



# Investor Presentation

## 3<sup>rd</sup> Quarter 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 the current Quarterly Report on 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

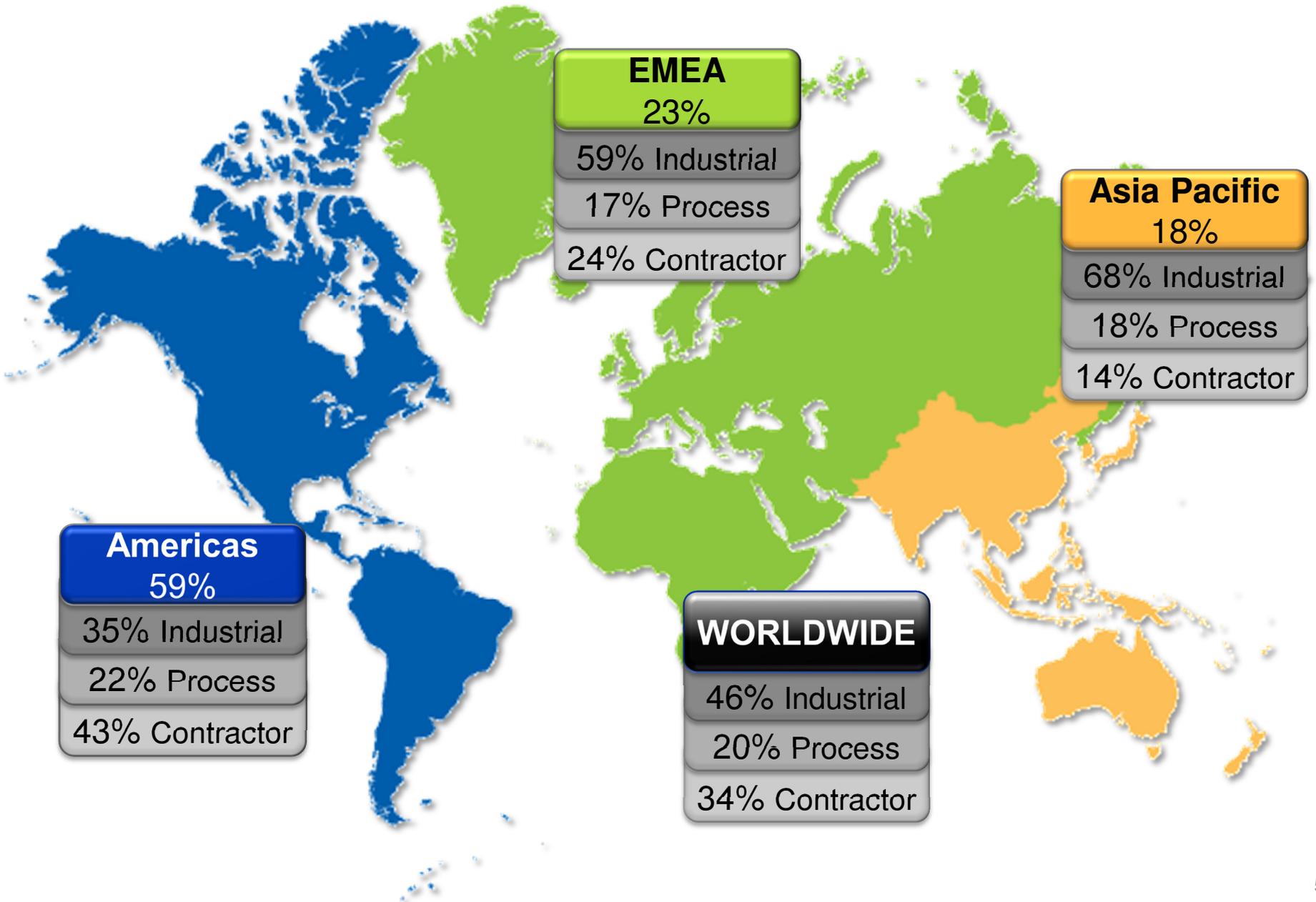
# Business Overview



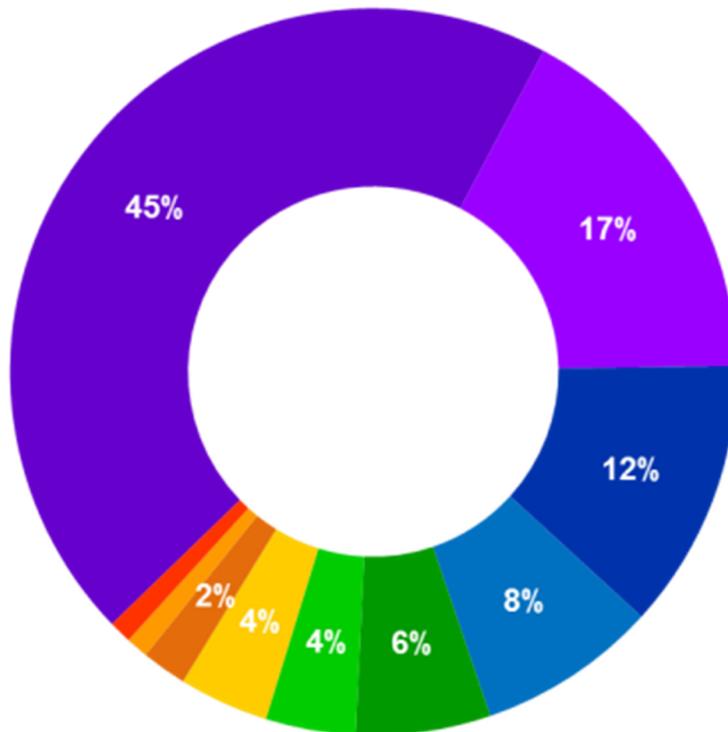
- Graco manufactures premium equipment to pump, move, meter, mix and dispense a wide variety of fluids and coatings
  - Difficult to handle materials with high viscosities
  - Abrasive and corrosive properties
  - Multiple component materials that require precise ratio control
  - Serving a broad number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



# Year-To-Date Sept 2016 Sales – \$980 Million



# 2015 Sales by End Market\*



- ▶ Residential & Non-Residential Construction – 45%
- ▶ Industrial & Machinery – 17%
- ▶ Automotive – 12%
- ▶ Other – 8%
- ▶ Oil and Natural Gas – 6%
- ▶ Public Works – 4%
- ▶ Vehicle Services – 4%
- ▶ Mining – 2%
- ▶ Wood – 1%
- ▶ White Goods – 1%

\* Proforma for acquisitions. Graco management estimate.

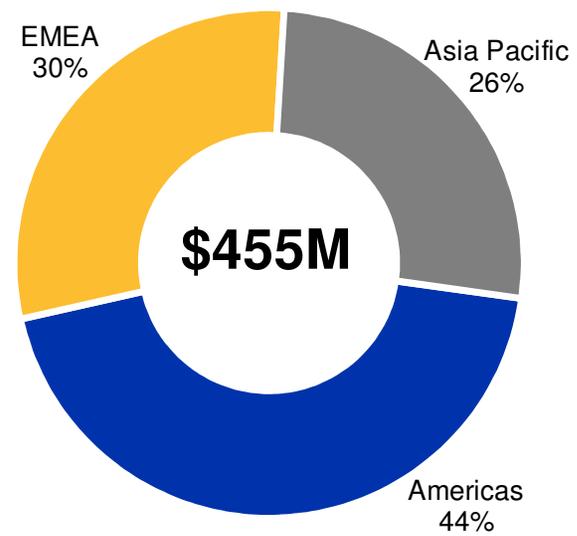
# Industrial Equipment Segment



- 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 Representative Industry Participants
  - Exel, Wagner, Carlisle Companies, Nordson and regional players



## YTD Sept. 2016 Sales



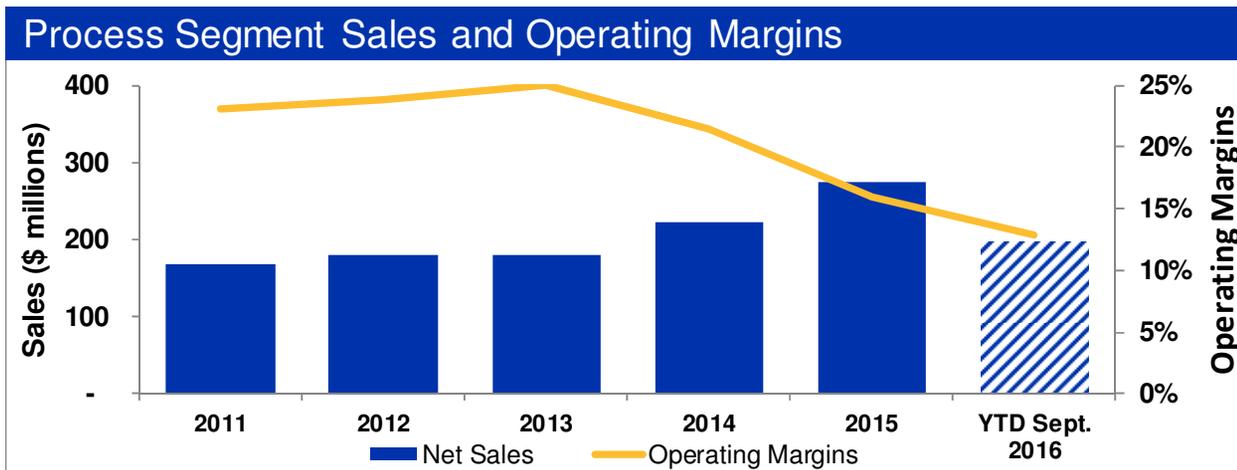
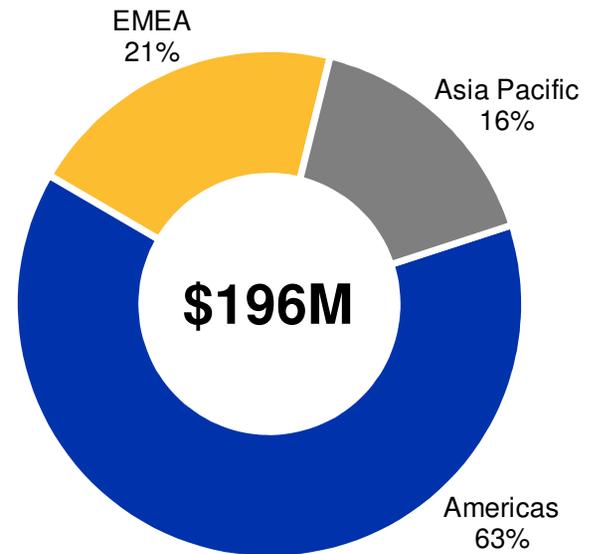
# Process Equipment Segment



- Growth Drivers and Trends
  - Targeting new products and new markets
  - Fill product lines for a single source solution
  - Focus on spec'ing in product at large OEM's
- Other Representative Industry Participants
  - Idex, Dover, IR, Lincoln, Vogel, Bijur, Hannay, Coxreels, and regional players



## YTD Sept. 2016 Sales



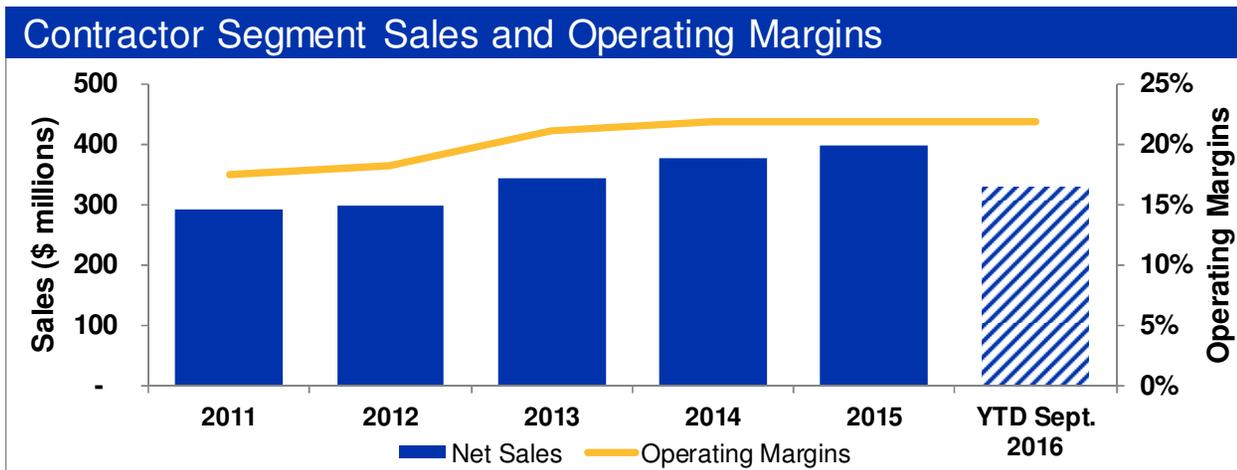
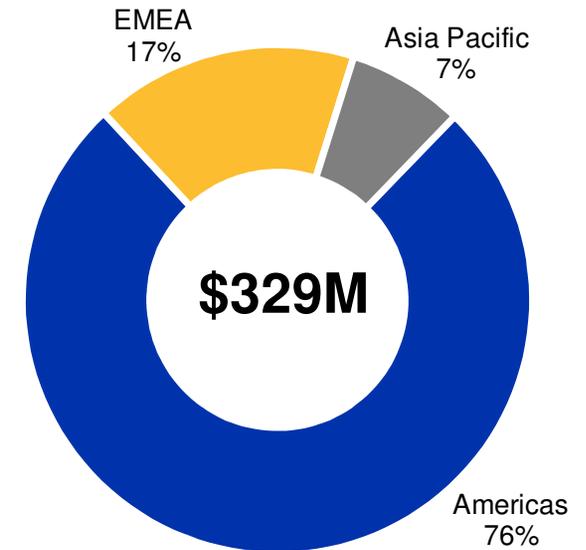
# Contractor Equipment Segment



- Growth Drivers and Trends
  - Entry level product and channel expansion
  - Conversion of end users from manual application methods to equipment is a major focus outside North America
  - Application of texture and cementitious materials
  - Expanding pavement maintenance product line and channel
- Other Representative Industry Participants
  - Wagner, TTI, Campbell Hausfeld, Larius, Bedford, QTech, and regional players



## YTD Sept. 2016 Sales





◆ Overview

✓ **Enduring Business Model**

◆ Strategies for Long-Term Growth

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◆ Company Performance

# High Customer Value, Strong Product Differentiation



# Manufacturing & Engineering Excellence

- 80%+ of production is based in the United States
  - High-quality, efficient, engaged labor force
  - Centralization allows for leverage of overheads
  - A currency mismatch of sales to COGS exists, however
- Continuous improvement culture
  - Unique Graco cost-to-produce measurement tool
- Ongoing capital investment
  - 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		2015 Sales (\$ in millions)	
0 - 1	43,006	92%	\$531	48%
2 - 5	2,578	5%	\$212	19%
6 - 10	625	1%	\$91	8%
11 - 15	215	1%	\$41	4%
Greater than 15	567	1%	\$234	21%
<b>Legacy Graco Total Sales</b>			<b>\$1,109</b>	
Plus: Acquisition and Non-branded			\$177	
<b>Graco 2015 Sales</b>			<b>\$1,286</b>	



- ◆ Overview
- ◆ Enduring Business Model

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

- Invest in New Products
- Expand Geographically
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- ◆ Company Performance

# Growth Plans and Earnings Drivers



3% - 5%

Industrial  
Production  
Average  
Growth  
Rate

- ▶ Acquisitions
- ▶ New Product Development
- ▶ New Markets
- ▶ End User Conversion



12%+

Graco  
Targeted  
Earnings  
CAGR



- ◆ Overview
- ◆ Enduring Business Model

- ✓ **Strategies for Long-Term Growth**

- ✓ **Invest in New Products**

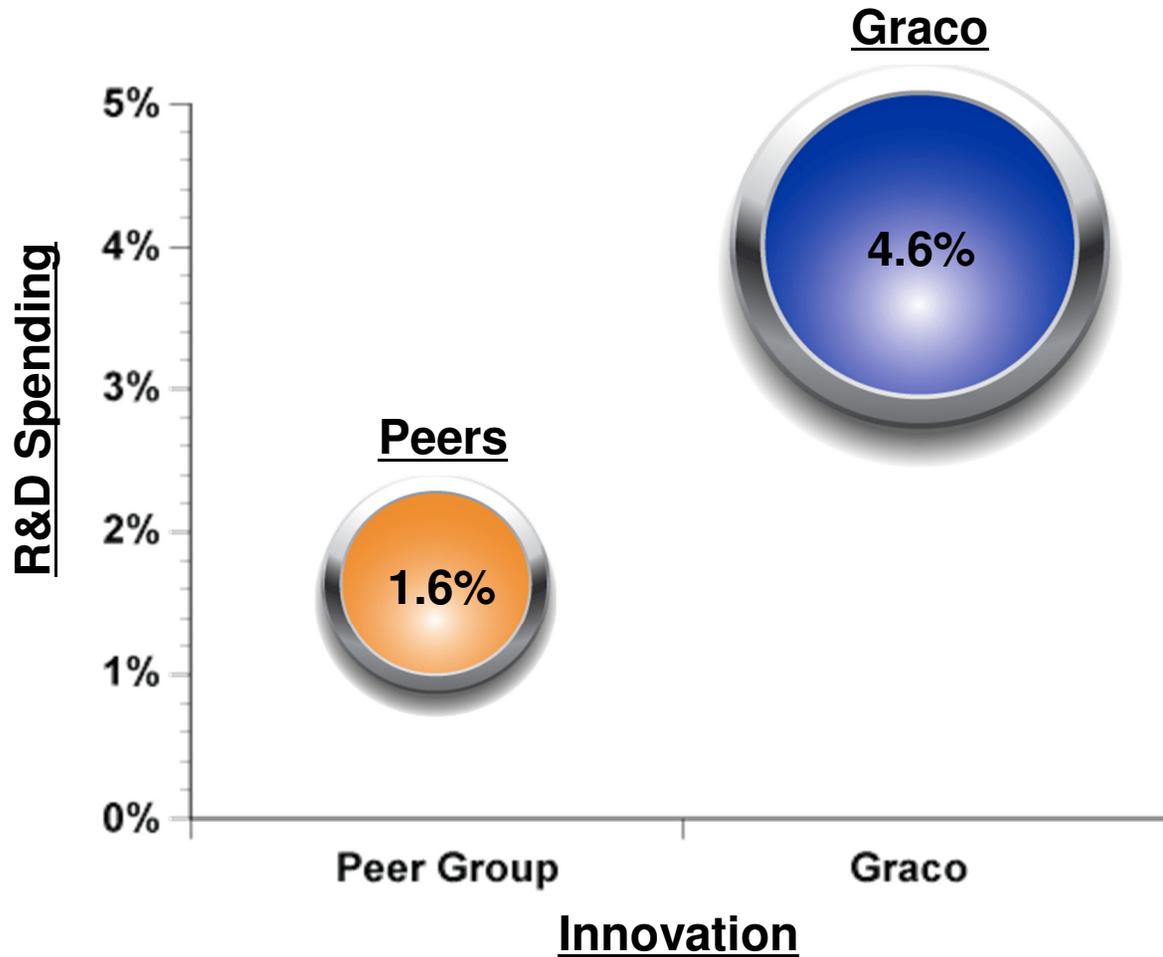
- Expand Geographically
    - Target New Markets
    - Make Acquisitions

- ◆ Company Performance

# Targeting Growth Through New Products & Markets



New Product Development Expense as a Percentage of Revenues – 2015



# Industrial – Airless Sprayers



## e-Xtreme™ Electric Airless Sprayer

- World's first electric sprayer for protective coatings approved for hazardous locations
- Electric power is safe, reliable, and convenient
  - Sprayers will be sold/used in emerging countries where compressed air is not readily available
- Significantly more quiet
- Saves up to 80% of energy costs
  - No compressor is needed



ELECTRIC



NO ICING



REDUCED NOISE



PLUG-IN & SPRAY



ATEX APPROVED



ENERGY SAVINGS



# Contractor – Paint Sprayers



## Home Center Products

- New “Pro” performance features
  - ProXChange™ “No Tools” pump repair cartridge
  - Longer life / higher output
  - Heavy-duty drive
- Patents pending

## Pro Products

- Common platform delivers economies of scale for entry-level markets
- ProXChange “No Tools” pump repair cartridge
- Special models for fine finish applications
- Patents pending



Common Platform:  
← - Motor →  
- Drive  
- Pump



# Contractor – Pro Markets



## Texture Applications

- 3 new interior / exterior options
- Graco exclusive “Pro” features
  - 50% more air and fluid output
  - “SmartStart” system extends pump and compressor life
  - “Wide Tex” spray tips for higher production spraying
- Patents issued and pending

## Pavement Striping Applications

- New LineLazer V – 5<sup>th</sup> generation
- #1 selling airless line striping system worldwide
- 3 new model options
- Graco exclusive “Pro” features
  - “Automatic” striping guns
  - “SmartControl” digital tracking
  - “Auto Layout” parking lot system
- Patents issued and pending

### TexSpray RTX™



### LineLazer® V

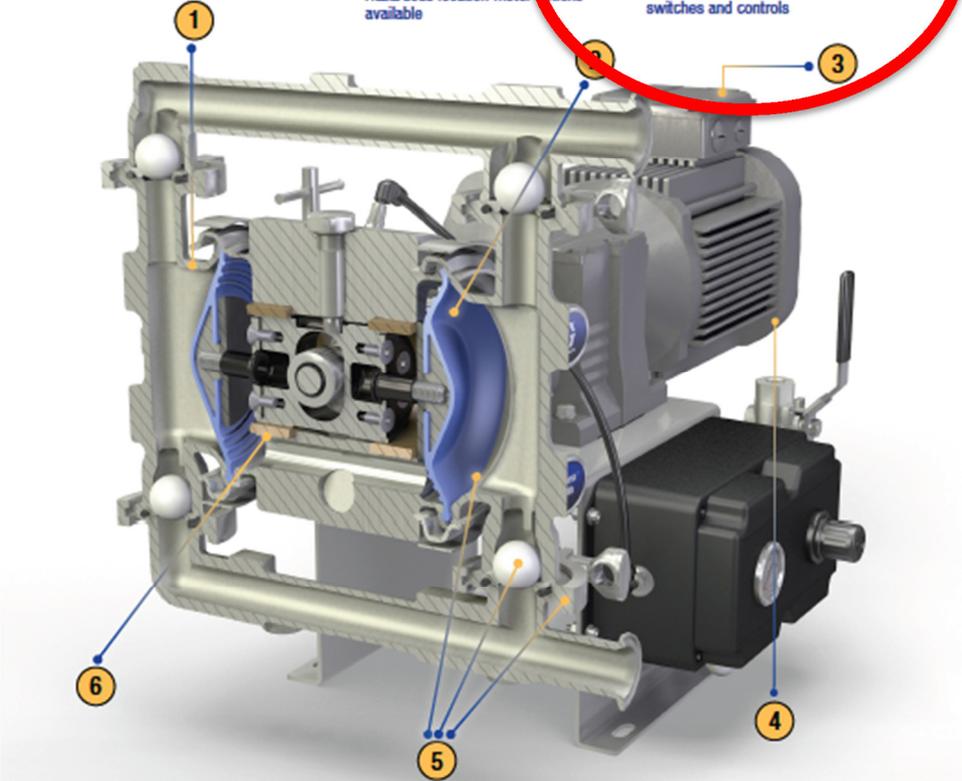


# Process – Saniforce® 1040-e



## Electric driven diaphragm pump for food and beverage applications

- 1 Durable Pump Technology**
  - Handles slurries and abrasives all without damage to the pump
  - Gentle on shear sensitive material
- 2 Diaphragm Pump**
  - Runs dry
  - No rotating or moving fluid seals
  - Self priming
- 3 Electric Drive**
  - Reduce energy consumption and operating costs
  - Increase pump control
  - Accurately meter fluid
- 4 Motor Options**
  - Operate on 120v, 240v or 480v power
  - Available in AC or Brushless DC
  - Hazardous location motor options available
- 5 Fluid Section**
  - Create the pump head with multiple material offerings for manifolds, seats, balls, and diaphragms
- 6 Patent Pending Air Charged Drive**
  - Increase diaphragm life without compromising your fluid
  - Ability to reduce pulsation on fluid outlet
  - Stalls under pressure without additional switches and controls





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◆ Enduring Business Model

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◆ Company Performance

# Industrial – ToughTek<sup>®</sup>



- Expands our presence in the construction industry
- Handles cementitious materials
  - Stuccos, self-leveling flooring, fireproofing, repair mortars, grouts
- Piston pump technology
  - Fireproofing sprayers
  - Stucco / EIFS sprayers
- Rotor/stator pumps
  - Continuous mixers
  - Mortar pumps
  - Mixing pumps



**ToughTek F680e  
Fireproofing Pump**



**ToughTek S340e  
Stucco Pump**



**P25 Mortar Pump**



**MP25 Mixing Pump**



**D35 Continuous Mixer**

# Industrial – EcoQuip<sup>®</sup> 2



- EcoQuip 2 sets new standards for Vapor Abrasive Blasting
  - Faster, easier, and more reliable than existing systems
  - Up to 92% less dust than traditional dry blasting
  - Much less water than traditional water based methods (around 1 qt./min)
- Expand into new markets
  - Coating removal
  - Concrete repair and restoration
  - Surface cleaning
  - Steel surface preparation



**Coating Removal**



**Concrete Repair & Restoration**



**Concrete Cleaning**



**Concrete Surface Prep**



**Steel Surface Prep**



◆ Overview

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◆ Company Performance

# Recent Acquisitions

-  **QED**<sup>TM</sup>  
Environmental Systems
-  **EcoQuip**<sup>®</sup>  
VAPOR ABRASIVE<sup>TM</sup> BLAST EQUIPMENT
-  **Alco Valves Group**<sup>TM</sup>
-  **Geo-Blaster**<sup>®</sup>  
WET-ABRASIVE BLASTING EQUIPMENT
-  **MULTIMAQ**<sup>TM</sup>  
sprayway
-  **WHITE KNIGHT**<sup>™</sup>  
*.....simply driven™*
-  **HiP**<sup>TM</sup> High Pressure Equipment Company
-  **machine**  
TECHNOLOGIES
-  **EPS** Environmental  
Pump Solutions
-  **hildebrand**  
TECHNOLOGY
-  **Geotech & LANDTEC**<sup>®</sup>  
A division of LANDTEC

**Geotechnical Instruments** – UK manufacturer of portable and fixed landfill gas analyzers and biogas analyzers used for monitoring, compliance, and control of landfill and biogas processes

**Landtec** – Manufactures landfill gas wellheads and accessories



**Landfill**



**Biogas**



**Wastewater  
Anaerobic  
Digestion**



**Medical Gas**



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✓ **Company Performance**

# Financial Results



	Third Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
\$ millions except EPS						
Sales	\$ 327.2	\$ 319.0	3 %	\$ 980.2	\$ 960.9	2 %
Gross Profit	176.6	170.2	4 %	523.5	512.9	2 %
% of Sales	54.0 %	53.4 %	0.6 pts	53.4 %	53.4 %	0.0 pts
Operating Earnings	81.5	76.9	6 %	220.8	226.0	(2)%
% of Sales	24.9 %	24.1 %	0.8 pts	22.5 %	23.5 %	(1.0) pts
Held Separate Investment Income, Net	-	2.4		-	190.7	
Net Earnings	\$ 54.4	\$ 50.7	7 %	\$ 144.9	\$ 292.2	(50)%
% of Sales	16.6 %	15.9 %	0.7 pts	14.8 %	30.4 %	(15.6) pts
Diluted Earnings Per Share	\$ 0.95	\$ 0.86	10 %	\$ 2.55	\$ 4.90	(48)%
<i>Diluted Shares in Millions</i>	57.0	58.7		56.9	59.6	
Adjusted Diluted Earnings Per Share (1)	\$ 0.95	\$ 0.84	13 %	\$ 2.55	\$ 2.54	0 %

(1) 2015 excludes effect of \$2 million (\$0.02 per diluted share) for the quarter and \$141 million (\$2.36 per diluted share) for the year to date, representing net investment income from the Held Separate Liquid Finishing businesses sold in the second quarter of 2015. See page 30 for reconciliation of the adjusted non-GAAP financial measure to GAAP

Net earnings in 2015, year-to-date, included non-recurring income tax benefits of \$9 million, or \$0.15 per diluted share

# Non-GAAP Reconciliation

- The Held Separate Liquid Finishing business assets were sold in the second quarter of 2015. 2015 net earnings included after-tax investment income of \$2 million (\$0.02 per diluted share) for the quarter (from post-closing purchase price adjustments) and \$141 million (\$2.36 per diluted share) for the year-to-date
- Results excluding Liquid Finishing investment income and expense provide a more consistent base of comparison of on-going results
- Calculation of the non-GAAP measurement of net earnings excluding investment income and expense follows (in millions except per share amounts):

Non-GAAP Reconciliation	Third Quarter		Year-to-Date	
	2016	2015	2016	2015
Net earnings	\$ 54.4	\$ 50.7	\$ 144.9	\$ 292.2
Held separate investment (income), net	-	(2.4)	-	(190.7)
Income tax effect	-	0.8	-	49.7
Adjusted net earnings	<u>\$ 54.4</u>	<u>\$ 49.1</u>	<u>\$ 144.9</u>	<u>\$ 151.2</u>
Diluted EPS as reported	\$ 0.95	\$ 0.86	\$ 2.55	\$ 4.90
Diluted EPS as adjusted	0.95	0.84	2.55	2.54

# Financial Results



## Components of Net Sales Change

### Third Quarter September 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	(1)%	–	7 %	2 %	2 %	3 %	2 %
Acquisitions	–	5 %	–	–	2 %	1 %	1 %
Currency	–	(1)%	–	–	(2)%	–	–
<b>Total</b>	<b>(1)%</b>	<b>4 %</b>	<b>7 %</b>	<b>2 %</b>	<b>2 %</b>	<b>4 %</b>	<b>3 %</b>

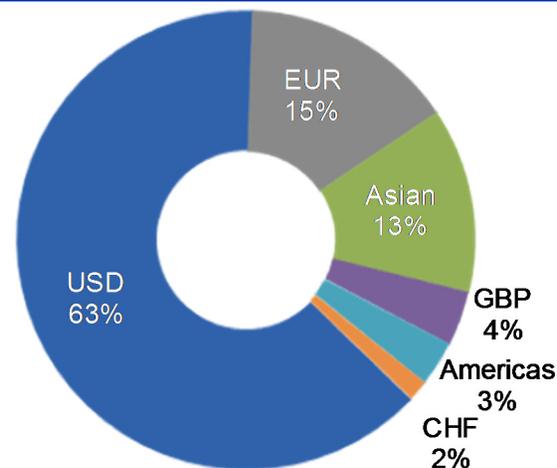
### Year-to-Date September 2016

	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	2 %	(9)%	7 %	–	5 %	2 %	1 %
Acquisitions	–	6 %	–	1 %	3 %	2 %	2 %
Currency	(1)%	(1)%	–	–	(2)%	(2)%	(1)%
<b>Total</b>	<b>1 %</b>	<b>(4)%</b>	<b>7 %</b>	<b>1 %</b>	<b>6 %</b>	<b>2 %</b>	<b>2 %</b>

### 2016 YTD Sales by Currency

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

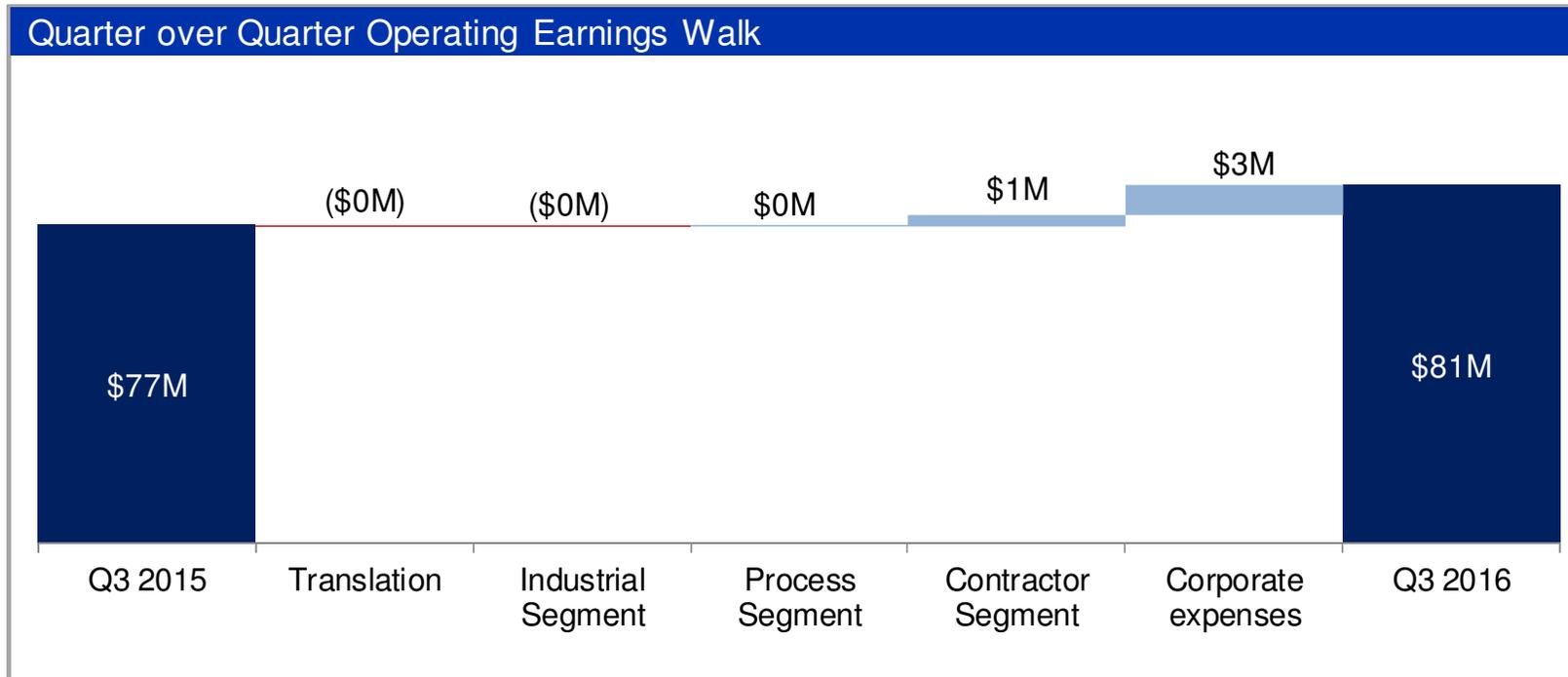
Americas currencies  
include:  
CAD, BRL, MXN



# Operating Earnings



Change in Operating Earnings	Third Quarter		Year-to-Date	
2015 Operating Earnings (\$M and % of sales)	\$ 77	24 %	\$ 226	24 %
Translation effect	—	—	(3)	—
Mix, volume and pricing	4	—	7	—
Effect of acquired businesses operations, inventory set-up and acquisition costs, net	1	—	3	—
Incremental investment in growth initiatives and corporate items	(1)	—	(4)	—
Unallocated corporate expenses (pension, stock compensation)	3	1	—	—
Facility relocation and integration costs for acquired businesses	—	—	(1)	—
Volume effect on expense leverage	(3)	—	(7)	(1)
2016 Operating Earnings (\$M and % of sales)	<u>\$ 81</u>	<u>25 %</u>	<u>\$ 221</u>	<u>23 %</u>



# Third Quarter 2016 Results



- Sales increased 3 percent (the same at consistent currency translation rates); acquired businesses account for 1 percentage point of growth
- Gross profit margin up 0.6 percentage point from third quarter 2015
  - Realized pricing and favorable impact of product and channel mix more than offset the unfavorable impact of lower factory volume
- Operating expenses were \$2 million (2 percent) higher than third quarter 2015
  - Increase included incremental expenses of acquired operations \$2 million. Unallocated corporate expenses decreased \$3 million, mostly from changes in market-driven components of pension and stock compensation
- Effective tax rate for the quarter was 29%, 2 percentage points lower than third quarter 2015. The 2016 rate included the impact of the federal R&D credit that was not available until the fourth quarter of 2015 and the favorable effect of foreign earnings taxed at lower rates

# Year-to-Date Sept 2016 Results



- Sales increased 2 percent (3 percent at consistent currency translation rates); acquired businesses account for 2 percentage points of growth
- Gross profit margin consistent with 2015
  - Favorable impact of reduced acquisition related purchase accounting and realized pricing offset the impact of lower factory volume
- Operating expenses were \$16 million (6 percent) higher than 2015
  - Increase included \$7 million of incremental expenses of acquired operations
- Effective tax rate for the year to date was 30%, 3 percentage points higher than the comparable period last year. Last year's rate included the favorable impact of non-recurring tax benefits, mostly related to a change in assertion as to reinvestment of foreign earnings, and the impact of post-tax dividend income, partially offset by the tax rate effect of the gain on the sale of the Liquid Finishing assets

## Notable Info from Q3 2016 Earnings Release & Call

- Capital expenditures are expected to be approximately \$40 million in 2016
- Unallocated corporate expenses for the full year 2016 are expected to be \$1 million higher than 2015; expenses vary by quarter
- Opportunistic share repurchases may continue via open market transactions and/or short-dated accelerated share repurchase programs
- At current rates, we expect currency to have an insignificant effect on fourth quarter
- The tax rate for fourth quarter is expected to be approximately 31% and the full year is expected to be approximately 30%

# Goodwill Impairment



- In 2016, operating results of our Oil and Natural Gas reporting unit ("ONG") within the Process segment have fallen short of expectations due to weakness in oil and natural gas markets
- After considering third quarter operating results and preliminary projections from our 2017 planning process, we concluded that the depth and length of industry weakness, and its continuing impact on ONG results, were greater than previously expected
- While management is committed to long-term profitability in ONG, and believes its investment in facility improvements, manufacturing capabilities and commercial resources have positioned the unit to benefit strongly from a recovery when it occurs, we initiated an impairment analysis at the end of the third quarter
- Preliminary analysis indicated potential impairment of ONG goodwill as of September 23, 2016. Due to the amount of time and effort required to determine the implied fair value of ONG goodwill, we are unable to provide a reasonable estimate or a range of estimates for the potential non-cash impairment charge at this time
- The carrying value of ONG goodwill was \$147 million and the carrying value of other identifiable intangible assets of ONG totaled \$73 million as of September 23, 2016
- The valuation to determine the amount of impairment will be completed in the fourth quarter

# 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 Q3 2016 2% YTD 2016 (0%)	Sales Growth Q3 2016 2% YTD 2016 5%	Sales Growth Q3 2016 3% YTD 2016 2%	Sales Growth Q3 2016 2% YTD 2016 1%
Industrial Segment	 Sales Growth Q3 2016 (4%) YTD 2016 (4%)	 Sales Growth Q3 2016 (2%) YTD 2016 6%	 Sales Growth Q3 2016 7% YTD 2016 8%	Sales Growth Q3 2016 (1%) YTD 2016 2%
Contractor Segment	 Sales Growth Q3 2016 7% YTD 2016 7%	 Sales Growth Q3 2016 21% YTD 2016 18%	 Sales Growth Q3 2016 (11%) YTD 2016 (4%)	Sales Growth Q3 2016 7% YTD 2016 7%
Process Segment	 Sales Growth Q3 2016 1% YTD 2016 (7%)	 Sales Growth Q3 2016 (6%) YTD 2016 (13%)	 Sales Growth Q3 2016 1% YTD 2016 (10%)	Sales Growth Q3 2016 (0%) YTD 2016 (9%)
Full Year 2016 Outlook	<b>Flat</b>	<b>Low-to-Mid Single Digits</b>	<b>Low Single Digits</b>	<b>Low Single Digits</b>

The full-year 2016 outlook for Graco worldwide is low single digit growth

- Americas region is expected to finish the full-year 2016 flat compared with the prior year, below our prior outlook of low single-digit growth
- EMEA region, we maintain our low-to-mid single-digit growth expectations for the full year
- Asia Pacific region continues to have an outlook of low single-digit growth for 2016

While our Process segment saw modest growth sequentially in the third quarter, we are cautious about ongoing headwinds

# Long-Term Cash Deployment Priorities



## Organic Growth

- ▶ International Footprint
- ▶ Product Development
- ▶ Production Capacity and Capabilities

## Acquisitions

- ▶ Supplement to Organic Growth
- ▶ Leverage Our Strengths

## Shareholder Return

- ▶ Dividend Payout Ratio ~30%
- ▶ Approximately 4 Million Shares Remaining on Authorization

# Key Investment Attributes



- 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





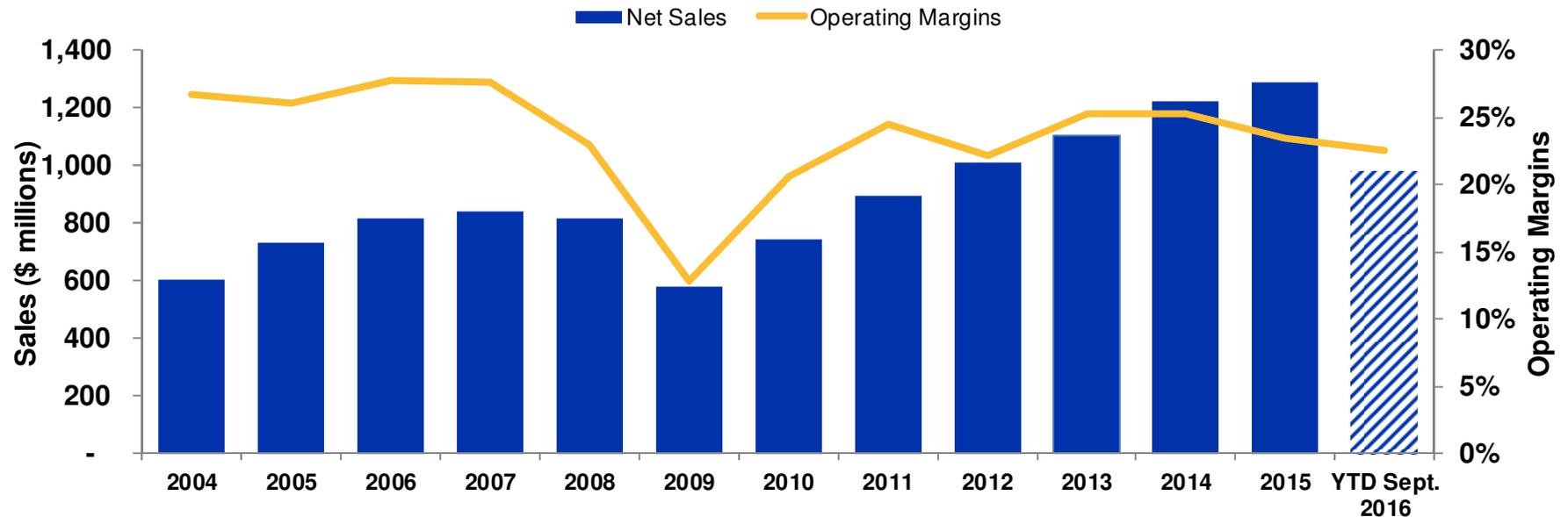
# Financial Summary 2015

## *Appendix*

# Financial Performance

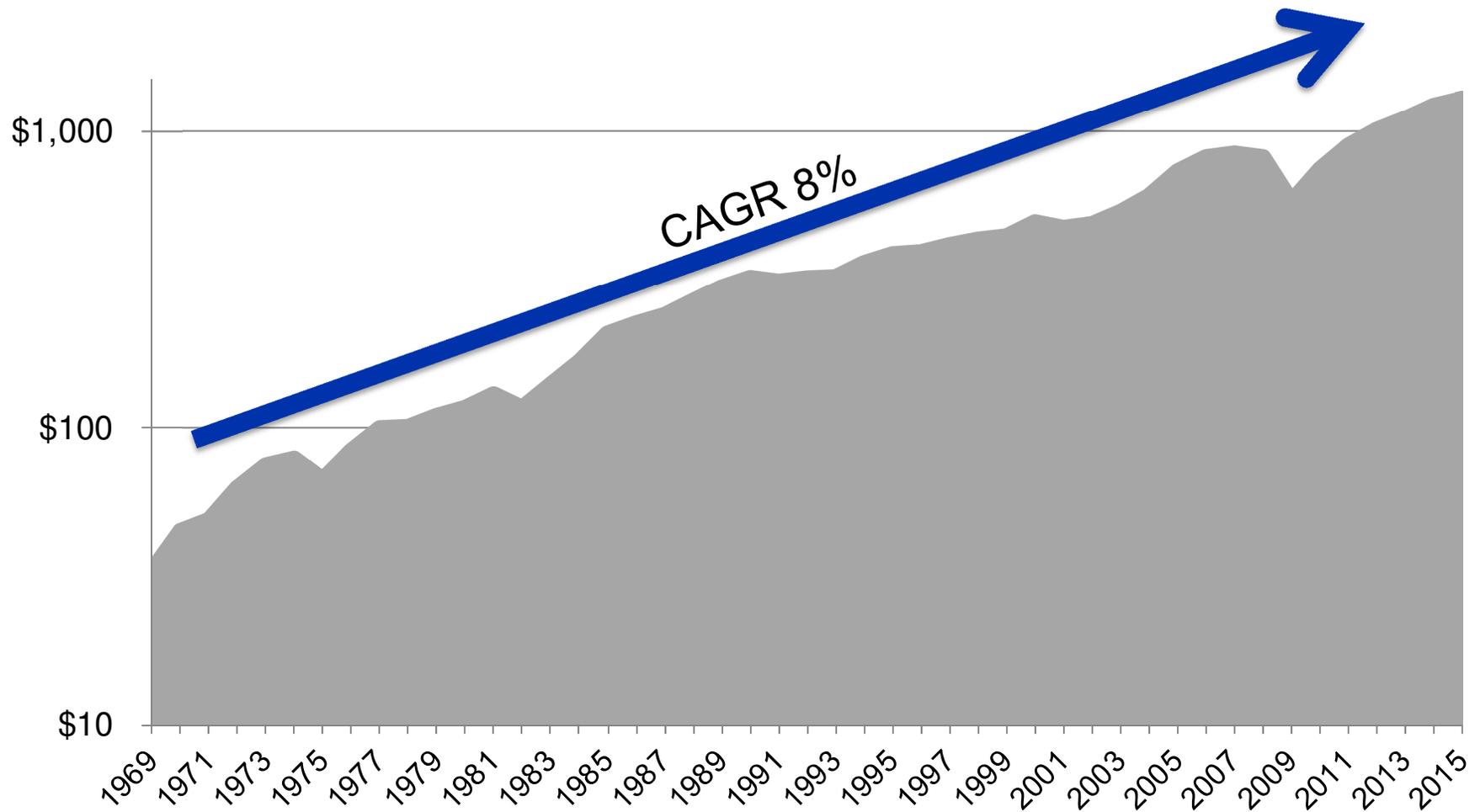


## Sales and Operating Margin

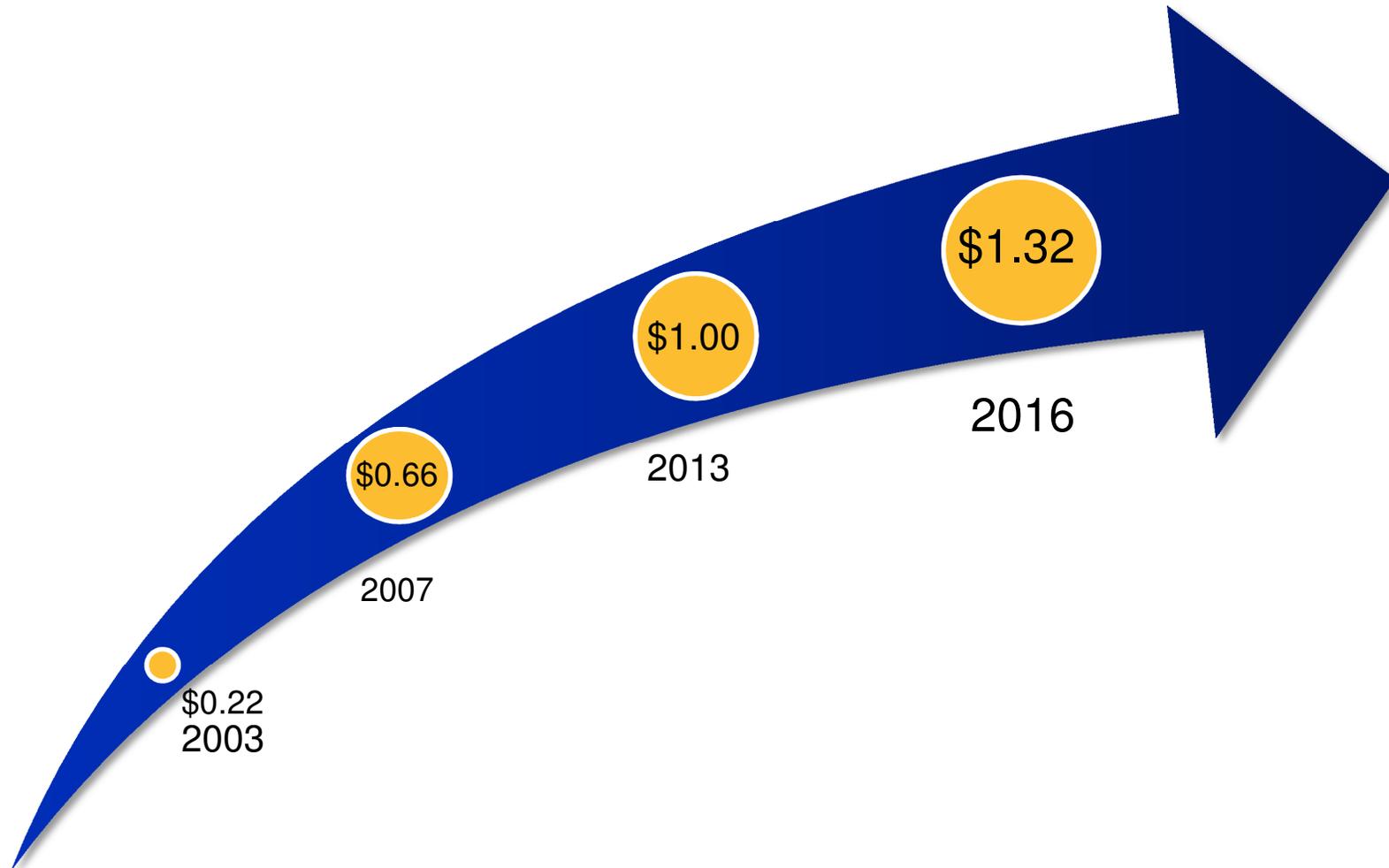


Diluted EPS	\$1.55	\$1.80	\$2.17	\$2.32	\$1.99	\$0.81	\$1.69	\$2.32	\$2.42	\$3.36	\$3.65	\$5.86	\$2.55
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# Historic Sales (\$ Millions)



# Stock Dividend Growth



# Strong Cash Generation



(\$ Millions)	2015	2014	2013	2012	2011	2010	2009	2008	2007
Operating Cash Flows	\$ 190	\$ 241	\$ 243	\$ 190	\$ 162	\$ 101	\$ 147	\$ 162	\$ 177
% of Net Income	55%	107%	115%	127%	114%	98%	300%	134%	116%
Capital Expenditures	42	31	23	18	24	17	11	29	37
Free Cash Flow	\$ 148	\$ 210	\$ 220	\$ 172	\$ 138	\$ 84	\$ 136	\$ 133	\$ 140

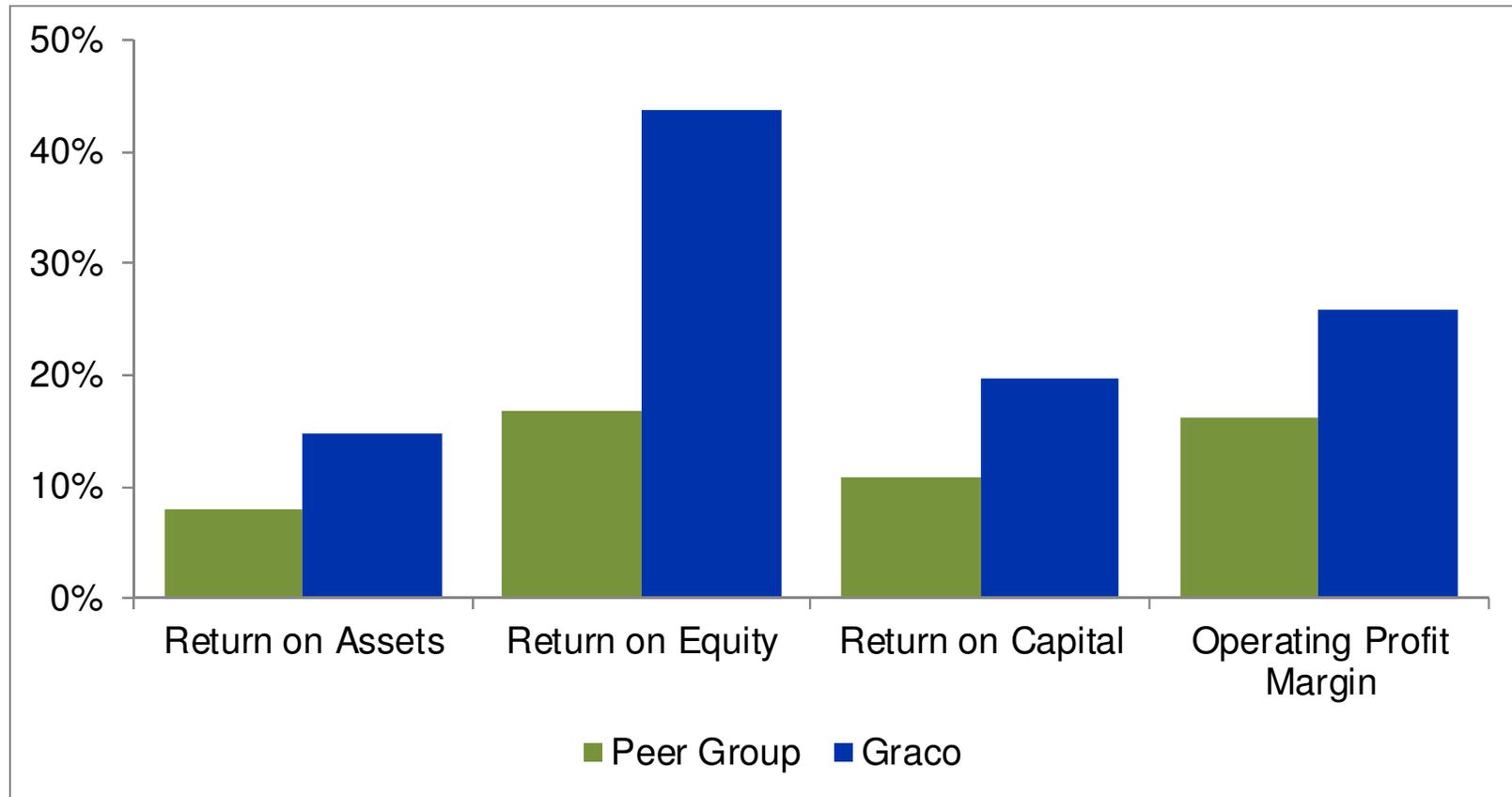
Divestiture of Liquid Finishing Held Separate assets - sale completed in Q2 2015

- Gain on the sale, net of expenses, was \$141 million and reflected in net income.
- Effect of taxes on the gain, transaction costs & foundation contribution are included in operating cash flows: payments total \$67 million in 2015

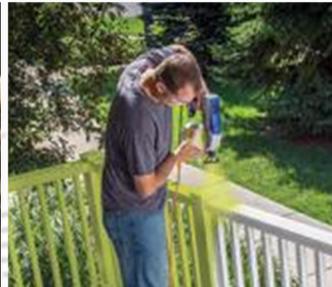
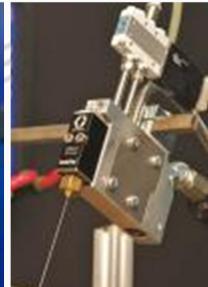
(\$ Millions)	2015	2014	2013	2012	2011	2010	2009	2008	2007
Dividends	\$ 69	\$ 66	\$ 61	\$ 54	\$ 51	\$ 48	\$ 45	\$ 45	\$ 43
Acquisitions	189	185	12	667	2	-	-	55	-
Share Repurchases *	256	165	26	(29)	21	11	(6)	101	206
	\$ 514	\$ 416	\$ 99	\$ 692	\$ 74	\$ 59	\$ 39	\$ 201	\$ 249

\* Net of shares issued

# Capital Efficiency – 5 Year Average



Source: S&P Capital IQ



move

measure

mix

control

dispense

spray

**Worldwide Leaders in Fluid Handling**

[www.graco.com](http://www.graco.com)