



Investor Presentation

November 2014

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.

A vertical decorative bar on the left side of the slide, consisting of a blue background with a blurred image of a stock market ticker showing various numbers and symbols in white and blue.

✓ Overview

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

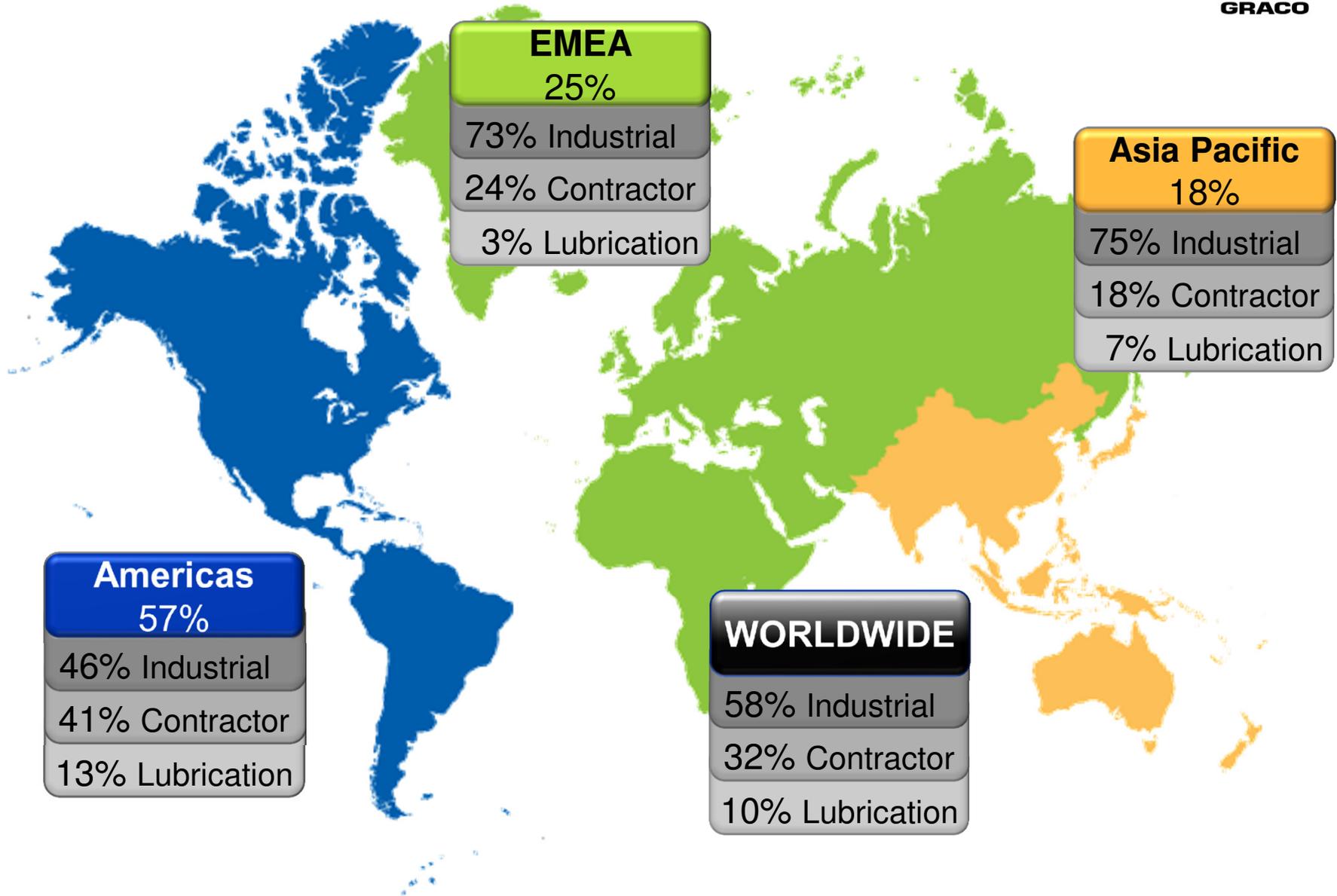


Business Overview

- 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



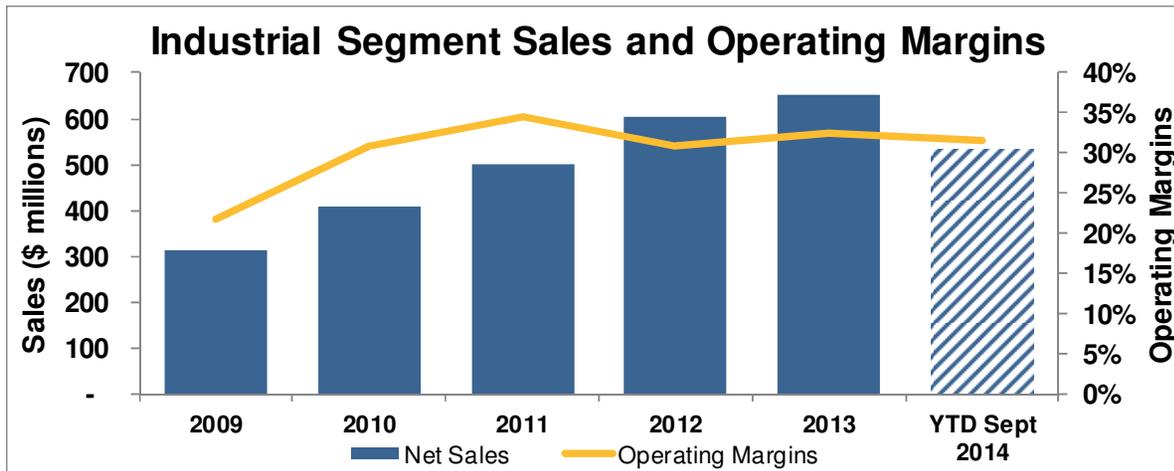
Year-to-date September 2014 Sales — \$915 Million



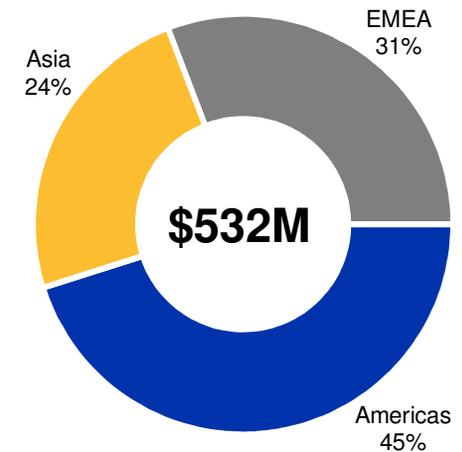


Industrial Equipment Segment

- 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, IDEX, IR, Dover, Wagner and Finishing Brands and regional players



YTD Sept. 2014 Sales



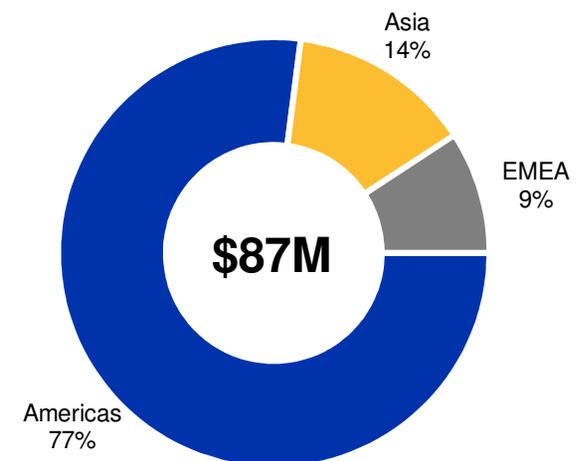
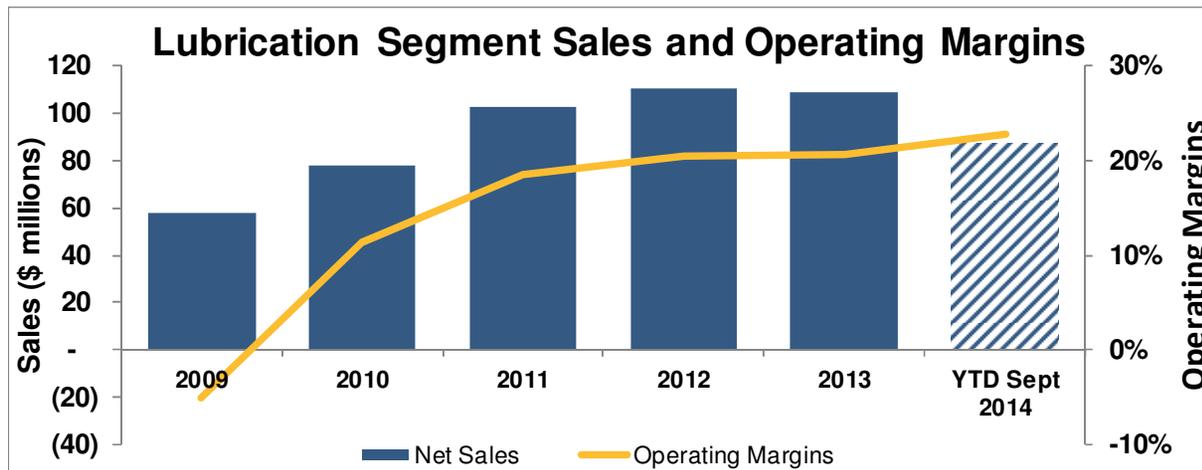
Lubrication Equipment Segment



- Growth Drivers and Trends
 - Fill product lines for a single source solution
 - Targeting competition in the industrial lubrication market
- Other Representative Industry Participants
 - Lincoln, Vogel, Bijur, Hannay, Coxreels, and regional players



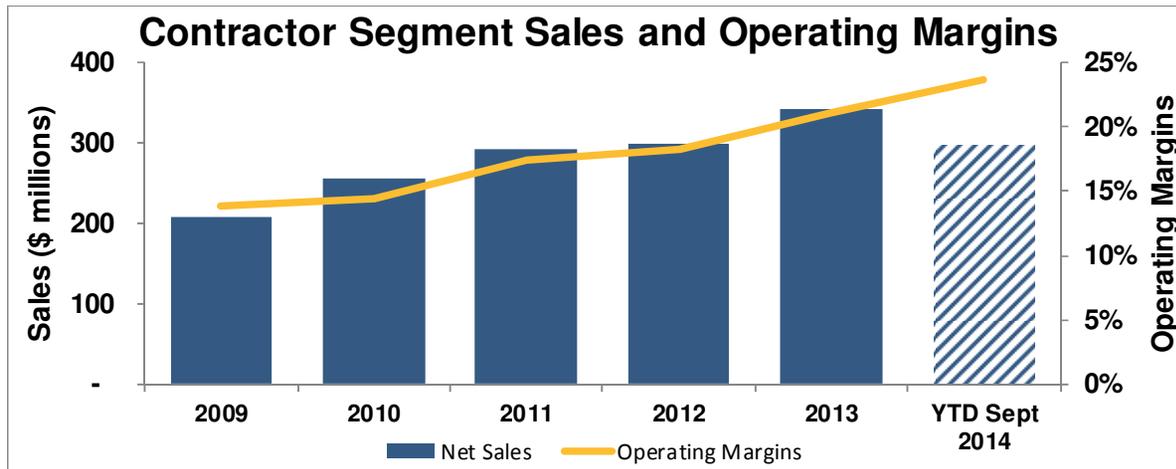
YTD Sept. 2014 Sales



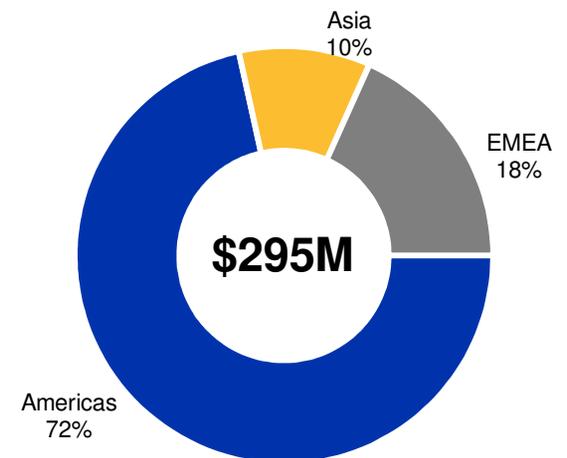


Contractor Equipment Segment

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



YTD Sept. 2014 Sales



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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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Graco's Growth Plans and Earnings Drivers

3% - 5%

**Industrial
Production
Average
Growth
Rate**

- ▶ **Acquisitions**
- ▶ **New Product Development**
- ▶ **New Markets**
- ▶ **Global Expansion**
- ▶ **End User Conversion**

12%+

**Graco
Targeted
Earnings
CAGR**



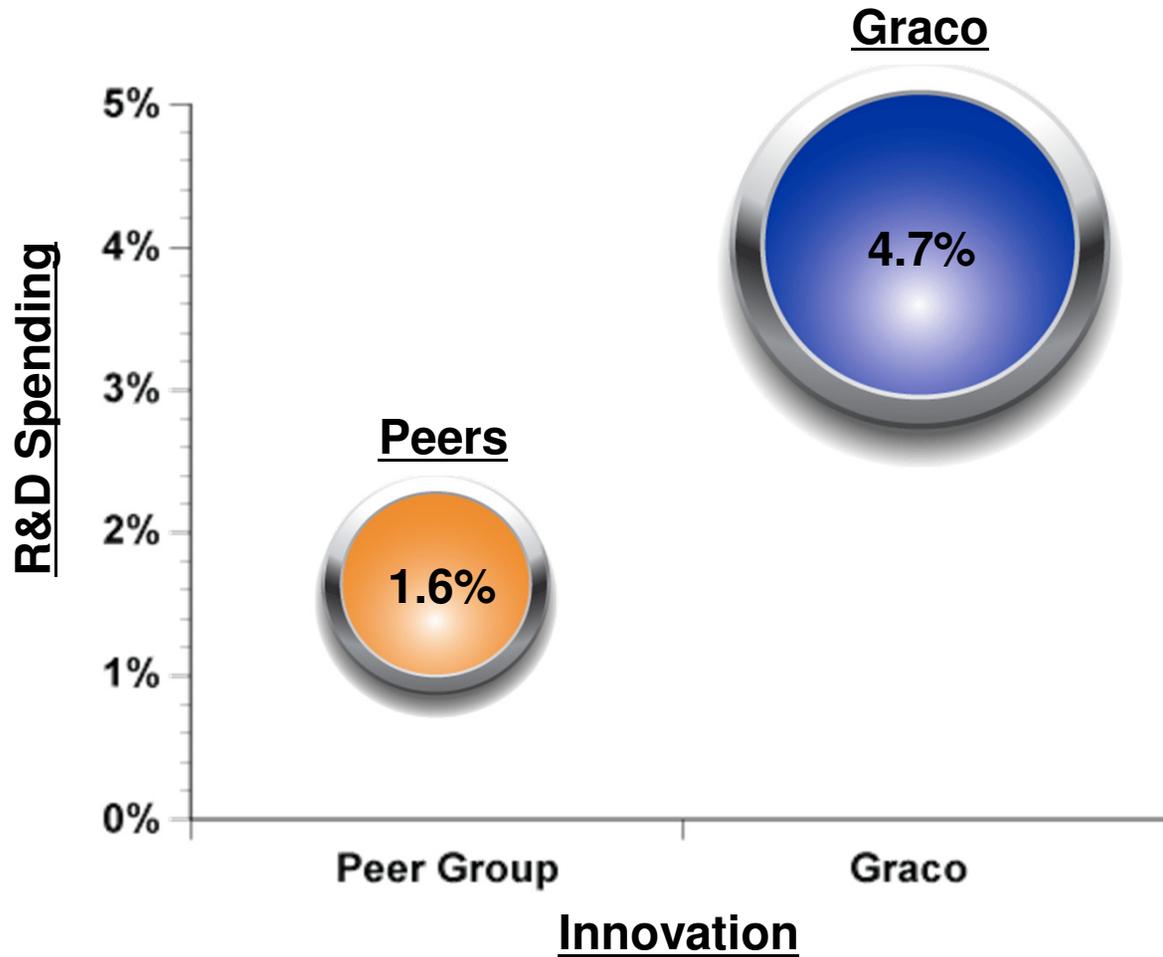
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Targeting Growth Through New Products & Markets



New Product Development Expense as a Percentage of Revenues - 2013



Contractor – Professional Airless Line Upgrade



- Standard Series Upgrades: enhanced pump and filter technology, brushless DC motor, smart control architecture, innovative cart design
- ProContractor Series Upgrades (including Standard): fast pump connect system, enhanced flushing technology, hose reel upgrade
- IronMan Series Upgrades (including Standard): extreme-duty pump; rugged frame, run-flat tires

Ultra[®] Max II



GMAX[™] II



TexSpray[™] Mark IV/V



TexSpray[™] HD

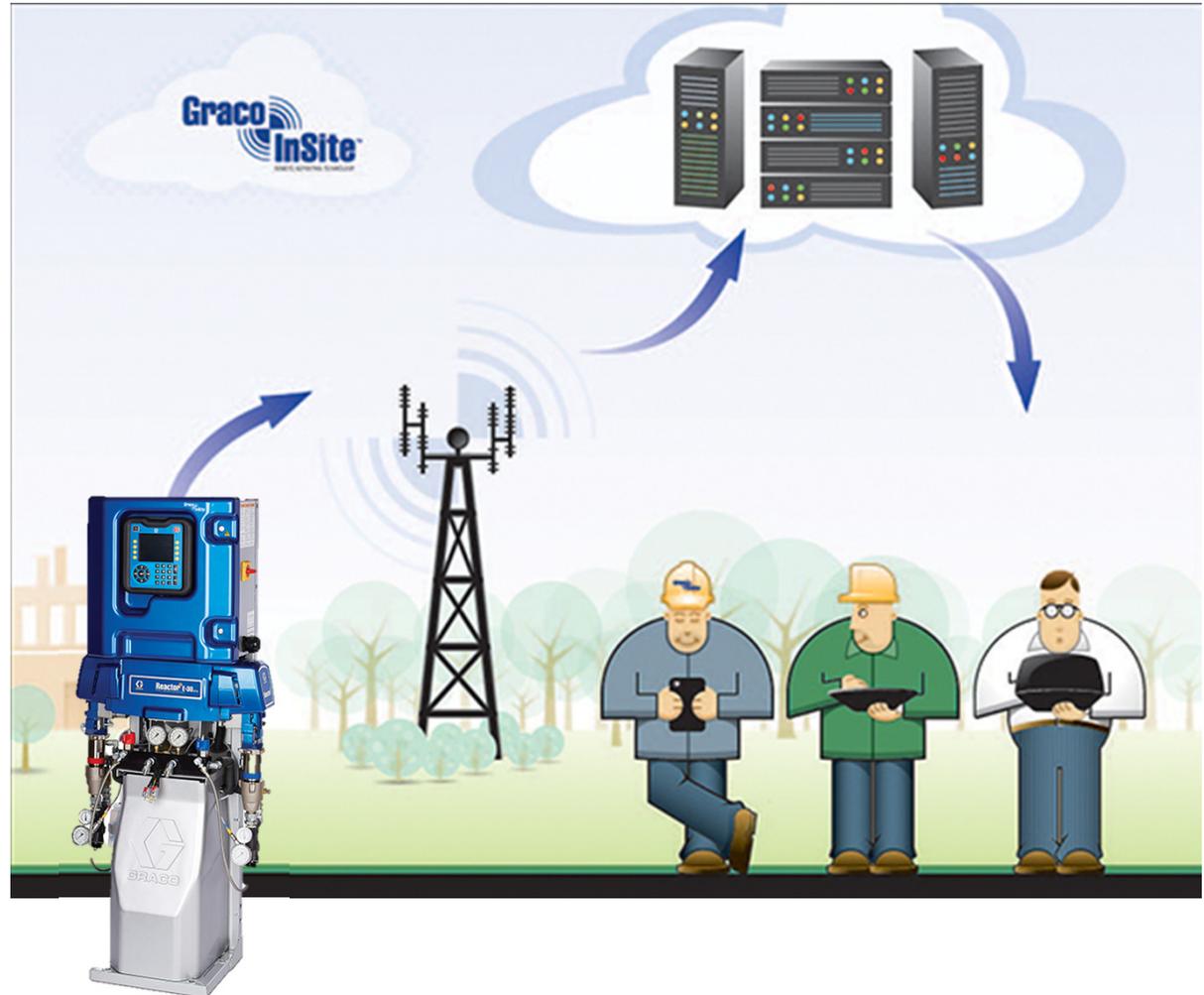


Industrial – Reactor[®] 2



- **Next gen technology for spray foam insulation and polyurea**

- Compact footprint
- Easy troubleshooting
- Graco InSite™ lets contractors:
 - Log and document job data and spray parameters
 - Manage crews
 - See activity remotely from mobile device



E-Flo® DC Supply Pump



- Energy efficient electric brushless that is ideal for high-pressure applications such as waterborne spraying or moving high viscosity materials
- 5X more efficient than similarly sized pneumatic pumps, resulting in significantly lower electric bills for the end user
- Operates quietly – more than 20 db quieter than OSHA's continuous sound threshold for an eight hour work day
- Automatically shuts off if the flow rate exceeds a targeted maximum value
 - Prevents costly material loss
 - Reduces maintenance
 - Increases product longevity
- Easy to operate and install





Industrial – ExactaBlend™ AGP

- Superior mixing and ratio assurance for the glass industry
- Easy to operate
- Optimal mixing and on-ratio proportioning capabilities for quality assurance
- Quick and easy base purge reduces material waste
- Optional data download provides reports on ratio, flow rate and material usage



**Graco ExactaBlend AGP
Advanced Glazing Proportioner**



Industrial – Fluid Monitoring Controls

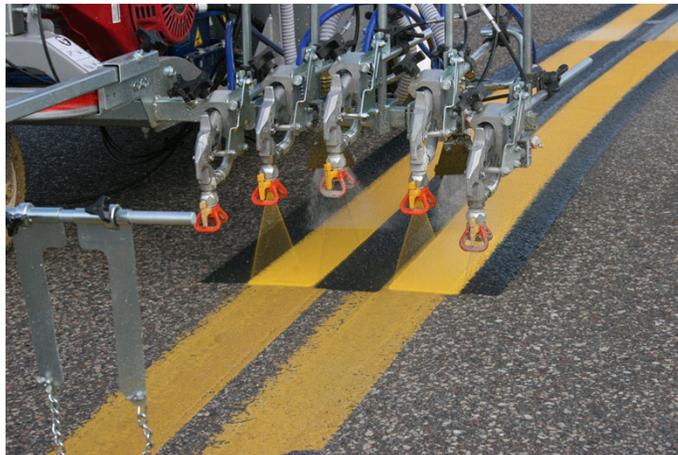
- **Graco Informer®**
 - Monitors fluid use data for environmental compliance reports
 - Identifies worn tips on spray guns
 - Quickly and efficient spray gun calibration
- **Graco ProControl™ 1KE**
 - Actively manages fluid and air
 - Maintenance reminders include tank filling
 - Network integration to gather data from office or remote locations





Contractor – Pavement Maintenance

- LineLazer® IV 250DC **Dual Color** Striper for jobs requiring “Highlight” lines
 - Ease of Use - “Fast and easy set ups”
 - High Production - Up to 5 paint and bead guns
 - Technology - Leverage our LL250SPS technology to give striping contractors a new, stand-on solution





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South America – Key Initiatives



**Market Education
End-user Conversion**



**Product Training
& Launches**



**Specialized
Sales Team**



**Geographical
Expansion**



World Trade Center Free Zone,
Montevideo, Uruguay

**Develop Local
Support Staff**



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Contractor TrueCoat 360

ELECTRIC AIRLESS SPRAYER



Painting just got easier – It's in the Bag!

- Spray in ANY direction, even upside down
- Handles unthinned paints and stains
- Easy cleanup – reuse or toss the bag



JUST FILL
SQUEEZE
& SPRAY



TrueCoat 360
ELECTRIC AIRLESS SPRAYER



TrueCoat 360 DS
DUAL SPEED ELECTRIC AIRLESS SPRAYER



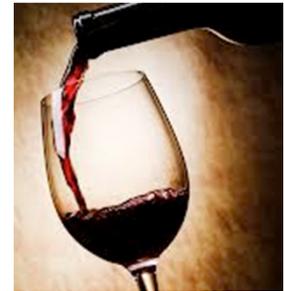
TrueCoat 360 DSP
DUAL SPEED PREMIUM
ELECTRIC AIRLESS SPRAYER

Industrial – Expanding the Process Division Core



50% Increase in New Product Development Team

- Support robust growth in sanitary and cleaning categories with increased product development resource
- Enter targeted oil and gas pumping applications
- Expand offering of highly efficient electric driven pumps
- Leverage “field proven” Graco control architecture into niche Process pumping applications



25% Increase in Commercial Team

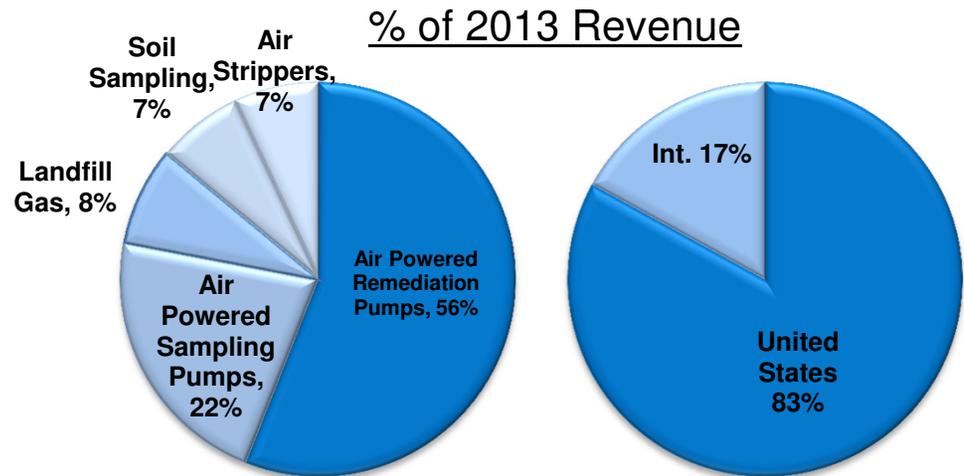
- Expand commercial presence in targeted oil and gas applications
- Expand commercial presence in industrial and municipal wastewater





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Designs, manufactures, and markets proprietary pumping systems, air strippers and gas wellheads for a variety of environmental and industrial applications; primarily remediation and groundwater sampling, as well as the management of landfill liquids and gases



Air-powered Remediation Pumps



Groundwater Sampling Equipment



Landfill Gas Equipment



- Strong fit with Graco's protective coatings equipment
 - Optimized process to use water vapor to assist abrasive blasting process
 - Utilized in industrial, marine, construction, restoration, cleaning industries

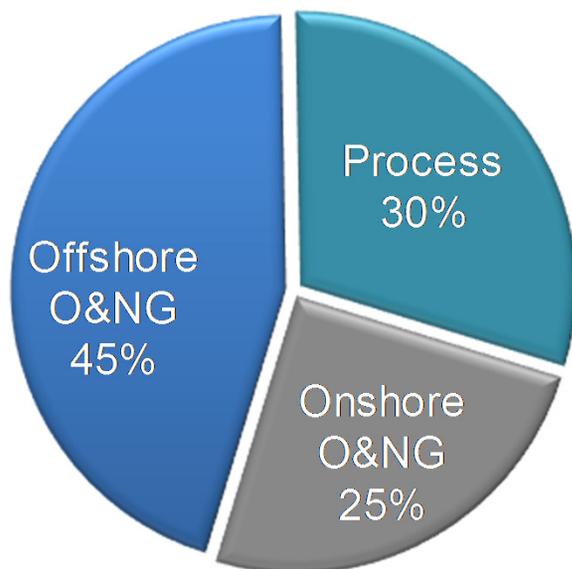


Alco Valves Group – Acquisition of Alco™ Valves Group

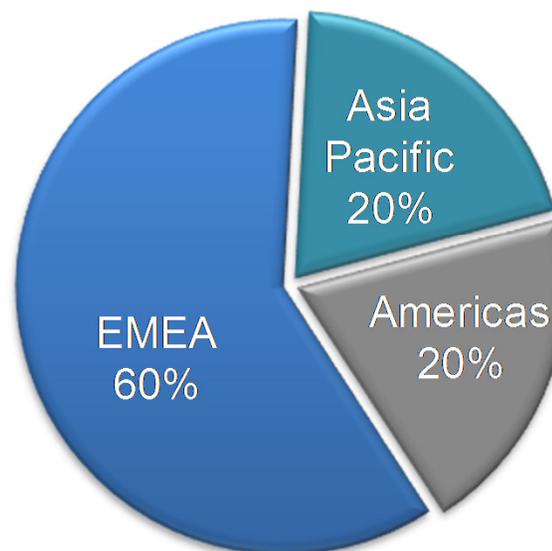


- The Alco Valves Group (Alco), a United Kingdom based manufacturer of high quality, high pressure valves used in Oil & Natural Gas (O&NG) and other industrial processes was acquired on October 1, 2014.
- Alco generated approximately £19 million of revenue in the most recent trailing twelve months. The acquisition was an all cash transaction which closed for £72 million and is subject to normal post-closing purchase price adjustments.

Sales by Application



Geographic Mix



Alco management estimates

 **Alco Valves Group** — Acquired October 1, 2014



Alco Hi-Tek™ (Oil and Gas projects)

- Double block and bleed (DBB) valves
- Chemical injection valves
- Mono-flange valves
- Piping valves



Alco Valves™ (Oil and Gas standard distributed valves)

- High pressure single valves
- Needle and ball
- Instrument manifolds
- Super alloy valves



Alco Sub-Tek™ (Sub-sea valves)

- Subsea DBB
- Subsea gate and ball valves



Alco Process (General industrial valves)

- Gate, ball, globe and check valves



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✓ **Company Performance**



Graco Reported Q3 Results on October 22, 2014



\$ millions except EPS	Third Quarter		
	2014	2013	Change
Sales	\$ 302.6	\$ 277.0	9 %
Gross Profit	165.8	150.9	10 %
% of Sales	54.8 %	54.5 %	0.3 pts
Operating Earnings	78.9	69.7	13 %
% of Sales	26.1 %	25.2 %	0.9 pts
Net Earnings	\$ 59.6	\$ 56.1	6 %
% of Sales	19.7 %	20.3 %	(0.6) pts
Diluted Earnings Per Share	\$ 0.97	\$ 0.89	9 %
<i>Diluted Shares in Millions</i>	<i>61.5</i>	<i>63.0</i>	

Includes dividends (post-tax) from Liquid Finishing Businesses held separate:

Dividends	\$ 9	\$ 9
EPS Impact	\$ 0.15	\$ 0.14

Dividend income will cease when investment is sold

Current Environment



	Americas	EMEA	Asia Pacific
Industrial Segment	 Stable: General Industrial Challenging: Heavy Machinery	 Stable: Western Europe Challenging: Currency, Geopolitical	 Stable: General Industrial, Foam Insulation, Adhesive Dispense Challenging: Ship Building, Mining Spotty: Project Activity
Contractor Segment	 Improving: Pro Paint and General Construction, DIY	 Favorable: Northern Europe, Middle East, Africa Challenging: Currency, Geopolitical	 Favorable: Line Striping, Texture Stable: Gen Construction, Emerging Markets Challenging: Equipment Adoption Rates
Lubrication Segment	 Favorable: Industrial Lube	 Stable: Western Europe, Ind Lube Challenging: Currency, Geopolitical	 Challenging: Industrial Lubrication, Mining

Divestiture of Liquid Finishing Business Assets



- The Federal Trade Commission (FTC) issued its final Decision and Order in October requiring Graco to complete the sale of the Liquid Finishing business assets that were acquired in a larger transaction from Illinois Tool Works (ITW) in April 2012; the sale process must be completed in no more than 180 days
- Graco will continue to hold the Liquid Finishing business separate from its other businesses and maintain them as viable and competitive until a sale process is complete
 - The Liquid Finishing business assets are currently held as a cost-method investment on Graco's balance sheet and income is recognized based on dividends from current earnings
 - \$24 million (post-tax) dividends have been recognized year-to-date 2014. Once Graco completes the sale of the investment, there will be no further dividends from the Liquid Finishing business
- A definitive agreement to sell the Liquid Finishing business assets was announced on October 8, 2014
 - The \$590 million cash transaction is anticipated to close no later than the first quarter of 2015 and is subject to regulatory and other customary closing conditions
 - The divestiture is expected to be in compliance with the final Decision and Order issued by the FTC

Net Proceeds From Sale to be Approximately \$570 million



- The all-cash sale price for the Liquid Finishing business assets is \$590 million, subject to normal post-closing adjustments
- Net proceeds from the sale are expected to be approximately \$570 million
 - The difference between the purchase price and the net proceeds is due to:
 - Tax expense related to the expected gain on the sale
 - Cash balances in the held separate businesses
 - May be distributed in form of dividends or purchase price adjustment
 - Dividends may occur in a period different than the period in which the sale closes
 - Transaction costs, including investment banker and legal fees

Priorities for the Divestiture Proceeds



- Reduce debt, as allowed under debt agreements:
 - Post-closing net debt position of nearly zero
 - \$300 million in private placement debt will remain, offset by a nearly equal amount in cash
- Redeploy proceeds in strategic acquisitions
 - Immediately available capital capacity post-closing will be nearly \$800 million (including undrawn amount on the revolving line of credit)
 - Targeting flow control deals providing synergies and long-term shareholder returns, similar to the transactions Graco has closed in the last 12 months
- Continue our existing share repurchase program, which has 3 million shares remaining on the current authorization
 - Current goal: reduce outstanding diluted shares to less than 60 million

The Company will be patient and disciplined with near-term capital deployment to maximize long-term shareholder value.

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%
- ▶ Three 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 Q3 2014

Appendix

Financial Results – Year-to-Date September



(\$ Millions except EPS)	2014	2013	Change
Sales	\$ 915.1	\$ 832.1	10%
Gross Profit Rate	54.9%	55.3%	
Operating Expenses	262.5	243.8	8%
Operating Earnings	239.5	216.4	11%
Net Earnings	\$ 176.5	\$ 166.1	6%
Earnings Per Share	\$ 2.85	\$ 2.65	8%

Year-to-Date September 2014 Results



- Sales increased 10 percent, including 3 percentage points from acquired operations, currency translation added 1 percentage point
- Gross profit margin of 55 percent, down slightly from last year
 - Non-recurring inventory-related purchase accounting effects and lower margins in acquired operations
 - Changes in product mix
- Operating expenses were 8 percent higher than last year
 - Expenses of acquired operations and spending on regional and product initiatives account for most of the increase
 - As a percentage of sales, total operating expenses were down 1/2 percentage point compared to prior year
- Backlog decreased \$4 million as compared to prior year-end
- Net earnings increased by 6 percent compared to last year
- Diluted EPS \$2.85

Financial Results – Third Quarter



(\$ Millions except EPS)	<u>2014</u>	<u>2013</u>	<u>Change</u>
Sales	\$ 302.6	\$ 277.0	9%
Gross Profit Rate	54.8%	54.5%	
Operating Expenses	86.9	81.1	7%
Operating Earnings	78.9	69.7	13%
Net Earnings	\$ 59.6	\$ 56.1	6%
Earnings Per Share	\$ 0.97	\$ 0.89	9%

Third Quarter 2014 Results



- Sales increased 9 percent, including 3 percentage points from acquired operations, no net impact from currency translation
- Gross profit margin of 55 percent, up slightly from last year
- Operating earnings up 13% on 9% sales growth
 - Operating expenses were 7 percent higher than third quarter last year
 - Expenses of acquired operations and spending on regional and product initiatives account for most of the increase
 - As a percentage of sales, total operating expenses were down 1/2 percentage point
- Net earnings increased by 6 percent compared to second quarter last year
- Diluted EPS \$0.97



Financial Summary 2013

Appendix



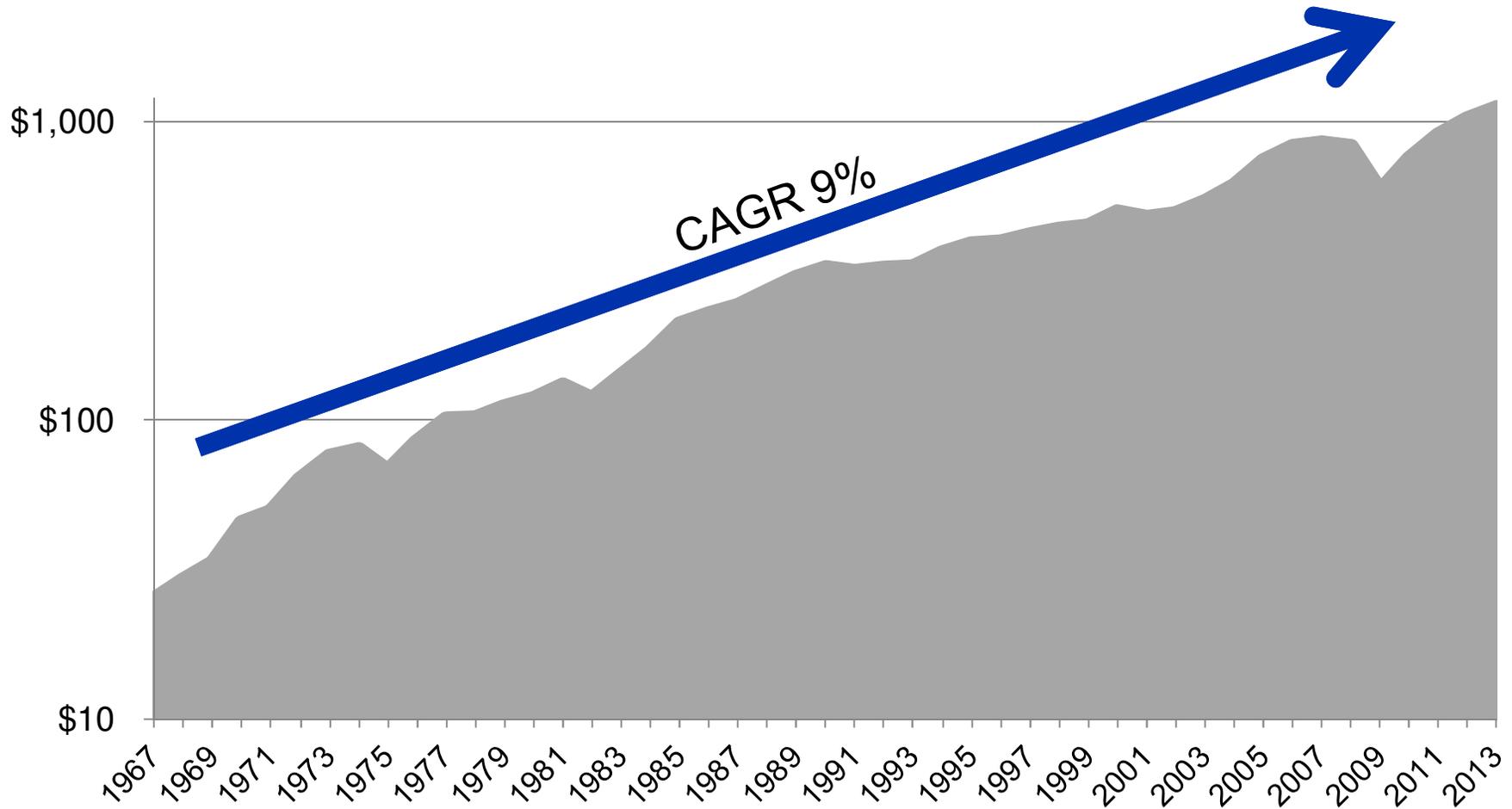
Financial Performance

Sales and Operating Margin

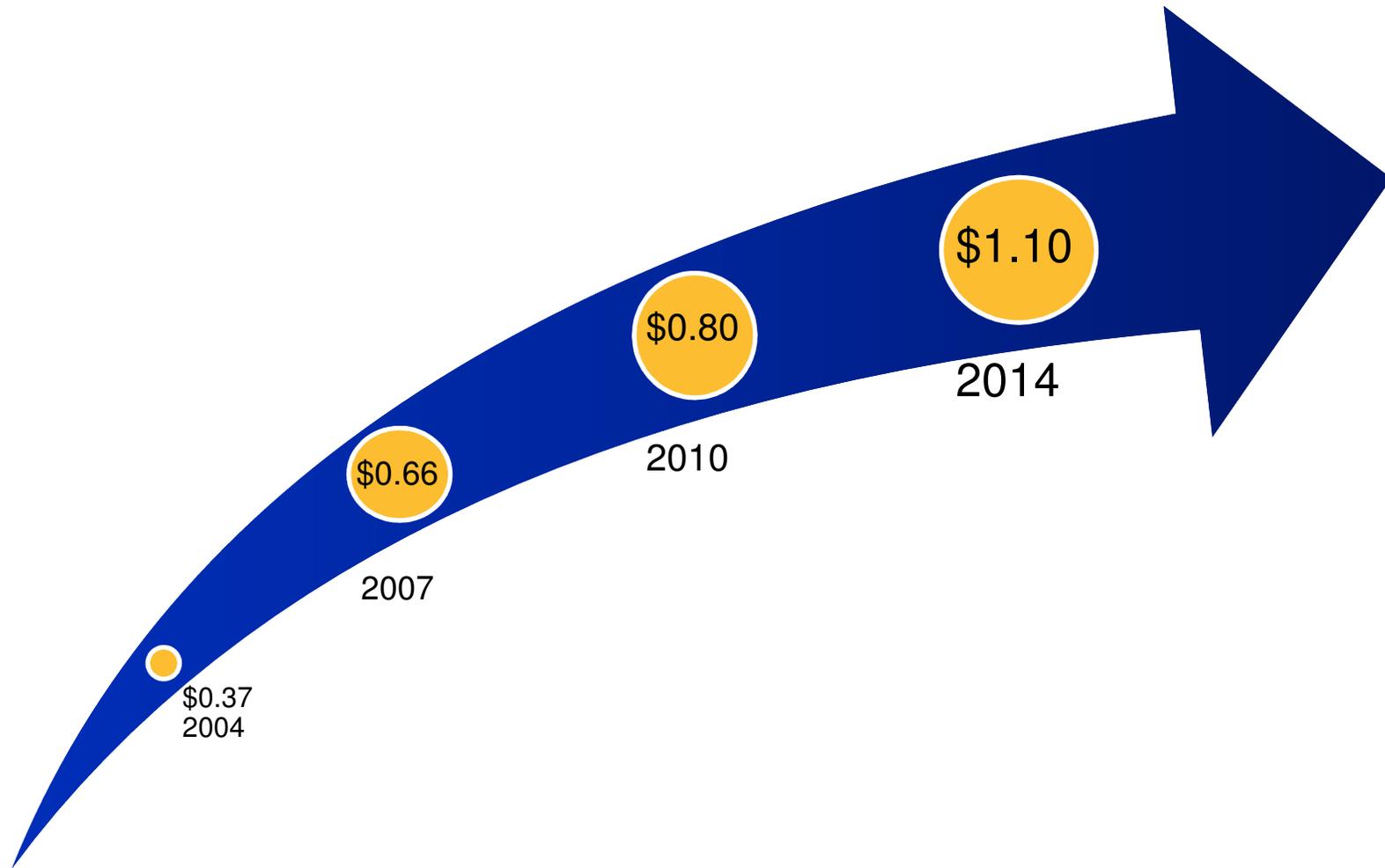




Historic Sales (\$ Millions)



Stock Dividend Growth



Strong Cash Generation

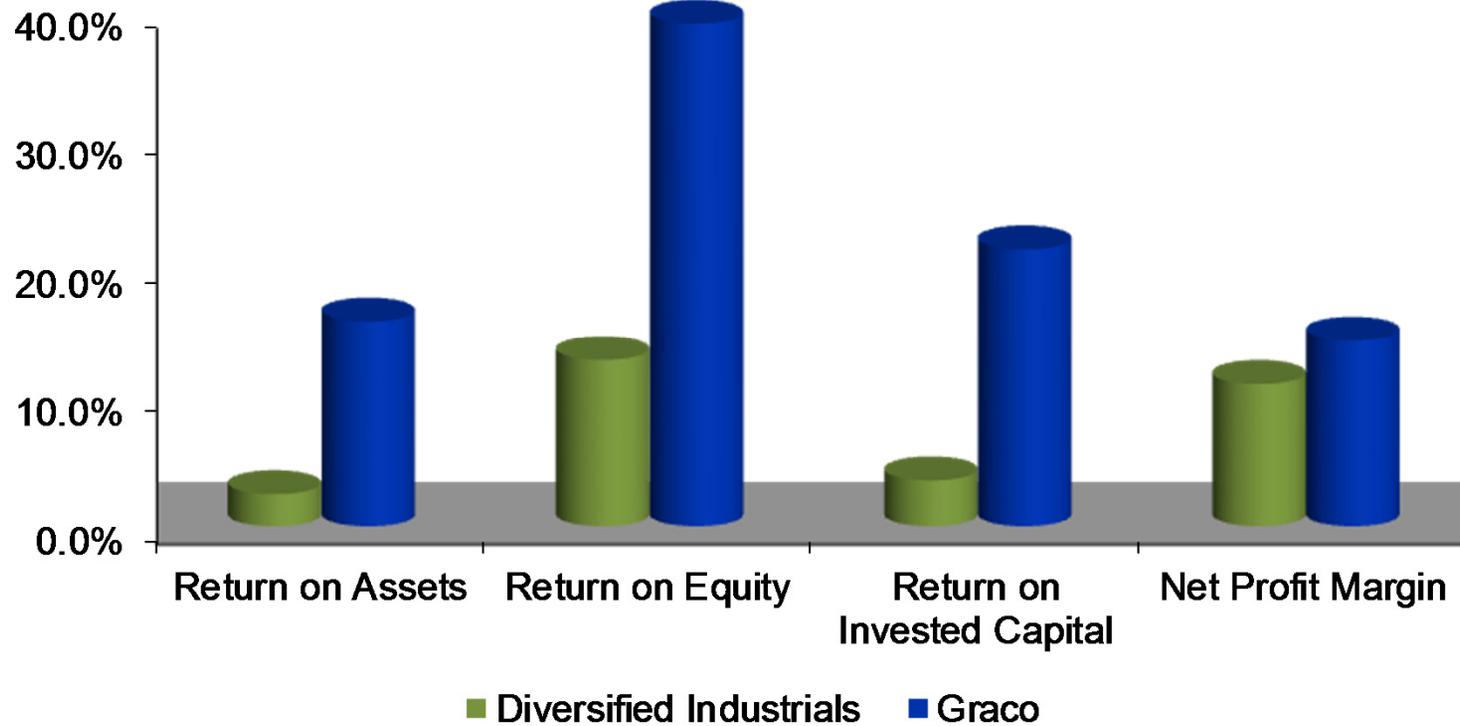


(\$ Millions)	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Cash Flows	\$ 243	\$ 190	\$ 162	\$ 101	\$ 147	\$ 162	\$ 177	\$ 156	\$ 153
% of Net Income	115%	127%	114%	98%	300%	134%	116%	104%	121%
Capital Expenditures	23	18	24	17	11	29	37	34	20
Free Cash Flow	\$ 220	\$ 172	\$ 138	\$ 84	\$ 136	\$ 133	\$ 140	\$ 122	\$ 133
Dividends	\$ 61	\$ 54	\$ 51	\$ 48	\$ 45	\$ 45	\$ 43	\$ 39	\$ 36
Acquisitions	12	667	2	-	-	55	-	31	111
Share Repurchases *	26	(29)	21	11	(6)	101	206	76	32
	\$ 99	\$ 692	\$ 74	\$ 59	\$ 39	\$ 201	\$ 249	\$ 146	\$ 179

* Net of shares issued



Capital Efficiency – 5 Year Average



Source: Interactive Data, MSN Money



move

measure

mix

control

dispense

spray

Worldwide Leaders in Fluid Handling

www.graco.com