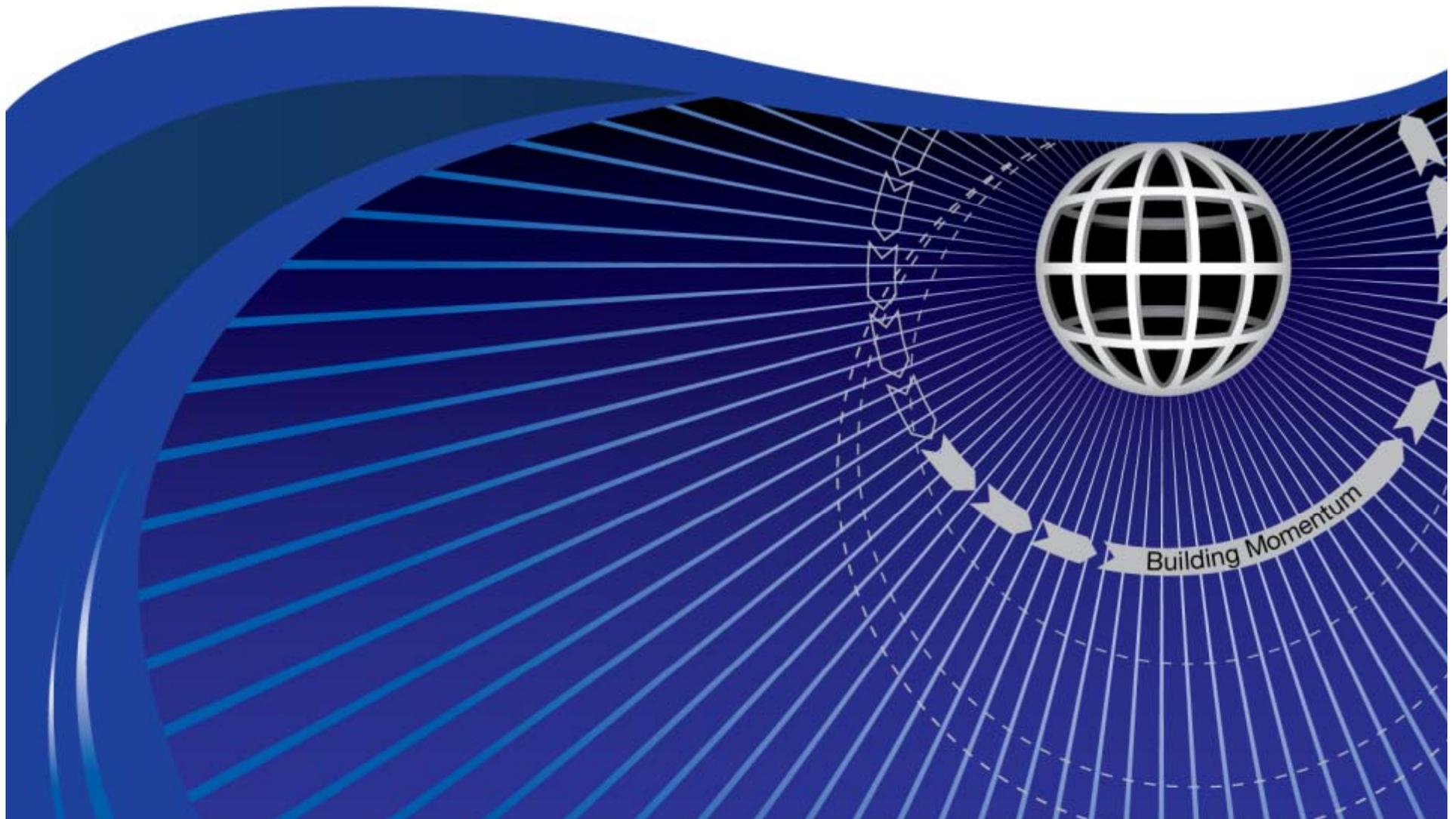




# Investor Presentation

## 3<sup>rd</sup> Quarter — November 2012





## Safe Harbor

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

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

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



## ➤ Overview

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

Building Momentum



## Business Overview

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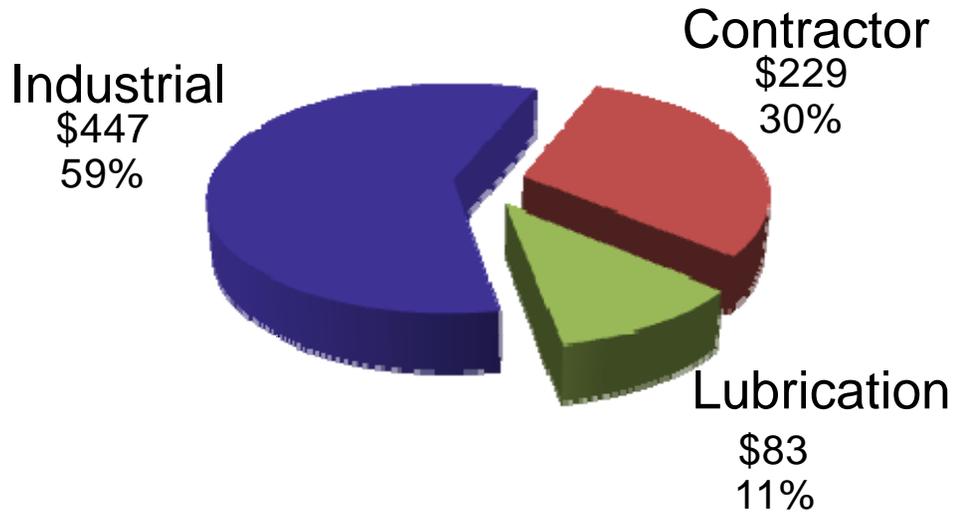
- Graco manufactures premium equipment to pump, meter, mix and dispense a wide variety of fluids and coatings
  - Difficult to handle materials with high viscosities
  - Abrasive and corrosive properties
  - Multiple component materials that require precise ratio control
  - Serving a broad number of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



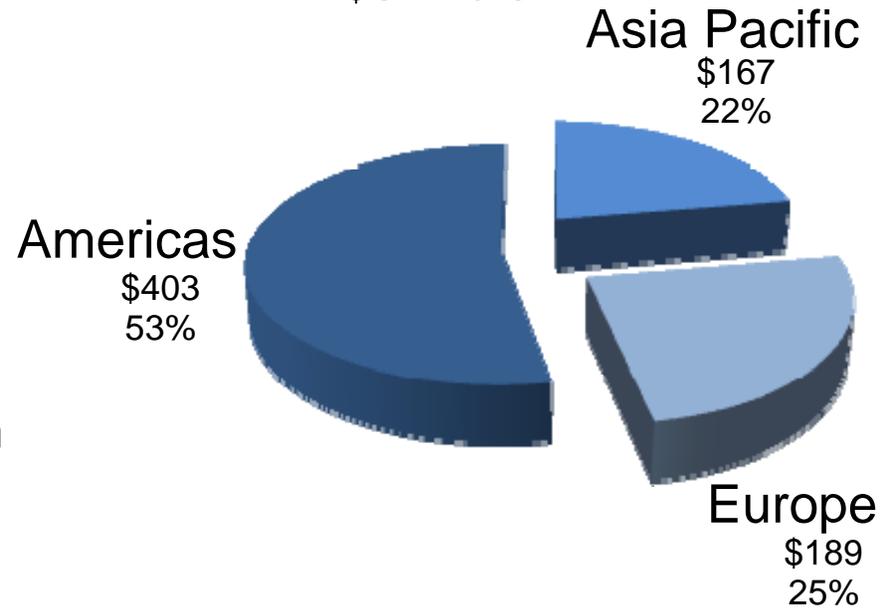
# 2012 – Nine Months

## \$759 Million in Sales

Segment  
\$'s millions



Geography  
\$'s millions



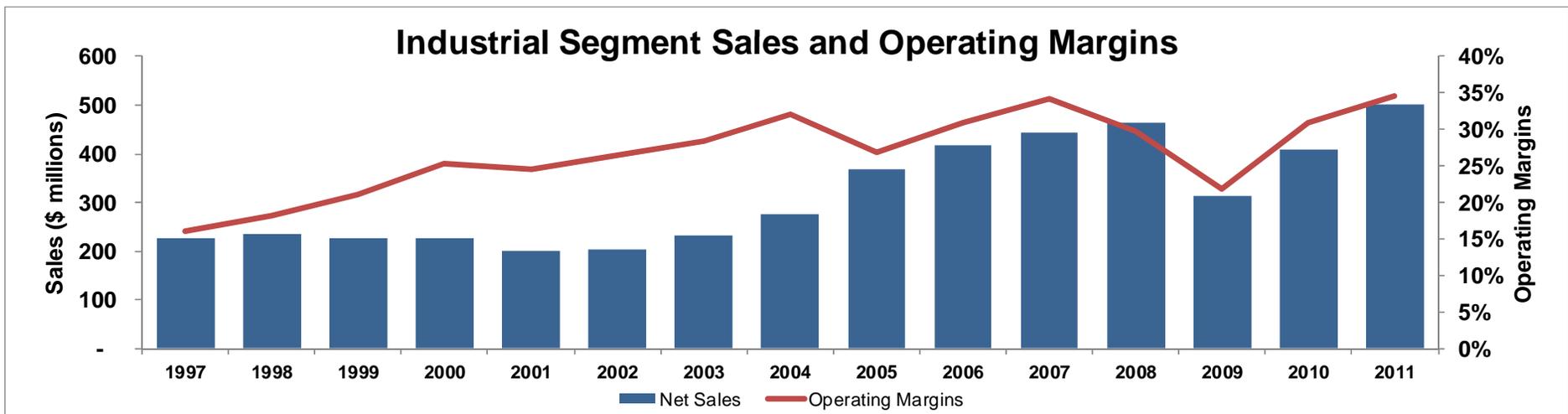
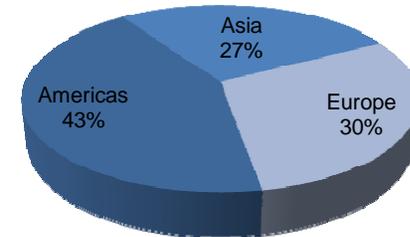


# Industrial Equipment Segment

- 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 Industry Participants
  - Exel, Idex, IR, Dover, Wagner and Finishing Brands



Sept YTD 2012 Sales - \$447M



Does not include Powder

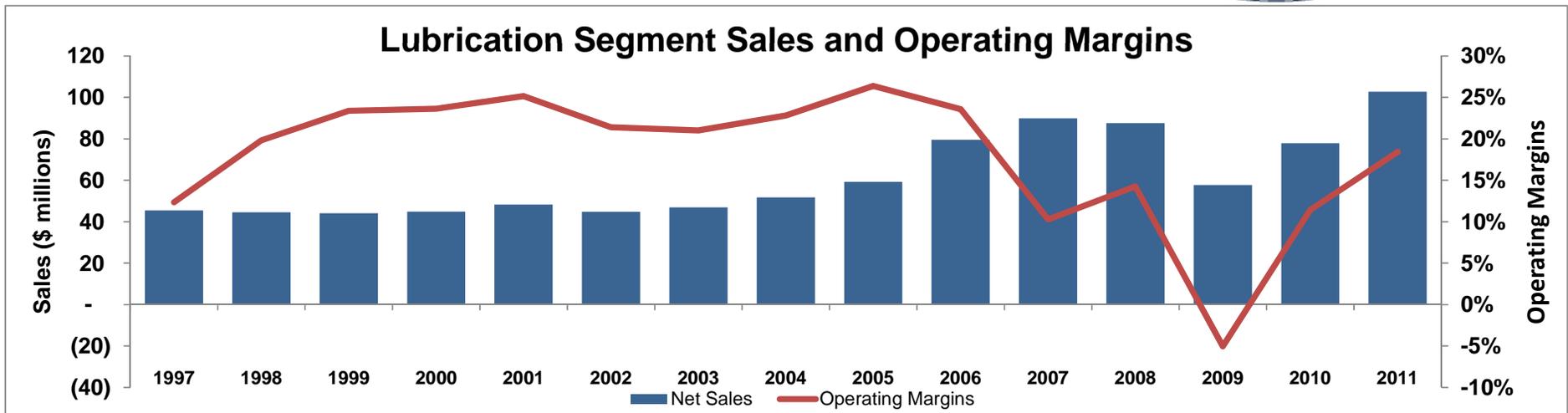
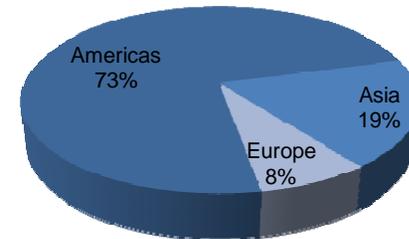


# Lubrication Equipment Segment

- Growth Drivers and Trends
  - Expanding international markets and presence
  - Targeting industrial lubrication market
- Other Industry Participants
  - Lincoln, Vogel, BEKA, Samoa, RAASM, and regional players



Sept YTD 2012 Sales - \$83M





# Contractor Equipment Segment

- Growth Drivers and Trends

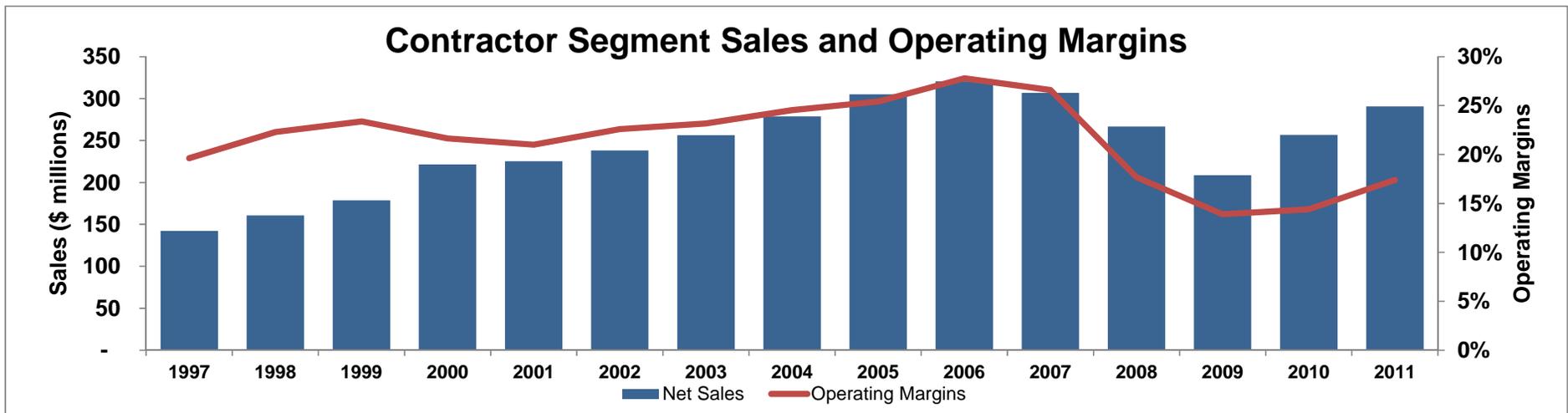
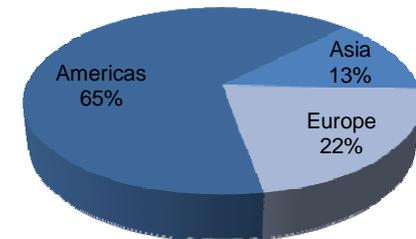
- Conversion of end users from manual application methods to equipment is a major focus outside North America
- Application of texture & cementitious materials
- Entry level product & channel expansion
- Expanding pavement maintenance product line & channel

- Other Industry Participants

- Wagner, TTI, Campbell Hausfeld, Larius, Bedford, QTech, and regional players



Sept YTD 2012 Sales - \$229M





❖ Overview

➤ **Enduring Business Model**

❖ Strategies for Long-Term Growth

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❖ Company Performance

Building Momentum



# High Customer Value, Strong Product Differentiation





# Manufacturing and Engineering Excellence

- 80%+ of production is based in the United States
  - High quality, efficient, engaged labor force
  - Centralization allows for leverage of overheads
- Continuous improvement culture
  - Unique Graco cost to produce measurement tool
- Ongoing capital investment approaching 3% of revenues
  - 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	2011 Sales (\$ in millions)
0 - 1	37,307 (90%)	\$435 (49%)
2 - 5	2,612 (6%)	\$173 (19%)
6 - 10	664 (2%)	\$78 (9%)
11 - 15	242 (1%)	\$51 (6%)
Greater than 15	547 (1%)	\$158 (17%)
<b>Totals</b>	<b>41,372</b>	<b>\$895</b>



- ❖ Overview
- ❖ Enduring Business Model

## ➤ **Strategies for Long-Term Growth**

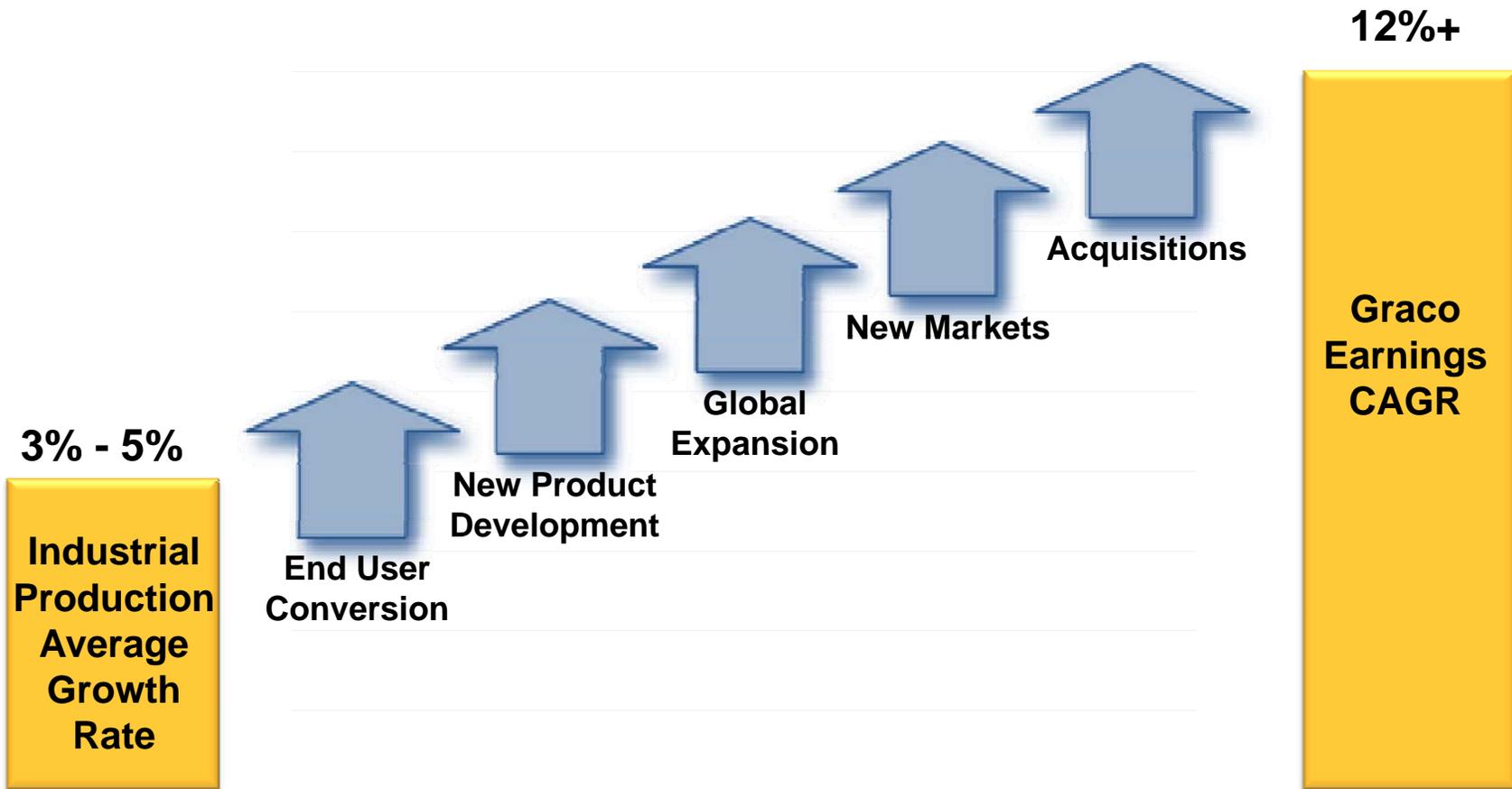
- Invest in New Products
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- ❖ Company Performance

Building Momentum



# Graco's Growth Plans and Earnings Drivers





❖ Overview

❖ Enduring Business Model

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❖ Company Performance

Building Momentum



# Targeting Growth Through New Products and Markets

## New Product Development Expense as a Percentage of Revenues - 2011



### Peer group includes:

- Colfax
- Dover
- Dresser Rand
- Flowserve
- IDEX
- Illinois Tool Works
- Ingersoll Rand
- Nordson
- Robbins & Myers
- Watts Water Technologies



# Industrial – Electrostatic Applicators

- Many models to choose from, including air spray, air-assist and Smart Control
- Redesigned components improve spray performance and transfer efficiency
- Strong ROI when replacing conventional air-assist and HVLP guns with the Pro Xp
- Smart Controls analyze performance, adapt to voltage needs and assist in troubleshooting



**Pro Xp Manual Electrostatic Guns**

Combines material savings and excellent finish quality into a smaller and lighter gun body





# Industrial – Peristaltic Hose Pump

## Key Product Attributes

- Electric driven
- Metering capability
- Seal less to prevent leaks
- Ability to handle abrasive materials
- Wide chemical compatibility range

## New Peristaltic Hose Pump Opens New Opportunities

- Ceramics
- Potable and waste water treatment
- Food ingredient metering and transfer
- Chemical dosing
- Energy





# Industrial – Dual Control Electric Piston Pump

- More efficient than similar-sized pneumatic motors – great ROI
- Constant pressure like a pneumatic motor and constant flow like an electric motor
- Innovative dual control technology provides less pulsation at changeovers for a more consistent finish
- Advanced Control Module
  - Manage several pumps from one module
  - Provides greater control outside of hazardous areas



## E-Flo DC Electric Piston Pump

Combines the benefits of a pneumatic motor with the energy efficiency of an electric drive unit.





# Lubrication New Products – Cord and Light Reels

## New Products for Existing End Markets

- Product line expansion that leverages existing relationships
- Opportunity to be a single source equipment provider for the entire bank of reels

## Innovative Design

- Displace competitive products with durability, design and benefits for our customers
- Approvals for selling products into applications worldwide



### **SD Series Cord and Light Reels**

The SD Series Cord Reels offers professional performance and a full line of accessories



# Lubrication New Products – GBL 7500 Pumps

## Extending the Industrial Lube Pump Line

- GBL 7500 pumps lubricate compressors that move natural gas through thousands of miles of pipeline
- Manufactured to maintain the highest industry standards in an applications that requires continuous-duty operations
- Highly differentiated from competitive products
- Creates pull through for selling a complete line of complimentary products and accessories



**GBL 7500 Natural Gas Compressor  
Box Lubrication Pumps**



## CED – New Product

### LineLazer IV 250SPS

Stand-On striping unit

- City Striping Jobs
- Intersections
- Airports
- Large Parking Ramps
- Bike Paths
- Large Parking Lots
- Turf - Sports Fields
- Stencil Jobs
  - Pavement
  - Turf





- ❖ Overview
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  - **Expand Geographically**
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Building Momentum



# Asia Pacific – New Markets / Applications

## Automotive – NVH



- New product (HFR) that serves market needs

## Wind Energy – Lubrication



- New product that fits market requirement

## Sanitary – Process



- Develop specialized channel in emerging market

## Construction – Water Proofing



- Expansion of specialized channel



❖ Overview

❖ Enduring Business Model

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Building Momentum



# Industrial – New Markets/Applications

## End-user conversion moving to Industry in EMEA

(Europe/Middle East/Africa)

- Industrial roadshow
- End-user conversion program focus on new Pro Xp electrostatic
- Sanitary specialist team for food & beverage & pharmaceutical markets





# Industrial – New Market Example

## XM PFP Plural-Component Sprayer

- Sprays intumescent epoxy fire protection coatings
- For structural steel on oil rigs and commercial buildings
  - Helps insulate structural steel from high-temp hydrocarbon fires; buys time for people to evacuate
- Data reporting lets contractors verify that materials were sprayed accurately and on-ratio



**Graco XM PFP  
Plural-Component Sprayer**



## Industrial – New Markets

- Existing homes – Reactor E-8p
  - For applying no-heat foam insulation in existing homes
    - Seal and insulate rim joists; create air barriers in attics
  - 86 million homes in North America need better insulation
  - For insulation contractors who want to build their business, also remodeling contractors or new start-ups



- Composites – Graco RS Resin Spray Gun
  - For gel coat and fiberglass applications in the composites market
  - Change blades in less than 15 seconds





❖ Overview

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❖ Company Performance

Building Momentum

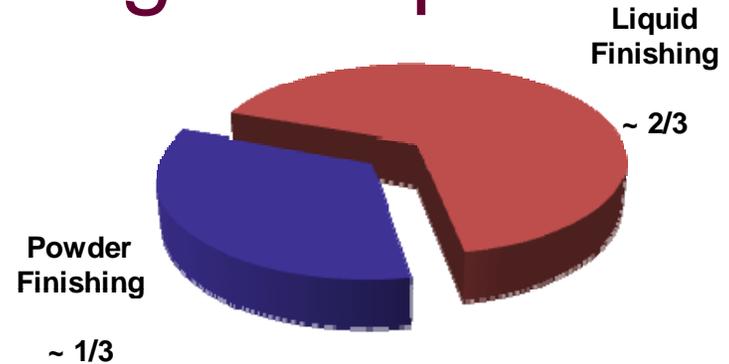


Graco Acquired on April 2, 2012 for \$650 million

# ITW Finishing Group

2011 Revenues\* \$375 million

2011 EBITDA\* \$80 million



## Powder Finishing



## Liquid Finishing – Held Separate



\* Unaudited, provided by ITW



## FTC Order to Hold Separate and Maintain Assets

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- Federal Trade Commission (FTC) issued a Hold Separate Order for Graco to hold Liquid Finishing assets separate and in compliance with the FTC order:
  - Liquid Finishing businesses are run independently by existing management
  - Under the supervision of a trustee who reports directly to the FTC
- FTC issued a proposed “Decision and Order”, 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.
- Liquid Finishing businesses held separate from Graco are reflected as a cost-method investment for accounting purposes, and its financial results have not been consolidated with those of the Company



# Product Range



## Electrostatic Powder Guns



## Complete Systems



## Powder Kitchens



## Reciprocators

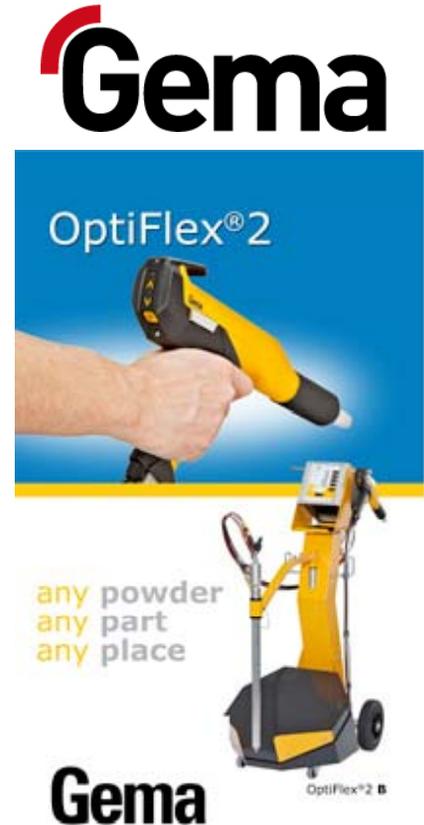




## Powder Finishing – Strong Strategic Fit

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- Well established brand name
  - High quality
  - A technology leader
- Large installed base
- Access to attractive end markets
- Desirable emerging market exposure
- Strong and growing global distribution base
- Scale to drive long-term growth worldwide





# End Markets



Heating/Cooling/Sanitary



Job Coaters



Automotive/Transportation



Home Appliances



Architecture



Machines Industry



Electrical/Electronics



Metallic Furniture



- ❖ Overview
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## ➤ **Company Performance**

Building Momentum



# Consolidated Financial Results

\$ millions except EPS	Third Quarter			Year-to-Date		
	2012	2011	Change	2012	2011	Change
Sales	\$ 256.5	\$ 227.3	13 %	\$ 758.8	\$ 679.7	12 %
Gross Profit	\$ 139.9	126.3	11 %	411.6	383.2	7 %
% of Sales	54.6 %	55.6 %	(1.0) pts	54.3 %	56.4 %	(2.1) pts
Operating Earnings	\$ 56.3	56.8	(1)%	166.8	172.1	(3)%
% of Sales	22.0 %	25.0 %	(3.0) pts	22.0 %	25.3 %	(3.3) pts
Net Earnings	\$ 37.1	\$ 36.6	2 %	\$ 106.9	\$ 111.9	(5)%
% of Sales	14.5 %	16.1 %	(1.6) pts	14.1 %	16.5 %	(2.4) pts
Diluted Earnings Per Share	\$ 0.60	\$ 0.60	0 %	\$ 1.73	\$ 1.82	(5)%

## Acquisition/divestiture related items:

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

	Third Quarter	Year-to-Date
	\$ -	\$ 7
	1	9
	2	4
	2	9
	(4)	(8)



# Current Environment

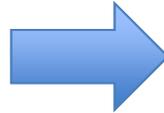
	Americas	Europe	Asia Pacific
Industrial Segment	 Favorable: General Industrial; Automotive; Ag; Heavy Machinery Stable: Construction	 Favorable: Emerging EMEA Challenging: Western Europe	 Favorable: General Industrial; Challenging: Project Activity
Contractor Segment	 Improving: Pro Paint Stable: Gen Construction & DIY	 Favorable: Emerging EMEA Challenging: Western Europe	 Favorable: Emerging Markets Stable: General Construction
Lubrication Segment	 Favorable: Industrial Lubrication; Vehicle Services	 Favorable: Industrial Lubrication Challenging: Western Europe	 Favorable: Industrial Lubrication Unfavorable: Mining



# Cash Deployment Priorities

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**Organic Growth Investments**



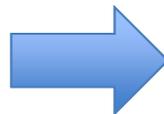
- International footprint
- Product development
- Production capacity and capabilities

**Acquisitions**



- Supplement to organic growth
- Leverage our strengths

**Dividends/Share Repurchase**



- Dividend payout ratio 25-30%
- 6 million authorized share repurchase - 10% of outstanding shares approved September 2012



## Key Investment Attributes

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- 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  
For YTD Q3  
2012 -  
Appendix**



## Financial Results – Nine Months

(\$ Millions except EPS)	2012	2011	Change
Sales	\$758.8	\$678.7	12%
Gross Profit Rate	54.3%	56.4%	
Operating Expenses	244.9	211.1	16%
Operating Earnings	166.8	172.1	(3%)
Net Earnings	\$106.9	\$111.9	(5%)
Earnings Per Share	\$ 1.73	\$ 1.82	(5%)



## September Year-to-Date 2012 Results

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- Sales year-to-date up 12 percent (13 percent at consistent currency translation rates) compared to prior year
  - Powder Finishing sales of \$62 million accounts for 9 percentage points
  - Currency translation rates decreased sales by approximately \$14 million
- Year-to-date gross profit margin of 54 percent, down 2 percentage points from last year
  - Realized pricing more than offset higher cost
  - Effect of purchase accounting, 1 percentage points
  - Powder Finishing lower margin impacted consolidated by 1 percentage point
  - Currency translation and product mix lowers margin by 1 percentage points
- Operating expenses were up \$34 million, including acquisition/divestiture costs and Powder Finishing operations
- Backlog increased \$25 million as compared to prior year-end, all from Powder Finishing
- Net earnings decreased by 5 percent compared to last year
- Diluted EPS was \$1.73

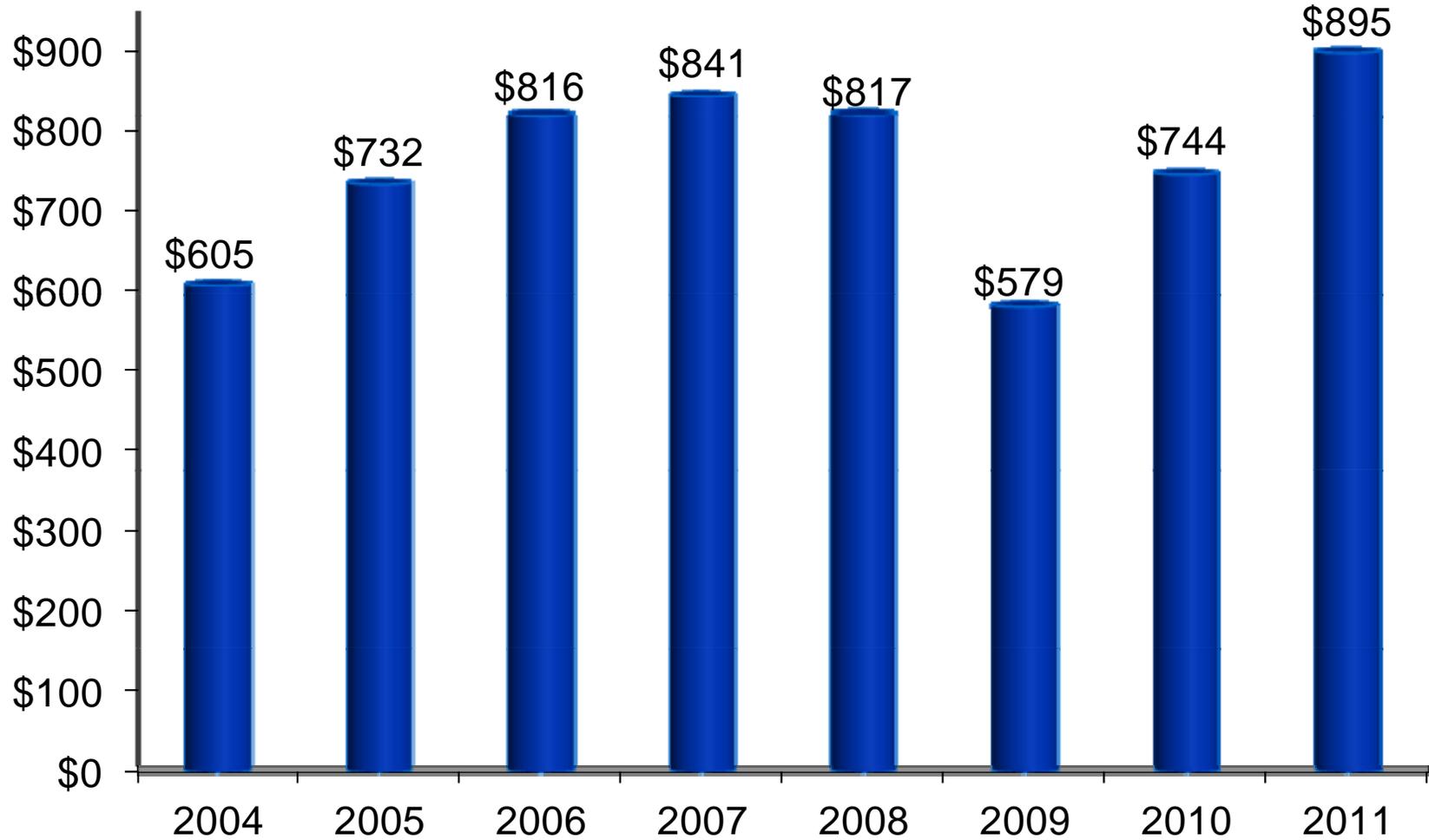


**Financial  
Summary  
For 2011 -  
Appendix**



# Annual Sales (\$ Millions)

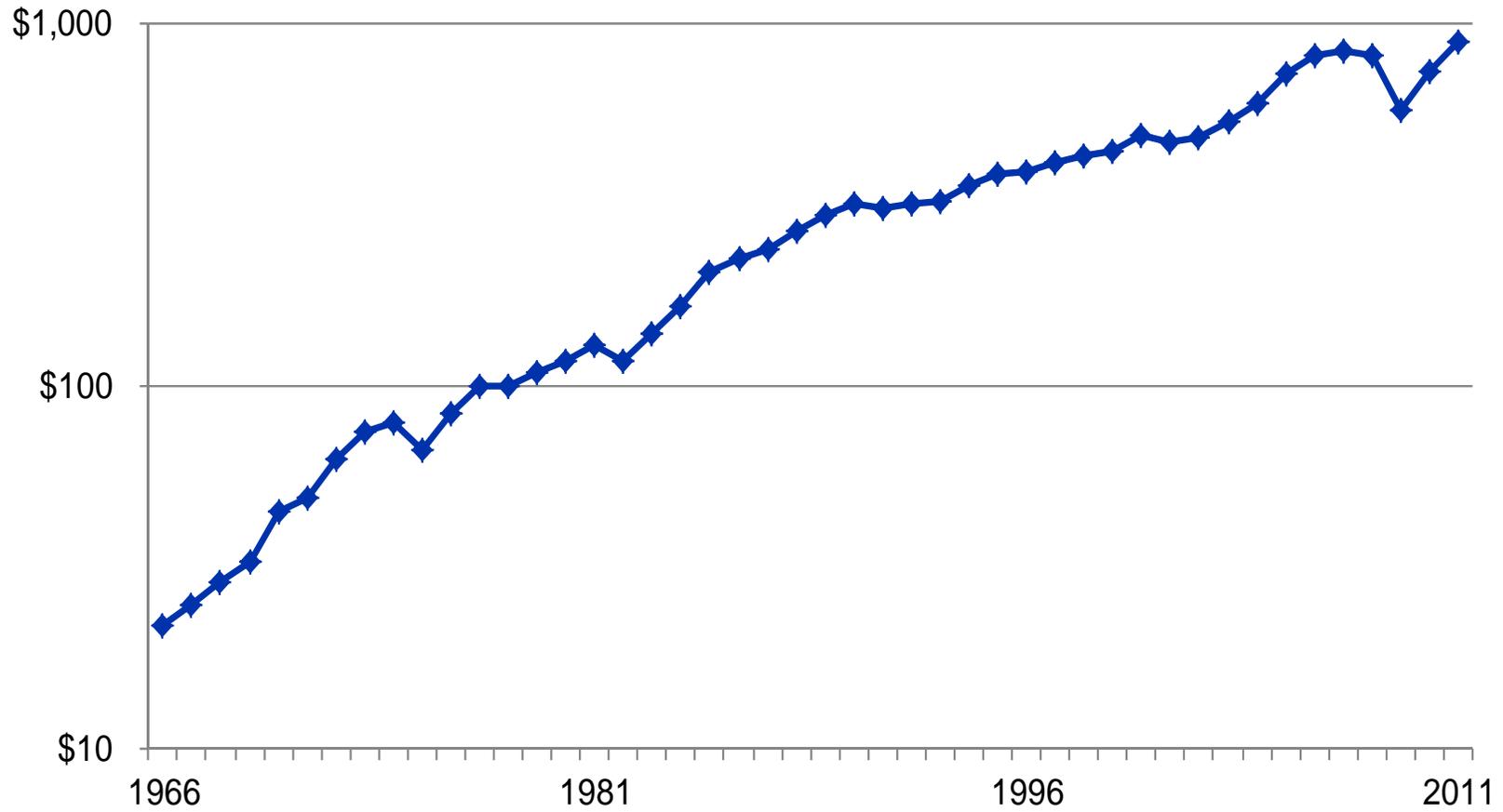
Target: 6-7% Organic  
10%+ Overall





# Historic Sales (\$ Millions)

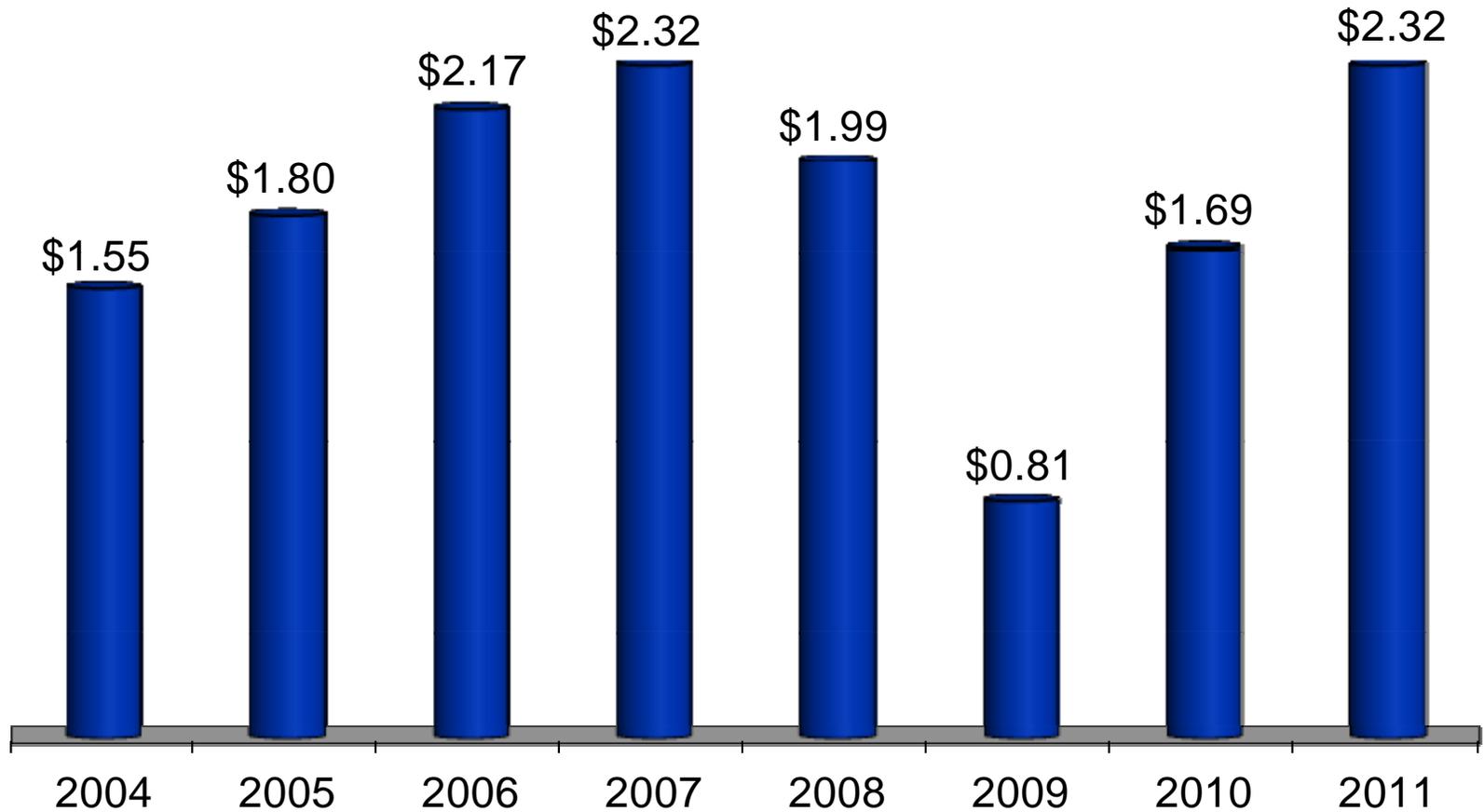
CAGR 9%





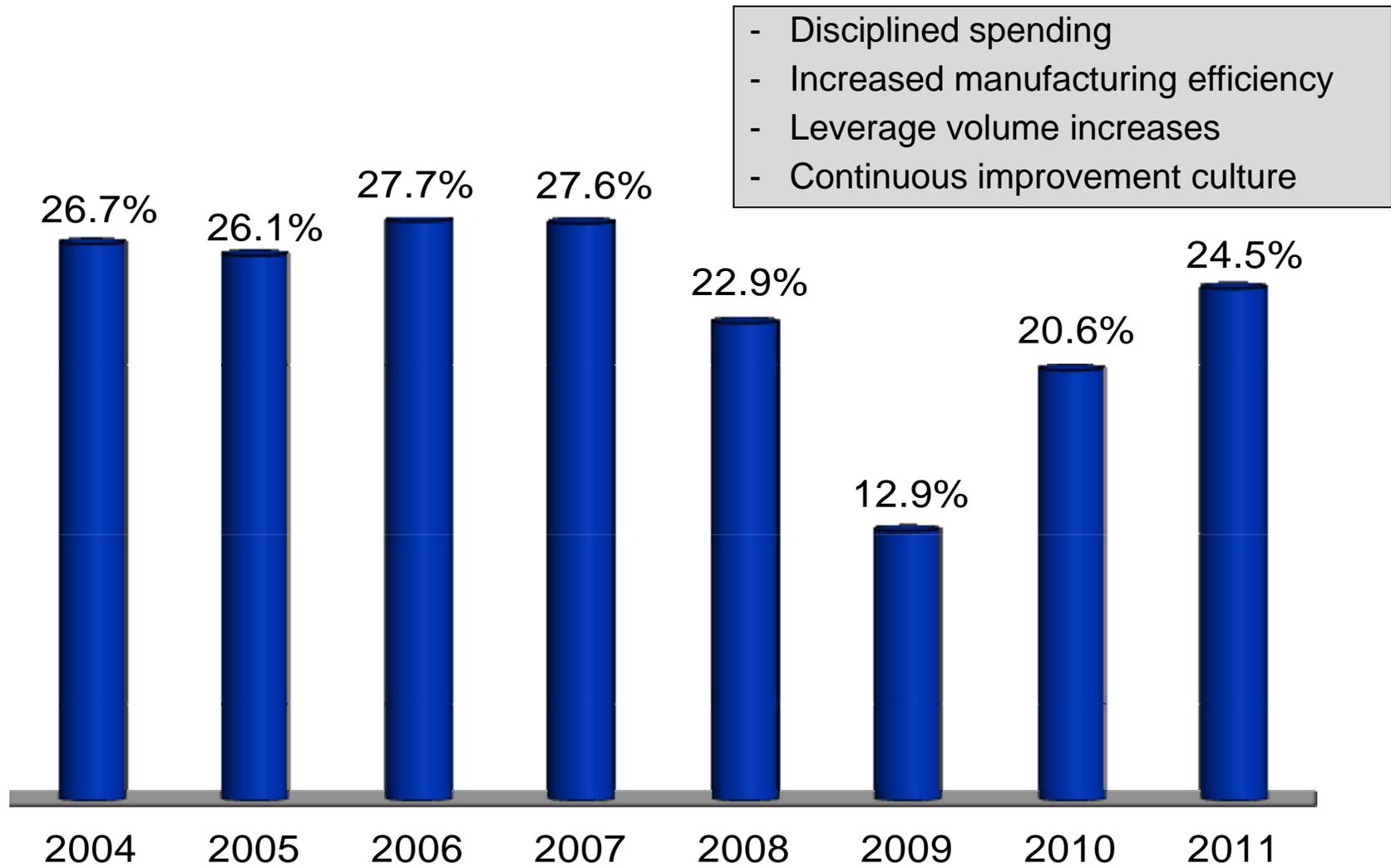
# Earnings Per Share

Target: 12%+





# Operating Margin





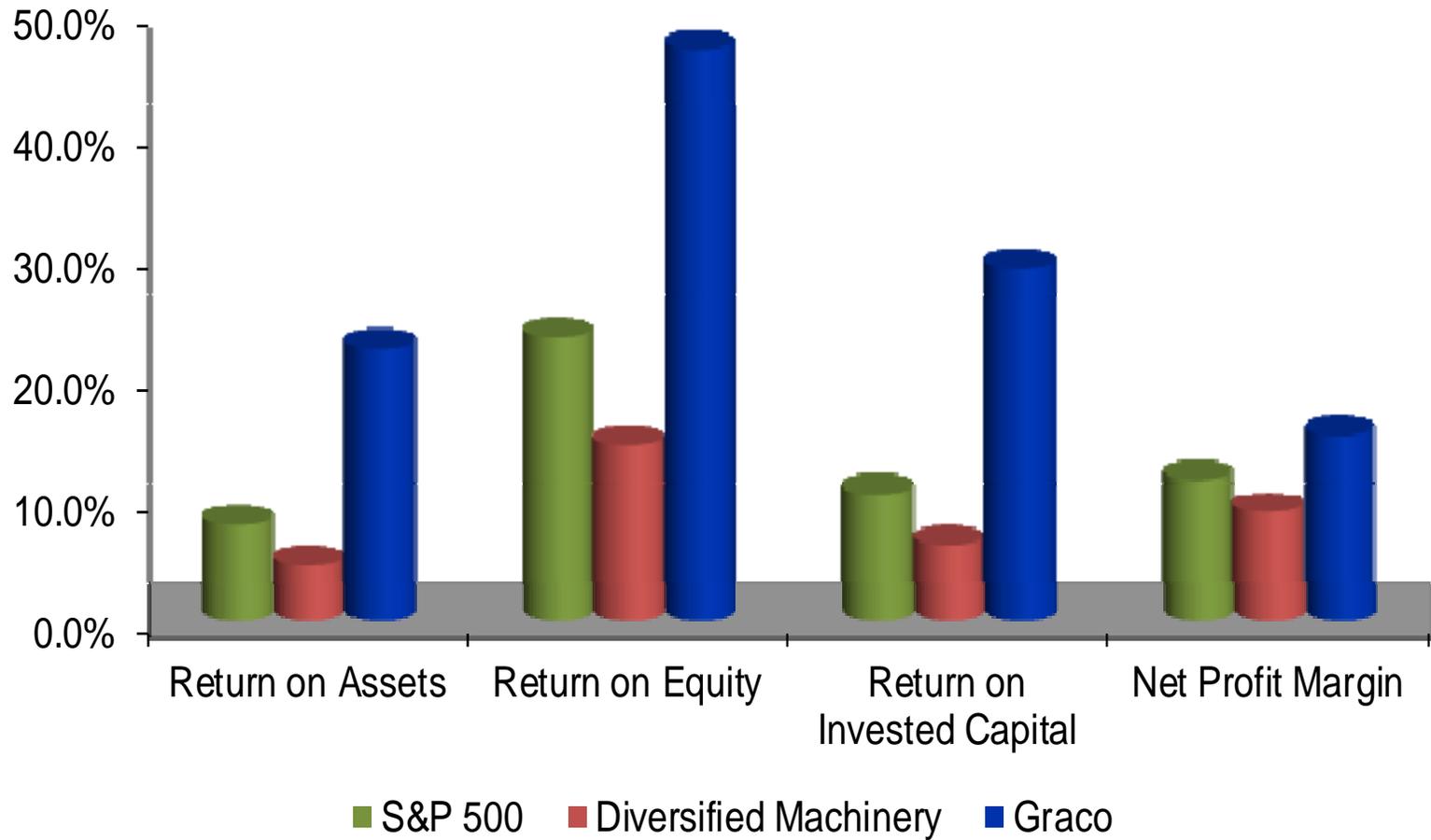
## Strong Cash Generation

(\$ Millions)	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating Cash Flows	\$ 162	\$ 101	\$ 147	\$ 162	\$ 177	\$ 156	\$ 153
% of Net Income	114%	98%	300%	134%	116%	104%	121%
Capital Expenditures	<u>24</u>	<u>17</u>	<u>11</u>	<u>27</u>	<u>37</u>	<u>34</u>	<u>20</u>
Free Cash Flow	<u>\$ 138</u>	<u>\$ 84</u>	<u>\$ 136</u>	<u>\$ 135</u>	<u>\$ 140</u>	<u>\$ 122</u>	<u>\$ 133</u>
Dividends	\$ 51	\$ 48	\$ 45	\$ 45	\$ 43	\$ 39	\$ 36
Acquisitions	-	-	-	55	-	31	111
Share Repurchases *	<u>21</u>	<u>11</u>	<u>(6)</u>	<u>101</u>	<u>206</u>	<u>76</u>	<u>32</u>
	<u>\$ 72</u>	<u>\$ 59</u>	<u>\$ 39</u>	<u>\$ 201</u>	<u>\$ 249</u>	<u>\$ 146</u>	<u>\$ 179</u>

\* Net of shares issued



# Capital Efficiency – 5 Year Average



Source: Interactive Data, 2012 Thomson Reuters



**Move – Measure – Control – Dispense – Apply**

**Building Momentum**