



EMERGING ECONOMIES **DRIVE** GROWTH



**Investor Presentation
3rd Quarter - December 2011**



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.





➤ Business Overview

- ❖ Opportunities and Strategies
- ❖ Building Momentum
- ❖ Company Performance



Business Overview

- Graco manufactures equipment to pump, meter, mix and dispense a wide variety of fluids
 - Difficult to handle materials with high viscosities
 - Abrasive or corrosive properties
 - Multiple component materials that require precise ratio control
- Outstanding reputation for premium products
 - Broad range for a variety of end markets
 - New product development investments consistently above peers
 - High quality from manufacturing and engineering competencies



Graco's Formula for Margin Generation

Strong partnerships
with material
suppliers

Close relationship
with end users

Outstanding channel
partners that add
value

Market leading
investments in new
product development

Niche end users with
stringent product
requirements

Best in class quality
and delivery

Creating value for our end users:

- Lowest total cost of ownership
- Outstanding ROI

**DIFFERENTIATED, PROPRIETARY
HIGH MARGIN PRODUCTS**



Business Overview

Strong financial performance and operating leverage

- 28% revenue growth in 2010; 24% YTD 3rd Qtr 2011
 - Incremental operating earnings leverage on organic revenue growth of 35% to 45%
-

Well-positioned channel partners

- Sales primarily through independent distributors – approximately 30,000 outlets worldwide
 - Selective relationships with big box retailers
-

Aftermarket provides a recurring revenue stream


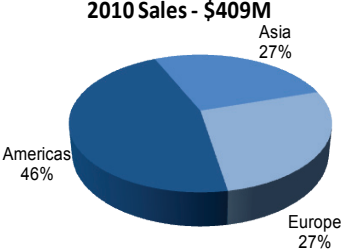

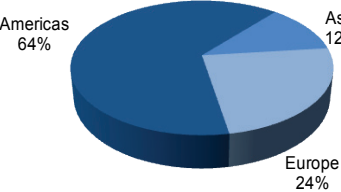

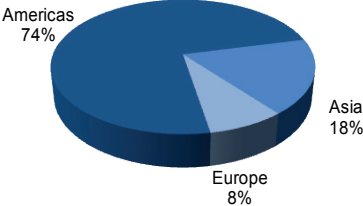
- Parts and accessories account for approximately 40% of annual revenues
-

A global business

- More than 45% of sales from outside the Americas
-



An Introduction to our Businesses

Business	Rational Competitors	Global Market Size	Q311 YTD YOY Revenue Growth	Geographic Mix
Industrial 	ITW, Exel, IDEX, IR, Dover and Wagner	\$2.0 billion	27%	2010 Sales - \$409M 
Contractor 	Wagner	\$0.5 billion	17%	2010 Sales - \$257M 
Lubrication 	Lincoln, Vogel, BEKA, Samoa, & RAASM	\$1.1 billion	34%	2010 Sales - \$78M 



Industrial Equipment – Paint Spraying





Industrial Equipment – Multi Component Paint Spraying





Industrial Equipment – Protective Coating





Industrial Equipment – Fast-set Coating





Industrial Equipment – Fast-set Foam Insulation





Industrial Equipment – In-plant Polyurethane





Industrial Equipment – Sealants & Adhesives





Industrial Equipment – Composites





Industrial Equipment – Process Industry





Industrial Equipment – Process, Sanitary



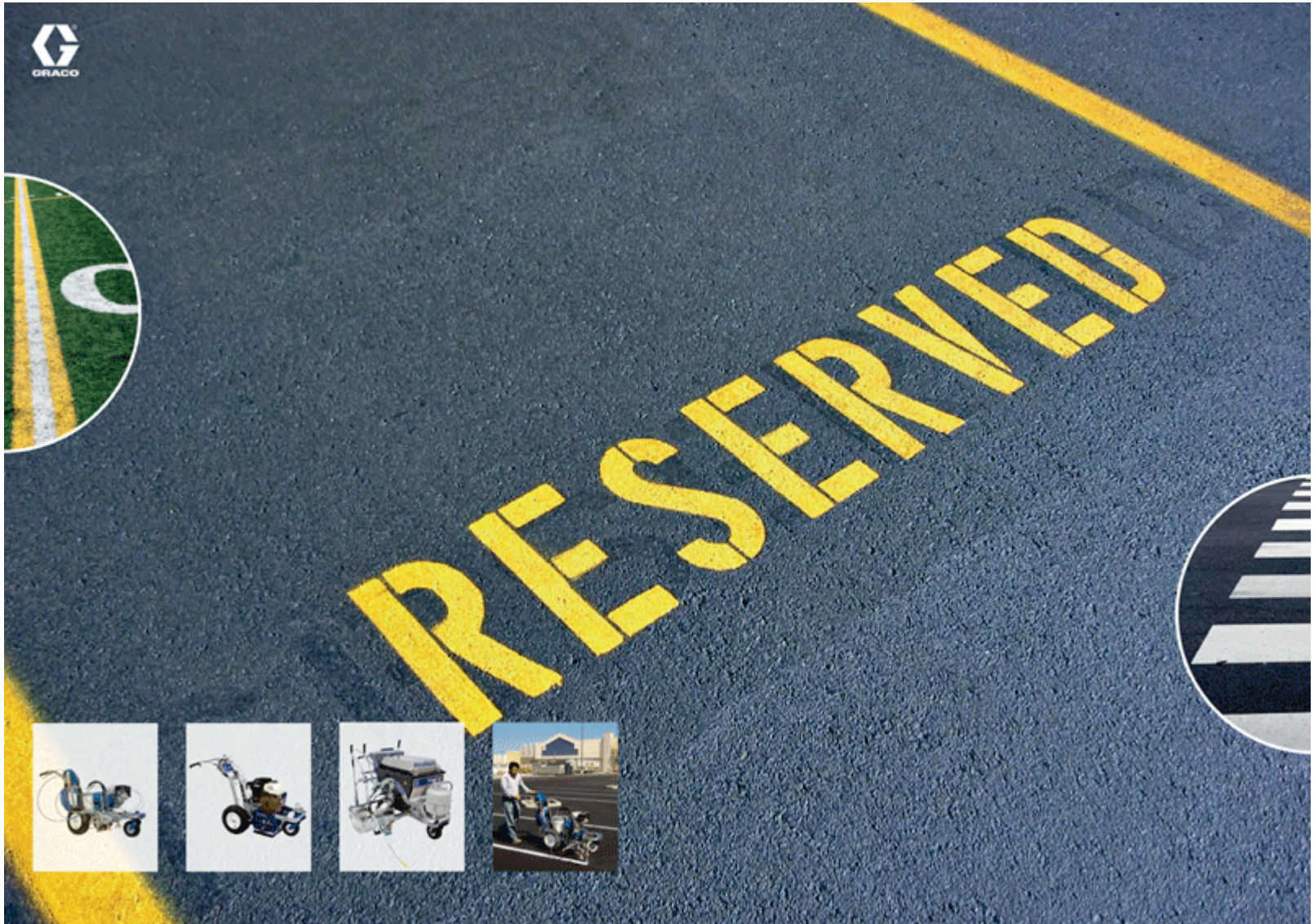


Contractor Equipment – Painting & Texturing



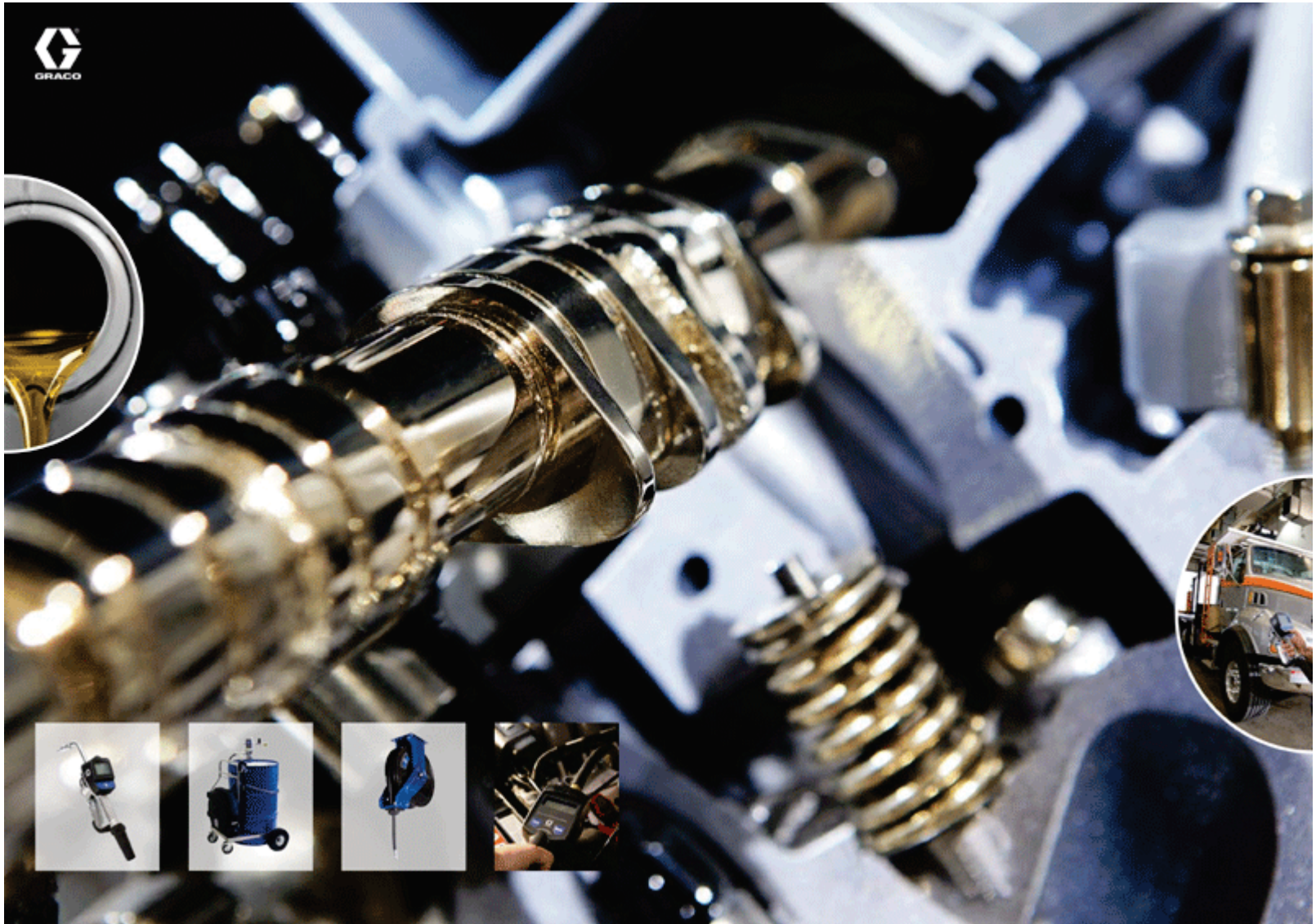


Contractor Equipment – Striping





Lubrication Equipment – Vehicle Services





Lubrication Equipment – Industrial





❖ Business Overview

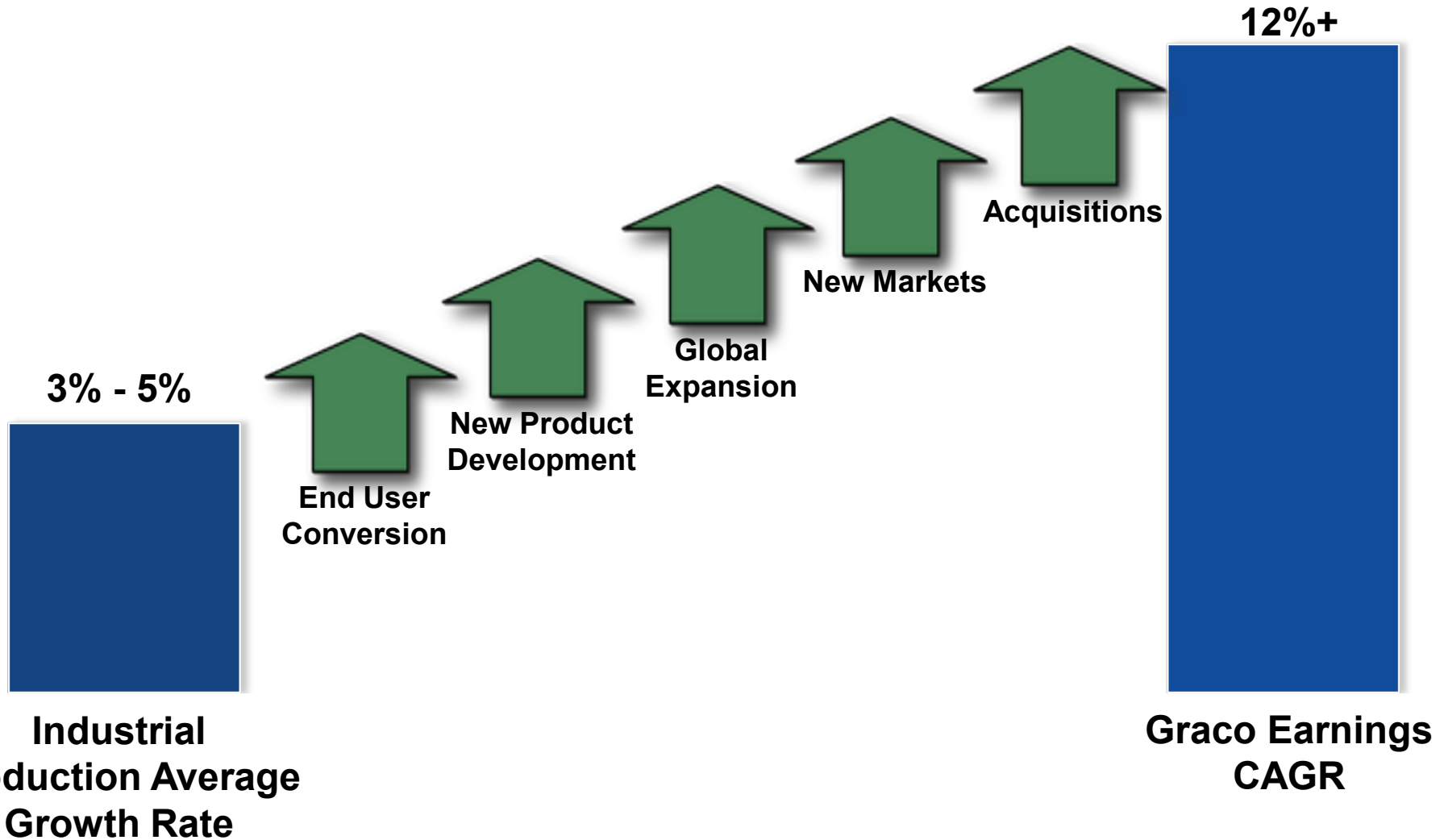
➤ Opportunities and Strategies

❖ Building Momentum

❖ Company Performance



Graco's Growth Plans and Earnings Drivers





Industrial Equipment

- New applications in adjacent markets
 - Sanitary
 - Composites
 - Alternative energy
- Material changes driving demand
 - High performance multiple component materials
 - Low - or no - VOC coatings
 - Green initiatives
- Customer ROI-based new products
 - Integration of equipment with factory data and control systems
 - Reducing energy consumption
- International market trends resulting in new installations
 - Industrialization and wage inflation in developing markets driving automation
 - Factory relocations to low-cost geographies





Contractor Equipment

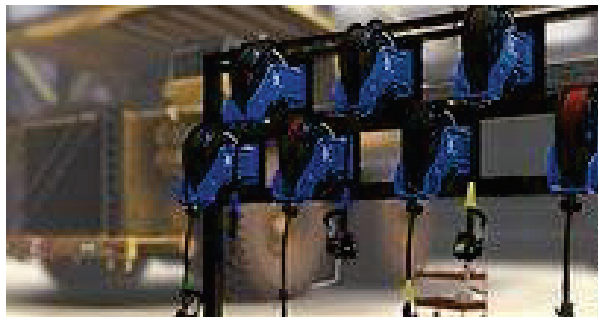
- Conversion of end users from manual application methods to equipment is a major focus outside North America
 - In Europe and Asia, spray equipment penetration is less than 40% in developed countries and less than 10% in developing countries
- Application of texture and cementitious materials
- Entry level product & channel expansion
- Expanding pavement maintenance product line & channel





Lubrication Equipment

- Focused on expanding international markets and presence
 - Rapidly adding resources for specialized global marketing and selling
 - Developing products to meet local market needs
 - Building global channel
- Industrial lubrication market targeted opportunities
 - Expanding product offering
 - Improving cost position





- ❖ Business Overview
- ❖ Opportunities and Strategies

➤ **Building Momentum**

- ❖ Company Performance



Graco Announces Agreement to Acquire

ITW Finishing Group

ITW Gema

BINKS

Ransburg
Electrostatic Equipment

DEVILBISS
The Right Way To Finish

BGK
Electric Infrared Curing Solutions



Acquisition Consistent with Strategic Growth Initiatives

Graco Growth Strategies

- **Expand Geographically**



- **Invest in New Products**



- **Target New Markets**



- **Strategic Acquisitions**



Finishing Acquisition

Strong, global manufacturing sales and distribution capabilities

Innovative products and strong R&D capabilities

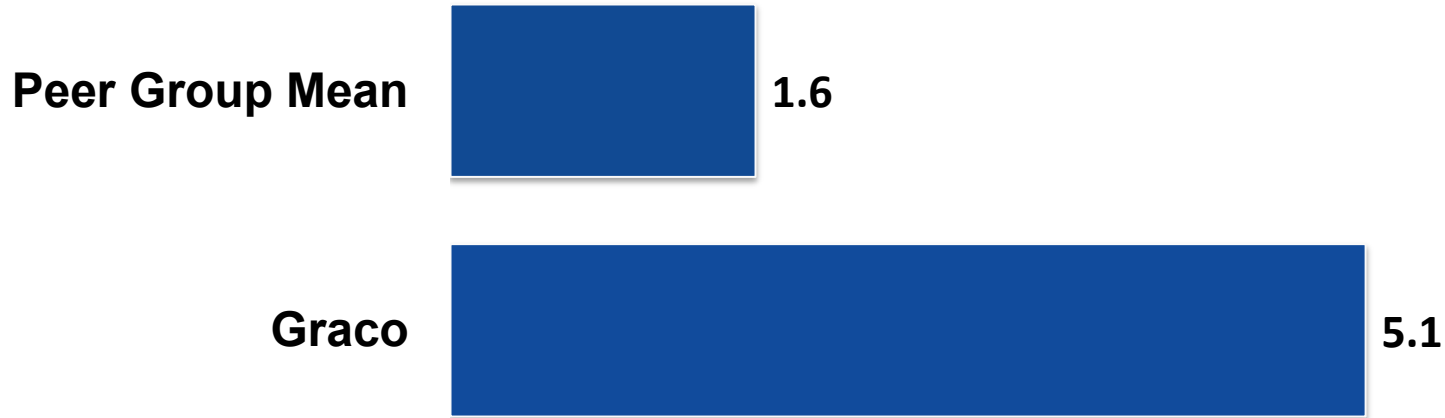
Market leading powder finishing and automotive refinish equipment

Global business of significant size, manufacturing expansion and strong brands and channel management capabilities



Targeting Growth Through New Products and Markets

New Product Development Expense as a Percentage of Revenues, 2010



Peer group includes:

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



Graco XP70 Plural-Component Sprayer

Markets Served

- Tanks, railcars, pipes, bridges, wind towers, water towers, structural steel, shipbuilding

High-pressure plural-component sprayer for protective coatings

- Smart alternative to hand mixing
- Affordable, easy to use





Graco ProMix[®] 2KE

Markets Served

- General metal, wood and furniture, farm and construction, truck and bus

Entry level electronic proportioner

- Highly accurate mix system has configurations for all spray technologies
- Easy to install and use
- Handles all common 2K finishing materials including epoxies, urethanes, and acid catalysts





Sanitary Market - Graco SaniForce™

Markets Served

Food, Beverage, Cosmetics, Pharmaceutical

- Unique high pressure solutions for extremely high viscosity materials
- Breakthrough seal design allows for wider range of drum and bins to capitalize on growing need for reusable containers
- Targeting growth through new product technology and acquisitions



SaniForce™

A Complete Line of Sanitary Products



unleash the
POWER



Industrial Lube Market - Graco G3™ Electric Pumps

Versatile Design Helps Solve Today's Lubrication Challenges

Markets Served

Mobile equipment, Wind Energy, Factory Machinery, Steel Mills, Pulp and Paper, Food and Beverage

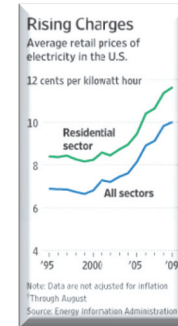
- Industry leading control technology – most user friendly and provides more data – USB flash drive
- Flexible design allows end user to standardize this product across a wider range of equipment than competitive choices





New Market: Remodeling Foam

- Remodeling Foam Market
 - Driven by rising energy costs
 - Estimated 80 million U.S. homes are under-insulated
 - Poor home starts causing more contractors to look for this type of work
- Why would the homeowner be interested?
 - Average cost 2,400 sq. ft. two level house
 - Foam and Fiberglass hybrid installation
 - Cost: \$3,200
 - Energy payback: 4 years
- Why would a contractor be interested in a new solution?
 - Today's solution
 - Spray foam rig: \$75,000+
 - FrothPaks: difficult to use, more expensive to homeowner
 - Graco sought a new solution to the market place



Picture shows typical air leak issues in homes and the increased energy loss



Composites Market - Graco RS™ Chop Gun

Markets Served

- Marine and watercraft, pool and spa, bath, transportation

Chop gun for composites industry

- Features industry-first blade cartridge
 - Accomplish blade changes in less than a minute!
 - Increased production uptime
- Lighter and more ergonomic than competitors





International and Emerging Markets Drove 2010 Growth





❖ Business Overview

❖ Opportunities and Strategies

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➤ **Company Performance**



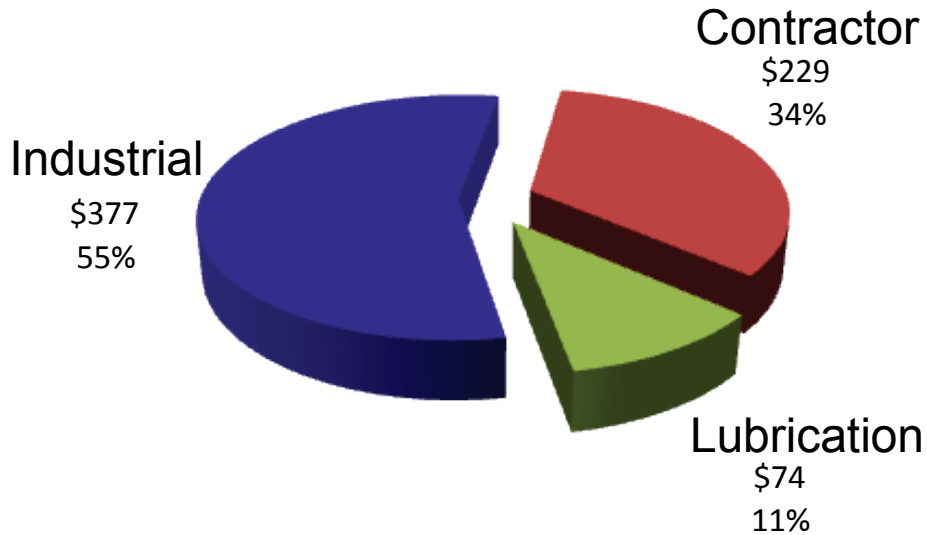
Financial Results – Nine Months

(\$ Millions except EPS)	<u>2011</u>	<u>2010</u>	<u>Change</u>
Sales	\$ 679.7	\$ 546.8	24%
Gross Profit Rate	56.4%	54.1%	
Operating Expenses	211.1	180.4	17%
Operating Earnings	172.1	115.3	49%
Net Earnings	\$ 111.9	\$ 75.8	48%
Earnings Per Share	\$ 1.82	\$ 1.25	46%

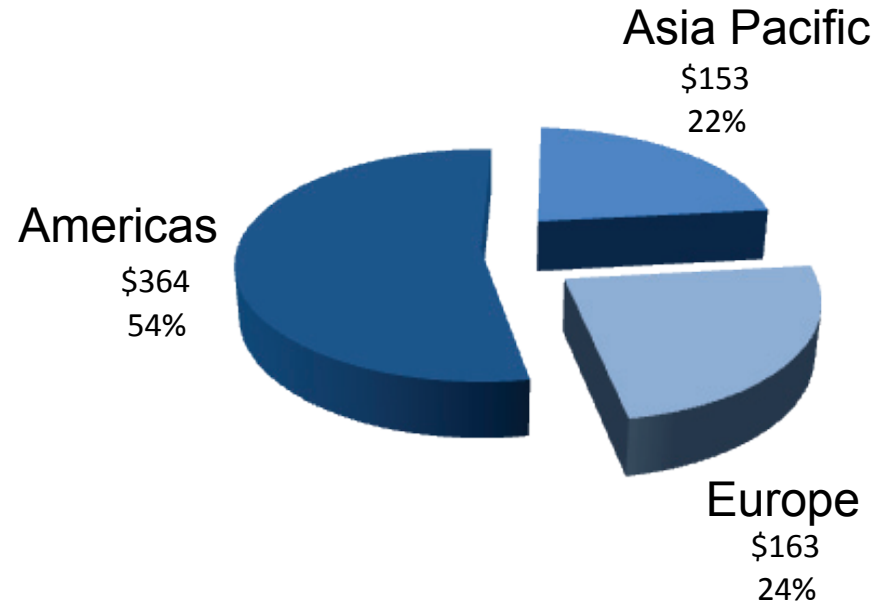


2011 – Nine Month Sales \$680 Million

Segment
\$'s millions



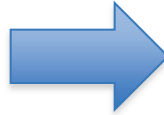
Geography
\$'s millions





Cash Deployment Priorities

Organic Growth Investments



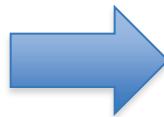
- International footprint
- Product development
- Production capacity and capabilities

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



Key Investment Attributes

- Strategies that will drive long-term above-market growth
- Premium products that provide a strong ROI for end users
- Leading market 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



Move – Measure – Control – Dispense – Apply

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Financial Summary For Q3 2011 - Appendix

EMERGING ECONOMIES **DRIVE** GROWTH



Third Quarter 2011 Results

- Sales for the quarter up 20 percent compared to third quarter last year
- Sales were up in all segments; regionally, sales were up 13 percent in the Americas, 18 percent in Europe, and 41 percent in Asia Pacific
 - The overall quarter growth rate includes 4 percentage points from currency translation
- Third quarter gross profit margin of 56 percent was ½ percentage point above last year as favorable effects of translation and increased production volume, were partially offset by higher material costs
- Operating expenses were up 14 percent, including translation and increases in marketing and selling, and transaction costs for pending acquisition
- Backlog decreased \$7M from the end of prior quarter
- Net earnings increased by 20 percent compared to third quarter last year and diluted EPS was 60 cents





Nine Months 2011 Results

- Sales year-to-date up 24 percent compared to prior year
- Sales were up in all segments and geographies, including 19 percent in the Americas, 26 percent in Europe, and 37 percent in Asia Pacific
 - The overall year-to-date growth rate of 24% includes 3 percentage points from currency translation
- Year-to-date gross profit margin of 56 percent, up from 54 percent last year, reflecting favorable effects of higher production volume, currency translation and pricing, partially offset by higher material costs
- Operating expenses were up 17 percent, including currency translation and volume related marketing and selling, headcount adds, and transaction costs for pending acquisition
- Backlog increased \$3M as compared to prior year-end
- Net earnings increased by 48 percent compared to last year and diluted EPS was \$1.82





Financial Summary For 2010 - Appendix

EMERGING ECONOMIES **DRIVE** GROWTH



Summary – 2010

- Sales up 28%
 - Asia the strongest, up 46% (up 41% at consistent currency translation rates)
 - Europe up 25% (up 29% at consistent currency translation rates)
 - Americas up 24%
- Gross margin up 3½ percentage points
- Operating profit margin up 8 percentage points
- Earnings per share up 109%
- \$48M in dividends and \$24M in common stock purchased





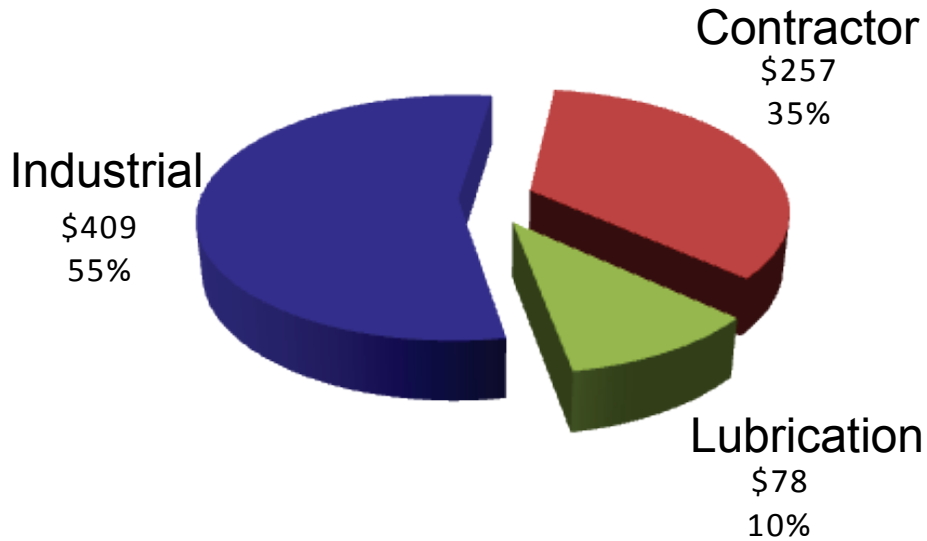
Financial Results

(\$ Millions except EPS)	Full Year		Change
	2010	2009	
Sales	\$ 744.1	\$ 579.2	28%
Gross Profit Rate	54.2%	50.6%	
Operating Expenses	250.3	218.3	15%
Operating Earnings	153.1	74.5	106%
Net Earnings	\$ 102.8	\$ 49.0	110%
Earnings Per Share	\$ 1.69	\$ 0.81	109%

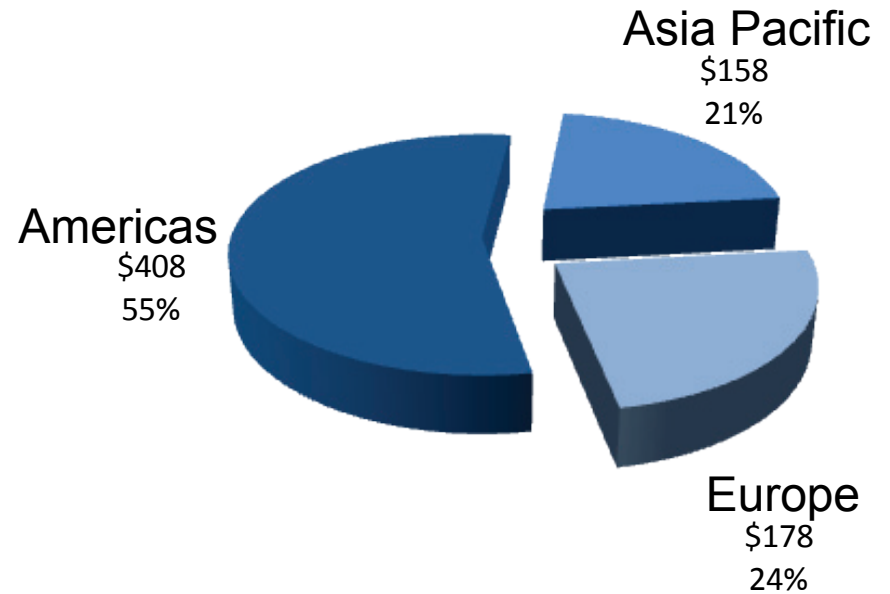


2010 – Full Year of Sales \$744 Million

Segment
\$'s millions



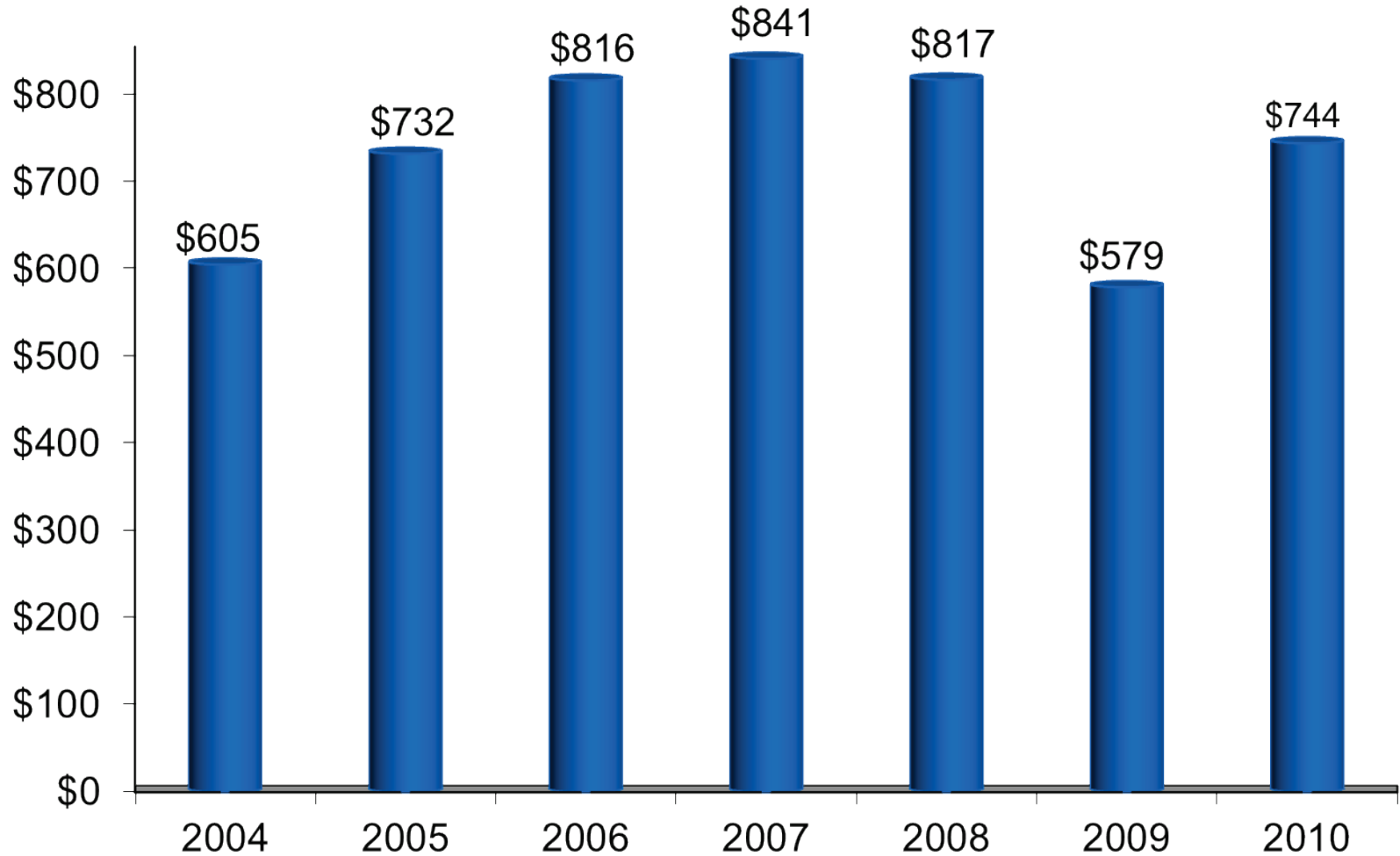
Geography
\$'s millions





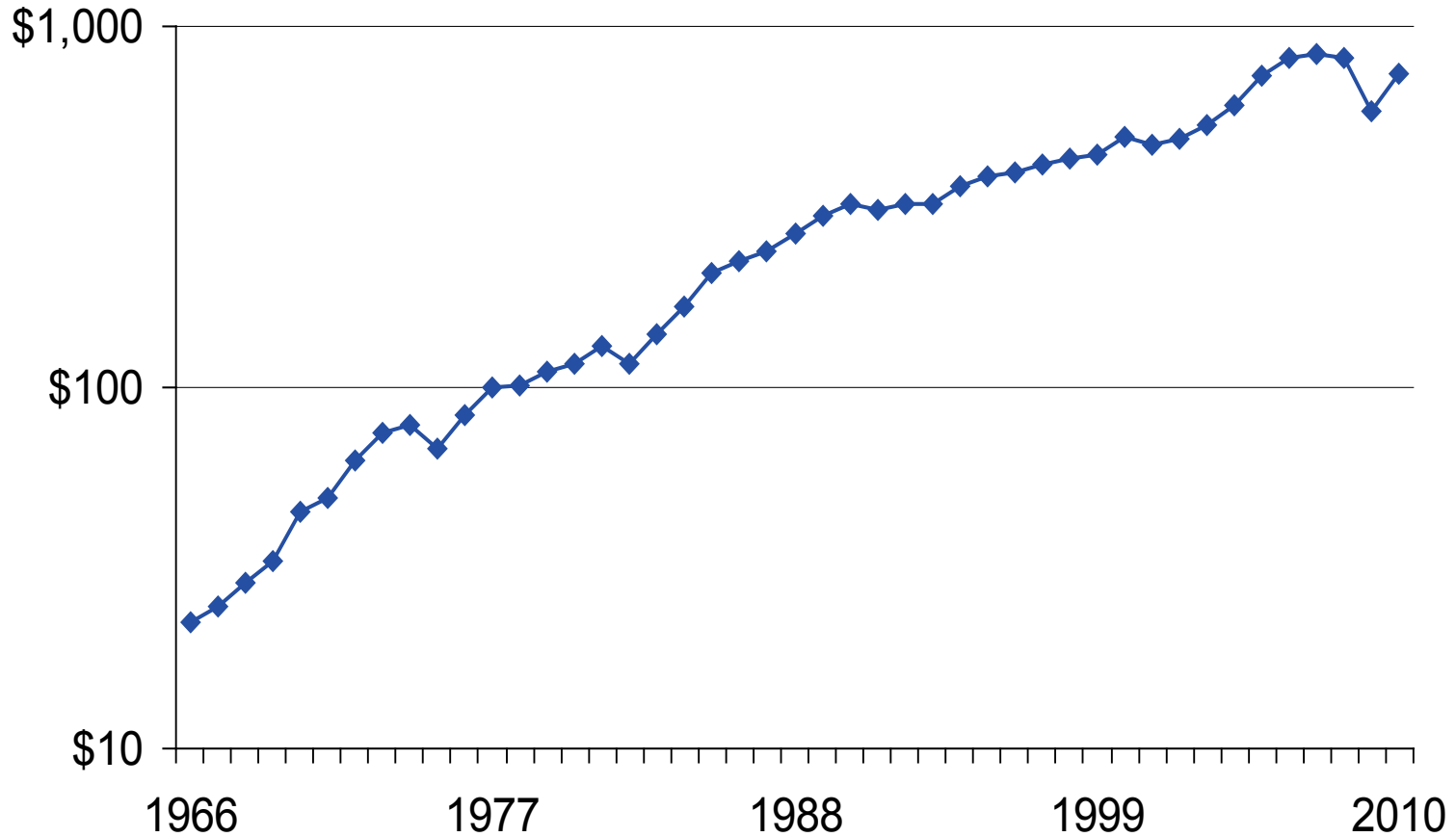
Annual Sales (\$ Millions)

Target: 6-7% Organic
10%+ Overall



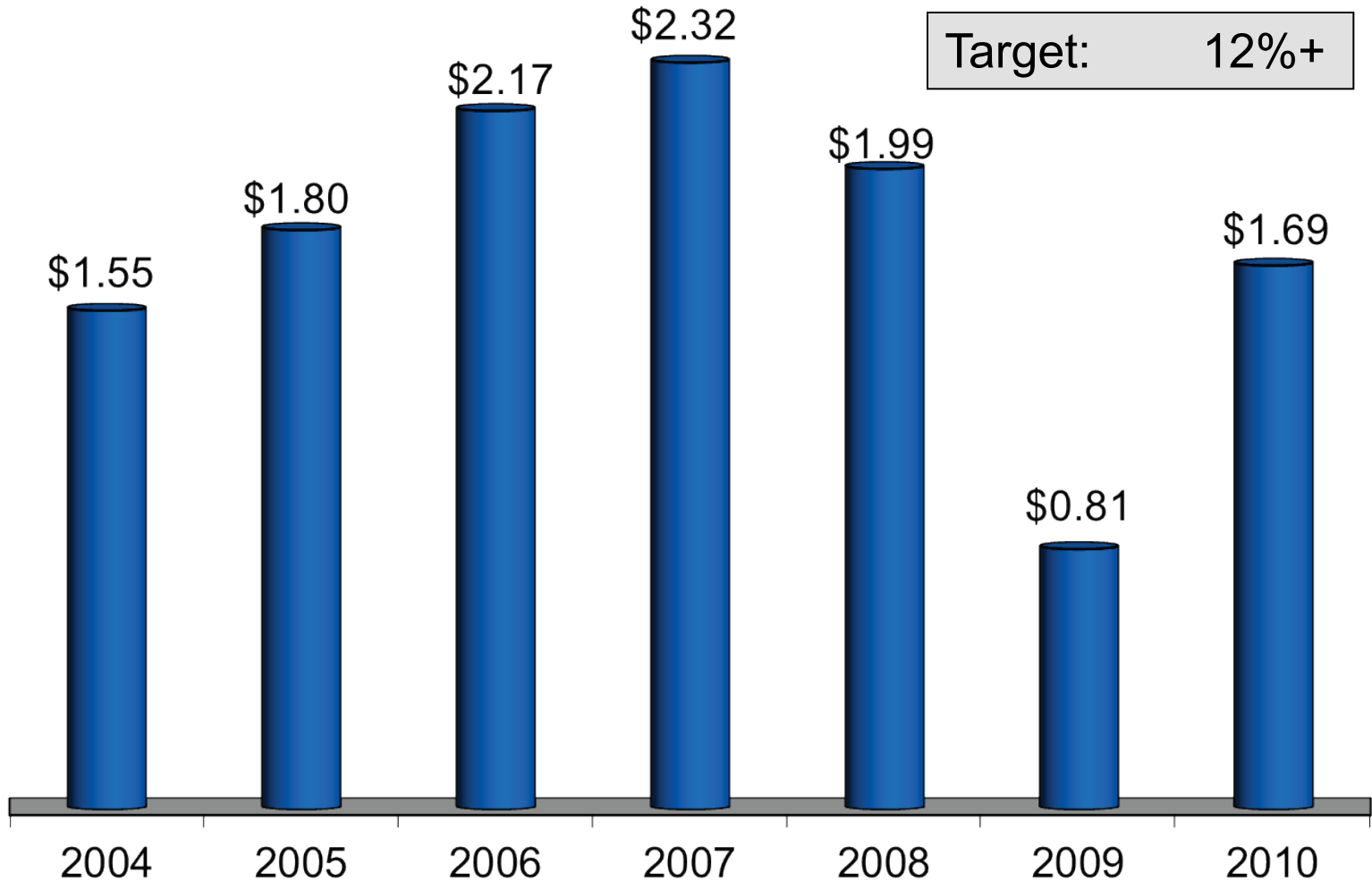


Historic Sales (\$ Millions)





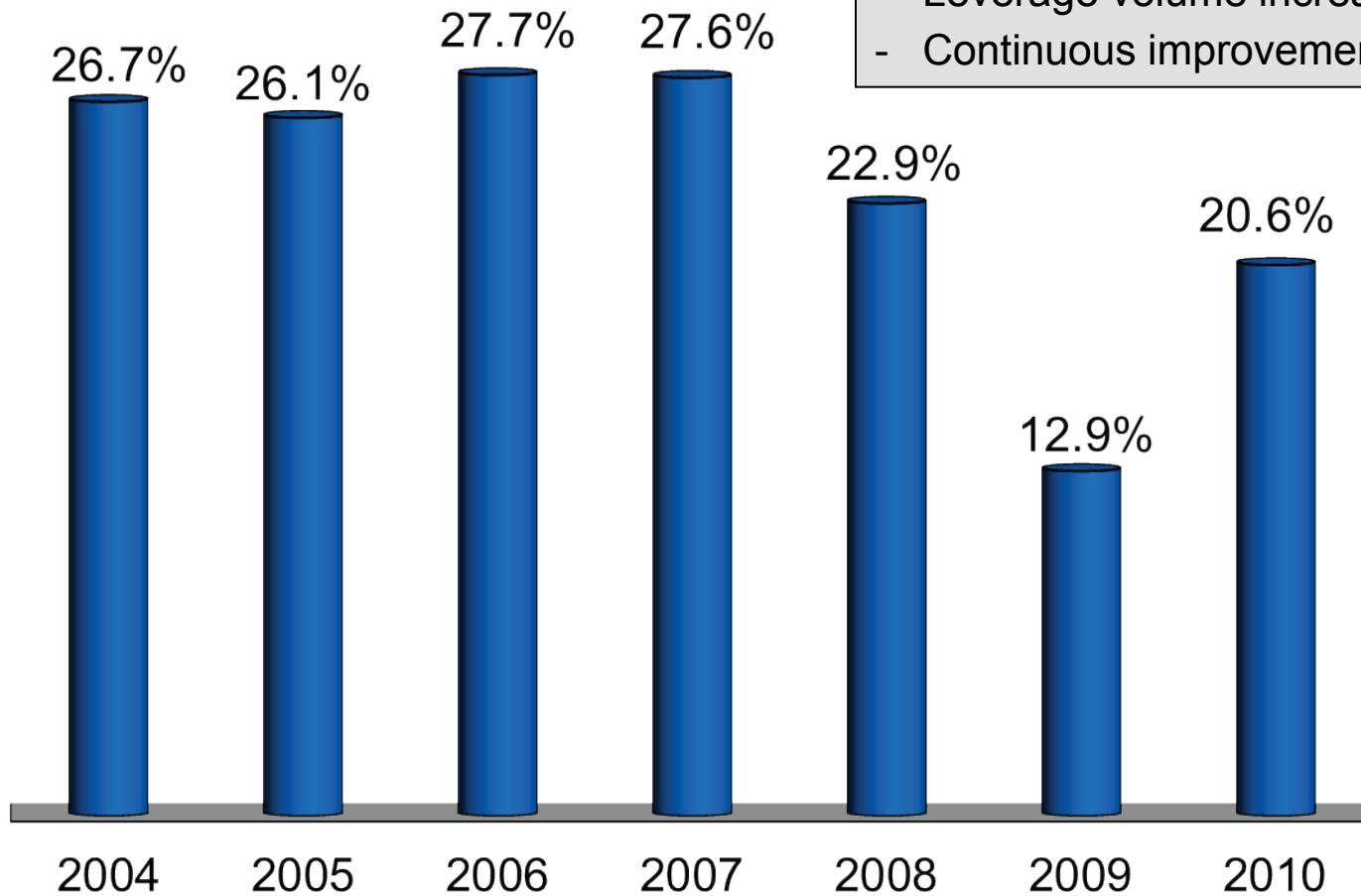
Earnings Per Share





Operating Margin

- Disciplined spending
- Increased manufacturing efficiency
- Leverage volume increases
- Continuous improvement culture





Strong Cash Generation

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Cash Flows	\$ 101	\$ 147	\$ 162	\$ 177	\$ 156	\$ 153	\$ 123
% of Net Income	98%	300%	134%	116%	104%	121%	113%
Capital Expenditures	<u>17</u>	<u>11</u>	<u>27</u>	<u>37</u>	<u>34</u>	<u>20</u>	<u>17</u>
Free Cash Flow	<u>\$ 84</u>	<u>\$ 136</u>	<u>\$ 135</u>	<u>\$ 140</u>	<u>\$ 122</u>	<u>\$ 133</u>	<u>\$ 106</u>
Dividends	\$ 48	\$ 45	\$ 45	\$ 43	\$ 39	\$ 36	\$ 130
Acquisitions	-	-	55	-	31	111	-
Share Repurchases *	<u>11</u>	<u>(6)</u>	<u>101</u>	<u>206</u>	<u>76</u>	<u>32</u>	<u>26</u>
	<u>\$ 59</u>	<u>\$ 39</u>	<u>\$ 201</u>	<u>\$ 249</u>	<u>\$ 146</u>	<u>\$ 179</u>	<u>\$ 156</u>

* Net of shares issued



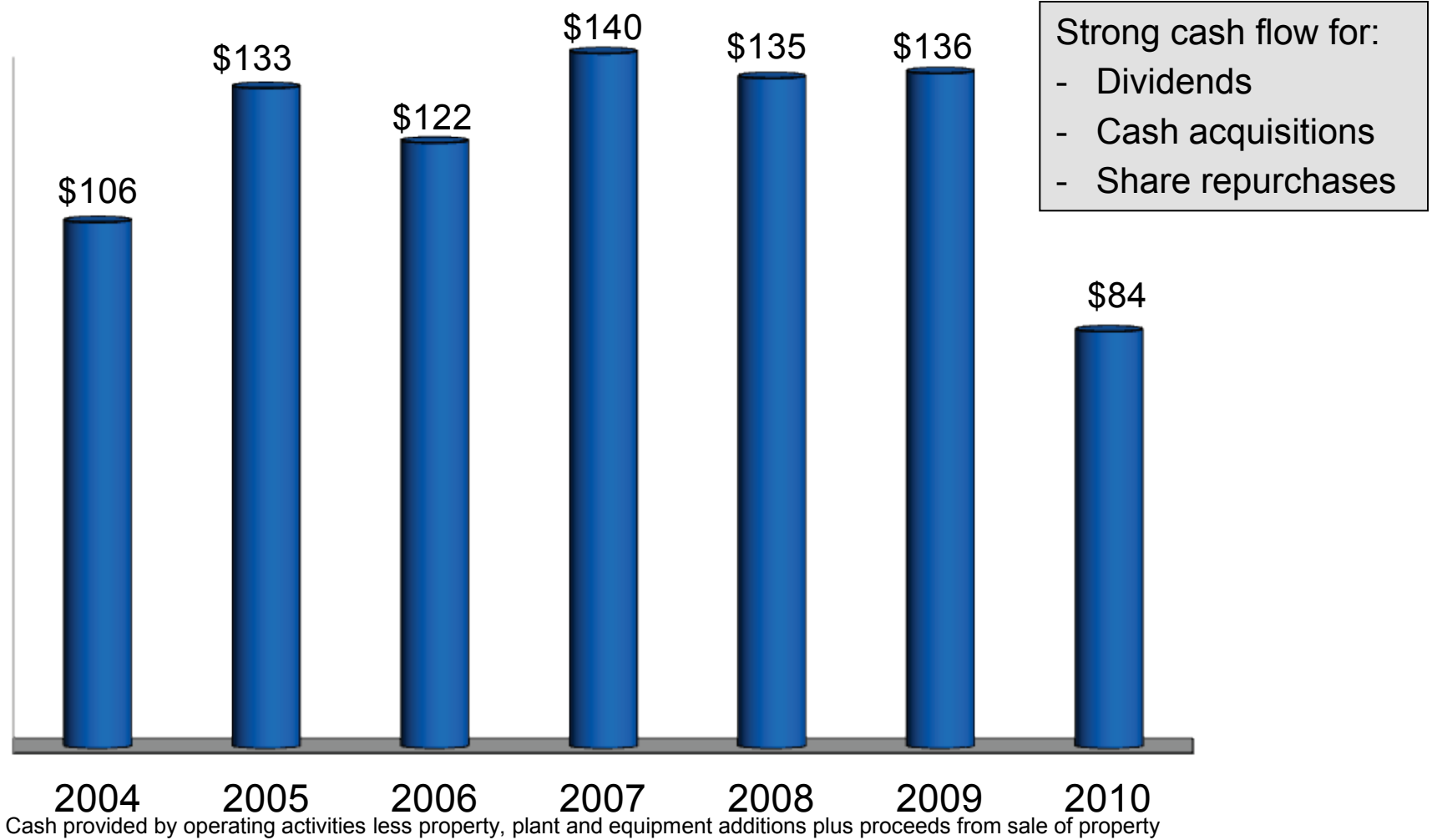
Leverage

(\$ Millions)	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
EBITDA	\$ 187	\$ 109	\$ 222	\$ 261	\$ 252	\$ 213	\$ 179
Debt, Net of Cash	\$ 69	\$ 93	\$ 186	\$ 121	\$ 12	\$ (10)	\$ (55)
Debt to EBITDA	37%	85%	84%	46%	5%		
Operating Earnings	\$ 153	\$ 74	\$ 187	\$ 232	\$ 226	\$ 191	\$ 162
Interest Expense	\$ 4	\$ 5	\$ 8	\$ 3	\$ 1	\$ 1	\$ 0.5



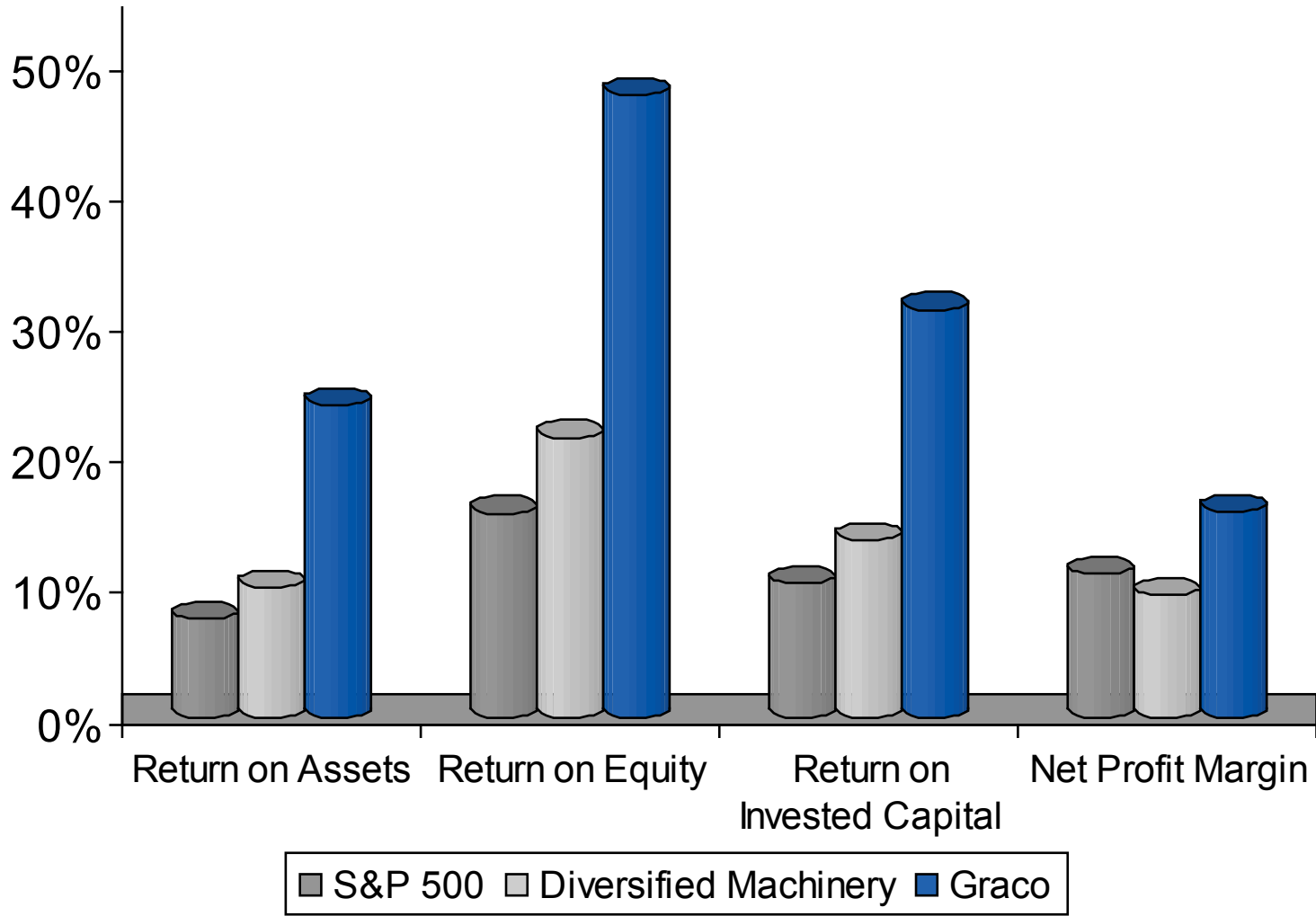


Free Cash Flow (\$ Millions)





Capital Efficiency – 5 Year Average

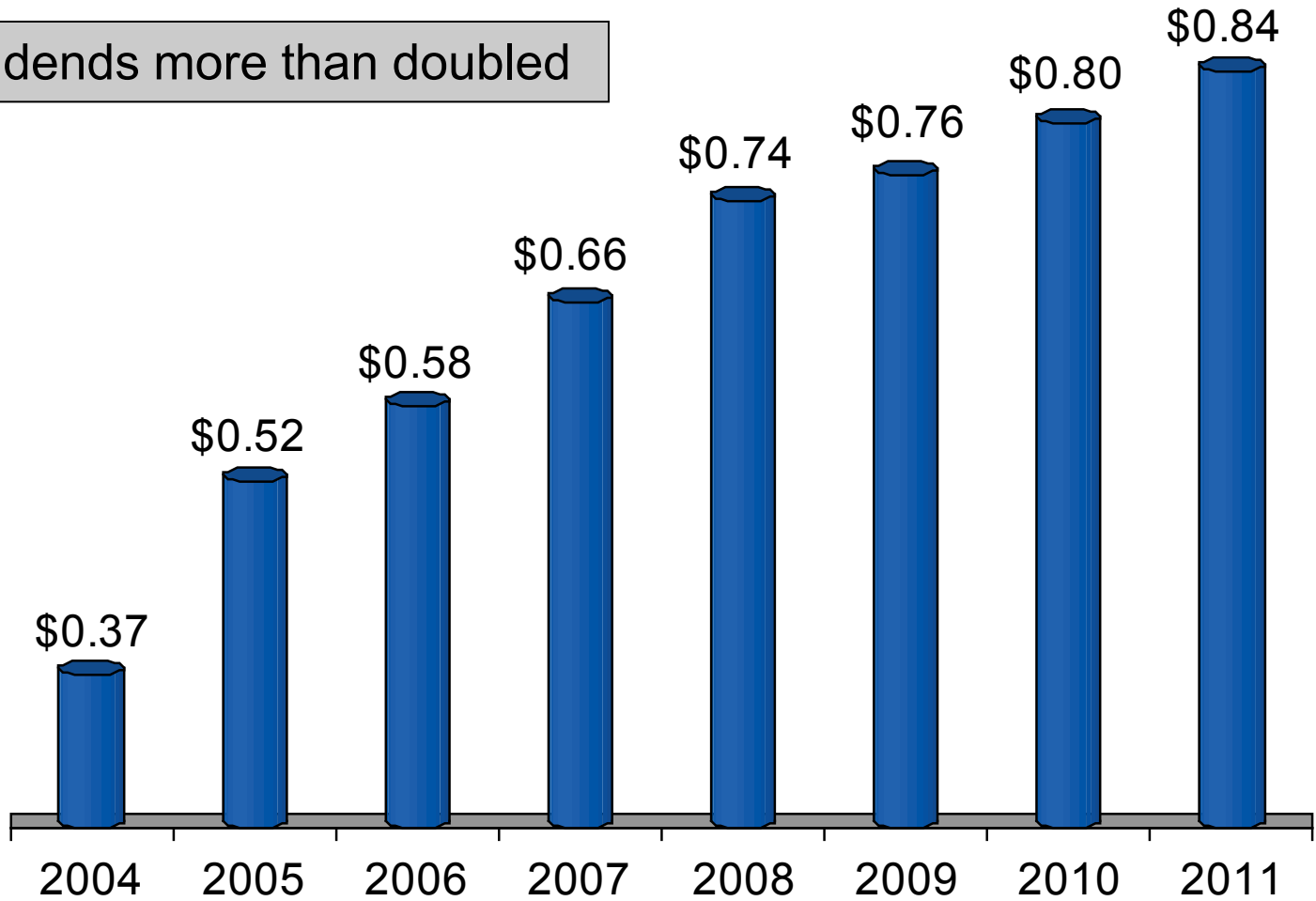


Source: Interactive Data, 2011 Thomson Reuters



Annual Dividend Growth

- Dividends more than doubled



Note: Annual dividends rate, excludes special dividend of \$1.50 paid in 2004



Move – Measure – Control – Dispense – Apply

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