



4th Quarter 2015 Earnings Conference Call

January 26, 2016

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 the Company's Form 10-K, and Item 1A of the most recent Quarterly Report on Form 10-Q and also the Company's Earnings Release dated January 25, 2016.

Conference Call Logistics



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

Telephone replay will be available after 2 p.m. ET, January 26, 2016. The replay by telephone will be available through January 30, 2016.

- 888-203-1112 – Conference ID #2790548
- 719-457-0820 – Conference ID #2790548, for International participants

Financial Results



\$ millions except EPS	Fourth Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Sales	\$ 325.6	\$ 306.0	6 %	\$ 1,286.5	\$ 1,221.1	5 %
Gross Profit	171.8	164.8	4 %	684.7	666.7	3 %
% of Sales	52.8 %	53.8 %	(1.0) pts	53.2 %	54.6 %	(1.4) pts
Operating Earnings	76.1	69.5	10 %	302.1	308.9	(2)%
% of Sales	23.4 %	22.7 %	0.7 pts	23.5 %	25.3 %	(1.8) pts
Held Separate Investment Income, Net	(0.9)	3.2		(191.6)	26.0	
Net Earnings	\$ 53.5	\$ 49.0	9 %	\$ 345.7	\$ 225.6	53 %
% of Sales	16.4 %	16.0 %	0.4 pts	26.9 %	18.5 %	8.4 pts
Diluted Earnings Per Share	\$ 0.94	\$ 0.80	18 %	\$ 5.86	\$ 3.65	61 %
<i>Diluted Shares in Millions</i>	57.3	61.0		59.0	61.7	

- Changes in currency translation rates reduced sales, operating earnings, and net earnings by approximately \$12 million, \$7 million and \$5 million, respectively, for the quarter and \$58 million, \$32 million and \$20 million, respectively, for the year
- Non-recurring income tax benefits in the second quarter increased year-to-date net earnings by a total of \$9 million, or \$0.15 per diluted share
- Federal R&D tax credit reinstated in fourth quarter. Fourth quarter 2015 includes full year benefit of \$3 million, consistent with fourth quarter 2014
- In April, the Company sold the Held Separate business assets acquired in 2012. Net earnings and diluted EPS excluding investment income are:

	Fourth Quarter		Year-to-Date	
	2015	2014	2015	2014
Adjusted Net Earnings	\$ 52.9 M	\$ 45.5 M	\$ 204.3 M	\$ 198.8 M
Diluted EPS as adjusted	\$ 0.93	\$ 0.75	\$ 3.46	\$ 3.22

See page 5 for detailed information on the sale

Divestiture of Held Separate Business Assets



- April 1, 2015, pursuant to the Federal Trade Commission final order, the Company sold the Liquid Finishing business assets for \$610 million
- Net earnings include gain on the sale, after transaction costs and tax, and investment income of \$1 million (\$0.01 per diluted share) for the quarter (post-closing adjustments) and \$141 million (\$2.40 per diluted share) year-to-date
- Reconciliation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

	Fourth Quarter		Year-to-Date	
	2015	2014	2015	2014
Net earnings as reported	\$ 53.5	\$ 49.0	\$ 345.7	\$ 225.6
Held separate investment (income), net	(0.9)	(3.2)	(191.6)	(26.0)
Income tax effect on Held Separate income	0.3	(0.3)	50.2	(0.8)
Adjusted net earnings	\$ 52.9	\$ 45.5	\$ 204.3	\$ 198.8
Diluted EPS as reported	\$ 0.94	\$ 0.80	\$ 5.86	\$ 3.65
Diluted EPS as adjusted	0.93	0.75	3.46	3.22

Tax Items



- The effective tax rate was 27% for the quarter consistent with fourth quarter 2014
 - The 2015 rate benefits from foreign earnings taxed at lower rates outside the U.S. The 2014 rate benefited from post-tax dividend income in fourth quarter
 - Federal R&D tax credit reinstated in fourth quarter. Fourth quarter 2015 includes full year benefit of \$3 million, consistent with fourth quarter 2014
- The year-to-date effective income tax rate of 27% is lower than the 2014 rate of 28%
 - A change in the Company's assertion with respect to reinvestment of foreign earnings decreased deferred income taxes related to undistributed foreign earnings by \$7 million and reduced the year-to-date effective tax rate compared to last year
 - Higher post-tax dividend income, foreign earnings taxed at lower rates and an additional non-recurring tax benefit of \$2 million further reduced the year-to-date effective tax rate. Those reductions were partially offset by the tax rate effects of the gain on the sale of the Liquid Finishing assets
- Tax rate for 2016 is expected to be approximately 31%

Financial Results



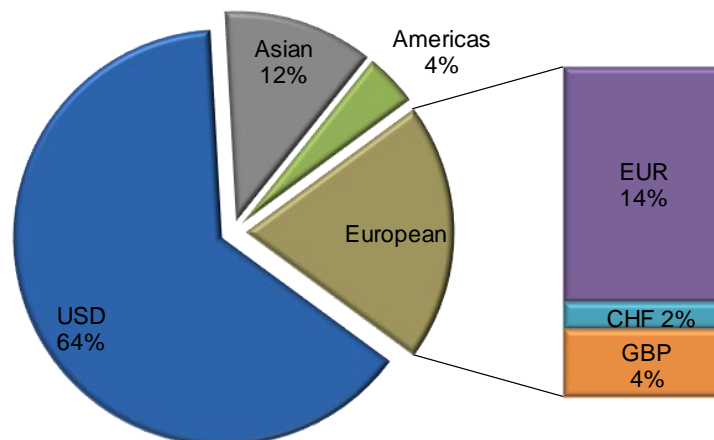
Components of Net Sales Change Fourth Quarter December 2015

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	5 %	(2)%	15 %	10 %	—	1 %	6 %
Acquisitions	2 %	16 %	—	4 %	4 %	5 %	4 %
Currency	(5)%	(3)%	(4)%	(1)%	(9)%	(4)%	(4)%
Total	2 %	11 %	11 %	13 %	(5)%	2 %	6 %

Year-to-Date December 2015

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	1 %	9 %	7 %	1 %	—	4 %
Acquisitions	2 %	26 %	—	5 %	8 %	6 %	6 %
Currency	(6)%	(4)%	(3)%	(1)%	(13)%	(5)%	(5)%
Total	(1)%	23 %	6 %	11 %	(4)%	1 %	5 %

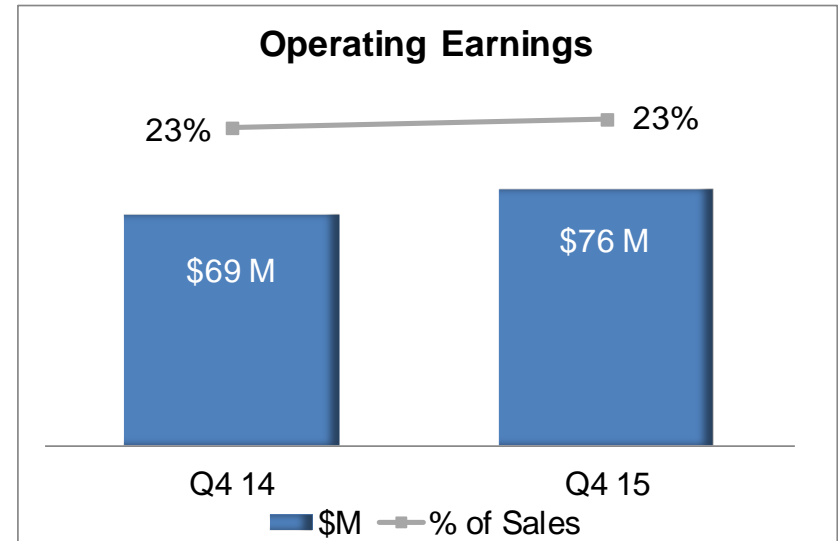
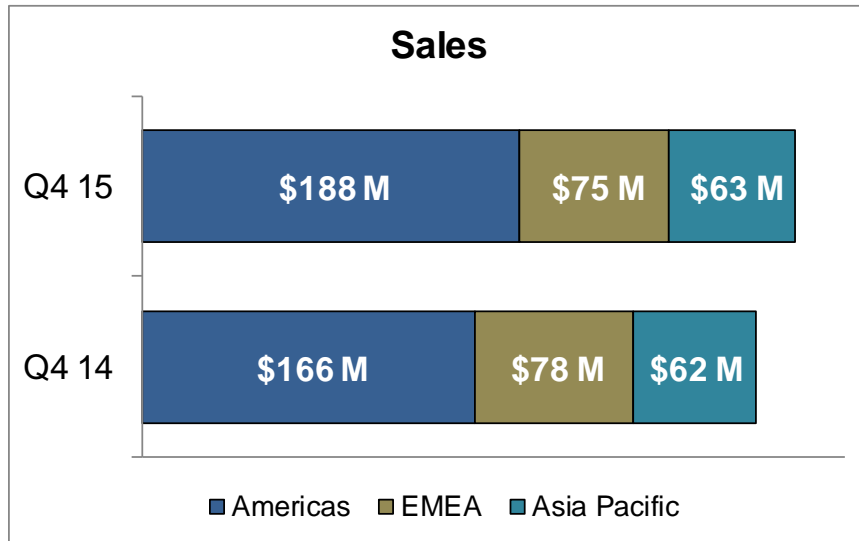
Sales by Currency 2015



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

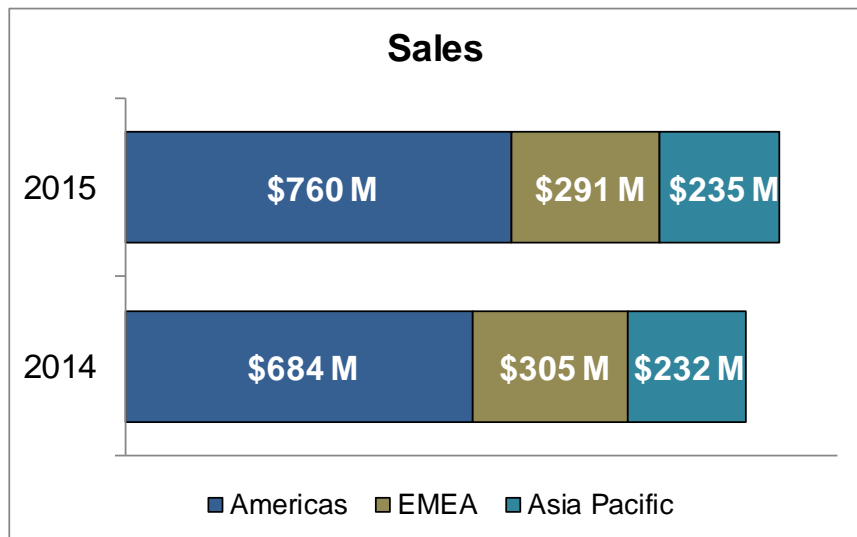
Americas currencies
include:
CAD, BRL, MXN

Fourth Quarter 2015 Results

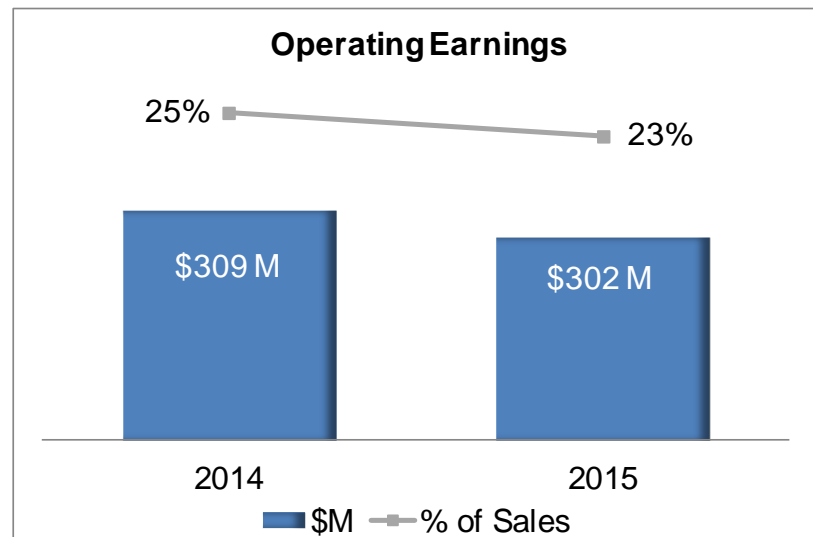


- Sales increase of 6% (10% at consistent currency translation rates)
 - Acquired businesses sales of \$13 million account for 4 percentage points of growth
- Gross margin rate down 1 percentage point from fourth quarter 2014
 - Gross margin rate was lower than fourth quarter 2014 due mostly to changes in currency translation rates
 - Favorable effects of realized pricing and lower material costs offset the impact of lower average gross margin rates of acquired operations, net of effect of 2014 purchase accounting
- Operating earnings up \$7 million over fourth quarter 2014, comparable as a percentage of sales
 - Currency headwinds, 2 percentage points
 - Acquired operations reduced operating margin 1 percentage point, offset by 2014 purchase accounting
 - Expense leverage increased operating margin 2 percentage points
- Tax rate was 27% for fourth quarter 2015 and 2014
 - 2015 benefit of foreign earnings taxed at lower rates outside the U.S. 2014 benefited from post-tax dividend income
 - R&D credit full year impact \$3 million in fourth quarter, consistent with fourth quarter 2014

December 2015 Year-to-Date Results



- Sales increase of 5% (10% at consistent currency translation rates)
 - Acquired businesses sales of \$67 million account for 6 percentage points of growth
- Gross margin rate down 1½ percentage points from 2014
 - Gross margin rate was lower than 2014 due mostly to changes in currency translation rates
 - Favorable effects of realized pricing and lower material costs offset the impact of lower average gross margin rates of acquired operations (including purchase accounting effects, net of 2014 purchase accounting)



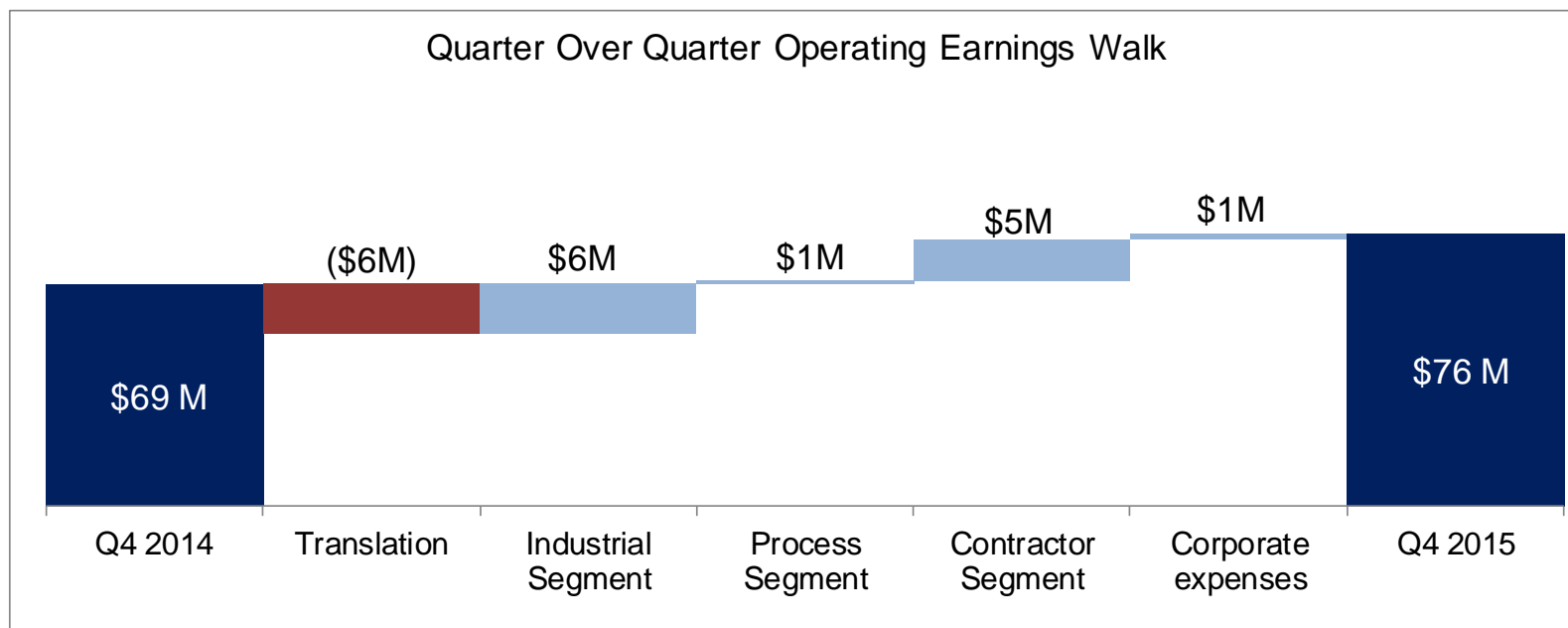
- Operating earnings down \$7 million, 2 percentage points lower, as a percentage of sales, than 2014
 - Currency headwinds 1 percentage point
 - Acquired operations reduced operating margin 1 percentage point
 - Unallocated corporate expenses, mostly pension and stock compensation, reduced operating margin 1 percentage point
 - Expense leverage increased operating margin 1 percentage point
- Tax rate of 27% is lower than 2014 rate of 28%
 - 2015 rate is lower than 2014 due to the assertion to indefinitely reinvest earnings of foreign subsidiaries (\$7 million, non-recurring), higher post-tax dividend income and additional non-recurring tax benefit of \$2 million partially offset by the tax rate effects of the gain on the sale of the Held Separate assets

Operating Earnings

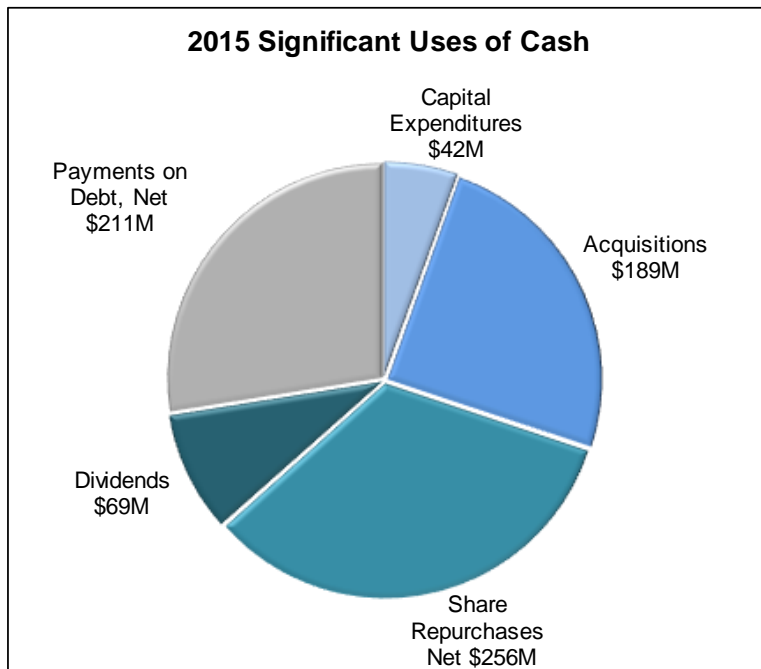
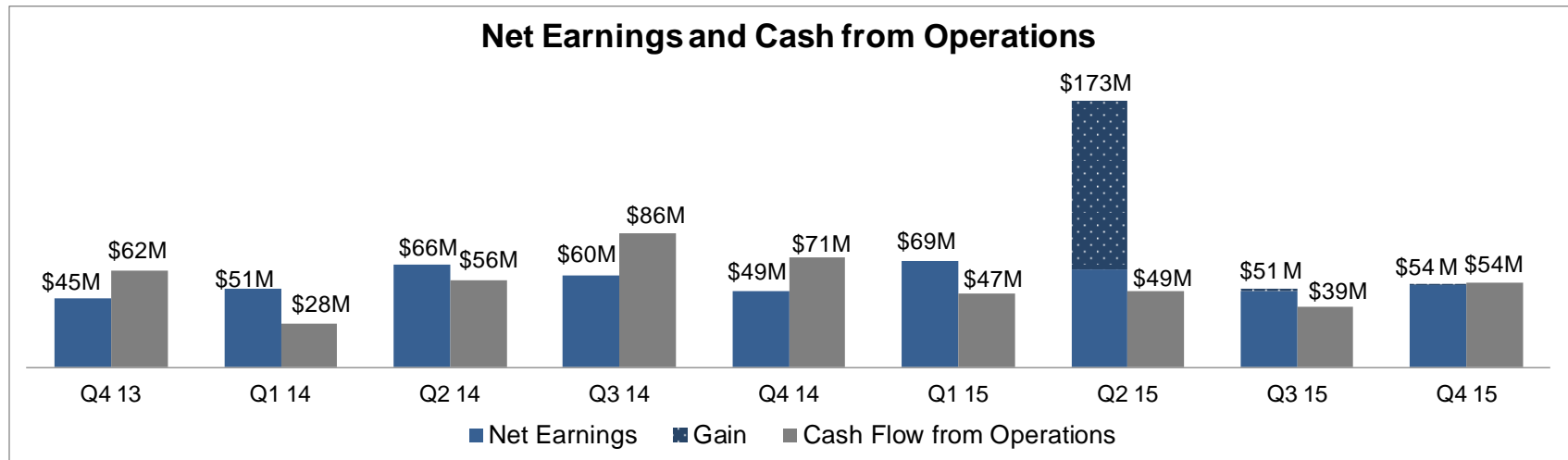


Change in Operating Earnings

	Fourth Quarter		Year-to-Date	
2014 Operating Earnings (\$M and % of sales)	\$ 69	23 %	\$ 309	25 %
Translation effect	(6)	(2)	(30)	(1)
Mix, pricing and product cost	9	—	31	—
Effect of acquired businesses on operating earnings leverage	—	(1)	7	(1)
Effect of inventory step-up, net, and acquisition costs for acquired businesses	3	1	—	—
Incremental investment in growth initiatives	(1)	—	(4)	—
Unallocated corporate expenses (pension, stock compensation)	1	—	(5)	(1)
Volume effect on expense leverage	1	2	(6)	1
2015 Operating Earnings (\$M and % of sales)	<u>\$ 76</u>	<u>23 %</u>	<u>\$ 302</u>	<u>23 %</u>



Cash Flow and Liquidity



- Growth in accounts receivable and inventory balances from 2014 of \$18 million and \$34 million, respectively, due to acquisitions, growth in our business and service-level improvements
- Repurchased 3.9 million shares for \$256 million, net of shares issued
 - Common stock outstanding at year-end 55.8 million
- Debt, including notes payable, \$409 million; down \$211 million from 2014
- Effect of divestiture of Liquid Finishing Held Separate - sale completed in Q2 2015
 - Proceeds from the sale of the business were \$610 million and are included in cash flows from investing activities
 - Gain on the sale, net of expenses, was \$139 million and reflected in Q2 net income. Post-closing adjustments were recorded in Q3 and Q4 of \$2 million and \$1 million, respectively
 - Effect of taxes on the gain, transaction costs and foundation contribution are included in operating cash flows. Payments of \$18 million, \$36 million and \$13 million for these items were made in Q2, Q3 and Q4, respectively

Other Discussion Items












- Subsequent to year-end, completed acquisitions for \$49 million. These acquisitions will be included in the Process segment
- Capital expenditure expectations of approximately \$40 million in 2016 do not include building expansion for the Contractor business which is nearing capacity
- Unallocated corporate expenses in 2016 are expected to be similar to 2015
- Opportunistic share repurchases will continue via open market transactions and/or short-dated accelerated share repurchase programs
- At current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2015, the unfavorable movement in foreign currencies would be a headwind of approximately 2% on sales and 5% on earnings, with the greatest headwind in the first half

Current Environment and Outlook

Constant currency basis and excluding acquisitions completed in the prior 12 months



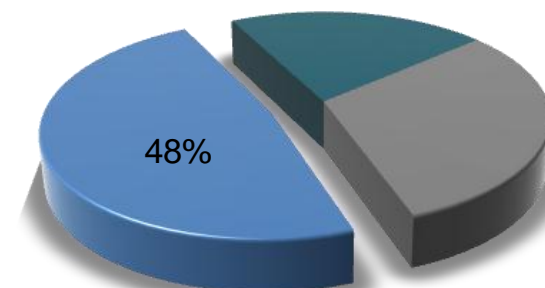
	Americas	EMEA	Asia Pacific	Worldwide
Current Environment	Sales Growth Q4 2015 10% YTD 2015 7%	Sales Growth Q4 2015 0% YTD 2015 1%	Sales Growth Q4 2015 1% YTD 2015 (0%)	Sales Growth Q4 2015 6% YTD 2015 4%
Industrial Segment	 Sales Growth Q4 2015 9% YTD 2015 5%	 Sales Growth Q4 2015 (1%) YTD 2015 1%	 Sales Growth Q4 2015 3% YTD 2015 2%	Sales Growth Q4 2015 5% YTD 2015 3%
Contractor Segment	 Sales Growth Q4 2015 21% YTD 2015 14%	 Sales Growth Q4 2015 9% YTD 2015 2%	 Sales Growth Q4 2015 (10%) YTD 2015 (9%)	Sales Growth Q4 2015 15% YTD 2015 9%
Process Segment	 Sales Growth Q4 2015 (1%) YTD 2015 1%	 Sales Growth Q4 2015 (4%) YTD 2015 0%	 Sales Growth Q4 2015 0% YTD 2015 0%	Sales Growth Q4 2015 (2%) YTD 2015 1%
Full Year 2016 Outlook	Mid Single Digits	Low Single Digits	Low Single Digits	Low-to-Mid Single Digits

- Fourth quarter incoming orders were similar to the prior year on an organic constant currency basis, reflecting a sequential weakening in demand growth
- Outlook of low single digit organic constant currency growth for the first quarter and low-to-mid single digit growth for the full year 2016

Industrial Segment Results



	Fourth Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Sales (\$M)						
Americas	\$ 80	\$ 72	10 %	\$ 289	\$ 273	6 %
EMEA	45	51	(10)	173	196	(12)
Asia Pacific	42	40	4	154	153	-
Total	\$ 167	\$ 163	2 %	\$ 616	\$ 622	(1)%
Operating Earnings	\$ 57	\$ 55	5 %	\$ 202	\$ 204	(1)%
% of sales	34 %	34 %		33 %	33 %	



2015 Industrial Segment Sales as % of Consolidated Sales

Components of Net Sales Change

	Fourth Quarter	Year-to-Date	
Americas			
Volume & Price	9 %	5 %	<ul style="list-style-type: none"> • Improving: Residential & Non-Residential Construction • Stable: General Industrial, aerospace and marine • Challenging: Heavy Machinery, South & Central America
Acquisitions	3 %	2 %	
Currency	(2)%	(1)%	
Total	10 %	6 %	
EMEA			
Volume & Price	(1)%	1 %	<ul style="list-style-type: none"> • Stable: Western Europe • Challenging: Currency and Geopolitical • Easing: Russia comps in 2016
Acquisitions	—	—	
Currency	(9)%	(13)%	
Total	(10)%	(12)%	
Asia Pacific			
Volume & Price	3 %	1 %	<ul style="list-style-type: none"> • Stable: General Industrial, Adhesive Dispense • Challenging: Marine, Mining • Spotty: Project Activity
Acquisitions	4 %	3 %	
Currency	(3)%	(4)%	
Total	4 %	—	
Segment Total			
Volume & Price	5 %	3 %	
Acquisitions	2 %	2 %	
Currency	(5)%	(6)%	
Total	2 %	(1)%	



Industrial Segment Results



Change in % of sales

2014 Operating Earnings (% of sales)

Translation effect

Price, cost, mix

Effect of acquired businesses on operating leverage

Expense leverage

2015 Operating Earnings (% of sales)

Fourth Quarter

Full Year

34 %

33 %

(1)

(1)

1

1

(1)

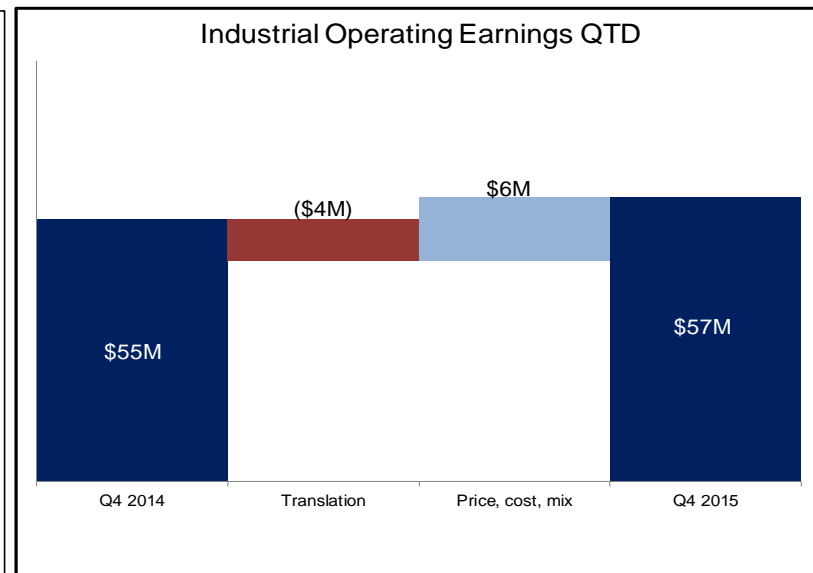
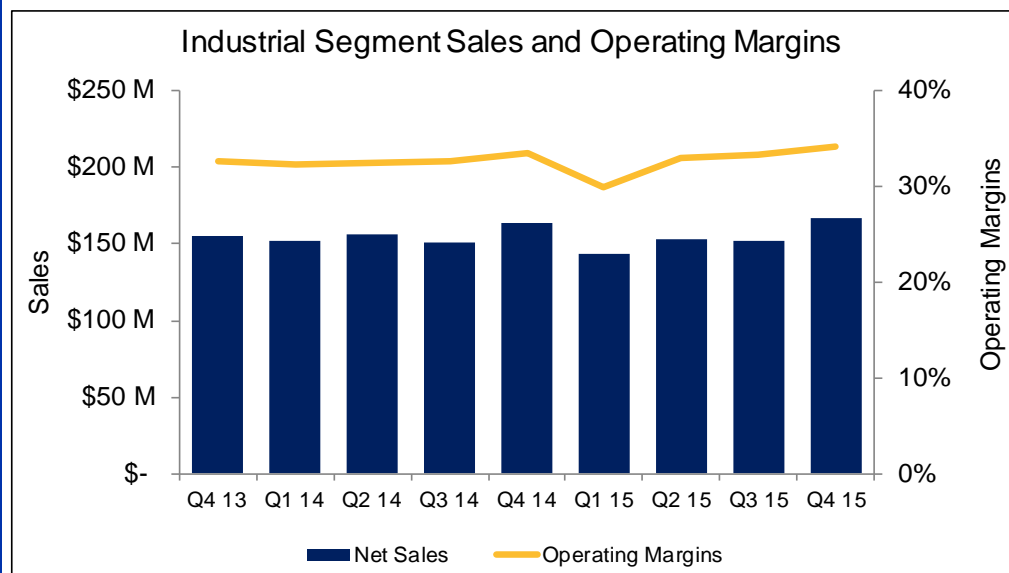
(1)

1

1

34 %

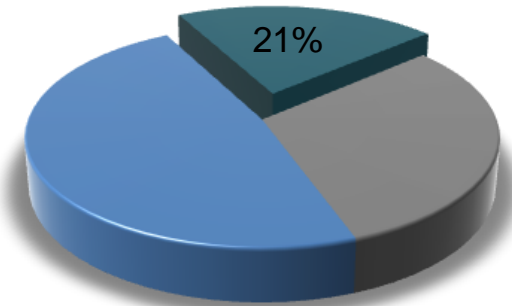
33 %



Process Segment Results



	Fourth Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Sales (\$M)						
Americas	\$ 44	\$ 40	10 %	\$ 172	\$ 147	17 %
EMEA	14	12	14	55	38	43
Asia Pacific	12	11	9	47	38	22
Total	\$ 69	\$ 63	11 %	\$ 274	\$ 223	23 %
Operating Earnings	\$ 9	\$ 9	(6)%	\$ 44	\$ 48	(8)%
% of sales	13 %	15 %		16 %	21 %	



2015 Process Segment Sales as % of Consolidated Sales

	<u>Components of Net Sales Change</u>			<u>Current Environment</u>
	Fourth Quarter	Year-to-Date		
Americas			●	<ul style="list-style-type: none"> • Favorable: Technology applications • Stable: Vehicle Services • Challenging: Oil & Natural Gas
Volume & Price	(1)%	1 %		
Acquisitions	13 %	18 %		
Currency	(2)%	(2)%		
Total	10 %	17 %		
EMEA			●	<ul style="list-style-type: none"> • Stable: Western Europe • Challenging: Currency, Geopolitical and Oil & Natural Gas
Volume & Price	(4)%	—		
Acquisitions	26 %	57 %		
Currency	(8)%	(14)%		
Total	14 %	43 %		
Asia Pacific			●	<ul style="list-style-type: none"> • Stable: Process applications • Challenging: Mining and Oil & Natural Gas
Volume & Price	—	—		
Acquisitions	14 %	30 %		
Currency	(6)%	(8)%		
Total	9 %	22 %		
Segment Total				
Volume & Price	(2)%	1 %		
Acquisitions	16 %	26 %		
Currency	(3)%	(4)%		
Total	11 %	23 %		



Process Segment Results



Change in % of sales

2014 Operating Earnings (percentage of sales)

Translation effect

Cost, mix and volume

Effect of acquired businesses on operating earnings leverage

Effect of 2014 inventory step-up and acquisition costs

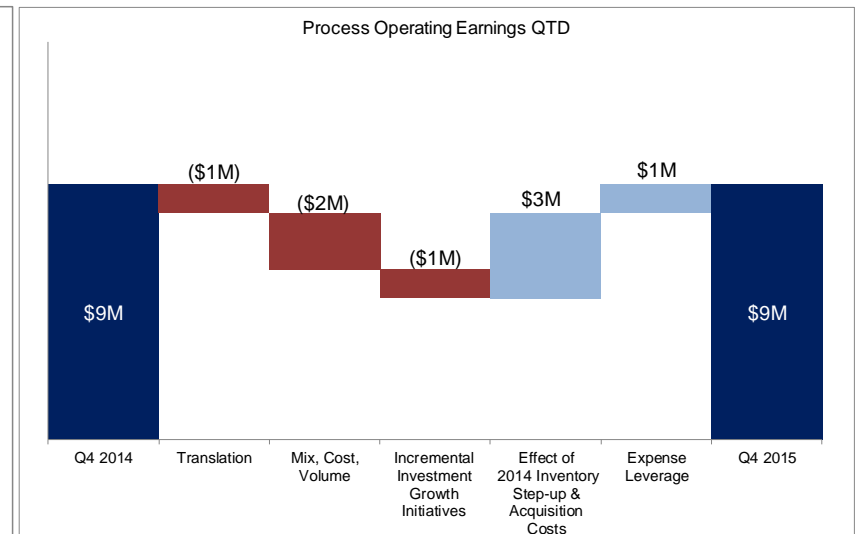
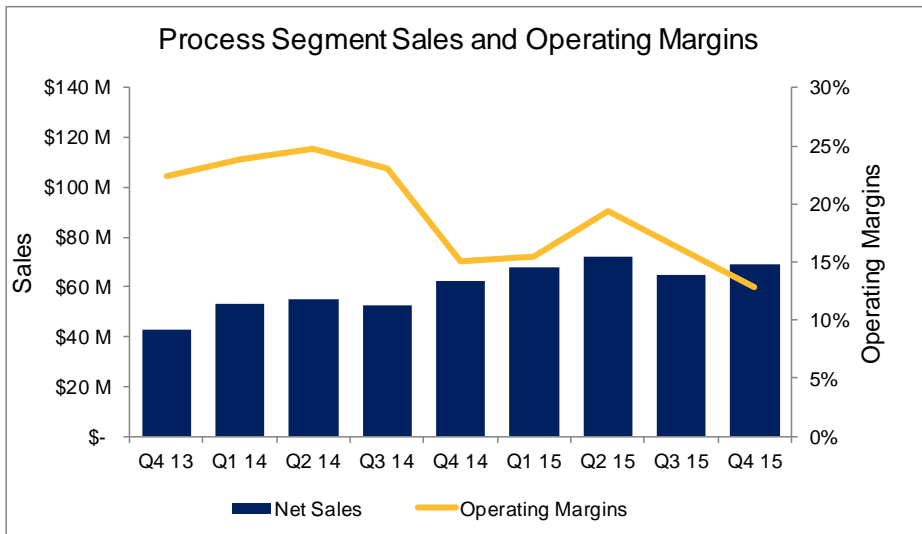
Incremental investment in growth initiatives

Expense leverage

2015 Operating Earnings (percentage of sales)

Fourth Quarter Year-to-Date

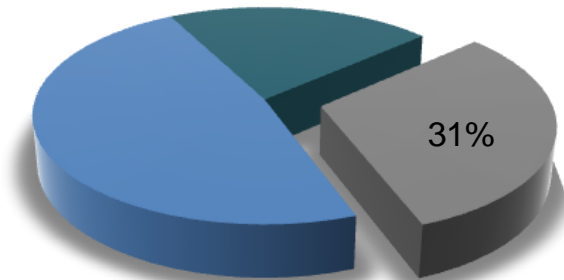
15 %	21 %
(1)	(1)
(3)	(1)
(2)	(1)
5	—
(1)	(2)
—	—
13 %	16 %



Contractor Segment Results



	Fourth Quarter			Year-to-Date		
	2015	2014	Change	2015	2014	Change
Sales (\$M)						
Americas	\$ 64	\$ 54	20 %	\$ 299	\$ 265	13 %
EMEA	16	16	(1)	63	71	(10)
Asia Pacific	9	10	(15)	35	40	(14)
Total	\$ 89	\$ 80	11 %	\$ 397	\$ 376	6 %
Operating Earnings	\$ 16	\$ 12	33 %	\$ 86	\$ 82	6 %
% of sales	18 %	15 %		22 %	22 %	



2015 Contractor Segment Sales as % of Consolidated Sales

	<u>Components of Net Sales Change</u>			<u>Current Environment</u>
	Fourth Quarter	Year-to-Date		
Americas			●	<ul style="list-style-type: none"> • Long Runway: Residential & Commercial Construction • Focus Sectors: Pro Paint, General Construction and DIY • Challenging: Q1 comparable
Volume & Price	21 %	14 %		
Acquisitions	—	—		
Currency	(1)%	(1)%		
Total	20 %	13 %		
EMEA			●	<ul style="list-style-type: none"> • Favorable: North & Central Europe • Challenging: Currency and Geopolitical
Volume & Price	9 %	2 %		
Acquisitions	—	—		
Currency	(10)%	(12)%		
Total	(1)%	(10)%		
Asia Pacific			●	<ul style="list-style-type: none"> • Favorable: Japan, Korea and India • Challenging: Gen Construction, Equipment Adoption Rates
Volume & Price	(10)%	(9)%		
Acquisitions	—	—		
Currency	(5)%	(5)%		
Total	(15)%	(14)%		
Segment Total				
Volume & Price	15 %	9 %		
Acquisitions	—	—		
Currency	(4)%	(3)%		
Total	11 %	6 %		



Contractor Segment Results



Change in % of sales

2014 Operating Earnings (% of sales)

Translation effect

Volume, price, cost, mix

New product launch

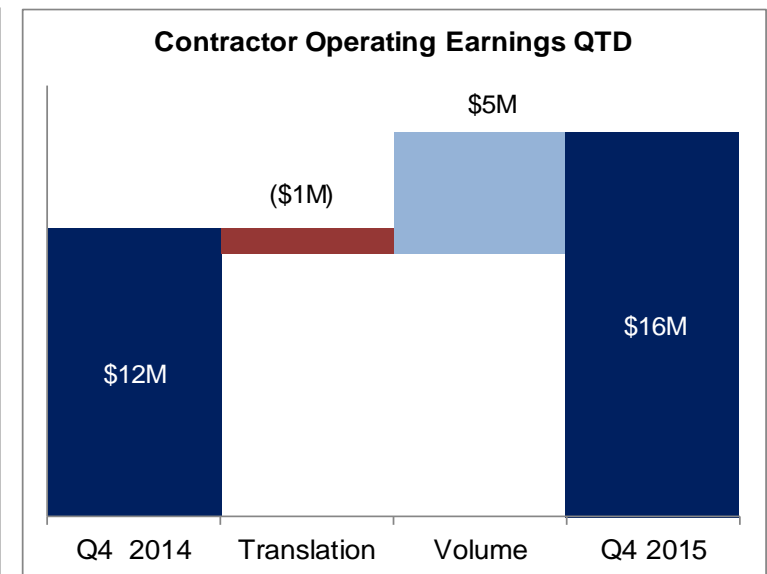
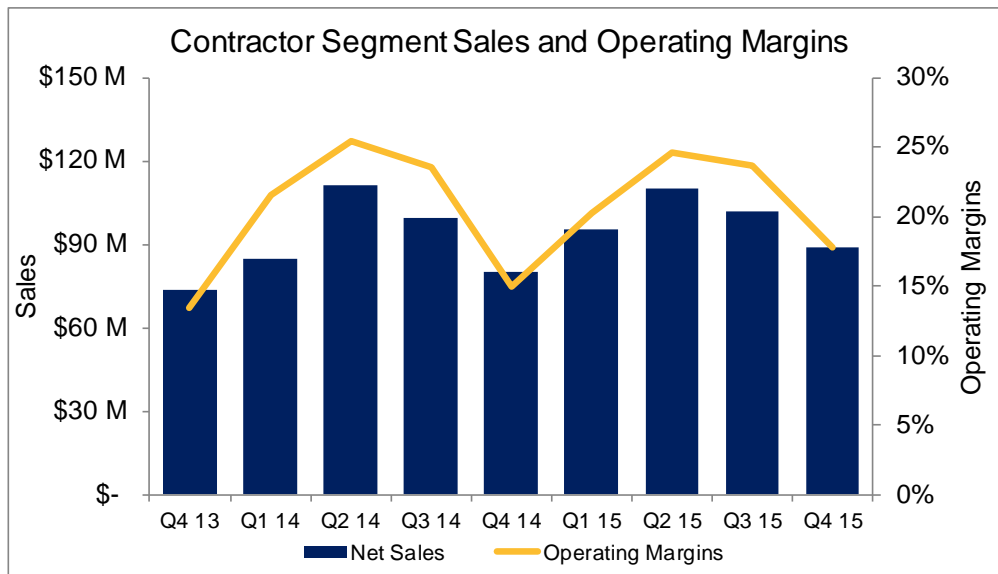
Expense/volume leverage

2015 Operating Earnings (% of sales)

Fourth Quarter

Year-to-Date

15 %	22 %
(1)	(1)
—	—
—	(1)
4	2
18 %	22 %



Segment Reporting



- The Company revised the presentation of its financial reporting segments, during Q1, into the following three segments:
 - Industrial includes Industrial Products and Applied Fluid Technologies divisions
 - Process includes Process, Oil and Natural Gas, and Lubrication divisions
 - Contractor remains unchanged
- Change aligns the types of products offered and markets served within the segments

2014 Reportable Segments

Contractor Segment

- Professional grade handheld paint sprayers
- Architectural paint, stain and lacquer sprayers
- Pavement marking and grinding equipment

Industrial Segment

- Proportioning systems
- Protective coatings and foam sprayers
- Adhesives dispensing equipment
- Liquid and powder application pumps
- Circulating and paint supply sprayers

Lubrication Segment

- Vehicle servicing equipment
- Metered and non-metered dispense for oil, grease, or automotive fluids
- Industrial lubrication equipment

Contractor Segment

Industrial Segment

Process Segment

2015 Reportable Segments



move

measure

mix

control

dispense

spray

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