



# Investor Presentation

*August 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.



## ✓ Overview

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



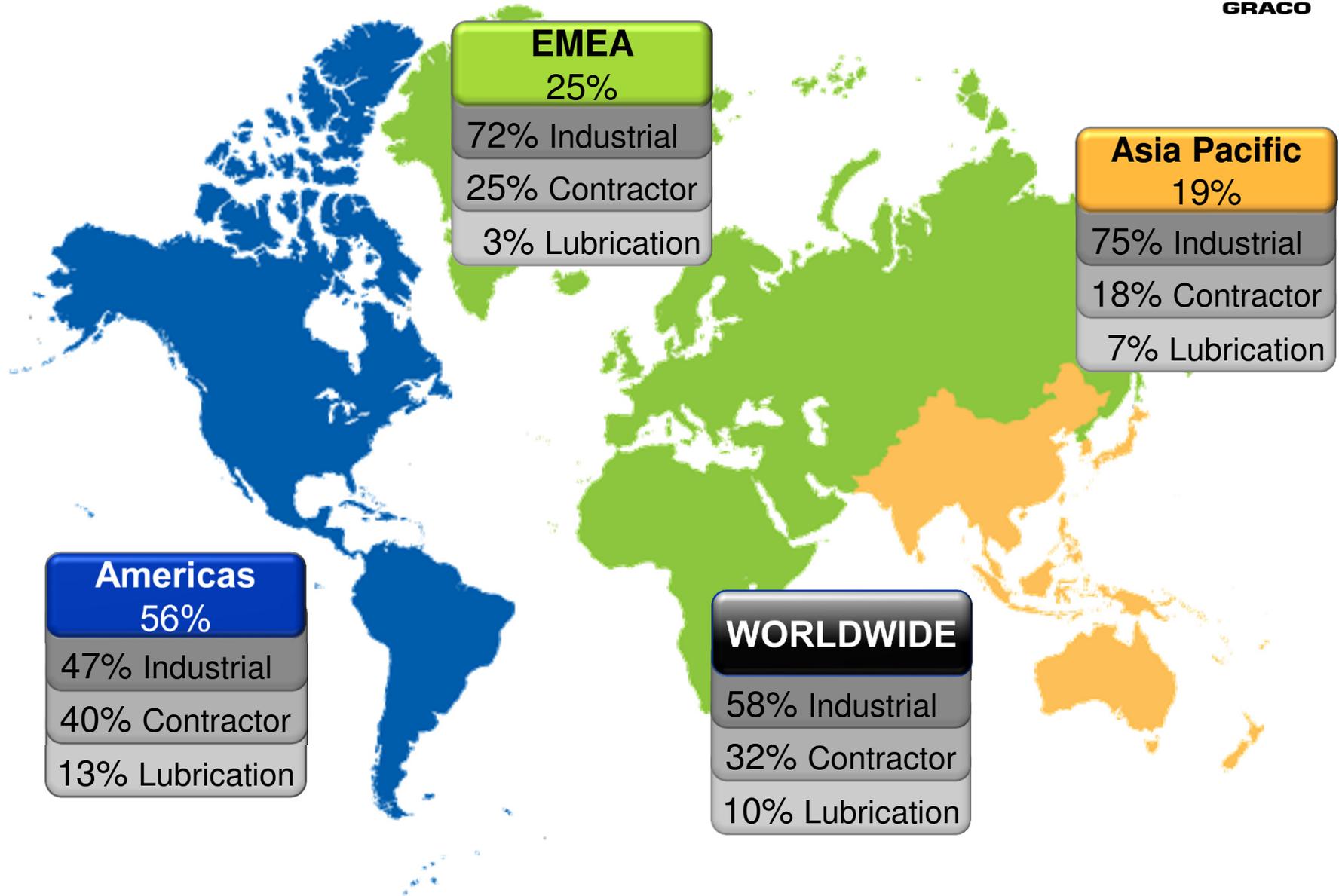
## Business Overview

- 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 June 2014 Sales — \$613 Million



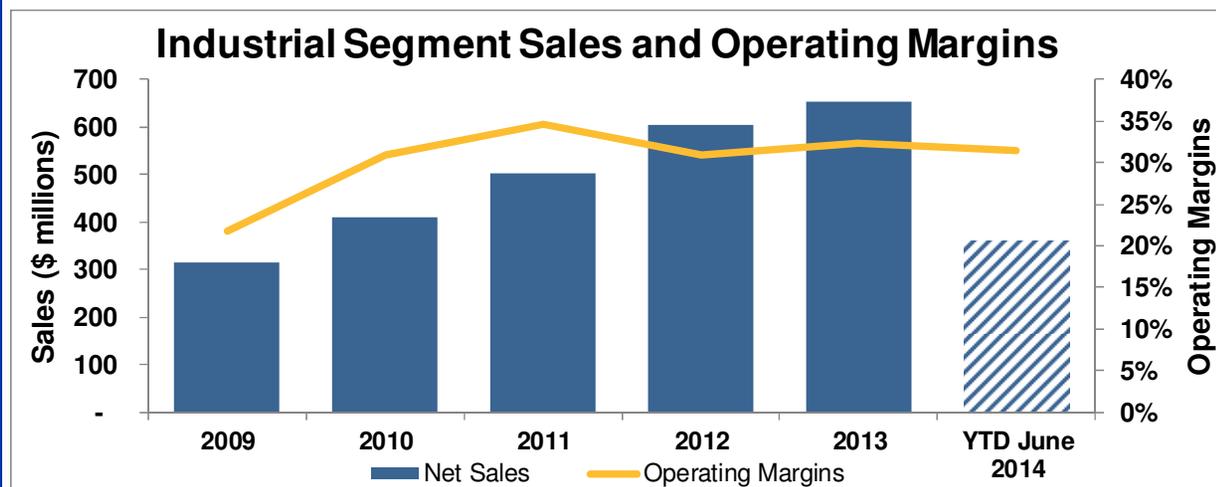
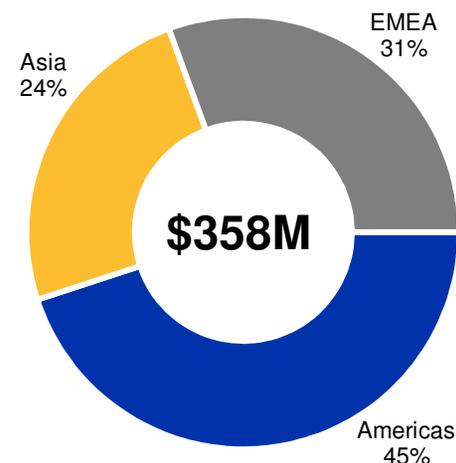


## Industrial Equipment Segment

- 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 June 2014 Sales



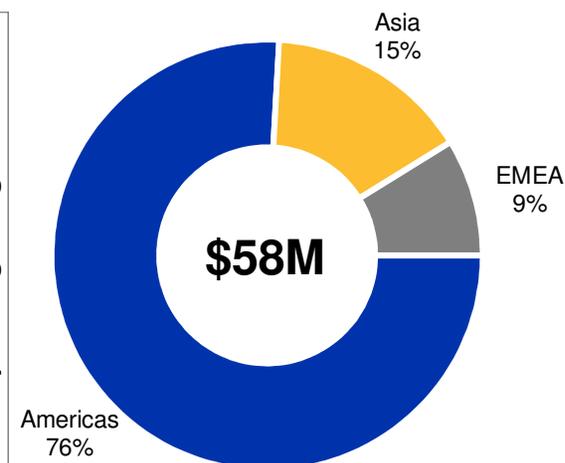
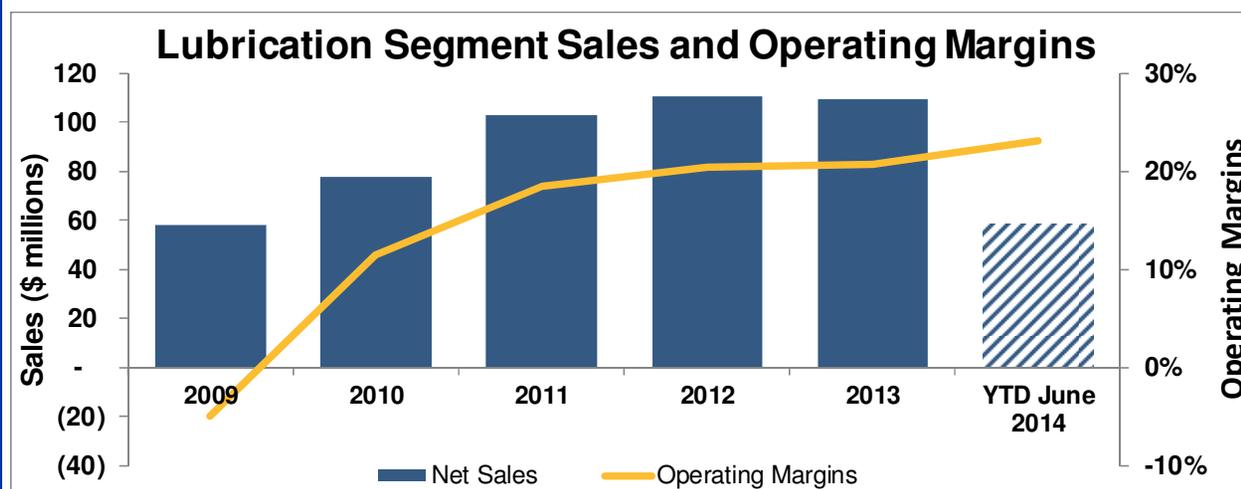


## Lubrication Equipment Segment

- 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



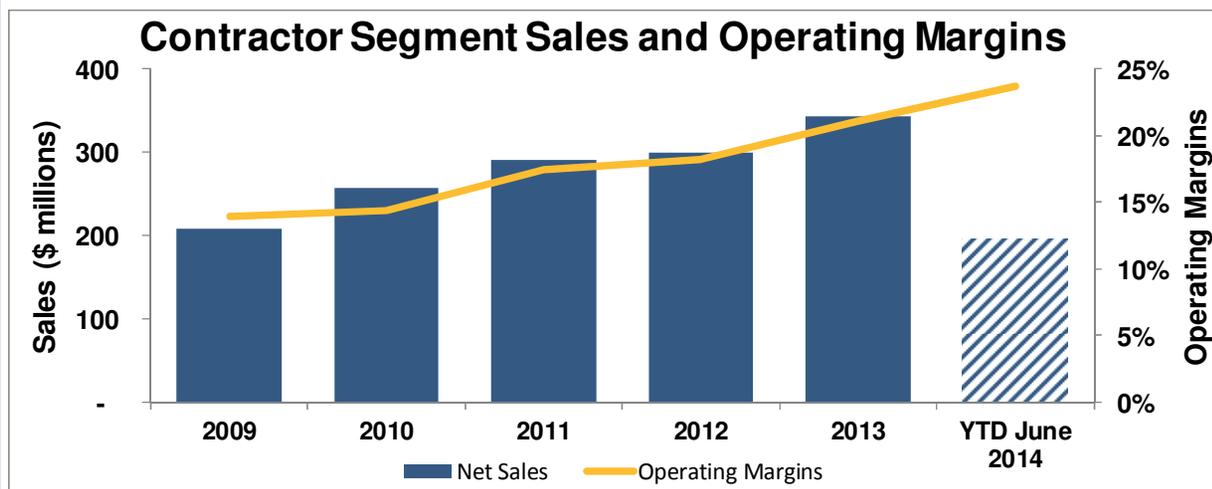
### YTD June 2014 Sales



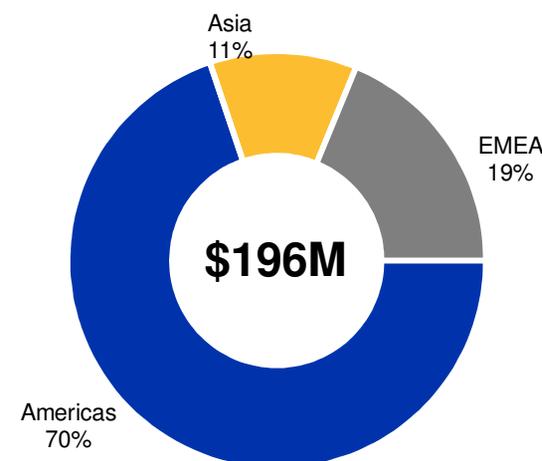


# Contractor Equipment Segment

- 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 June 2014 Sales



- ◆ Overview
- ✓ **Enduring Business Model**
- ◆ Strategies for Long-Term Growth
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  - Make Acquisitions
- ◆ Company Performance

# 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%+**

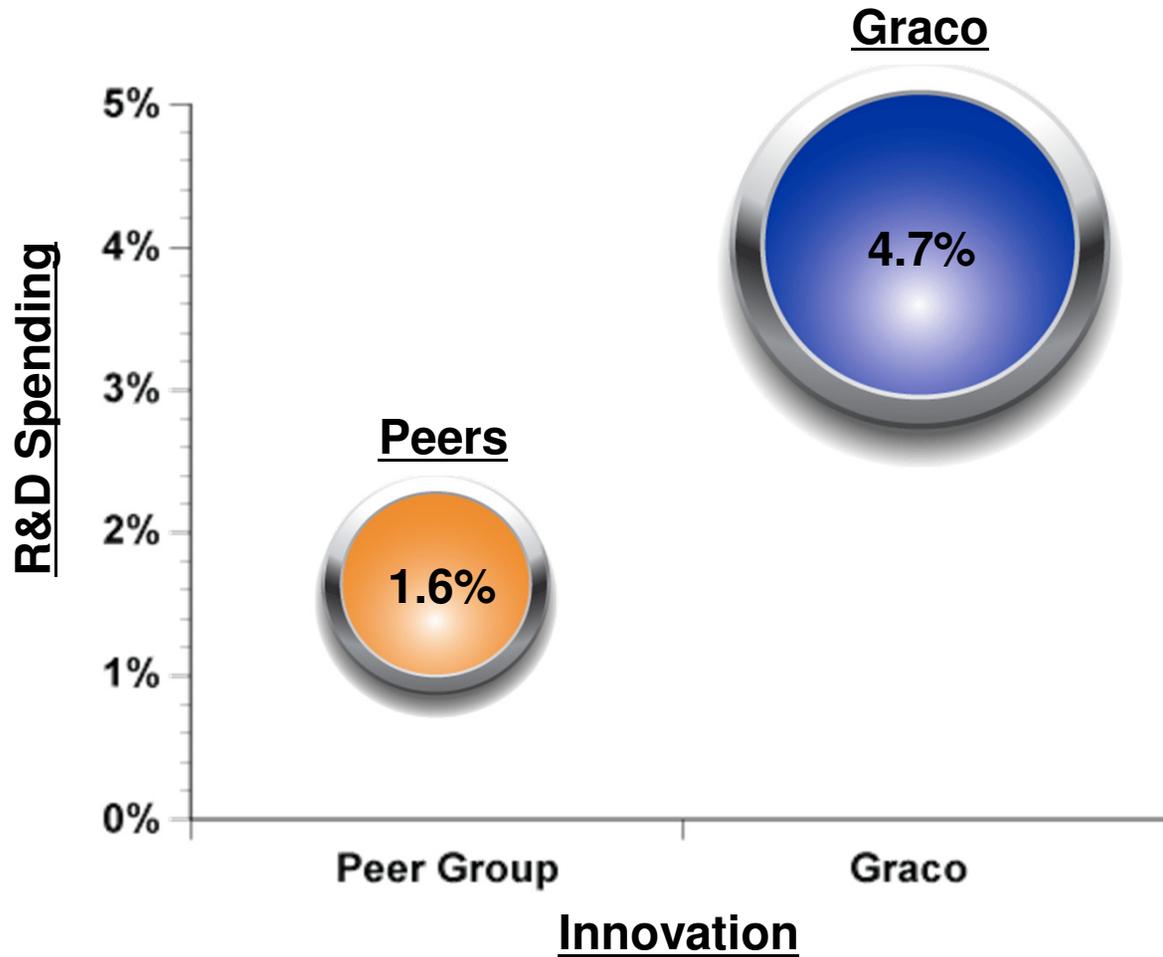
**Graco  
Targeted  
Earnings  
CAGR**

- ◆ Overview
- ◆ Enduring Business Model
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# Targeting Growth Through New Products & Markets



## New Product Development Expense as a Percentage of Revenues - 2013



# 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





# 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<sup>®</sup> Max II



## GMAX<sup>™</sup> II



## TexSpray<sup>™</sup> Mark IV/V



## TexSpray<sup>™</sup> HD



## 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 – 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



# 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



# 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



## Representative Industry Participants:

- Lincoln
- Vogel
- Bijur

## Benefits:

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

# Lubrication – Dyna-Star® Electric Lubrication Pump



- **Electric pumps for heavy-duty automatic lubrication and transfer systems**
  - Graco Advantage Drive™ – heavy-duty gear drive
  - Tube-in-tube vent and fill path – convert drum to injector system instantly
  - Vent valve mounted directly to pump
  - Speed and AMP motor control
  - Cold weather performance (-40C)



## 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



# Industrial – Remote Reporting Technology



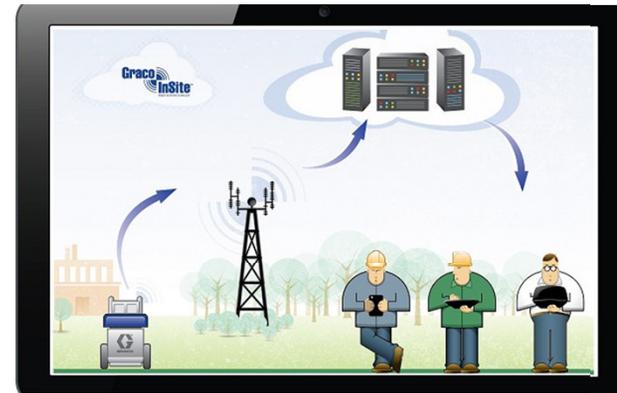
## Remote. Control.

The power to control your business. Wherever you are.



## Graco InSite™

REMOTE REPORTING TECHNOLOGY



GPS Location, 1 Rig



GPS, All Rigs



Job Log



Daily Use Log

# Industrial – ProMix® PD2K Proportioners



- **100% positive displacement technology for accurate mix ratios and consistent performance**
  - Mixes the material close to the gun so the flush zone is significantly smaller
  - Allows customers to use less paint, spend less on disposal costs and allows for faster color changes
  - Ideal for short pot life materials, also compatible with acid-based materials



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# South America – Key Initiatives



**Market Education  
End-user Conversion**

**Product Training  
& Launches**

**Specialized  
Sales Team**



**World Trade Center Free Zone,  
Montevideo, Uruguay**

**Develop Local  
Support Staff**

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# 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

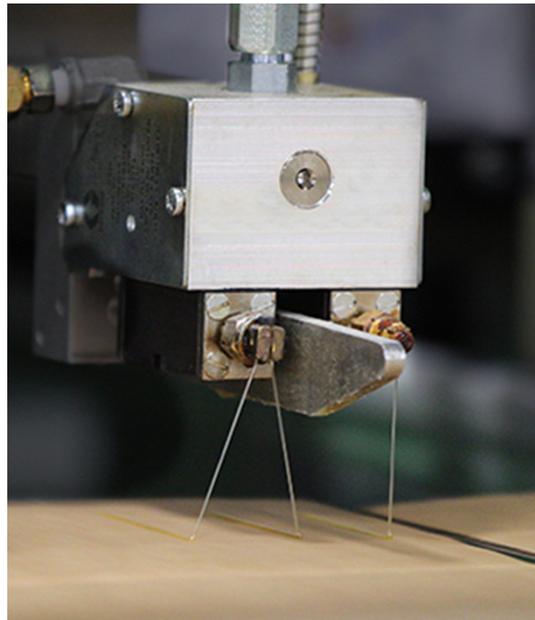


# Industrial – InvisiPac® Tank-Free Hot Melt Delivery System



## Revolutionary Hot Melt Equipment for the Packaging Industry

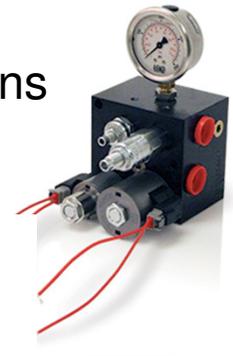
- Designed for case and carton sealing
- Ten-minutes startup, no tank char, no nozzle plugging – less maintenance, more uptime



# Lubrication – Power Rewind Hose Reels



- XD™ 60, XD™ 70 and XD™ 80 - designed for improved safety and performance
- Innovative direct drive motor is safer for operators and broadens our product offering
- Drive unit requires minimum maintenance and has a longer life
- Durable design suitable for harsher environments and faster operations
- Has fewer pinch points, which reduces the chance of injury
- Easier to stock components due to its modularity



# G-Flex™ 1500 Flexible Parts Feeding Solution

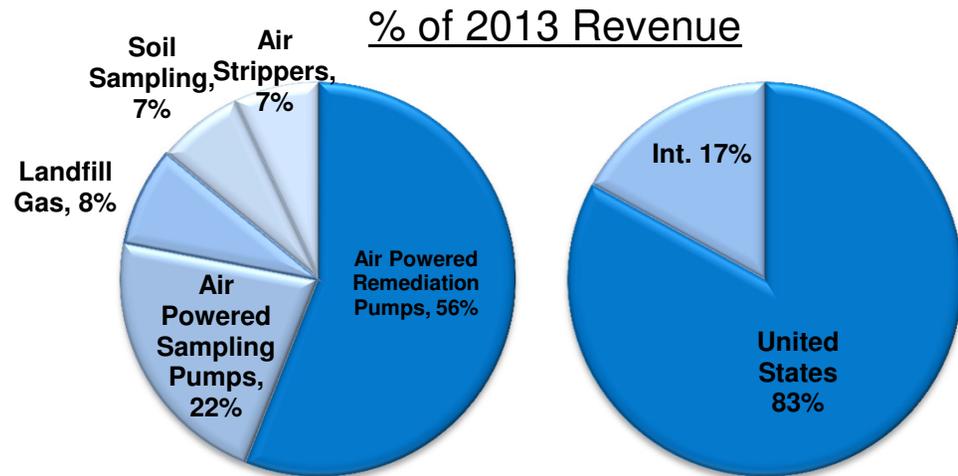


- A uniquely-designed part feeder for industrial manufacturing applications
- Vibratory table that recirculates parts preventing over-accumulation and part bunch ups
- Highly tolerant of process contamination
- Great value when compared to traditional bowl feeders



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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



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## ✓ **Company Performance**

## Graco Reported Q2 Results on July 23, 2014



\$ millions except EPS

	Second Quarter		
	2014	2013	Change
Sales	\$ 322.5	\$ 286.0	13 %
Gross Profit	176.9	158.7	11 %
% of Sales	54.8 %	55.5 %	(0.7) pts
Operating Earnings	85.8	75.2	14 %
% of Sales	26.6 %	26.3 %	0.3 pts
Net Earnings	\$ 66.2	\$ 57.8	15 %
% of Sales	20.5 %	20.2 %	0.3 pts
Diluted Earnings Per Share	\$ 1.07	\$ 0.92	16 %
<i>Diluted Shares in Millions</i>	62.0	62.8	

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

Dividends	\$ 11	\$ 11
EPS Impact	\$ 0.18	\$ 0.18

Dividend income will cease when investment is sold

# Current Environment



	Americas	EMEA	Asia Pacific
Industrial Segment	 <p>Improving: General Industrial, Automotive, Construction Challenging: Heavy Machinery</p>	 <p>Improving: Western Europe Challenging: EM Currency, Geopolitical</p>	 <p>Stable: General Industrial Challenging: Ship Building, Mining Spotty: Project Activity</p>
Contractor Segment	 <p>Improving: Pro Paint and General Construction, DIY</p>	 <p>Favorable: Emerging EMEA</p>	 <p>Favorable: Line Striping, Texture Stable: Gen Construction, Emerging Markets Challenging: Equipment Adoption Rates</p>
Lubrication Segment	 <p>Favorable: Vehicle Services Challenging: On &amp; Off Road</p>	 <p>Stable: Western Europe, Industrial Lubrication</p>	 <p>Challenging: Industrial Lubrication, Mining</p>

# 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 25-30%
- ▶ Six Million Authorized Share Repurchase  
- 10% of Outstanding Shares Approved September 2012

# 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 Q2 2014

*Appendix*

## Financial Results – Year-to-Date June



(\$ Millions except EPS)	2014	2013	Change
Sales	\$ 612.5	\$ 555.1	10%
Gross Profit Rate	54.9%	55.7%	
Operating Expenses	175.6	162.7	8%
Operating Earnings	160.6	146.7	9%
Net Earnings	\$ 117.0	\$ 110.0	6%
Earnings Per Share	\$ 1.88	\$ 1.76	7%

## Year-to-Date June 2014 Results



- Sales increased 10 percent, including 3 percentage points from acquired operations, no net impact from currency translation
- Gross profit margin of 55 percent, down 1 percentage point from last year
  - Non-recurring inventory-related purchase accounting effects and lower margins in acquired operations accounted for nearly ½ percentage point
  - Changes in product mix, including higher proportion of entry level unit sales in Contractor segment
- Operating expenses were 8 percent higher than last year
  - Expenses of acquired operations and spending on regional and product initiatives accounted for more than half of the increase
  - As a percentage of sales, total operating expenses were down ½ percentage point
- Backlog increased \$3 million as compared to prior year-end
- Net earnings increased by 6 percent compared to last year
- Diluted EPS was \$1.88

## Financial Results – Second Quarter



(\$ Millions except EPS)	2014	2013	Change
Sales	\$ 322.5	\$ 286.0	13%
Gross Profit Rate	54.8%	55.5%	
Operating Expenses	91.0	83.5	9%
Operating Earnings	85.8	75.2	14%
Net Earnings	\$ 66.2	\$ 57.8	15%
Earnings Per Share	\$ 1.07	\$ 0.92	16%

## Second Quarter 2014 Results



- Sales increased 13 percent, including 4 percentage points from acquired operations, currency translation added 1 percentage point
- Gross profit margin of 55 percent, down 1 percentage point from last year
  - Changes in product mix, including higher proportion of entry level unit sales in Contractor segment
- Operating expenses were 9 percent higher than second quarter last year
  - Expenses of acquired operations and spending on regional and product initiatives accounted for more than half of the increase
  - As a percentage of sales, total operating expenses were down 1 percentage point
- Net earnings increased by 15 percent compared to second quarter last year
- Diluted EPS was \$1.07



# Financial Summary 2013

*Appendix*



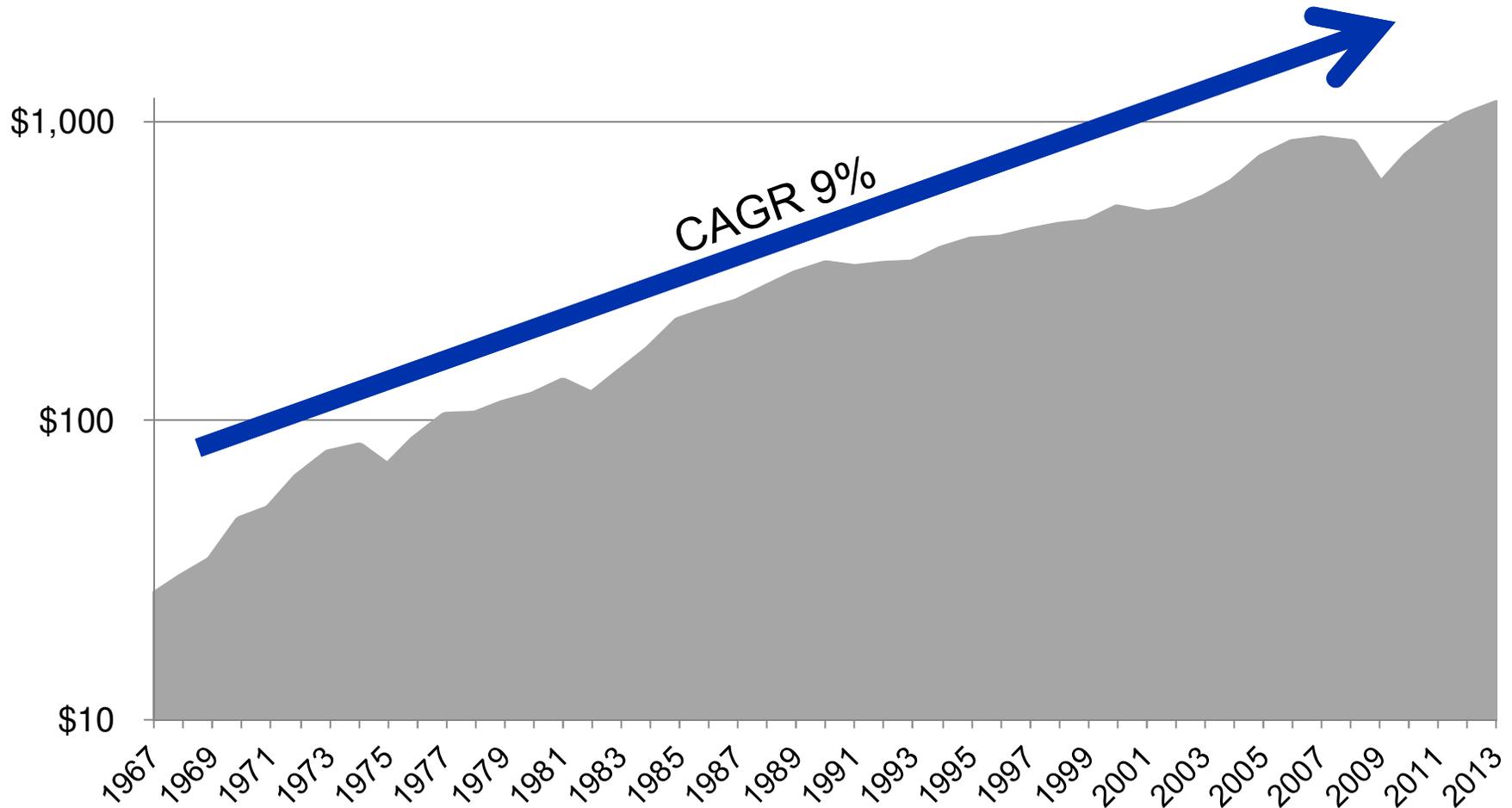
# Financial Performance

## Sales and Operating Margin

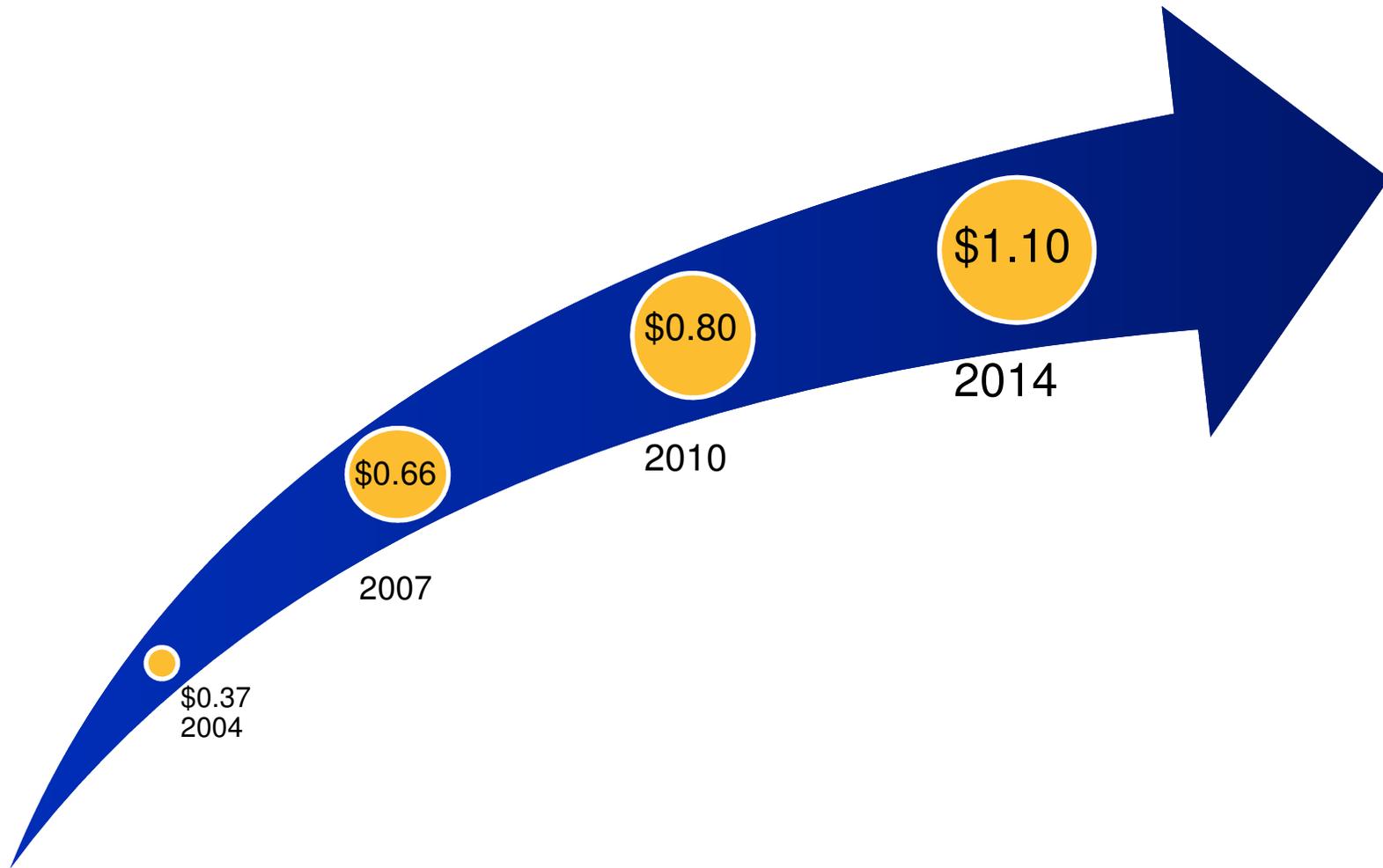




# Historic Sales (\$ Millions)



# Stock Dividend Growth



# Strong Cash Generation

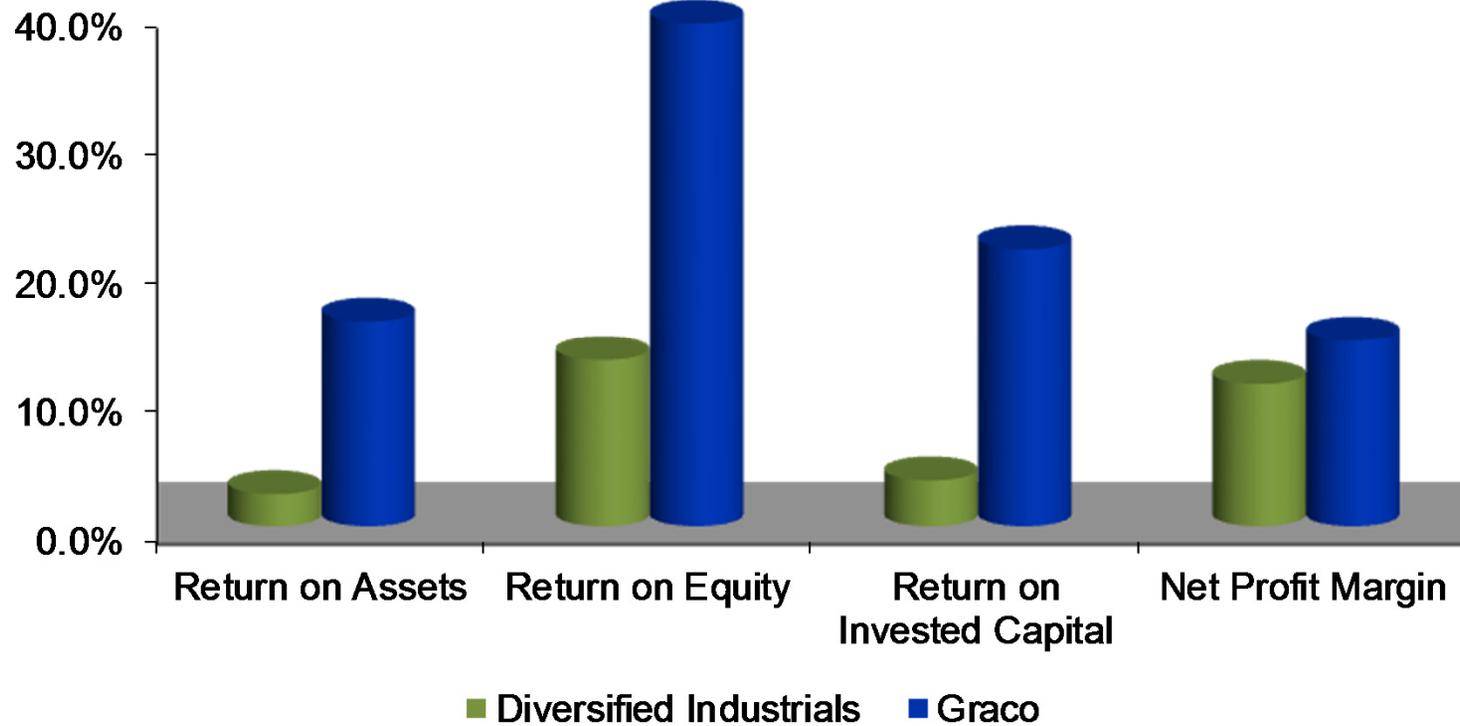


(\$ Millions)	2013	2012	2011	2010	2009	2008	2007	2006	2005
Operating Cash Flows	\$ 243	\$ 190	\$ 162	\$ 101	\$ 147	\$ 162	\$ 177	\$ 156	\$ 153
% of Net Income	115%	127%	114%	98%	300%	134%	116%	104%	121%
Capital Expenditures	23	18	24	17	11	29	37	34	20
Free Cash Flow	\$ 220	\$ 172	\$ 138	\$ 84	\$ 136	\$ 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](http://www.graco.com)