Company: **Graco Inc.**

Conference Title: **3rd Quarter 2016 Earnings Call**

Moderator: **Pam Steinkraus**

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Operator: Please stand by. Good morning and welcome to the 3rd Quarter 2016 Conference Call for Graco Inc. If you wish to access the replay for this call, you may do so by dialling one and 888-203-1112 within in the United States or Canada. The dial-in number for international callers is 719-457-0820. The conference ID number is 5026669. The replay will be available through 24th October 2016. Graco has additional information available in a PowerPoint slide presentation which is available as part of the Webcast player. At the request of the company, we will open the conference up for questions and answers after the opening remarks from management. 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 1-A of the Company's 2015 annual report on form 10-K and in item 1-A of the Company's most recent Quarterly Report on form 10-Q. These 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, Vice President, Corporate Controller and Information Systems.

Caroline Chambers: Good morning everyone. I'm here this morning with Pat McHale and Christian Rothe. Our conference call slides are on our website and provide additional information on our quarter. Graco reported third quarter sales of $327 million, net earnings of $54 million and diluted earnings per share of 95 cents. Incremental sales from acquired operations contributed one percentage point of growth, while organic sales, at consistent translation rates increased by two percentage points. Changes in currency translation rates have little effect of sales or operating results for the quarter. And at current rates, we do not expect currency to have a significant effect on the fourth quarter. A reconciliation of our operating earnings is included on page eight of our slide deck. Gross profit margins this quarter were slightly higher than the rates in the prior year as favourable effects of realized pricing and channel and product mix offset the impact of lower factory volumes. Operating expenses increased by $2 million as compared to the third quarter last year. Expenses from acquired operations totalled $2 million. On unallocated corporate expenses were $3 million lower than last year, mostly from pension and stock compensation. Unallocated corporate expenses vary from quarter to quarter, and we expect that for the full year unallocated corporate expense will be approximately $1 million higher than last year.

The effective tax rate for the quarter was 29%, two percentage points lower than the rate for the third quarter last year. The 2016 rate includes the favorable effect of the Federal R&D credit that was not available until the fourth quarter last year. And the favourable effect of foreign earnings taxed at lower rates than the U.S. The tax rate for the fourth quarter is expected to be approximately 31% with the full year expected to be approximately 30%. As we noted in our press release and our slide deck, we believe that the current fair market value of our direct Oil and Natural Gas business to be lower than our current book value. And we are currently in the midst of our process to determine the amount of an impairment that will be booked in the fourth quarter. Although we continue to believe in the long-term prospects for this end-market and progress is being made to improve facilities, manufacturing capabilities, and commercial resources for our Oil and Natural Gas initiative, the continued revenue declines in the third quarter and preliminary projection from our 2017 planning process have impacted estimates of fair market value. We currently have $147 million of goodwill and $73 million of other identifiable and tangible assets related to the direct Oil and Natural Gas business.

A couple of brief reminders regarding comparables to 2015. Last year included year-to-date net investment income of $141 million or $2.36 per diluted share related to the liquid finishing businesses that were help separate and sold in April 2015. 2015 year-to-date results also included $9 million or 15 cents per diluted share related to the non-recurring tax benefits. With that, I'll turn the call over to Pat.

Patrick McHale: Thank you Caroline. Good morning everyone. My comments this morning are on an organic constant currency basis. We again posted top line growth during the quarter consistent with the lowest single-digit growth we posted in the first half of the year. We grew in all regions. In our industrial segment, the capital spending environment in the Americas has been weak. Looking at the microdata and what we've seen from our peers, it's tough to see the [inaudible] for a favorable change in the near term. From an end-market perspective, this weakness is relatively broad based. In the EMEA region in Q3, Industrial in the West grew nicely at a mid-single digit pace, but was more than offset in decline in emerging markets. Our Industrial business in the developed economies of EMEA has been solid for some time now. And I don't believe the softness in Q3 is a trend. In the Asia-Pacific region, the Industrial segment posted its sixth consecutive quarter of constant currency organic growth. The growth throughout 2016 has been driven by project activity in China. We continue to characterize the underlying markets as weak and expect project activity to remain spotty in the near term. Operating earnings in our Industrial segment were relatively flat on flat sales growth year over year. Holding operating margins flat in a no-growth quarter is difficult and I give credit to our operations team for solid performance on the operating margin line. In our Contractor segment, growth for the quarter was similar to what we've experienced year-to-date, high single digits in the Americas, double-digit growth in EMEA and declines in Asia-Pacific. Overall growth for the segment was in the high single digits for the quarter and year-to-date. In the Americas, Contractor sales to the paint channel were strong during the quarter, while sales to the home center were flat. Out the door sales in both the paint store and home center channels remain solid in Q3. Incremental margins in the Contractor segment in Q3 continue to track below our benchmark of the low 30's. Increased spending on new product development and marketing programs will likely persist into the fourth quarter and keep incrementals in the low 20's for the second half. Moving on to the process segment. While the process segment was flat in Q3 compared to the prior year, we did see sequential growth from the run rate we had in the first and second quarters. The sequential improvement occurred in all product categories. Oil and Natural Gas continues to be our weakest business. Oil and Natural Gas was down mid 20's in Q3 which is marginally better than our first half performance was off by about a third. On a constant currency organic basis, process segment operating earnings in Q3 were nearly flat with the prior year on flat sales. If you look at it sequentially, operating expenses were down with good expense management by our Process segment businesses. Even with the modest increase in sales, the segment achieved operating margins compared to the second quarter. Our slide desk does a good job of reconciling the drivers for change in margins compared to the prior year by segment, and there's calling out our thoughts on end-market geographies. I won't repeat that information here.

Regarding order rates, July was our strongest month of the quarter in all geographies, while August and September were positive, but weaker. We continue to see a great deal of variability from week to week, indicative of a soft macro environment. As we enter the fourth quarter, it's important to note that we're bringing about $10 million less backlog into the period than we did last year. And we don't have that backlog to drive down in Q4 this year, so that creates a more difficult comp, particularly in the Industrial segment. That said, we're holding to our outlook of low-single digit sales growth for Graco Worldwide, similar to our year-to-date growth. By region, we're looking at low to mid-single digit growth in EMEA, low to single-digit growth in Asia-Pacific, and reducing our expectations for the Americas to flat. There is some downside risk to the Americas outlook of flat as we're up against high-single digit Industrial and solid double-digit contractor segment growth in Q4 of last year. However, in the EMEA region, we've already achieved solid mid-single digit growth year-to-date, there's upside potential to finish the year above our full year outlook of low-to-mid single digits. As most of you know, we don't typically give an outlook by segment, but last quarter we called out the weak performance of the Process segment in the first half and indicated that the flat sales from Q1 to Q2 seemed like a run rate to us. We improved on that slightly in the third quarter, and we're flat compared to the prior year. We didn't call the bottom last quarter and we won't do it this quarter either. We're taking it week by week currently and hoping we can maintain the run rate progress we made in Q3. Looking at our sales comp for the fourth quarter, I do expect this segment to be down year-over-year in Q4. Regarding next year, we don't have an outlook established for 2017 at this point. We will initiate our 2017 outlook on the Q4 call in late January. To recap the quarter, the lowest single-digit growth on the top line gave us mid-single digit growth in operating earnings and double-digit EPS growth. Our operations team has done an excellent job of balancing investments for future growth, while being prudent with discretionary spending. We have multi-year initiatives underway, and we're continuing to spend in those areas, rather than cutting to maximize quarterly results. We remain focused on the long-term. With that operator, we're ready for questions.

Operator: Thank you. The question and answer session will begin at this time. To signal for a question, please press star one on your telephone keypad. If you are using a speakerphone, please ensure that your mute function has been turned off to allow your signal to reach our equipment. Your questions will be taken in the order that it is received. Please stand by for our first question. Our first question will come from Joe Ritchie with Goldman Sachs. Please go ahead.

Joe Richie: Thanks. Good morning guys.

Patrick McHale: Morning.

Joe Richie: So I guess first question, Pat, you did give a lot of good color in the slides and you talked about the challenging end-markets and Industrial, especially in the Americas segment, specifically as it relates to capital equipment. Are you seeing, you know, is there any signs of light, any green shoots that you're seeing that we're at least getting some stabilization there and starting to see any improvement or is it just, you know, things just remain really, really difficult?

Patrick McHale: Yeah, well it's not a disaster obviously if you look at the numbers but I don't really see any catalyst that is going to drive things to get real strong anytime in the near future. Obviously, something will happen and we probably won't know it until it does. When I look at it right now, it's just sort of blah.

Joe Richie: Alright, no that's fair and appreciate the honest answer. It still seems that, you know, on a year-over-year basis you're able to get some price cost, or maybe it was function of mix. I note there was a one-point benefit year-over-year on the margin side. Can you give…

Patrick McHale: You know quarter to quarter it's been challenging on the mix perspective and of course the lower volume creates challenges for our factories. But as you saw this quarter, we did get some price and mix moved our way. Our factories performed well and we got a little margin expansion. Obviously, the factories have a lot easier time consistently giving us positive cost moves when we've got some decent, I'll say, mid-single-digit organic growth. But everybody's working hard and I think we're doing okay.

Joe Richie: Got it and what's the, kind of, expectation going into next year on price cost. Commodity prices rising a little bit. Do you guys think that's going to remain favorable moving forward, or how are you guys thinking about it internally?

Patrick McHale: Yeah, we're not doing an outlook on 2017 yet. But we've been consistent over the years. We expect our factories to drive toward zero cost change certainly in the years where we get a little bit of growth. We've been pretty successful doing that. In this end user environment, or in this, you know, economic environment, I really don't expect that we're going to get a lot of pressure on the commodities side. If we do see a lot of pressure on the commodities side, my guess is that will be a positive sign for capital spending, and for the top line. So, you know, overall going into 2017, I think it's probably going to be more of the same.

Joe Ritchie: Got you. And even one last question for me. On the Process side, like you experience pretty good nice sequential growth in the quarter. It seems like a lot of the end-markets have kind of stabilized. So maybe if you could provide some color there, specifically around Oil and Gas and what drove the improvement that would be helpful?

Patrick McHale: Yeah, if you take a look at – you want to know about Oil and Gas, there's lots of companies to look at besides Graco. It's a pretty small piece for us. And I don't think that I can give you any insights particularly into the Oil and Gas market that you can't get better insights from somewhere else. From our standpoint, we're doing all the things operationally that we expected to do with that business, in terms of investing in some of the organic product development, doing some factory consolidations, adding new equipment to improve quality and cost. And on the top line, it remains difficult out there. Certainly, we had a little bit better run rate in Q3, but its – you know, there are people that have called the bottom, but that's not us.

Joe Richie: Got it. Thank you.

Operator: As a reminder, that is star one to signal for a question at this time. If at any time you find your question has been answered, you may remove yourself from the queue by pressing star two on your telephone keypad. Our next question will come from Matt Summerville with Alembic Global Advisors.

Matt Summerville: Good morning. Couple questions. First, on the contractor's side of things you mentioned that the paint store business was up strongly. Can you quantify that a little bit and the home center business being flat. Those two had, I thought, been moving a little bit more similarly in terms of set function year-over-year growth. And it seems like you've seen a deceleration on the home center side. And then can you sort of correlate that to the new product launches you had in Q2 and how those are doing as well.

Patrick McHale: Sure. From an out the door sales perspective, both of the channels are doing fine. That was really a sales into the channel. And if you remember last year third quarter, we had a big jump in sales to the home center and we had a more of a flattish kind of a number on the paint channel side. This is probably just a comp issue versus Q3 of last year. Because when you take a look at out the door sales, sales of the product that we have, they're fine. Noise you can see from quarter to quarter certainly when we have a big product launch, but that's not really what was reflected in the third quarter. I think it was more of a comp issue and I'm feeling pretty good about the end-market.

Matt Summerville: With respect to Asia-Pac, I think you mentioned that you've had six straight quarters of year over year organic growth there. And I know you provided a little bit of end-market color on the slides, but maybe just specific to China. Where are, you seeing strength there from a capital spending standpoint? And do you feel like you're something sustainable? Because then you sort of talk about that, but then mention that it's still pretty spotty and volatile. So, I'm trying to reconcile that.

Christian Rothe: Yeah Matt, it's Christian. You know, from a project equity perspective, we've had projects and everything from vehicles that are electric driven to some more traditional automotive applications. There's been some wind application projects as well. So, it's fairly broad-based across a number of industries. Again, that's the reason why, as we look at it we – it's tough for us to feel like there's a broad-based growth that's happening in that region. And so, we remain cautious about it.

Matt Summerville: Got it. Thanks, guys.

Operator: Our next question will come from Charley Brady with SunTrust Robinson Humphrey.

Charlie Brady: Thanks. Morning guys. Hey just on your comment about EMEA, and the third quarter was a little bit softer but you don't think that's a trend. Can you just expand about what gives you the confidence that that's not a trend?

Patrick McHale: Yeah, you know the West – our Industrial business has been pretty decent this year and the West in the third quarter was fine. It was just offset by some weakness in the East. And there's nothing that I'm seeing that would really make me believe that that is some sort of a longer-term headwind. I think the West is doing okay and the East might move around a little bit, but I'm feeling generally pretty positive about our industrial opportunity in EMEA.

Charlie Brady: Okay, and just on the change in the North America growth outlook to flat from up a little bit is that – I'm assuming it's not really related to Contractor, probably just the other two, industrial and Process segment. That fair?

Patrick McHale: Yeah, I mean it's part of the year's three-quarters done, right? When you have a batting average and you're three-quarters of the way through the season and you're well-below where you thought you were going to be, got to face reality at some point. So, I mean, I want you to just look at the math. What we'd have to do in the fourth quarter to get Americas into the growth rate, just doesn't really completely seem believable to me based upon where we're at today. Contractor has some challenging comps in the fourth quarter, but the end-market is good, and we got a good team up there. So, I'm not overly concerned about Q4 for Contractor, and Industrial again has strong comps from last year. I mentioned that we shipped a bunch of backlog in Q4 of last year that we won't be shipping this year and that had a nice impact on our Industrial numbers in Q4 last year. So, I think it's just prudent for us to, you know, kind of lay out our thoughts on that. Then we'll see what happens.

Charlie Brady: Was that $10 million delta on the back log going into Q4 year on year predominantly Industrial? Or was – how was it spread?

Patrick McHale: Yeah it was predominantly Industrial.

Charlie Brady: Thanks.

Operator: Our next question will come from Jeffrey Hammond from KeyBanc.

Jeffrey Hammond: Hey, good morning.

Patrick McHale: Morning.

Jeffrey Hammond: Hey, so two markets have been more resilient for you guys in just from a market perspective, CAPEX and non-res construction. Just maybe talk about what your customers are saying perspectival about those markets as you look into the latter part of this year and next.

Patrick McHale: So from a Construction standpoint, you know, we're still positive about the Construction markets here in the U.S. and in Western Europe. Obviously, there's some pressure in some of the Asian markets on the Construction market, but we're a long ways from where we were and I think that we're still got some nice market growth that's going to happen both in Europe and the U.S. over the course of the next few years. So, I'm positive about the environment there despite maybe a little bit of noise from quarter to quarter and some of the watchouts that you might have heard on the coding side. We are seeing pricing in housing holding in a lot of markets and seeing pretty good activity. On the automotive side, I'd say a little bit more watchful. Certainly, when you take a look at U.S. output, it's at a high level and what's going to happen going forward from here, I think is more likely to be a flattening. And that's going to potentially put a little bit of pressure on the CAPEX spending. Certainly, the news is still pretty good in Europe and in A&P as Christian said, although the end-market is, I'll say not great in automotive. It's still pretty good and there's opportunities that we're chasing. So, again, more positive on construction and automotive, but I think both of them are probably going to hang in there for a while.

Jeffrey Hammond: Okay and just on process, you know, just sequentially, it looks like sales were up just a little bit, and then you had meaningful margin improvement and I think you mentioned some, you know, cost savings in there. But just talk about the sustainability of that – of that better margin run rate and process if we're kind of bouncing along the bottom here. Thanks.

Christian Rothe: Yeah, this is Christian. So, you know we're [inaudible] margin and process. We've got, you know, this year we've been in kind of that low teens number all year long. This a little bit better, off a better volume growth. But overall, we're still in a position where, you know, slight variances in volume are going to be pretty impactful on the bottom line. So, is it sustainable? You know, it's sustainable in the double-digit number, for sure. Is it going to get beyond the mid-teens though? That's a question for us. I think we're going to have to see some better growth on the volume side.

Jeffrey Hammond: Okay, thanks guys.

Operator: Our next question will come from Saree Boroditsky from Deutsche Bank. Please go ahead.

Saree Boroditsky: Good morning.

Patrick McHale: Morning.

Saree Boroditsky: I was hoping you could just talk a little bit about corporate expense. It came in lower in prior periods and guidance implies a slight step up in fourth quarter. So how should we think about this going forward?

Caroline Chambers: So generally speaking, we tend to call out our best estimates as to what that's going to be. And when we're taking a look at the full year at this point, we're expecting it to be approximately a million higher than it was for the full year last year. It does change from quarter to quarter just based on timing of some things.

Saree Boroditsky: Ok that's helpful. And then, you know, how should we think about the margins in Contractor in the fourth quarter, just given your very strong results last year?

Patrick McHale: Yes. This is Pat. I think I did mention that our view, over a longer period of time, is that we would have, you know, flow through margins in the 30's, but based upon some of the new project development work that we're doing right now and some of the marketing programs that we're running, I think that the flow through profitability that you ought to expect on Q4 is in the 20's.

Saree Boroditsky: Okay thanks. I'll get back in queue.

Operator: Our next question will come from Dean Dray with RBC Capital Markets.

Dean Dray: Thank you, Good morning everyone.

Patrick McHale: Morning.

Dean Dray: Maybe we can start with the brief comment you had a moment ago about some of the noise in the coding market. What do you make of that?

Patrick McHale: Yeah, you know it's hard for me to say. Probably better off asking the coding's guys to be honest with you. From contractor's perspective, here in North America and Europe, they do have work and while labor's coming back into the market. In a lot of the market that's not falling off the log to find contractors so they need to use equipment that remains pretty robust. And as long as they have some backlog and as long as they're looking for labor, that's a pretty good environment for us. Which could be a little different then the coding side. I don't know. But again, I'd say ask the coding's guys.

Dean Dray: That's helpful. And then, we started off the call with – pointing to favorable pricing is helping growth margin. Where are, you getting pricing? Maybe quantify if you could. And what's driving it? Are these new products? How are you able to get pricing in this environment?

Patrick McHale: Yeah, so let me talk to you about, kind of, that pricing strategy that we have. We put through a pretty modest price increase, but we do it on an annual basis. Really predictable. Generally, we will let our channel partners know sometime around this time of the year what they should expect for price increase in January. Typically, we realize that maybe 1½%, or so. And it tends to be broad-based, we may get a little bit more with new product. We don't have across-the-board price increase. We look by product category, and even down to the component level, and we try to analyse what's going on in the competitive marketplace. You know, what additional value did we bring to the table? What's happening on the cost side? And we try to make, I'll say, very specific decisions category by category what we do with price. But we do expect on annual basis in aggregate our prices go up. And I would say that's been the case for the 25 years I've been at Graco, and I anticipate that that will be the case going forward.

Dean Dray: Great. And then just last question from me. Maybe some clarity on the expected impairment charge. Was this part of a regular impairment test that your auditors do? So what triggered it? And any sense of the size at this stage? And is it broadly across businesses, or it a particular business?

Caroline Chambers: This is Caroline, just a couple comments. You know, as is the normal case, we do have a fourth quarter test. In this case, as we were looking through the results for the year and getting started looking for our forecast out for next year and even a little bit beyond. We did recognize that it was time to take a look at this. And actually, so we started the process in the third quarter. Which is why we called it out now. We haven't completed that work. It was really based on, you know, the shortfalls of the business as to what we were expecting in the second half of the year, and in the third quarter in particular, that triggered our thoughts to get moving on this process. It's really in the Oil and Gas Natural or Direct businesses. And so, it's really confined to that part of our business. We did call out the amount that we're currently carrying on our balance sheet for goodwill and the other intangibles associated with that direct Oil and Natural Gas business.

Dean Dray: Great. Thank you.

Operator: And moving to our next question from Jim Foung from Gadelli & Company. Go ahead.

Jim Foung: Hi Pat, Christian. And good quarter here. I want to ask you about your strategic initiatives. Could you kind of maybe quantify how much you spent so far on this. And then whether the spending run race going to continue into 2017?

Patrick McHale: If you look at the slide deck, we typically will give you an idea of what's happening with our growth investments, vis-a-vis a year ago. And I think what you'll see is, is that we are not cutting our growth investments. We're not trying to manage for the quarter. A good example is Contractor. Contractor came in a little light on flow through margins in the third quarter. We like the product development projects they're working on for 2018. We feel like we need to keep the pipeline full and keep driving growth. And so, the projects and programs that we believe in, we're continuing to invest in. That message is consistent, whether you're talking about what we're trying to do with oil and gas, factory consolidations, warehouse moves, international expansion, investments in South America and Africa. You know, we really believe that we need to drive our own destiny. And we've got a long-term view. So for the most part, while we're trying to manage discretionary expenses, and I think you see some evidence of that here in the quarter. We're trying to make sure that we're not cutting things that we're going to wish we had as we need to drive growth and as markets improve going down the road.

Jim Foung: Okay, and then could you just give us your thoughts about potential stock buyback and ASR that you mentioned?

Christian Rothe: Yes. On the ASR, we've done one before that's not a program that we currently have in place. And that doesn't potentially keep us from doing that sometime in the future, but we do call it out on our slide deck as one potential option. Our mindset around share repurchases is consistent with where it's been most of this year, which is in fact all this year, which is we're being opportunistic. So, we're waiting or either large callbacks or we consider to be major dislocations in the market and then we jump in. And last year we had a number of those opportunities. We ended up being in a good position to be aggressive from time to time, and we bought back a number of shares last year. This year the market's only given us a couple of opportunities to jump in in earnest. And we're patient so, you know, if we can – if we finish this year without buying back another share, we're not going to feel bad about it. If the market gives us an opportunity to jump in, and buy back a number of share here in Q4, we'd be fine with that too.

Jim Foung: Okay. Great. Thank you.

Operator: Our next question will come from Walter Liptak from Seaport Global.

Walter Liptak: Hi, thanks. Good morning. Wanted to ask about one of your initial comments. You said that – I think I heard you say that weak Industrial you didn't think was a trend. I wonder if you could just provide a little bit more – if I heard that right, and, you know, just a little bit more clarity on what you mean by that.

Patrick McHale: Yeah, no, that was specific to our Industrial business in Europe. We've – our Industrial business in Europe has been running along at a pretty decent rate and we had again decent performance in our Industrial business in EMEA in the Western Q3. But it was offset by some softness in the East. And my comment was that I don't really expect that that softness that we saw in East that wiped out our gains in Industrial EMEA in Q3 is a trend. We're still feeling positive about Industrial EMEA.

Walter Liptak: Oh great. Okay. The Industrial Americas, you know, being a little bit soft here just recently, you know, what do you think's going on with the capital spending for those sorts of products and projects?

Patrick McHale: I mean, all the data I've seen is CAPEX spending under quite a bit of pressure here in Industrial in the Americas and I don't think we're immune from that. So, we're all doing our thing. But the environment is such, obviously, people are challenged with top line growth. And when they're challenged with top line growth, they're not investing as much as they normally do. So, we're going to have to…

Walter Liptak: Okay.

Patrick McHale: and scratch the projects out there. They're not just flown into us automatically.

Walter Liptak: Okay, any guess with the project pipeline or anything of, you know, when things may turn?

Patrick McHale: Yeah, you know, I really wish I had good data for you on that, even for myself. But recognize that we sell through distribution. And therefore, having a product pipeline that's got enough granularity and accuracy that I could quote that, or even hang my own hat on that, that's a dream that doesn't happen.

Walter Liptak: Alright. Asia-Pacific, you've got – your growth continues there. And you called out adhesive dispensing. I wonder – is it – are some of the new products you've come out with, are they, you know, is this one big project or this going through distribution and, you know, gaining some market share?

Christian Rothe: Yeah, so it's a number of new projects. Again, you know, we tend to, if we're thinking about project or market share, we try to normalize out project work, that one off type of activity. So, that's why again we continue to call out that we are not – we're not feeling great about the market – the true market growth that's happening. We love the project activity, we'll take it. But again, you know, a broader rip in the macroeconomic environment is much better for the business.

Patrick McHale: And were launching new products in that segment just like we do in all of our businesses, just not any individual product is driving any particular outsized result.

Walter Liptak: Okay. And in – just if I can switch to the Process segment. You know the volume price at flat is pretty good considering the oil and gas – the small[?] is down. Are you seeing any, you know, is this a trend that you're seeing in the non-oil and gas process? Or is there anything positive to talk about in that. I know you called out a few things like environmental and Western Europe as being more stable.

Patrick McHale: Yeah you know there are a few pockets of things that are going okay. Generally speaking there, we've had a lot of internal activity in our process businesses this year working on operating improvements, and I think those are going to pay benefits for us down the road. In terms of the overall end-markets, I'd say, they're still challenging. Oil and natural gas for sure is the worst. But, you know, there are no – there are no large markets that we're exposed to that are great right now.

Walter Liptak: Okay, alright. Thank you.

Operator: As a reminder, that is star one if you would like to signal for questions at this time. We'll hear next from John Franzreb from Sidoti & Company.

John Franzreb: Good morning. Last quarter, you characterized the Americas Industrial South and Central America as being a challenging environment. In the deck this morning, it's not listed anymore. Has that region stabilized? Or are you just saying that across the board the whole Americas are now weakening you previously expected?

Christian Rothe: Hi John, good morning. This is Christian. So the South and Central American market, you're right we did remove it as a challenging characterization on our slide deck. Which only means – and you'll note that we didn't put it as improving or stable, so it's plain removed from our slide deck. So you can maybe say that things are getting worse there. But as far as turning it into a tailwind, we're not there.

John Franzreb: Okay, sure. And you had strong cash flow in the quarter. It looks like some of it went to repaying debt. Are you going to be more aggressive in repaying debt with excess cash in coming quarters?

Christian Rothe: It's not necessarily an objective of ours to be more aggressive on repaying debt or deploying it in any particular fashion. The cash flow was strong and that's good and we'll take it. And this is typically the time of year that the second half of the year is always a really good cash generation period for us. Q3 was particularly strong this year. But there are no initiatives specifically around that.

John Franzreb: Okay and in light of impending goodwill impairment in oil and gas side of the business, maybe just give us an update on one of your previous acquisitions is the [inaudible] business from ITW. How is that performing relative to expectations?

Patrick McHale: Yeah I don't want to get too granular with how our businesses are doing. But in general, I would say the acquisitions that we've made post 2013 outside oil and gas and aggregate, I'm pretty happy with how they've performed.

John Franzreb: Okay, thank you. That's all I've got.

Operator: Our next question will come from Liam Burke from Wunderlich Securities.

Liam Burke: Yes, thank you. Good morning Pat. Pat, there are end-markets that are weaker, creating pain for your competitors as well. Do you see any additional acquisition opportunities as – does pricing get any better for potential acquisition targets? Or has the pipeline gotten bigger?

Patrick McHale: Yeah, I would say that the pipeline is okay. I mean there are still things that we're interested in and there's also still things that we're looking at. You know, keep in mind that the kind of assets that we're looking for are high-quality, high-margin products that are meaningful to an end customer typically survive downturns pretty well. And you know, even despite the fact that things have been soft for, what, six quarters now or whatever or maybe even longer. We're really not seeing anybody getting in line to give those businesses away. If they're not highly motivated to sell, it's not a great time to sell. And if they are interested in selling, generally still, they're getting pretty fair multiples and significant demand for those kinds of assets. Christian can weigh in if he wants. He's got a direct team that works on that.

Christian Rothe: Yeah, so we continue to work through our pipeline. And as Pat said, you know, there are some assets that are trading right now that are trading at pretty high multiples. That's not to say that, you know, if there's a business where we feel like we have a significant synergy we wouldn't step in at a larger multiple. But, you know, for the most part some of these deals are getting pretty rich.

Liam Burke: Great. Thank you, Pat. Thank you Christian.

Patrick McHale: You bet.

Operator: We'll next hear from Jim Giannakouros from Oppenheimer.

Jim Giannakouros: Good morning Pat and Christian.

Patrick McHale: Good morning.

Jim Giannakouros: If I can ask for some color on what you're seeing in China or maybe just cut it a little differently. If we were to cut your order book in longer cycle versus shorter cycle, how much of your business would you categorize longer cycle, and can you speak to your order trends there? For example, I suspect that project activity that's driving your solid result in China, you may have better visibility there for the next two or three quarters versus a, you know, your home center sales and Contractor.

Patrick McHale: Yeah we've got a couple product lines where we've got what I would consider long cycle sales but the vast majority of our business is pretty short cycle. Not to say that our distributors may not have been working with an end user for some period of time. But again, since we sell through distribution, our visibility in aggregate is limited. And we're pretty interested in what our weekly bookings report is going to tell us. So, I'd say, you know, we're probably a good person to look at what's happening right now. But if you're looking for somebody that's trying to figure out what's happing nine months from now, we have very few businesses that give us that kind of visibility.

Jim Giannakouros: Got it. Okay. And then just one follow up, I know Christian, I think you answered on margins and contractors. You were asked about incrementals in the low 20. Was that a 4Q comment, or is that how we should be thinking about it intermediate term given mix new product launch [inaudible], et cetera?

Christian Rothe: That was a 4Q comment, you know as we finish up our planning and go into 2017, we can talk more about it for 2017 in late January.

Jim Giannakouros: Thank you very much.

Operator: As a final reminder to our audience, it is star one for questions at this time. We'll hear next from Jeffrey Matthews from Ram Partners.

Jeffrey Matthews: Hi. Thanks for taking the question. Can you hear me.

Patrick McHale: You bet.

Jeffrey Matthews: Great. Last quarter you talked about corporate confidence as your customers, kind of pressing need to spend money. And my question is with oil kind of firmly at or above the $50 level it seems and having gone through that crisis period and maybe with the recovery, it seems in some of the emerging markets like Brazil. Is there any sign that you might be seeing a shift in parts of your business, or this general kind of blah Industrial sector sort of the way it is? And then related to that, I'm wondering – everyone talks about the election as something that keeping companies holding back and I just wonder if you actually see that from customers?

Patrick McHale: So two comments from me and more personal insights than any kind of fact here. But I don't see any, and I travel a lot, and I don't any global catalyst at present that I say ah-ha. I think that things are starting to turn. Everywhere I go, it looks a little soft. So, I'm not – I'm not seeing it. Now obviously, somebody's going to see it before everybody else and they're going to make a lot of money on it and hopefully it'll be you but right now I'm not seeing it. I'm just seeing sort of muted business conditions in most market around the world. Regarding the election, I haven't heard a single customer talk about not making an investment because of the election. In fact, if I heard somebody at Graco tell me that they were going to make an investment in something, but they weren't because they wanted to see what was going to happen with the election, I'd probably fire them. But that's my view on that.

Jeffrey Matthews: I appreciate it thanks.

Operator: And seeing no further questions in our phone queue at this time. I will now turn the conference over to Pat McHale.

Patrick McHale: Alright. Well, thanks everybody for attending. And despite the challenged environment you can be sure that we are not cutting the good things that we're working on. We believe that we can influence our own destiny. We got to spend a little money to do that. Everybody's working hard, and we'll keep trying to put up good numbers. Thank you very much.

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