



EMERGING ECONOMIES **DRIVE** GROWTH



4th Quarter 2011 Earnings Conference Call

Tuesday, January 31, 2012, 10 a.m. 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 www.Graco.com (click on “Investor Relations”)

Telephone replay available after 2 p.m. ET, January 31, 2012. The replay by telephone will be available through February 04, 2012.

- 800-406-7325 – Conference ID #4502375
- 303-590-3030 – Conference ID #4502375, for International participants



Consolidated Financial Results

\$ millions except EPS	Fourth Quarter			Year-to-Date		
	(13 weeks in 2011, 14 weeks in 2010)			(52 weeks in 2011, 53 weeks in 2010)		
	2011	2010	Change	2011	2010	Change
Sales	\$ 215.6	\$ 197.3	9 %	\$ 895.3	\$ 744.1	20 %
Gross Profit	117.0	107.7	9 %	500.2	403.4	24 %
% of Sales	54.3 %	54.6 %	(0.3) pts	55.9 %	54.2 %	1.7 pts
Operating Earnings	47.4	37.8	25 %	219.5	153.1	43 %
% of Sales	22.0 %	19.2 %	2.8 pts	24.5 %	20.6 %	3.9 pts
Net Earnings	\$ 30.4	\$ 27.0	13 %	\$ 142.3	\$ 102.8	38 %
% of Sales	14.1 %	13.7 %	0.4 pts	15.9 %	13.8 %	2.1 pts
Diluted Earnings Per Share	\$ 0.50	\$ 0.44	14 %	\$ 2.32	\$ 1.69	37 %

- Operating expenses for the quarter included \$2 million related to the proposed acquisition of ITW's finishing businesses, year-to-date \$8 million



Consolidated Financial Results – Net Sales

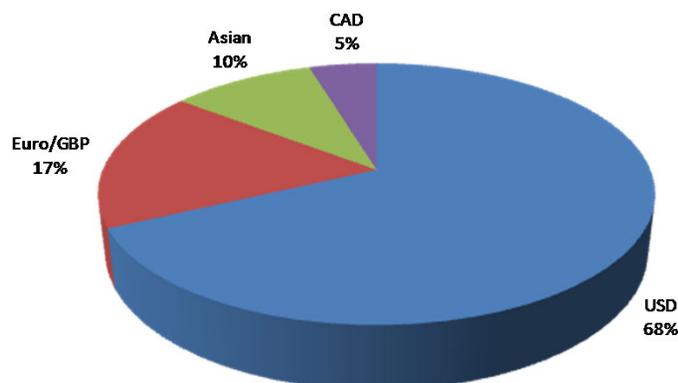
Fourth Quarter (13 weeks in 2011, 14 weeks in 2010)

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	11%	0%	25%	9%	0%	18%	9%
Currency	0%	1%	1%	0%	0%	2%	0%
Total	11%	1%	26%	9%	0%	20%	9%

Year-to-Date (52 weeks in 2011, 53 weeks in 2010)

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	20%	11%	30%	16%	14%	27%	18%
Currency	3%	2%	2%	1%	5%	5%	2%
Total	23%	13%	32%	17%	19%	32%	20%

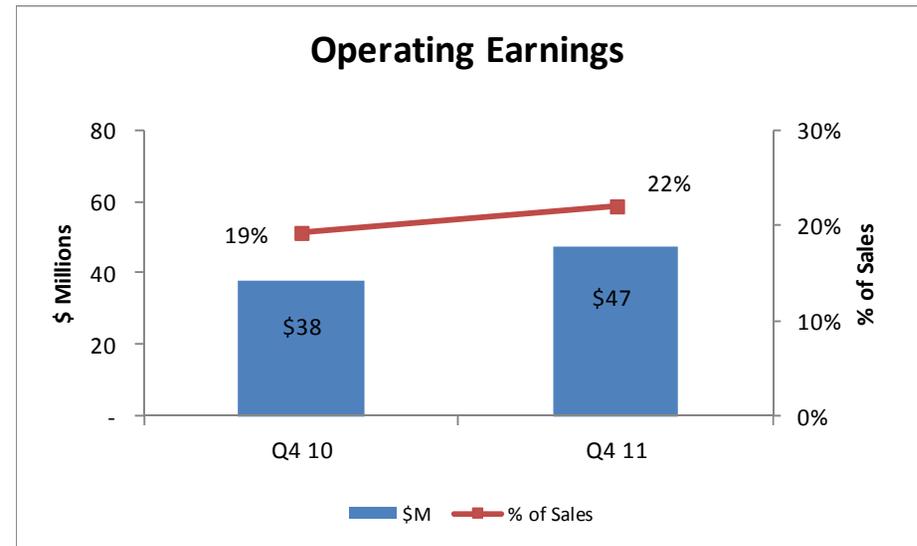
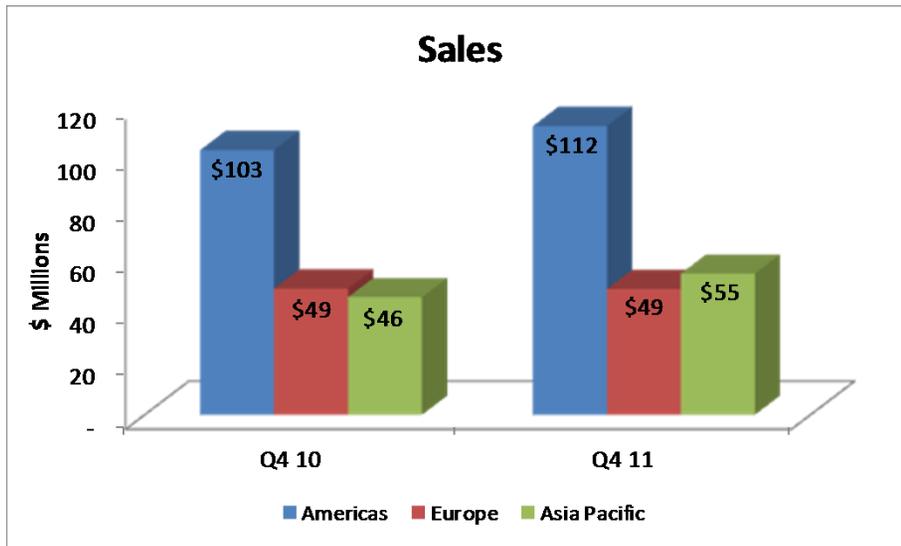
Sales by Currency



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



Consolidated Fourth Quarter Results

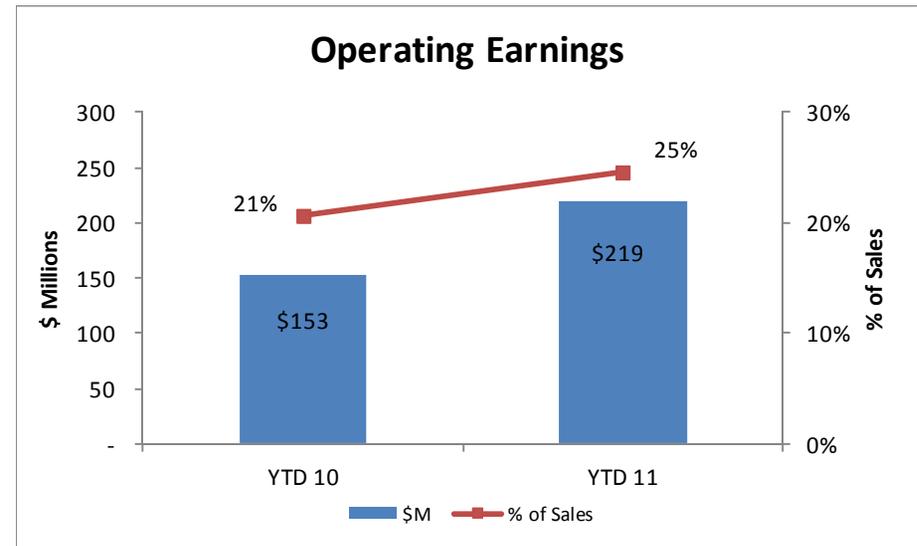
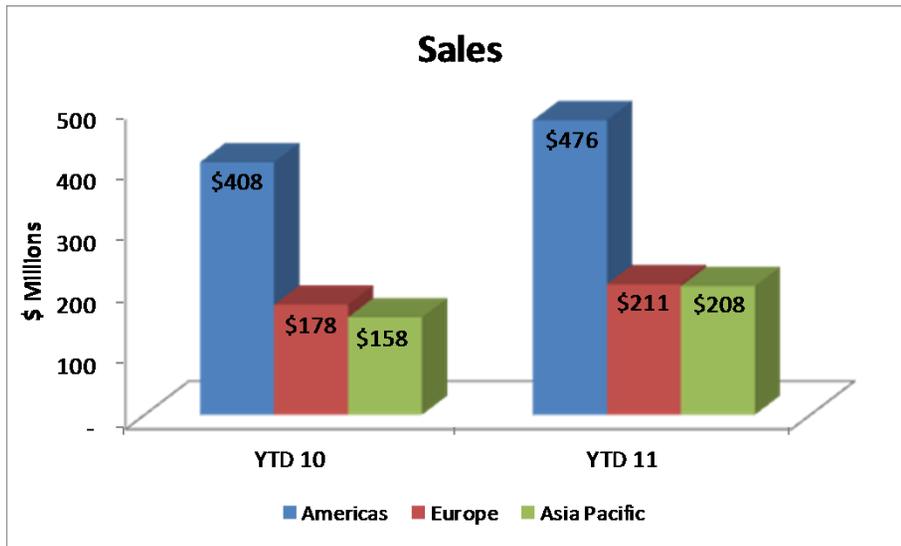


- Sales increase of 9% (none from currency translation)
- The fourth quarter of fiscal 2010 included an extra week as compared to fourth quarter of fiscal 2011
- Gross profit margin consistent with prior year
 - Higher material costs offset by manufacturing efficiencies

- Operating expenses flat to last year, decreasing 3 percentage points as a percentage of sales
 - \$2 million transaction costs relating to proposed acquisition
 - \$1 million increase in product development
 - \$4 million decrease in marketing and selling (primarily Contractor)
- Tax rate 30% is higher than prior year rate of 26%, which reflected a full year benefit from reinstatement of the Federal R&D credit in the fourth quarter



Consolidated Year-to-Date Results



- Sales increased 20% (2 percentage points from currency translation)
- Fiscal 2010 included an extra week as compared to fiscal 2011
- Gross profit margin improvement of 2 percentage points from prior year
 - Higher production volumes
 - Translation
 - High material costs offset by manufacturing efficiencies, pricing

- Operating expenses up \$30 million, down 2 percentage points as a percentage of sales
 - \$8 million in transaction costs related to proposed acquisition
 - \$4 million currency translation
 - Increased selling and marketing, higher marketing and promotion, headcount primarily Asia Pacific
- Tax rate of 32% is higher than the prior year rate of 31%, which reflected benefit from changes in unrecognized tax benefits



Consolidated Results

Change in % of sales

2010 Operating Earnings (percentage of sales)
Translation effect
Product cost and mix
Unabsorbed manufacturing costs, reduction
Transaction costs for proposed acquisition
Volume effect on expense leverage
2011 Operating Earnings (percentage of sales)

Fourth Quarter

Year-to-Date

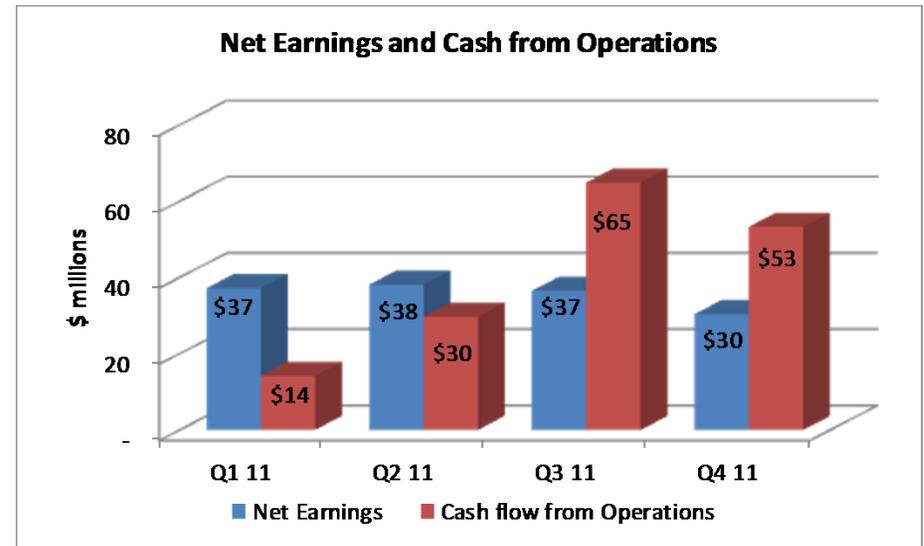
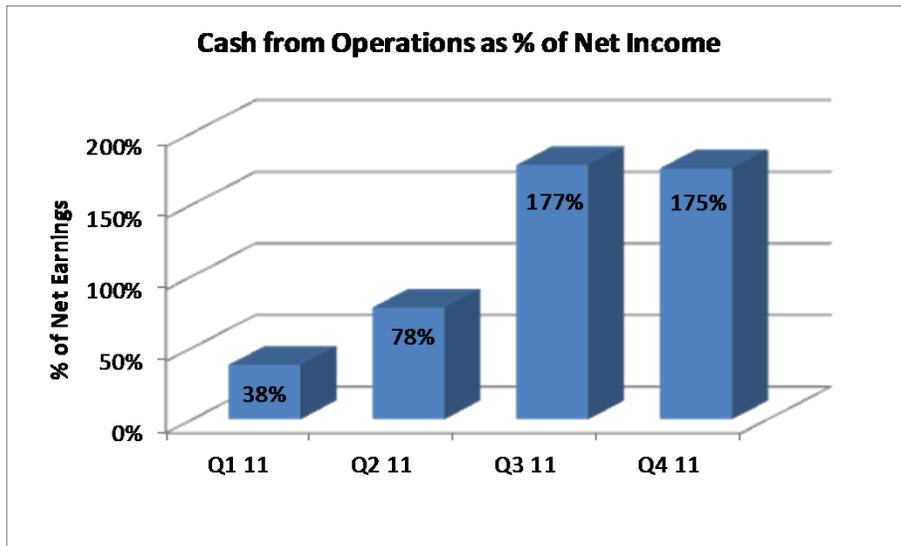
19 %	21 %
—	1
(1)	—
1	1
(1)	(1)
4	3
<u>22 %</u>	<u>25 %</u>

Revenue Leverage (\$M)

	Fourth Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 18	\$ 151
Year-Over-Year Operating Earnings Change	\$ 10	\$ 66
Revenue Leverage	52%	44%



Cash Flow and Liquidity



2011 cash flow from operations of \$162M versus \$101M in 2010

- Cash uses
 - Capital expenditures \$24M
 - Dividends \$51M
 - Share repurchases \$43M

Working capital

- Increase in inventories \$13M
 - Down \$6M in fourth quarter
- Increase in accounts receivable \$27M
 - Down \$5M in fourth quarter

Long-term debt \$300M

- Interest expense \$3½M for the quarter, \$9M for the year

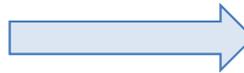
Available unused current credit lines of \$264M



Capital Structure

- Cash deployment priorities include:

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 2009

- Strong cash flow, low-cost permanent debt and capacity for further financing opportunities provide resources and flexibility to pursue Graco's strategic objectives



Acquisition of Finishing Businesses from ITW

Entered into a definitive agreement to purchase the finishing business operations of Illinois Tool Works, Inc. (ITW) in April 2011.

- As announced in mid-December, the Federal Trade Commission has filed a complaint to challenge Graco's proposed acquisition of the finishing business operations of ITW.
- Graco strongly believes this transaction is pro-competitive and will benefit both end users and distributor partners. We intend to vigorously fight for approval in court.
- Transaction costs are expected to be between \$4 - 6 million in the first quarter.

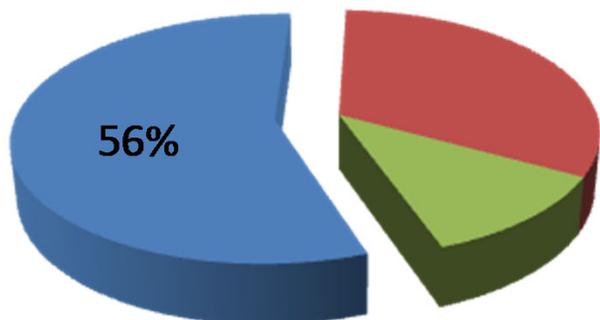


Other Discussion Items

- Pension expense is expected to be approximately \$5 million higher in 2012 and additional funding of \$10 to \$20 million is also expected.
- 2012 annualized tax rate is projected to be approximately 34 percent.
- Capital expenditures are expected to be approximately \$30 million in 2012.



Industrial Equipment Results



YTD Industrial Segment Sales as % of Consolidated



Sales (\$ M)	Fourth Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 57	\$ 54	7 %	\$ 220	\$ 188	17 %
Europe	31	29	8	135	109	23
Asia Pacific	37	30	20	147	112	31
Total	\$ 125	\$ 113	11 %	\$ 502	\$ 410	23 %
Operating Earnings	\$ 41	\$ 35	16 %	\$ 174	\$ 126	38 %
% of sales	33 %	31 %		35 %	31 %	

* Q4 of 2010 included an additional week



Industrial Equipment Results

Change in % of sales

2010 Operating Earnings (percentage of sales)
Translation effect
Product cost / mix / price
Unabsorbed manufacturing costs, reduction
Volume effect on expense leverage
2011 Operating Earnings (percentage of sales)

Fourth Quarter

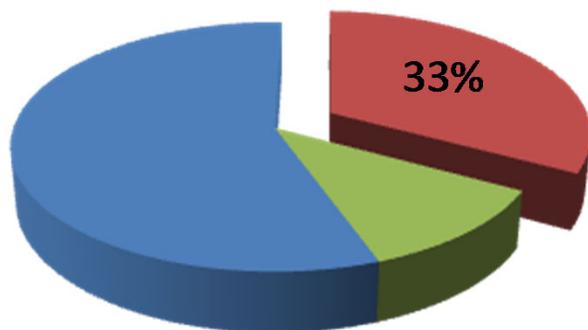
Year-to-Date

31 %	31 %
—	1
(1)	—
—	1
3	2
<u>33 %</u>	<u>35 %</u>

Revenue Leverage (\$M)		
	Fourth Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 12	\$ 92
Year-Over-Year Operating Earnings Change	\$ 6	\$ 47
Revenue Leverage	47%	51%



Contractor Equipment Results



YTD Contractor Sales as % of Consolidated



Sales (\$ M)	Fourth Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 35	\$ 33	8 %	\$ 184	\$ 163	13 %
Europe	16	18	(15)	68	63	9
Asia Pacific	11	11	5	39	31	25
Total	\$ 62	\$ 62	1 %	\$ 291	\$ 257	13 %
Operating Earnings	\$ 6	\$ 5	24 %	\$ 51	\$ 37	37 %
% of sales	10 %	8 %		17 %	14 %	



Contractor Equipment Results

Change in % of sales

2010 Operating Earnings (percentage of sales)

Translation effect

Product cost / mix / price

Unabsorbed manufacturing costs

Channel mix

Volume effect on expense leverage

2011 Operating Earnings (percentage of sales)

Fourth Quarter

Year-to-Date

8 %

14 %

—

1

(2)

—

—

1

—

(1)

4

2

10 %

17 %

Revenue Leverage (\$M)

Year-Over-Year Revenue Change

\$ 0

\$ 34

Year-Over-Year Operating Earnings Change

\$ 1

\$ 14

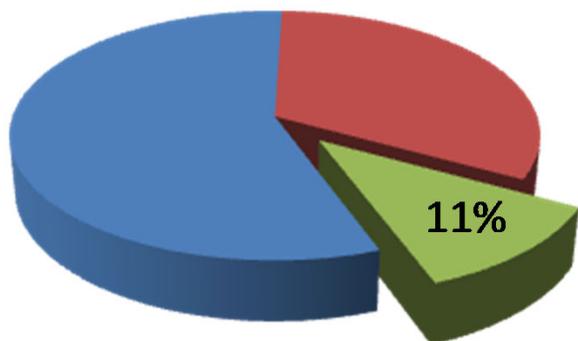
Revenue Leverage

291%

40%



Lubrication Equipment Results



YTD Lubrication Sales as % of Consolidated



Sales (\$ M)	Fourth Quarter			Year-to-Date		
	2011	2010	Change	2011	2010	Change
Americas	\$ 19	\$ 16	17%	\$ 72	\$ 58	25%
Europe	2	2	17	9	6	38
Asia Pacific	7	5	59	22	14	57
Total	\$ 28	\$ 23	26%	\$ 103	\$ 78	32%
Operating Earnings	\$ 5	\$ 3	105%	\$ 19	\$ 9	113%
% of sales	19%	11%		18%	11%	



Lubrication Equipment Results

Change in % of sales

2010 Operating Earnings (percentage of sales)
Translation effect
Product cost and factory performance
Unabsorbed manufacturing costs, reduction
Volume effect on expense leverage
2011 Operating Earnings (percentage of sales)

Fourth Quarter

Year-to-Date

11 %	11 %
—	1
(1)	(1)
3	3
6	4
<u>19 %</u>	<u>18 %</u>

Revenue Leverage (\$M)		
	Fourth Quarter	Year-to-Date
Year-Over-Year Revenue Change	\$ 6	\$ 25
Year-Over-Year Operating Earnings Change	\$ 3	\$ 10
Revenue Leverage	47%	40%



Move – Measure – Control – Dispense – Apply

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