

## Investor Presentation — May 2013



INNOVATION  
IN FLUID HANDLING

design research technology  
engineering solutions materials

move measure mix control dispense spray

MANUFACTURING  
EXCELLENCE

### 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 most recent Form 10-Q.



## ➤ Overview

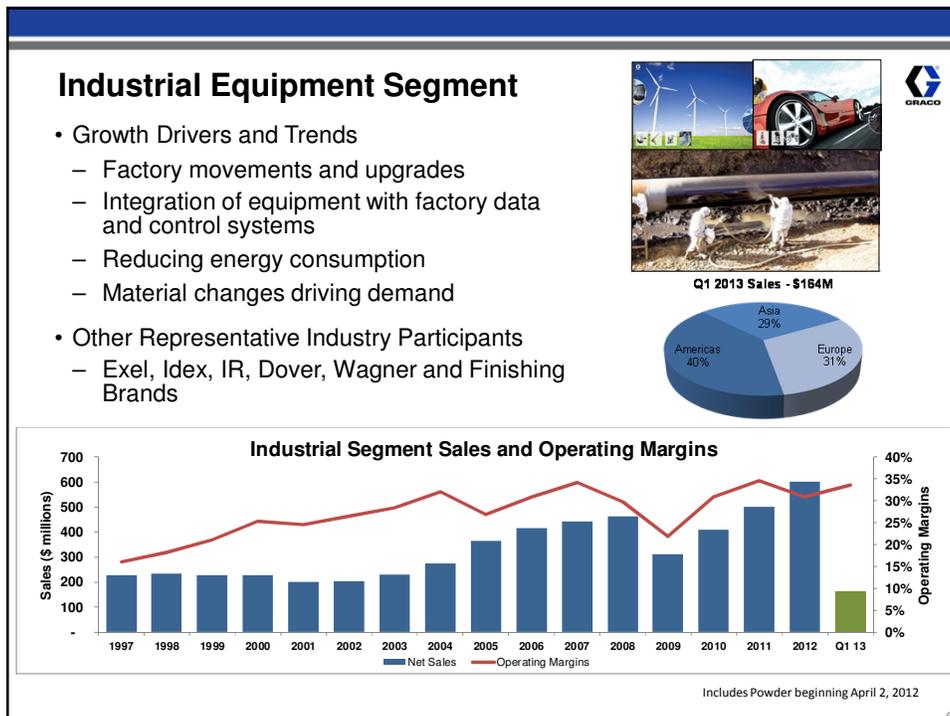
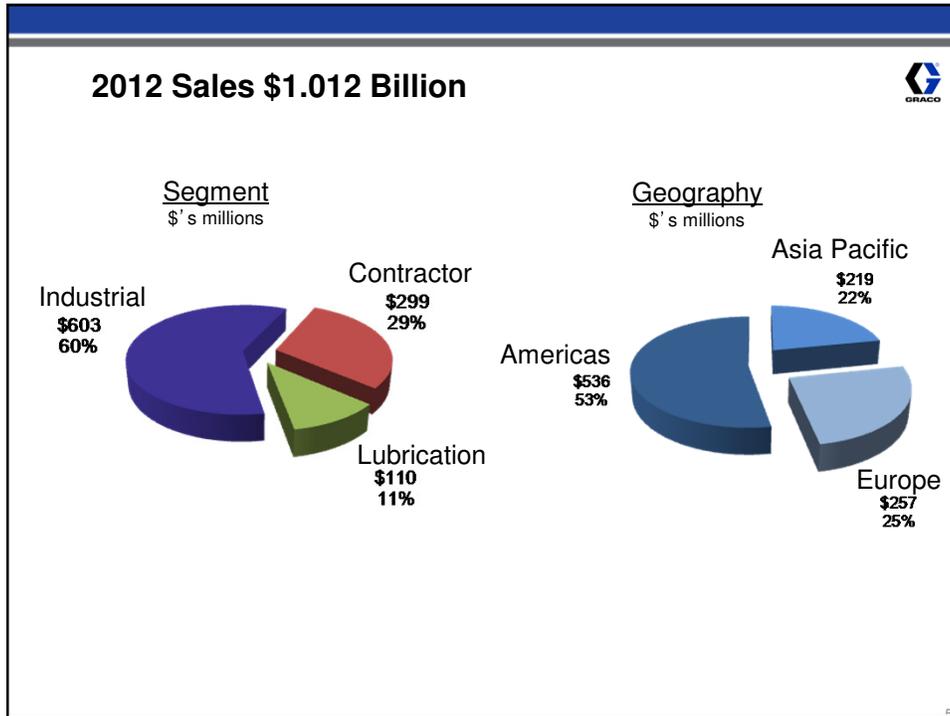
- ❖ Enduring Business Model
- ❖ Strategies for Long-Term Growth
  - Invest in New Products
  - Expand Geographically
  - Target New Markets
  - Make Acquisitions
- ❖ Company Performance

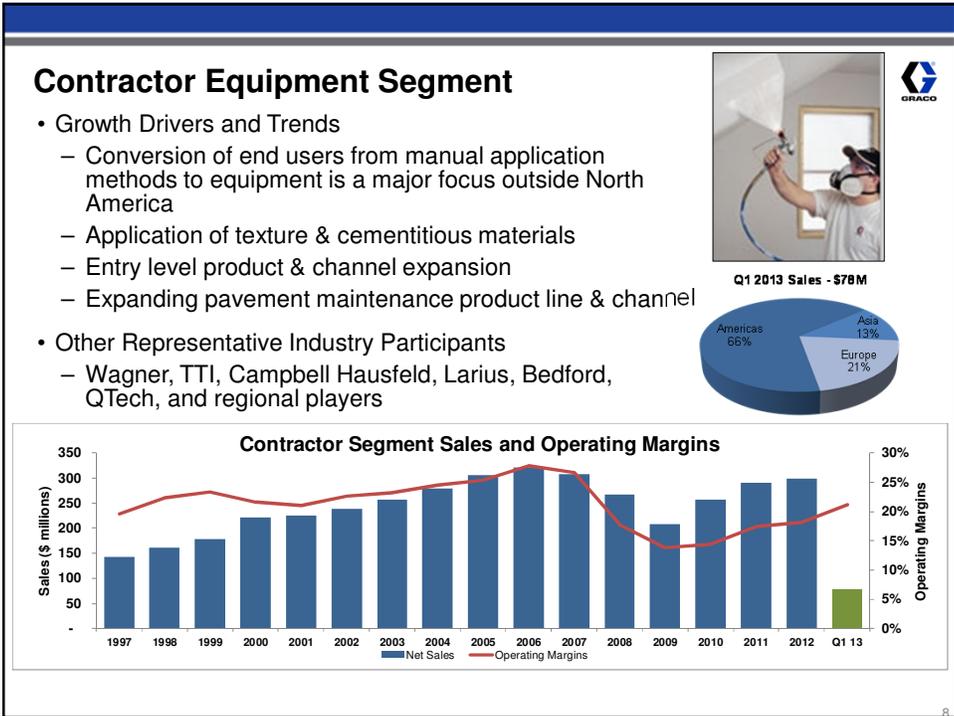
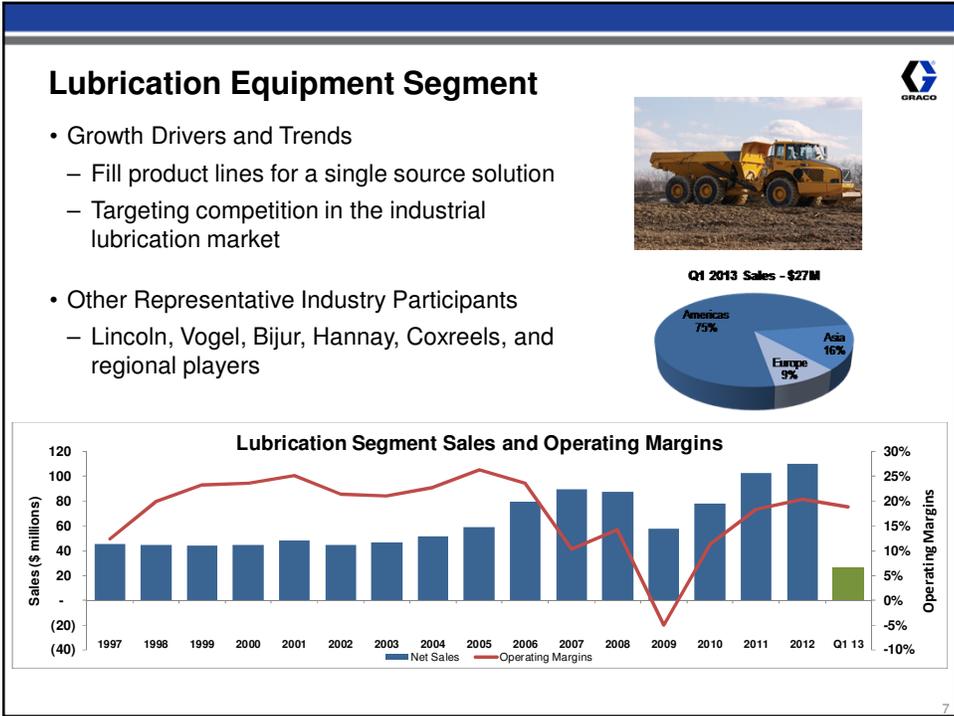


## Business Overview



- Graco manufactures premium equipment to pump, 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







- ❖ Overview

- **Enduring Business Model**

- ❖ Strategies for Long-Term Growth

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## High Customer Value, Strong Product Differentiation



## Manufacturing and Engineering Excellence



- 80%+ of production is based in the United States
  - High quality, efficient, engaged labor force
  - Centralization allows for leverage of overheads
- 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



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## Low-Volume, High-Mix Delivers Customer ROI



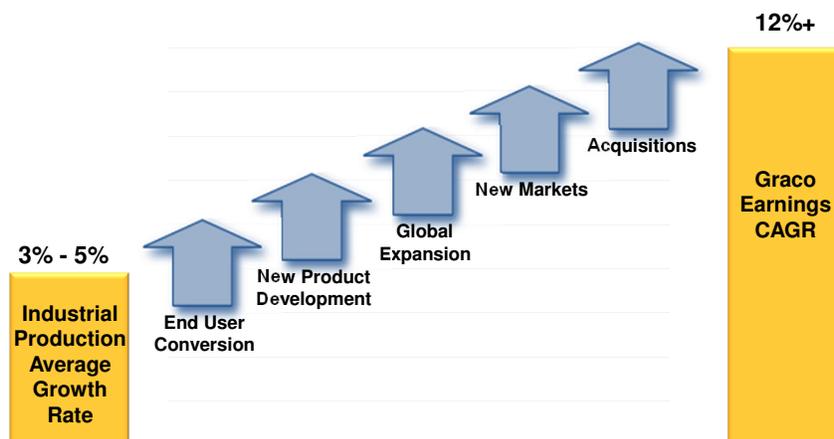
Average Number of Units Sold Per Day	# of SKUs	2012 Sales (\$ in millions)
0 - 1	37,176 (91%)	\$452 (49%)
2 - 5	2,430 (6%)	\$173 (19%)
6 - 10	307 (1%)	\$84 (9%)
11 - 15	211 (1%)	\$40 (4%)
Greater than 15	548 (1%)	\$170 (19%)
<b>Legacy Graco Total</b>	<b>40,972</b>	<b>\$919</b>
Plus: Gema Acquisition		\$93
<b>Graco 2012 Sales</b>		<b>\$1,012</b>

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- ❖ Overview
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## Graco's Growth Plans and Earnings Drivers



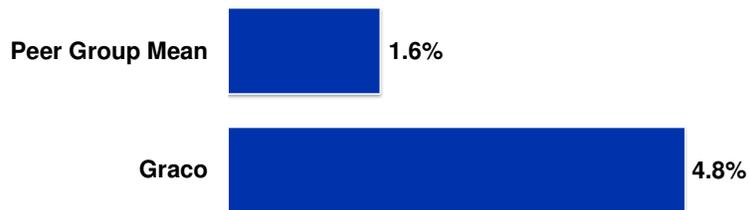


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## Targeting Growth Through New Products and Markets



### New Product Development Expense as a Percentage of Revenues - 2012



**Peer group includes:**

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

## Industrial – Dual Control Electric Piston Pump



- Combines the benefits of a pneumatic motor with the energy efficiency of an electric drive unit
- Strong ROI for End User



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## Industrial – Electrostatic Applicators



- Improved spray performance and transfer efficiency
- Strong ROI when replacing conventional air-assist and HVLP guns with the Pro Xp
- Smart Controls analyze performance, adapt to voltage needs and assist in troubleshooting



**Pro Xp Manual Electrostatic Guns**

Combines material savings and excellent finish quality into a smaller and lighter gun body



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## Industrial – Plural Component Line Expansion



- Added four new sprayers
- Graco XP50
  - For jobs requiring more volume
  - Allows user to spray with multiple guns
- Graco XP50 Quick-Set
  - For quick-setting hybrid and elastomeric urethane coatings
- Graco XP35
  - For low-pressure airless spray applications
- Graco XP-h Hydraulic
  - Ideal for truck systems with on-board hydraulic power



Graco XP-h Hydraulic



Graco XP50



Graco XP35

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## Lubrication – G1 Electric Lubrication Pump



### Entry Level Electric Lubrication Pump

- Designed for:
  - Wind Energy
  - Small Package Cars/Trucks
  - Small Dump Trucks
  - Sea Port Cranes
  - Excavators
  - Machine Tools
  - Packaging Machinery



### Competitive Targets:

- Lincoln
- Vogel
- Bijur

### Benefits:

- High value solution designed to eliminate manual lubrication
- Entry to new applications

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## Contractor – Handheld Guns



- **Generation II Handheld Airless**

- Variable Pressure Control
- Sprays all Directions
- Fully Repairable
- New Corded Pro Model

- **XForce HD and ProShot HD**

- Heavy Duty/High Pressure Airless for Protective and Marine Coatings



XForce HD



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## Contractor – GH Big Rigs



Responded to market need for higher pressure hydraulic sprayer with highest performing, most versatile, gas hydraulic sprayers in the industry



GH 933

GH 5040

GH 833

GH 733

GH 2570

GH 1017



GH Big Rig Family

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## InvisiPac Tank-Free Hot Melt Delivery System



Revolutionary hot melt equipment for the packaging industry

- Designed for case and carton sealing



## Industrial – Passive Fire Protection (PFP)



- Plural-component sprayer
- Sprays intumescent epoxy fire protection coatings
- For structural steel on oil rigs and commercial buildings
  - Helps insulate structural steel from high-temp fires; buys time for people to evacuate
- Data reporting lets contractors verify that materials were sprayed accurately and on-ratio



Graco XM PFP  
Plural-Component Sprayer

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## Industrial – 3” Diaphragm Pump



### Transferring chemicals where high flow rates are required

- Application
  - Coating thermal and carbonless paper
  - Operation details
    - Filling roll coater
    - 24 hours per day, five days per week
- Solution
  - Stainless Steel Husky 3300 (3” AODD pump)
- Keys to success
  - Higher flow rates, up to 300 gpm
  - Ease of service and efficient modular air valve



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## Contractor – Field Striping



- **EZ Bead** - Accessory Pressurized Bead System for the LineLazer Family of Stripers
  - The solution for Airport and Municipalities who often require pressurized application of beads
- **FieldLazer S90**
  - High-Pressure Airless, Battery Powered Field Marker for lines and logos on sports fields



**EZ Bead**  
Pressurized Bead System



**FieldLazer S90**

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## Asia Pacific – New Markets / Applications



### Automotive



FIAT, China

### Mining



Dyna-Star & Injector, China

### Sanitary – Process



Sanitary Pump in China

### Construction – Paint



External Wall Spray, China

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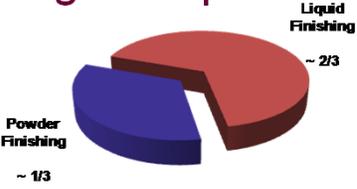
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**Graco Acquired on April 2, 2012 for \$650 million**



## **ITW** Finishing Group

2011 Revenues*	\$375 million	
2011 EBITDA*	\$80 million	

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<u>Powder Finishing</u>	<u>Liquid Finishing – Held Separate</u>
	 
	

\* Unaudited, provided by ITW

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## ➤ Company Performance

### Consolidated Financial Results



\$ millions except EPS	First Quarter		
	2013	2012	Change
Sales	\$ 269.0	\$ 234.1	15 %
Gross Profit	\$ 150.6	132.2	14 %
% of Sales	56.0 %	56.5 %	(0.5) pts
Operating Earnings	\$ 71.5	58.0	23 %
% of Sales	26.6 %	24.8 %	1.8 pts
Net Earnings	\$ 52.1	\$ 35.4	47 %
% of Sales	19.4 %	15.1 %	4.3 pts
Diluted Earnings Per Share	\$ 0.84	\$ 0.58	45 %

Acquisition/divestiture related items (as compared to prior period):	First Quarter
Acquisition/divestiture costs - (decrease)	(4)
Amortization of intangibles - increase	2
Interest expense - increase	1
Liquid Finishing dividend (income) (post-tax)	(4)

### Current Environment



	Americas	EMEA	Asia Pacific
Industrial Segment	 Stable: General Industrial, Automotive, Ag, Heavy Machinery Stable: Construction	 Favorable: Emerging EMEA Challenging: Western Europe	 Stable: General Industrial Challenging: Project Activity
Contractor Segment	 Improving: Pro Paint and General Construction Stable: DIY	 Favorable: Emerging EMEA Challenging: Western Europe	 Favorable: Emerging Markets Stable: General Construction
Lubrication Segment	 Favorable: Vehicle Services	 Favorable: Industrial Lubrication Challenging: Western Europe	 Challenging: Industrial Lubrication Unfavorable: Mining

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### Cash Deployment Priorities



<b>Organic Growth Investments</b>	➔	- International footprint - Product development - Production capacity and capabilities
<b>Acquisitions</b>	➔	- Supplement to organic growth - Leverage our strengths
<b>Dividends/Share Repurchase</b>	➔	- Dividend payout ratio 25-30% - 6 million authorized share repurchase - 10% of outstanding shares approved September 2012

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### 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



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### Financial Summary Q1 2013 – Appendix



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## Financial Results – First Quarter



(\$ Millions except EPS)	2013	2012	Change
Sales	\$ 269.0	\$234.1	15%
Gross Profit Rate	56.0%	56.5%	
Operating Expenses	79.1	74.2	7%
Operating Earnings	71.5	58.0	23%
Net Earnings	\$ 52.1	\$ 35.4	47%
Earnings Per Share	\$ 0.84	\$ 0.58	45%

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## First Quarter 2013 Results



- Sales year-to-date up 15 percent (no impact from currency translation) compared to prior year
  - Powder Finishing sales of \$32 million accounts for 14 percentage points
- Year-to-date gross profit margin of 56 percent, down ½ percentage point from last year
  - Realized pricing plus manufacturing cost improvements
  - Powder Finishing lower margin
- Operating expenses were up \$5 million, including Powder Finishing operations and lower acquisition/divestiture costs
- Backlog increased \$3 million as compared to prior year-end
- Net earnings increased by 47 percent compared to last year
- Diluted EPS was \$0.84

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## Financial Summary 2012 – Appendix



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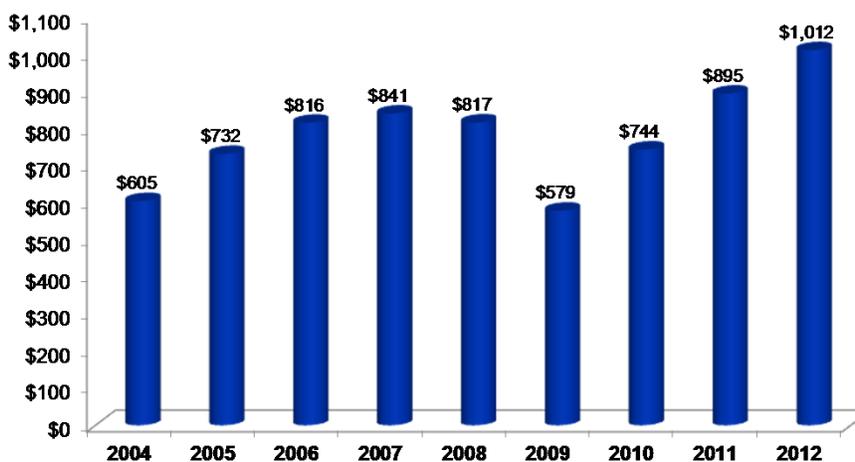
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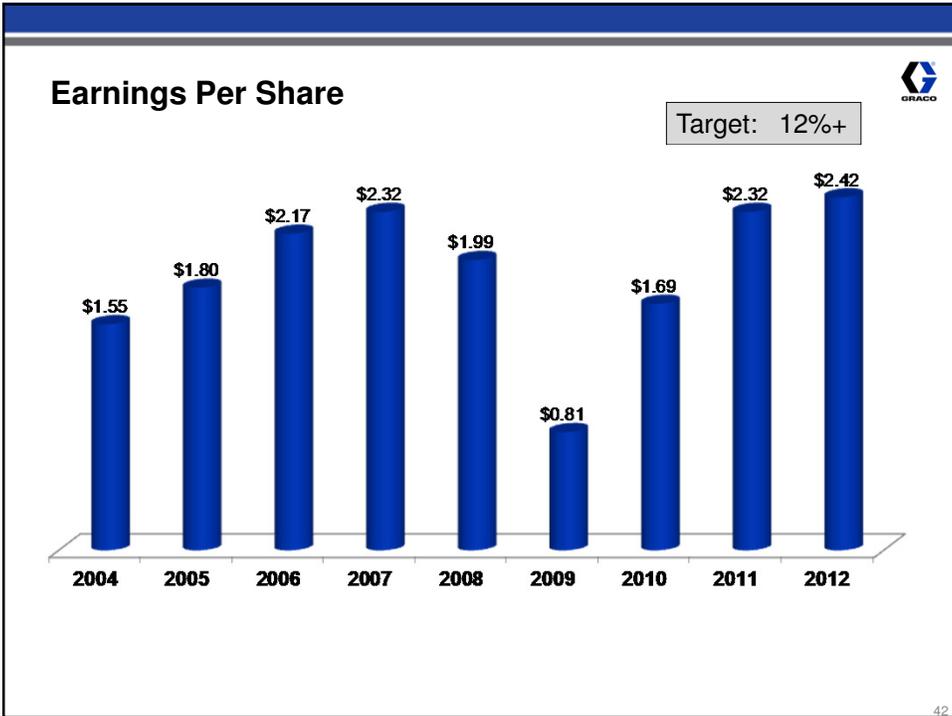
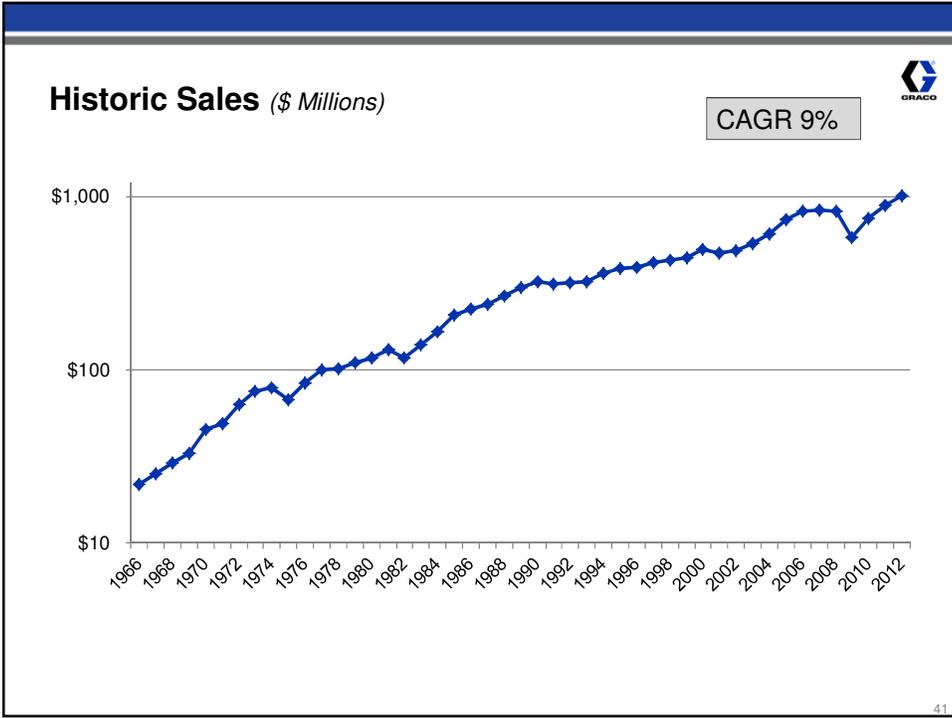
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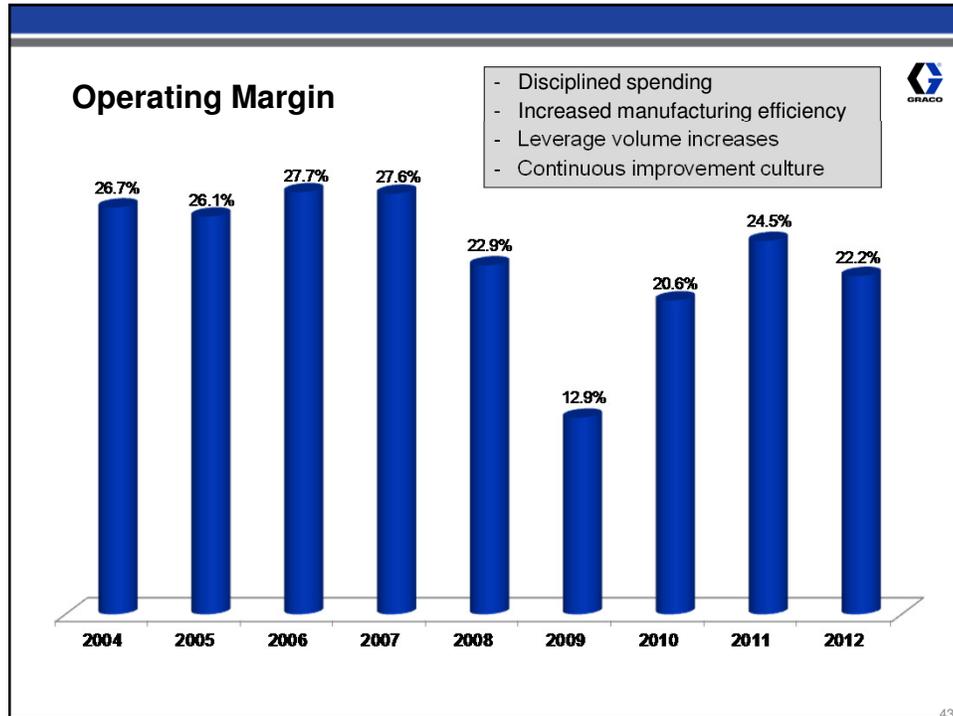
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### Annual Sales (\$ Millions)

Target: 6-7% Organic  
10% Overall





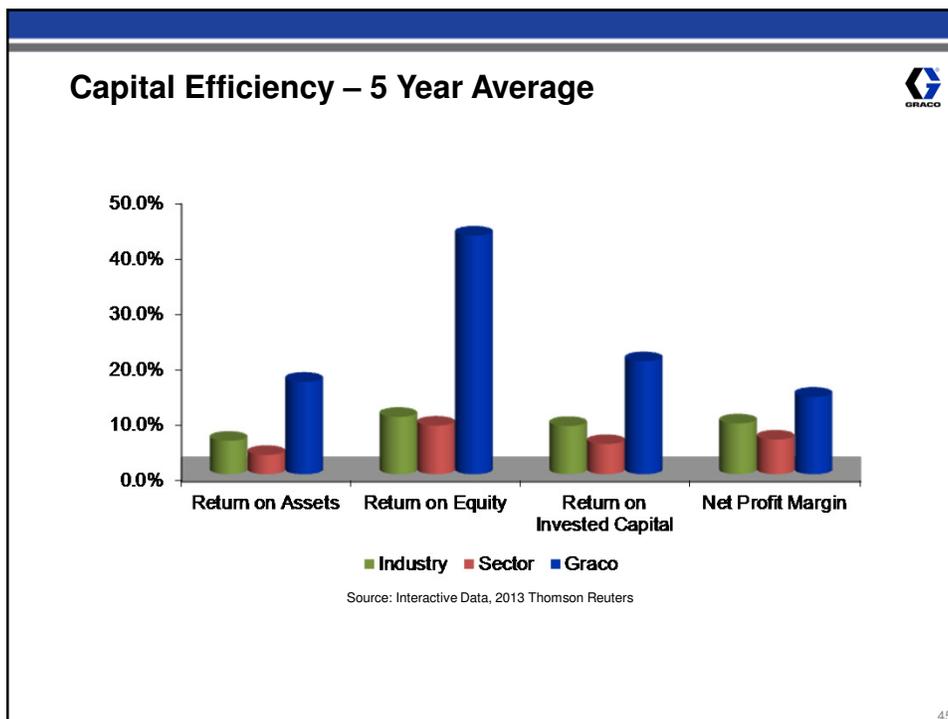


### Strong Cash Generation

(\$ Millions)	2012	2011	2010	2009	2008	2007	2006	2005	2004
Operating Cash Flows	\$ 190	\$ 162	\$ 101	\$ 147	\$ 162	\$ 177	\$ 156	\$ 153	\$ 123
% of Net Income	127%	114%	98%	300%	134%	116%	104%	121%	113%
Capital Expenditures	18	24	17	11	27	37	34	20	17
Free Cash Flow	<u>\$ 172</u>	<u>\$ 138</u>	<u>\$ 84</u>	<u>\$ 136</u>	<u>\$ 135</u>	<u>\$ 140</u>	<u>\$ 122</u>	<u>\$ 133</u>	<u>\$ 106</u>
Dividends	\$ 54	\$ 51	\$ 48	\$ 45	\$ 45	\$ 43	\$ 39	\$ 36	\$ 130
Acquisitions	672	2	-	-	55	-	31	111	-
Share Repurchases *	(29)	21	11	(6)	101	206	76	32	26
	<u>\$ 697</u>	<u>\$ 74</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

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