



2nd Quarter 2012 Earnings Conference Call

Thursday July 26, 2012 10 am CT





Safe Harbor

Today's presentation includes forward-looking statements that reflect management's current expectations about the Company's future business and financial performance.

These statements are subject to certain risks and uncertainties that could cause actual results to differ from anticipated results.

Factors that could cause actual results to differ from anticipated results are identified in Part 1, Item 1A of, and Exhibit 99 to, the Company's Form 10-K, and Item 1A of the current Quarterly Report on Form 10-Q.



Conference Call Logistics

The release, accompanying slides and replay web cast are available online at investors.graco.com

Telephone replay will be available after 2 p.m. ET, July 26, 2012. The replay by telephone will be available through July 30, 2012.

- 800-406-7325 – Conference ID #4548978
- 303-590-3030 – Conference ID #4548978, for International participants



Consolidated Financial Results

\$ millions except EPS

| | Second Quarter | | | Year-to-Date | | |
|-------------------------------|----------------|----------|-----------|--------------|----------|-----------|
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Sales | \$ 268.2 | \$ 234.7 | 14 % | \$ 502.3 | \$ 452.3 | 11 % |
| Gross Profit | \$ 139.5 | 132.4 | 5 % | 271.7 | 256.8 | 6 % |
| % of Sales | 52.0 % | 56.4 % | (4.4) pts | 54.1 % | 56.8 % | (2.7) pts |
| Operating Earnings | \$ 52.5 | 58.3 | (10)% | 110.4 | 115.3 | (4)% |
| % of Sales | 19.6 % | 24.8 % | (5.2) pts | 22.0 % | 25.5 % | (3.5) pts |
| Net Earnings | \$ 34.4 | \$ 38.1 | (10)% | \$ 69.7 | \$ 75.4 | (7)% |
| % of Sales | 12.8 % | 16.2 % | (3.4) pts | 13.9 % | 16.7 % | (2.8) pts |
| Diluted Earnings Per Share | \$ 0.56 | \$ 0.61 | (8)% | \$ 1.13 | \$ 1.22 | (7)% |

Acquisition related items:

Non-recurring charges related to inventory
 Acquisition transaction costs- increase
 Amortization of intangibles
 Interest expense- increase
 Liquid Finishing dividend (income) (post-tax)

| | Second Quarter | Year-to-Date |
|--|----------------|--------------|
| | \$ 7 | \$ 7 |
| | 5 | 9 |
| | 2 | 2 |
| | 4 | 7 |
| | (4) | (4) |



Consolidated Second Quarter Results

| \$ millions except EPS | Second Quarter | | | Acquisition Related Items |
|----------------------------|----------------|----------|-----------|--|
| | 2012 | 2011 | Change | |
| Sales | \$ 268.2 | \$ 234.7 | 14 % | \$31 million Powder Finishing, 13 percentage points |
| Gross Profit | \$ 139.5 | 132.4 | 5 % | \$7 million non-recurring charges related to Powder inventory, 3 percentage points impact on margin; Powder gross margin percentage, excluding purchase accounting, in mid 40s |
| % of Sales | 52.0 % | 56.4 % | (4.4) pts | |
| Operating Earnings | \$ 52.5 | 58.3 | (10)% | \$2 million recurring Powder Finishing intangible amortization; Acquisition transaction cost increase \$5 million |
| % of Sales | 19.6 % | 24.8 % | (5.2) pts | |
| Net Earnings | \$ 34.4 | \$ 38.1 | (10)% | Liquid Finishing dividend (post-tax) \$4 million; \$2½ million after tax increase in interest expense |
| % of Sales | 12.8 % | 16.2 % | (3.4) pts | |
| Diluted Earnings Per Share | \$ 0.56 | \$ 0.61 | (8)% | |



Consolidated Year-to-Date Results

| \$ millions except EPS | Year-to-Date | | | Acquisition Related Items |
|----------------------------|--------------|----------|-----------|--|
| | 2012 | 2011 | Change | |
| Sales | \$ 502.3 | \$ 452.3 | 11 % | \$31 million Powder Finishing, 7 percentage points |
| Gross Profit | 271.7 | 256.8 | 6 % | \$7 million non-recurring charges related to Powder inventory, 1½ percentage points impact on margin; Affecting consolidated margin since acquisition, Powder gross margin percentage, excluding purchase accounting, in mid 40s |
| % of Sales | 54.1 % | 56.8 % | (2.7) pts | |
| Operating Earnings | 110.4 | 115.3 | (4)% | \$2 million recurring Powder Finishing intangible amortization; Acquisition transaction cost increase \$9 million |
| % of Sales | 22.0 % | 25.5 % | (3.5) pts | |
| Net Earnings | \$ 69.7 | \$ 75.4 | (7)% | Liquid Finishing dividend (post-tax) \$4 million; \$4½ million after tax increase in interest expense |
| % of Sales | 13.9 % | 16.7 % | (2.8) pts | |
| Diluted Earnings Per Share | \$ 1.13 | \$ 1.22 | (7)% | |



Consolidated Financial Results - Net Sales

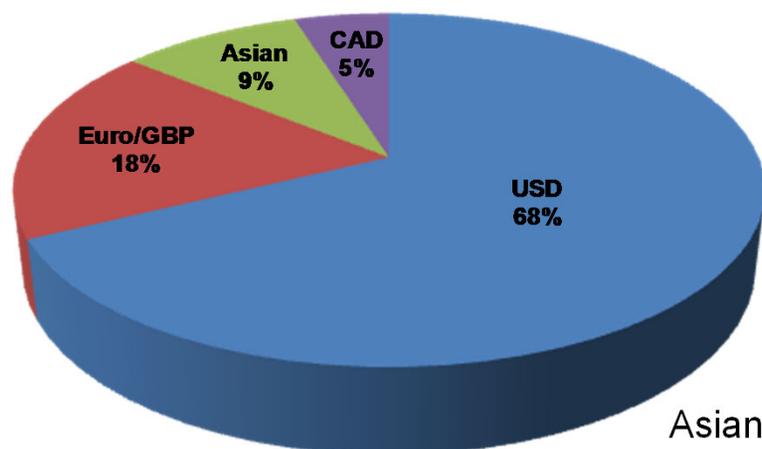
Second Quarter

| | Segment | | | Region | | | Consolidated |
|------------------|------------|------------|-------------|------------|------------|--------------|--------------|
| | Industrial | Contractor | Lubrication | Americas | Europe | Asia Pacific | |
| Volume and Price | 1% | 4% | 15% | 7% | -1% | -2% | 3% |
| Acquisitions | 24% | — | — | 5% | 30% | 18% | 14% |
| Currency | -3% | -2% | -2% | — | -10% | -2% | -3% |
| Total | 22% | 2% | 13% | 12% | 19% | 14% | 14% |

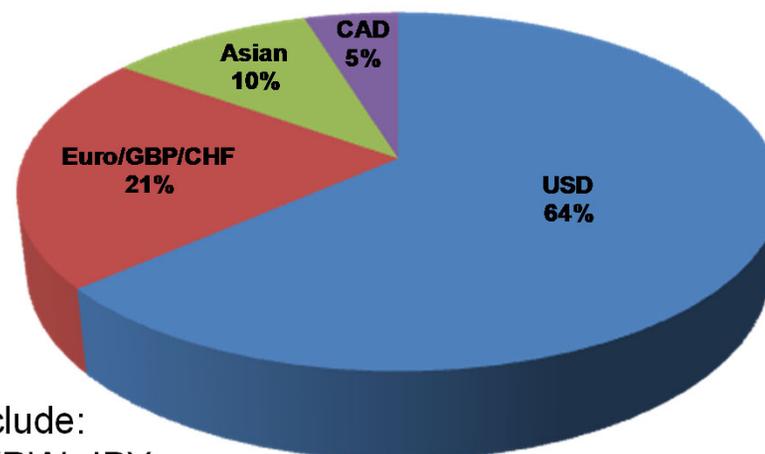
Year-to-Date

| | Segment | | | Region | | | Consolidated |
|------------------|------------|------------|-------------|------------|------------|--------------|--------------|
| | Industrial | Contractor | Lubrication | Americas | Europe | Asia Pacific | |
| Volume and Price | 5% | 4% | 14% | 8% | 3% | 3% | 6% |
| Acquisitions | 13% | — | — | 3% | 15% | 9% | 7% |
| Currency | -2% | -2% | -1% | -1% | -7% | — | -2% |
| Total | 16% | 2% | 13% | 10% | 11% | 12% | 11% |

Sales by Currency Q2 2011



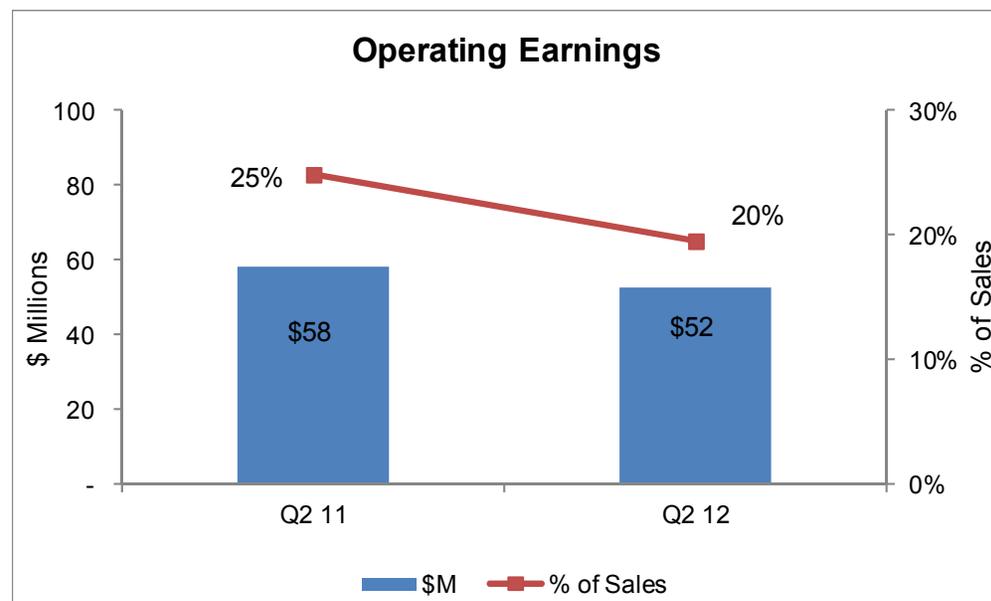
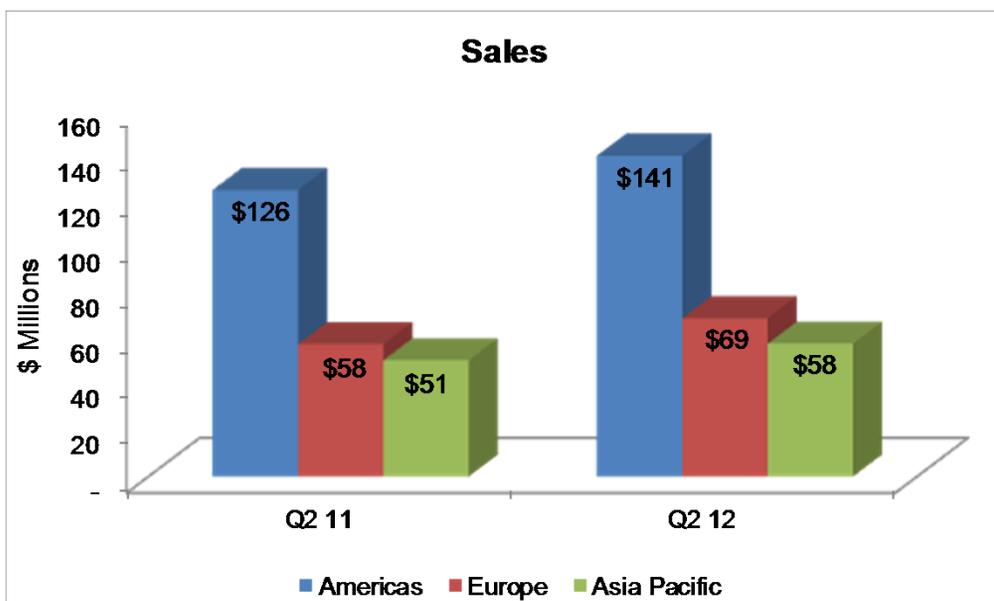
Sales by Currency Q2 2012



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



Consolidated Second Quarter Results

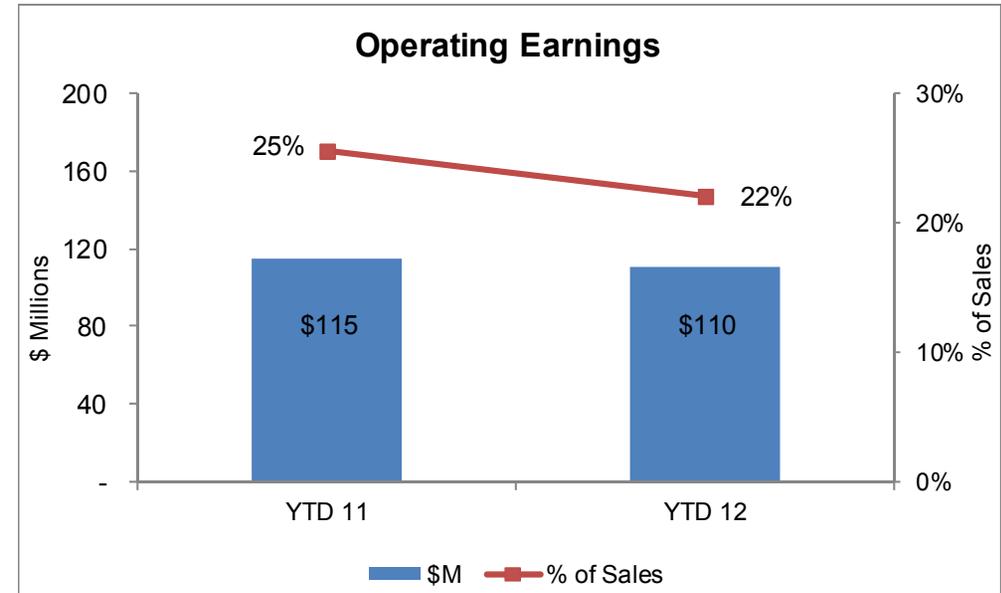
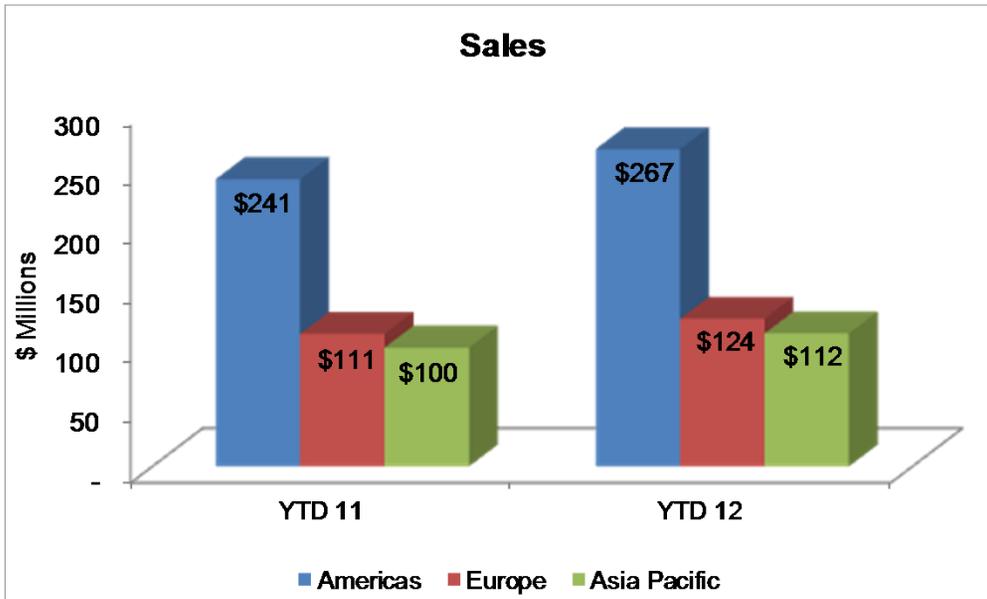


- Sales increase of 14% (17% at consistent currency translation rates)
 - Powder Finishing sales of \$31 million account for 13 percentage points of growth
- Gross margin rate down 4 percentage points from prior year
 - Effect of purchase accounting 3 percentage points
 - Effect of currency translation 1 percentage points
 - Realized pricing more than offset higher costs
 - Powder Finishing lower margin impacted consolidated by 1 percentage point

- Operating expenses are up \$13 million
 - \$5 million acquisition transaction costs, 2 percentage points of operating margin
 - \$8 million Powder Finishing operations
- Interest expense \$5 million, up \$4 million from Q2 2011
- Tax rate 32% is consistent with prior year
 - 2012 reduced by effect of investment income (post-tax) from Liquid Finishing
 - 2011 federal R&D credit, not approved for 2012



Consolidated Year-to-Date Results



- Sales increase of 11% (13% at consistent currency translation rates)
 - Powder Finishing sales of \$31 million accounts for 7 percentage points
- Gross margin rate down 3 percentage points from prior year
 - Effect of purchase accounting 1½ percentage points
 - Realized pricing more than offset higher costs
 - Powder Finishing lower margin impacted consolidated by ½ percentage point
 - Currency translation and product mix lowers margin by 1½ percentage points

- Operating expenses are up \$20 million
 - \$9 million acquisition transaction costs, 2 percentage points of operating margin
 - \$8 million Powder Finishing operations
- Interest expense \$9 million, up \$7 million from June 2011
- Tax rate 33% is comparable to prior year
 - 2012 reduced by effect of the investment income (post-tax) from Liquid Finishing
 - 2011 federal R&D credit, not approved for 2012



Consolidated Results

Change in Operating Earnings

2011 Operating Earnings (\$M and % of sales)

Translation effect

Effect of Powder Finishing

Purchase accounting effect on inventory

Powder Finishing operating earnings leverage

Acquisition transaction costs increase

Pension increase

Product cost, pricing and mix

Volume effect on expense leverage

2012 Operating Earnings (\$M and % of sales)

Second Quarter

\$ 58

25 %

(3)

(1)

(7)

(2)

6

(1)

(5)

(2)

(2)

(1)

4

—

1

2

\$ 52

20 %

Year-to-Date

\$ 115

25 %

(4)

—

(7)

(1)

6

(1)

(9)

(2)

(3)

(1)

13

—

(1)

2

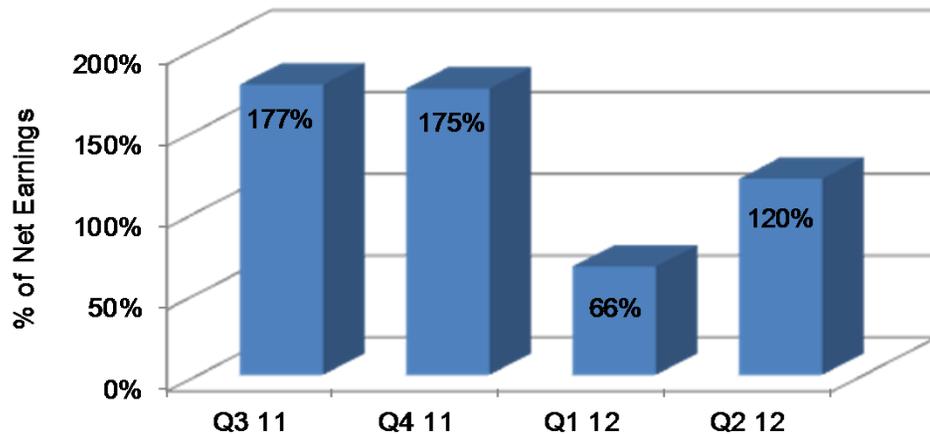
\$ 110

22 %

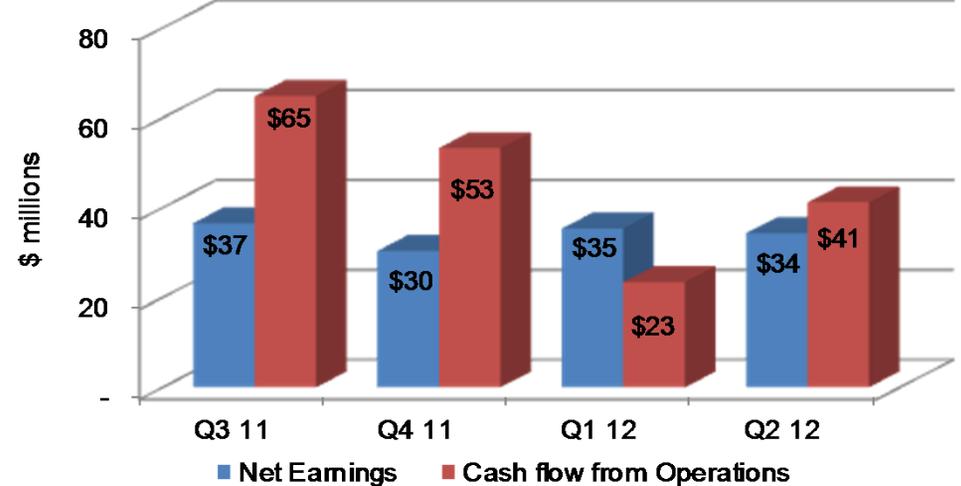


Cash Flow and Liquidity

Cash from Operations as % of Net Income



Net Earnings and Cash from Operations



Long-term debt \$627 million

- Interest expense \$5 million for the quarter, \$9 million year-to-date

Liquid Finishing dividend

- \$4 million (post-tax) received from the Liquid Finishing businesses

2012 cash flow from operations \$65 million versus \$44 million in 2011

- Cash uses
 - Investment in businesses held separate \$427 million
 - Acquired business \$227 million
 - Capital expenditures \$12 million
 - Dividends paid \$27 million
- Working capital
 - Increase in accounts receivable \$25 million
 - Decrease in inventories \$2 million



Acquisition of Finishing Businesses

- On April 2, 2012, the Company completed the purchase of the finishing businesses of Illinois Tool Works Inc., first announced in April 2011. The acquisition includes Powder Finishing and Liquid Finishing equipment operations, technologies and brands. Results of the Powder Finishing business have been included in the Industrial segment since the date of acquisition
- The Federal Trade Commission (FTC) issued a Hold Separate Order for Graco to hold the liquid finishing assets separate and in compliance with the FTC order, the Liquid Finishing businesses are run independently by existing management under the supervision of a trustee who reports directly to the FTC
- The FTC issued a proposed decision and order (the “Decision and Order”), subject to a 30-day comment period, which requires Graco to sell the Liquid Finishing business assets, no later than 180 days from the date the order becomes final. The FTC has not yet issued its final Decision and Order



Acquisition of Finishing Businesses

- Executed amended credit agreement which provides \$450 million unsecured revolving credit facility
 - Expires March 2017
 - Prior \$250 million credit agreement terminated
- For the \$650 million, net of cash acquired, acquisition, funding was provided by available cash and borrowings of \$350 million under the new credit agreement
- Liquid Finishing businesses held separate from Graco are reflected as a cost-method investment, and its financial results have not been consolidated with those of the Company
 - Income will be recognized based on dividends from current earnings, \$4 million (post-tax) received during Q2

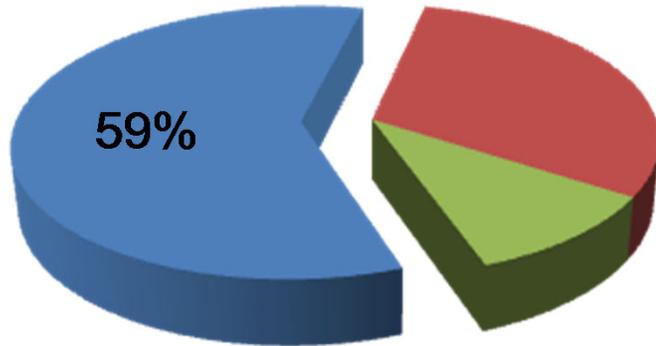


Other Discussion Items

- Expenses related to the acquisition expected to be approximately \$1 million in the 2nd half of 2012
 - Costs of divestiture of Liquid Finishing expected to be approximately \$7-10 million
- Interest expense is expected to be \$5 million in the third quarter
- Tax rate for third quarter and the year expected to be approximately 32-33% (assumes \$4 million (post-tax) in dividends per quarter from the Hold Separate business)
- Annual pension expense is expected to be approximately \$7 million higher in 2012
 - Voluntary contributions to U.S. funded pension plan expected to be approximately \$5-10 million in 2012
- Capital expenditure expected to be \$20-25 million in 2012



Industrial Equipment Results



Second Quarter Industrial Segment Sales as % of Consolidated



| Sales (\$ M) | Second Quarter* | | | Year-to-Date* | | |
|--------------------|-----------------|---------------|-------------|---------------|---------------|-------------|
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Americas | \$ 65 | \$ 56 | 17 % | \$ 125 | \$ 109 | 15 % |
| Europe | 50 | 36 | 38 | 87 | 70 | 23 |
| Asia Pacific | 43 | 37 | 15 | 80 | 73 | 11 |
| Total | \$ 158 | \$ 129 | 22 % | \$ 292 | \$ 252 | 16 % |
| Operating Earnings | \$ 43 | \$ 45 | (5)% | \$ 91 | \$ 90 | 1 % |
| % of sales | 27 % | 35 % | | 31 % | 36 % | |

*Includes Powder Finishing sales of \$31M



Industrial Equipment Results

Change in Operating Earnings

2011 Operating Earnings (\$M and % of sales)

Translation effect

Effect of Powder Finishing

Purchase accounting effect on inventory

Powder Finishing operating earnings leverage

Product cost, pricing and mix

Volume effect on expense leverage*

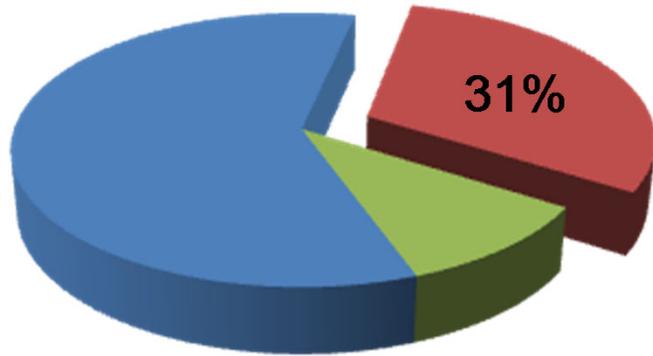
2012 Operating Earnings (\$M and % of sales)

| | <u>Second Quarter</u> | | <u>Year-to-Date</u> | |
|--|-----------------------|-------------|---------------------|-------------|
| 2011 Operating Earnings (\$M and % of sales) | \$ 45 | 35 % | \$ 90 | 36 % |
| Translation effect | (2) | (1) | (3) | (1) |
| Effect of Powder Finishing | | | | |
| Purchase accounting effect on inventory | (7) | (4) | (7) | (2) |
| Powder Finishing operating earnings leverage | 6 | (3) | 6 | (2) |
| Product cost, pricing and mix | 1 | 1 | 9 | — |
| Volume effect on expense leverage* | — | (1) | (4) | — |
| 2012 Operating Earnings (\$M and % of sales) | <u>\$ 43</u> | <u>27 %</u> | <u>\$ 91</u> | <u>31 %</u> |

* Increased product development spending



Contractor Equipment Results



Second Quarter Contractor Sales as % of Consolidated



| Sales (\$ M) | Second Quarter | | | Year-to-Date | | |
|--------------------|----------------|--------------|------------|---------------|---------------|------------|
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Americas | \$ 55 | \$ 52 | 4 % | \$ 101 | \$ 98 | 3 % |
| Europe | 17 | 20 | (12) | 33 | 36 | (9) |
| Asia Pacific | 10 | 9 | 21 | 20 | 17 | 17 |
| Total | \$ 82 | \$ 81 | 2 % | \$ 154 | \$ 151 | 2 % |
| Operating Earnings | \$ 18 | \$ 16 | 9 % | \$ 31 | \$ 28 | 11 % |
| % of sales | 22 % | 20 % | | 20 % | 18 % | |



Contractor Equipment Results

Change in % of sales

2011 Operating Earnings (percentage of sales)

Translation effect

Product and regional mix

Expense/volume leverage

2012 Operating Earnings (percentage of sales)

Second Quarter

Year-to-Date

20 %

18 %

(1)

(1)

—

—

3

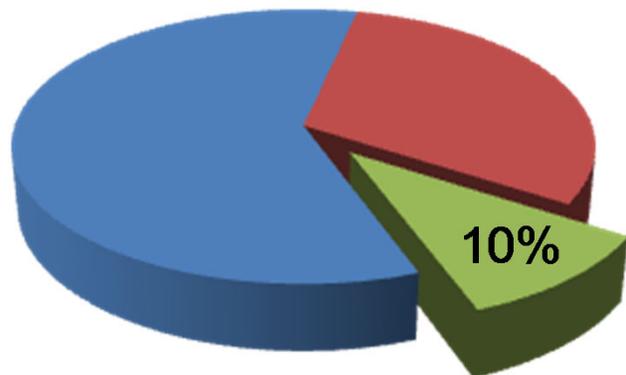
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22 %

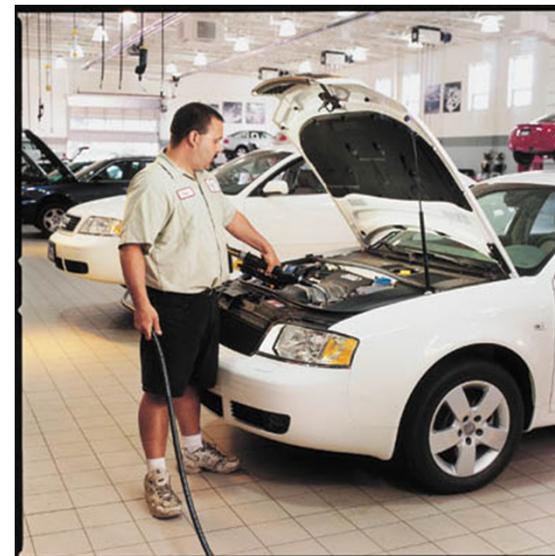
20 %



Lubrication Equipment Results



Second Quarter Lubrication Sales as % of Consolidated



| Sales (\$ M) | Second Quarter | | | Year-to-Date | | |
|--------------------|----------------|--------------|-------------|--------------|--------------|-------------|
| | 2012 | 2011 | Change | 2012 | 2011 | Change |
| Americas | \$ 21 | \$ 18 | 19 % | \$ 41 | \$ 35 | 16 % |
| Europe | 2 | 2 | — | 4 | 4 | (7) |
| Asia Pacific | 5 | 5 | (1) | 11 | 10 | 12 |
| Total | \$ 28 | \$ 25 | 13 % | \$ 56 | \$ 49 | 13 % |
| Operating Earnings | \$ 6 | \$ 4 | 37 % | \$ 12 | \$ 9 | 25 % |
| % of sales | 20 % | 16 % | | 21 % | 19 % | |



Lubrication Equipment Results

Change in % of sales

2011 Operating Earnings (percentage of sales)

Translation effect

Product cost / mix / price

Volume effect on expense leverage

2012 Operating Earnings (percentage of sales)

Second Quarter

Year-to-Date

16 %

19 %

—

—

—

—

4

2

20 %

21 %



Move – Measure – Control – Dispense – Apply

Building Momentum