weakness and uncertainty?

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

No. I haven't really seen it. Anything that's got some size to it, that's a good business, is going at pretty high multiples. Our best opportunity is in the near term probably remain in smaller-sized deals and deals that we don't necessarily have to do at auction. So we continue to do our work, but I think it's unlikely that we're going to get the opportunity at a good price to buy something that's large and attractive here in the real short term.

Operator

If there are no further questions, I will now turn the conference over to Pat McHale.

Patrick J. McHale - *Graco Inc. - President, CEO & Director*

All right. Well, thank you, everyone, for your time this morning. And hopefully, we'll have better news for you on a future call. Thanks.

Operator

This concludes our conference today. We thank you all for participating and have a nice day. All parties may now disconnect.