



# Investor Presentation

## 1st Half 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

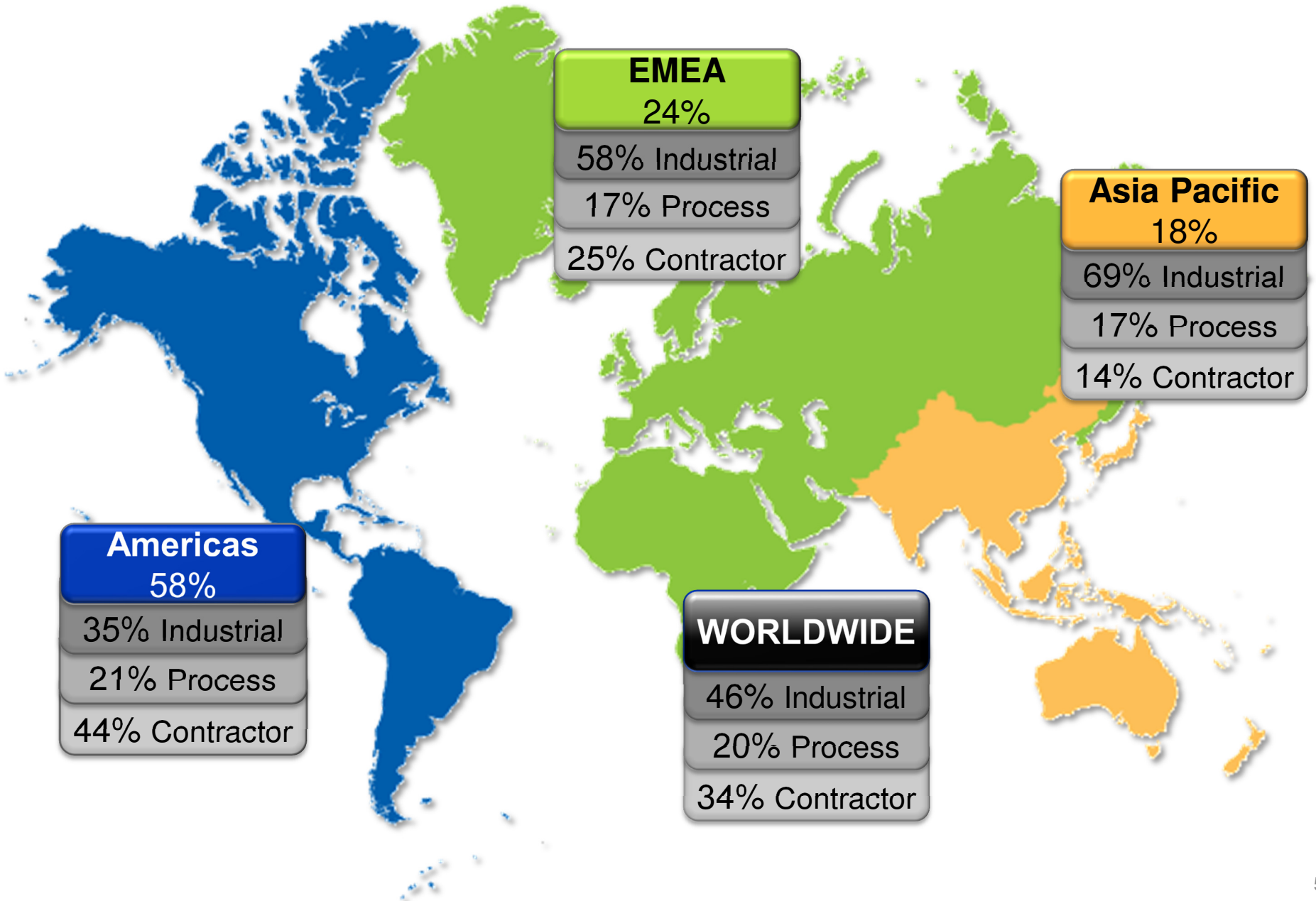
# Business Overview



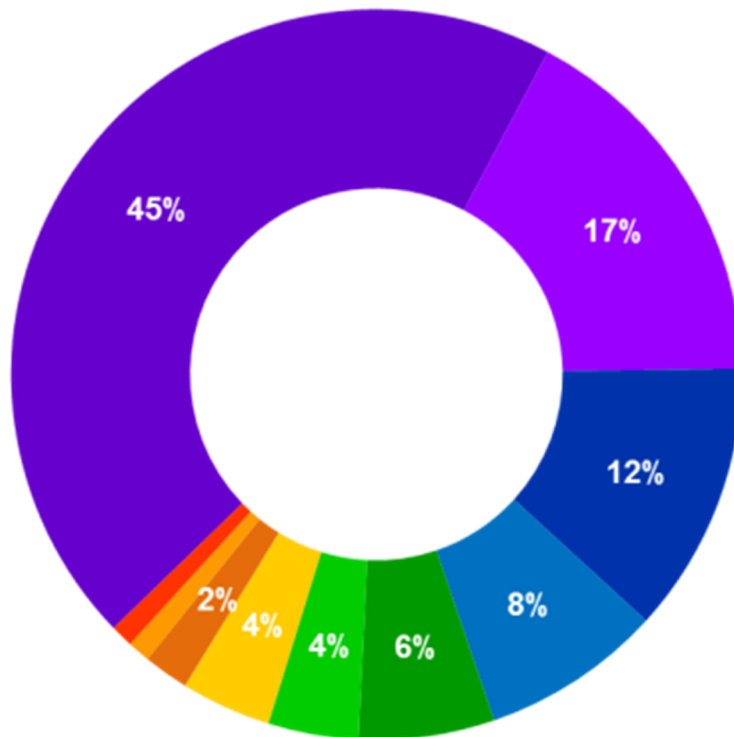
- Graco manufactures premium equipment to pump, move, meter, mix and dispense a wide variety of fluids and coatings
  - Difficult to handle materials with high viscosities
  - Abrasive and corrosive properties
  - Multiple component materials that require precise ratio control
  - Serving a broad number 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 June 2016 Sales – \$653 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%

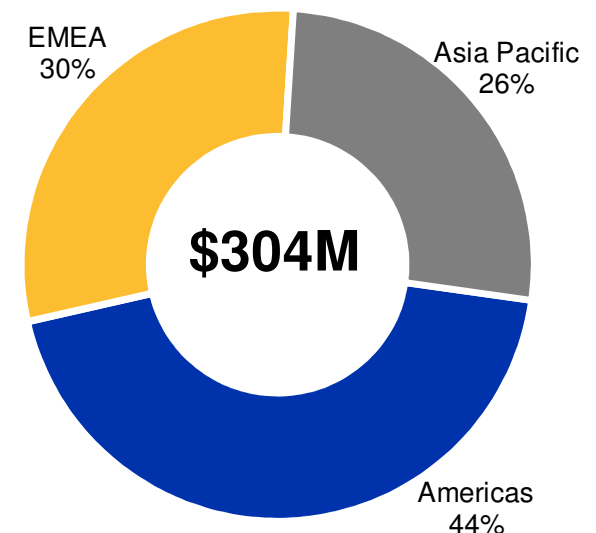
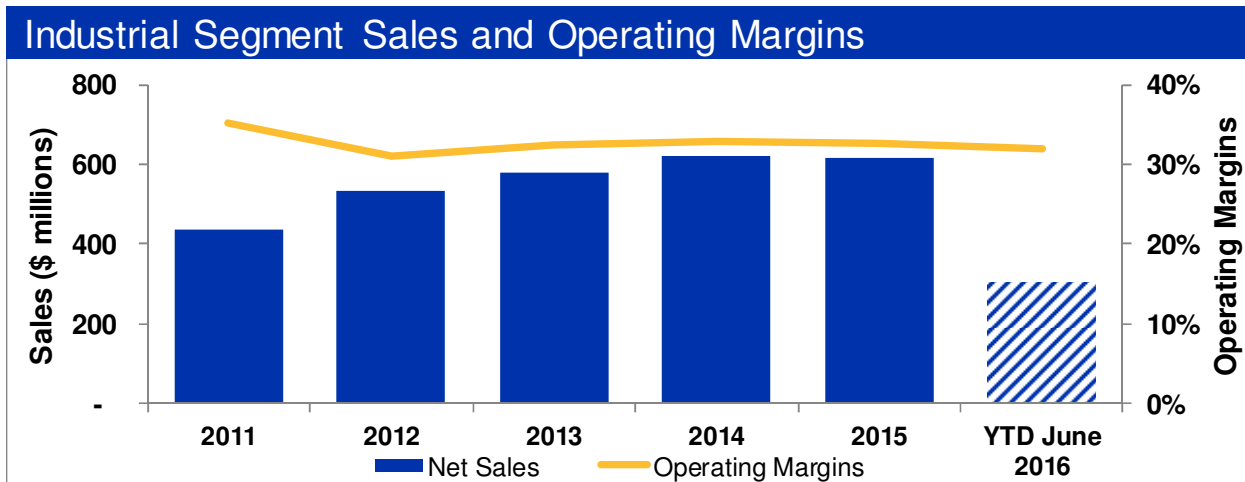
# Industrial Equipment Segment



- 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 June 2016 Sales





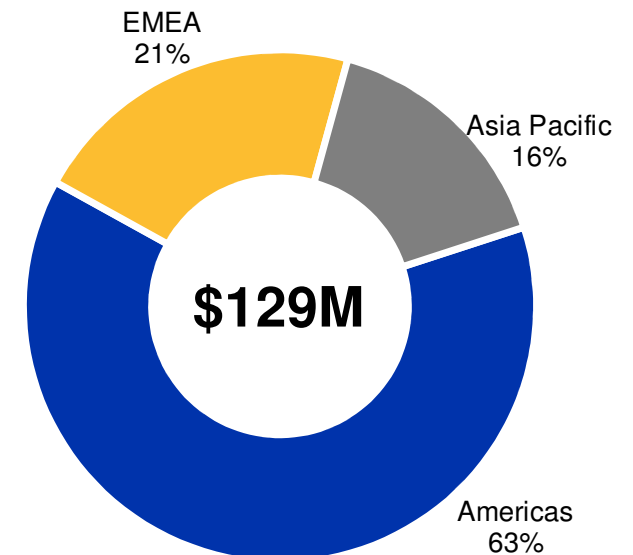
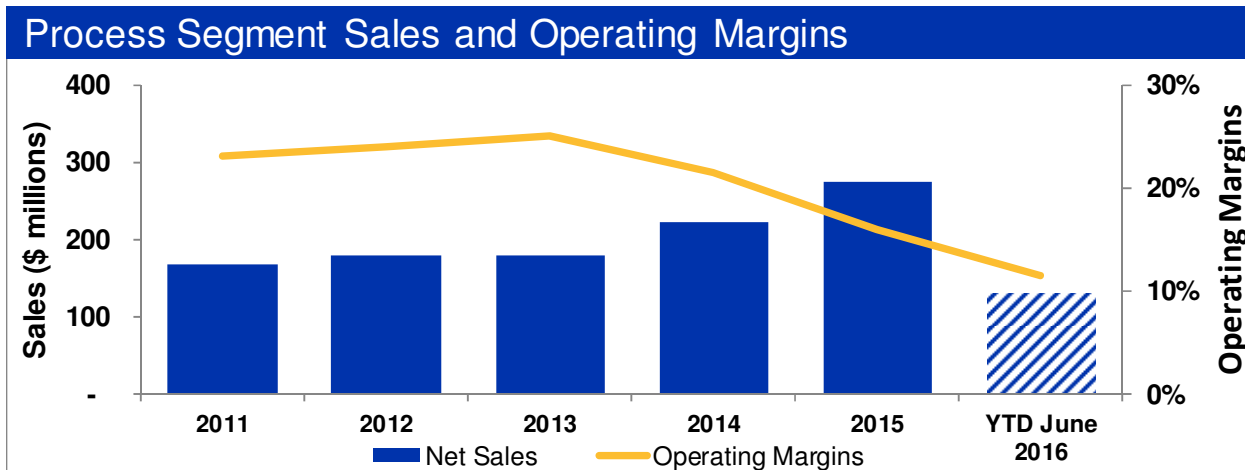
# Process Equipment Segment



- 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 June 2016 Sales

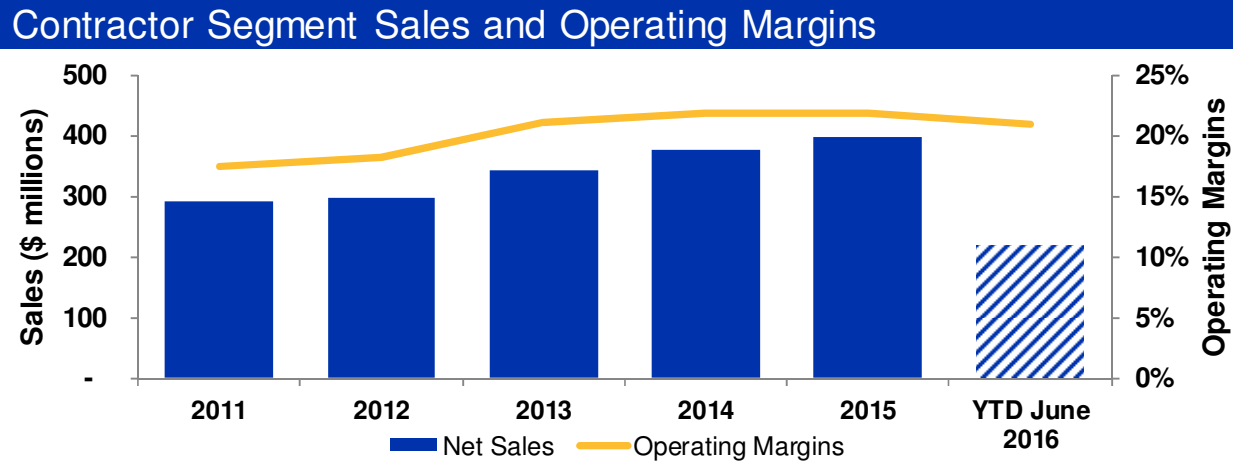




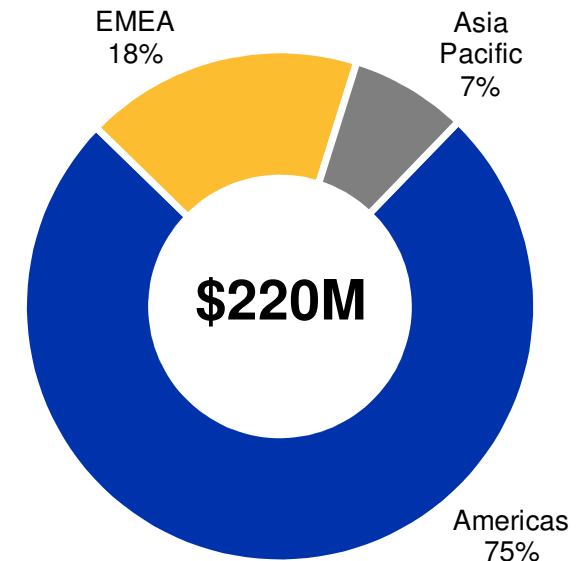
# Contractor Equipment Segment



- 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 June 2016 Sales





◆ Overview

✓ **Enduring Business Model**

◆ Strategies for Long-Term Growth

- Invest in New Products
- Expand Geographically
- Target New Markets
- Make Acquisitions

◆ 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
- Target New Markets
- Make Acquisitions
- ◆ 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**

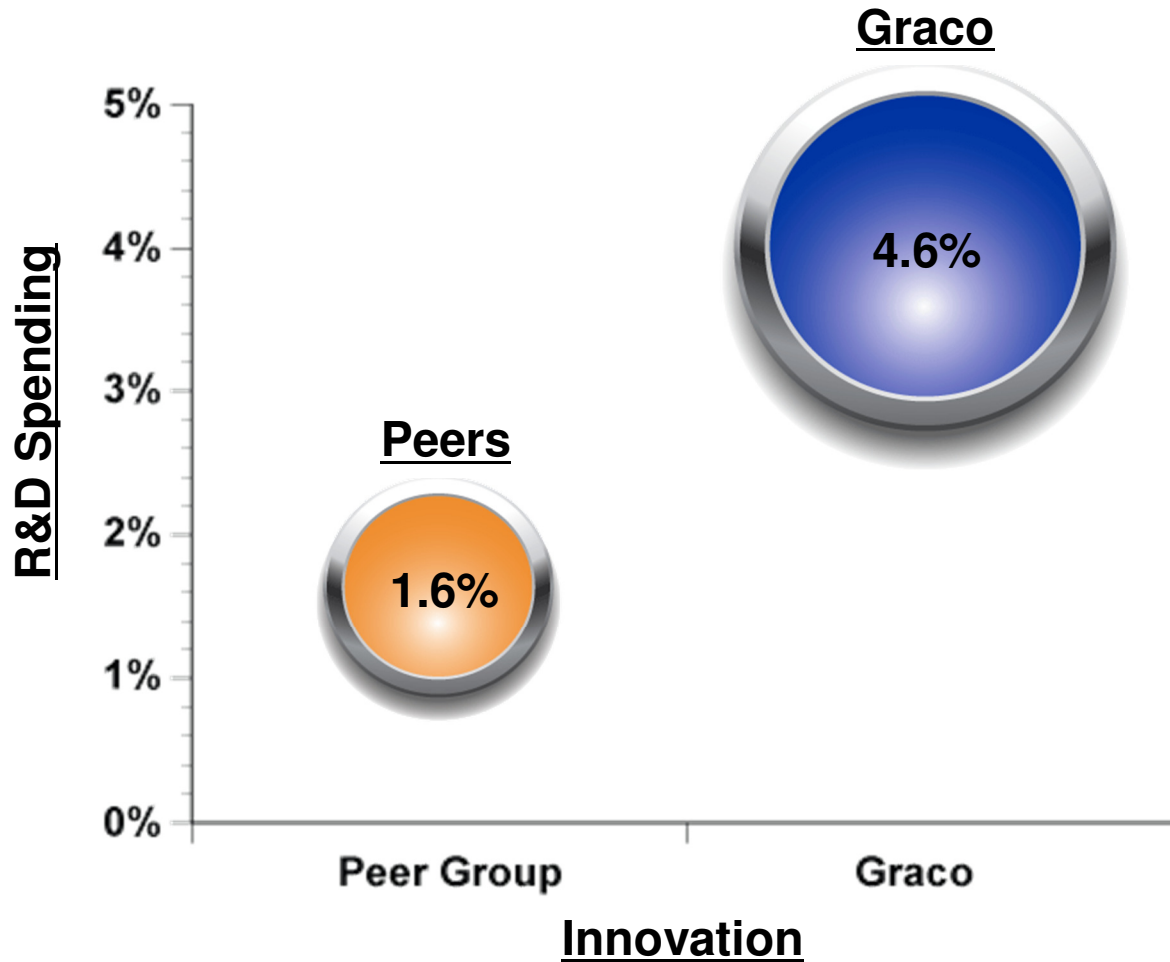
- Expand Geographically
    - Target New Markets
    - Make Acquisitions

- ◆ 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



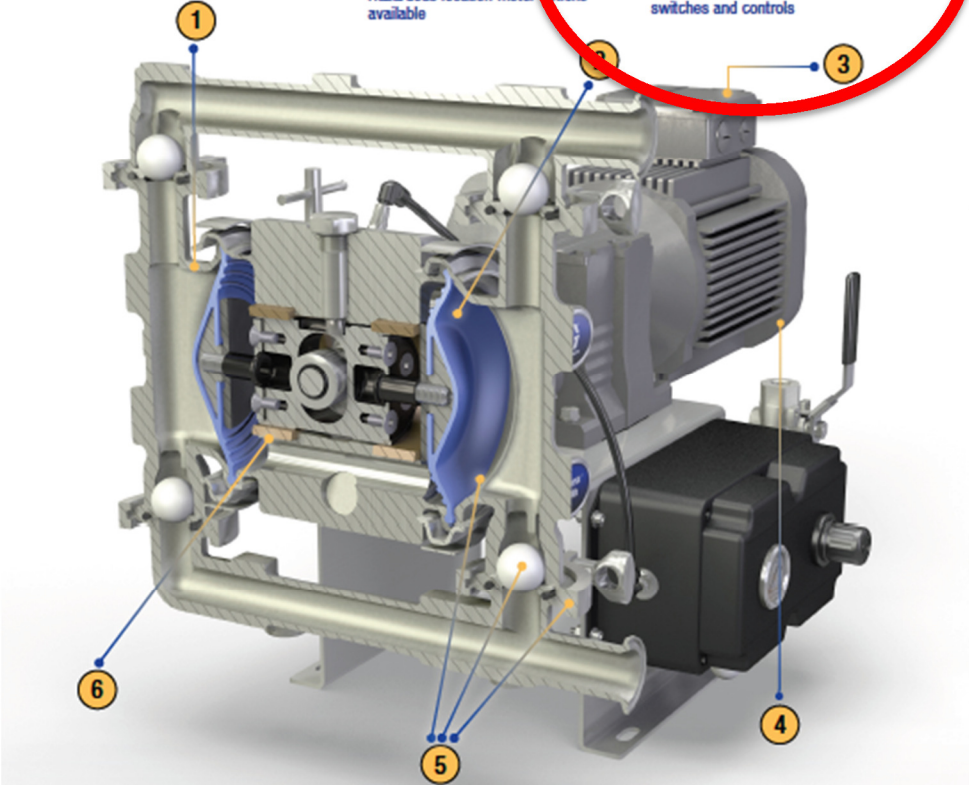


# Process – Saniforce® 1040-e



## 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





◆ Overview

◆ Enduring Business Model

✓ **Strategies for Long-Term Growth**

– Invest in New Products

– Expand Geographically

✓ **Target New Markets**

– Make Acquisitions

◆ 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

◆ Enduring Business Model

✓ **Strategies for Long-Term Growth**

- Invest in New Products
- Expand Geographically
- Target New Markets

✓ **Make Acquisitions**

◆ 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 & LANJTEC**<sup>®</sup>  
A division of LANJTEC



**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**



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

✓ **Company Performance**

# Financial Results



	Second Quarter			Year-to-Date		
	2016	2015	Change	2016	2015	Change
\$ millions except EPS						
Sales	\$ 348.1	\$ 335.5	4 %	\$ 653.0	\$ 641.9	2 %
Gross Profit	185.1	180.6	3 %	346.9	342.8	1 %
% of Sales	53.2 %	53.8 %	(0.6) pts	53.1 %	53.4 %	(0.3) pts
Operating Earnings	78.3	83.9	(7)%	139.3	149.1	(7)%
% of Sales	22.5 %	25.0 %	(2.5) pts	21.3 %	23.2 %	(1.9) pts
Held Separate Investment Income, Net	-	158.8		-	188.4	
Net Earnings	\$ 50.9	\$ 172.6	(70)%	\$ 90.5	\$ 241.5	(63)%
% of Sales	14.6 %	51.5 %	(36.9) pts	13.9 %	37.6 %	(23.7) pts
Diluted Earnings Per Share	\$ 0.89	\$ 2.90	(69)%	\$ 1.59	\$ 4.02	(60)%
<i>Diluted Shares in Millions</i>	57.0	59.6		56.9	60.0	

- The Liquid Finishing business assets were sold in the second quarter 2015. Net earnings included net after-tax gain on the sale and other Liquid Finishing investment income of \$110 million (\$1.85 per diluted share) for the quarter and \$139 million (\$2.32 per diluted share) for the year-to-date

See page 31 for reconciliation of the adjusted non-GAAP financial measures to GAAP

	Second Quarter		Year-to-Date	
	2016	2015	2016	2015
Adjusted Net Earnings	\$ 50.9	\$ 62.9	\$ 90.5	\$ 102.0
Diluted EPS as adjusted	\$ 0.89	\$ 1.05	\$ 1.59	\$ 1.70

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



# Non-GAAP Reconciliation



- The Liquid Finishing business assets were sold in the second quarter of 2015. 2015 net earnings included after-tax net gain on the sale and investment income of \$110 million (\$1.85 per diluted share) for the quarter and \$139 million (\$2.32 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	Second Quarter		Year-to-Date	
	2016	2015	2016	2015
Net earnings	\$ 50.9	\$ 172.6	\$ 90.5	\$ 241.5
Held separate investment (income), net	-	(158.8)	-	(188.4)
Income tax effect	-	49.1	-	48.9
Adjusted net earnings	<u>\$ 50.9</u>	<u>\$ 62.9</u>	<u>\$ 90.5</u>	<u>\$ 102.0</u>
Diluted EPS as reported	\$ 0.89	\$ 2.90	\$ 1.59	\$ 4.02
Diluted EPS as adjusted	0.89	1.05	1.59	1.70

# Financial Results

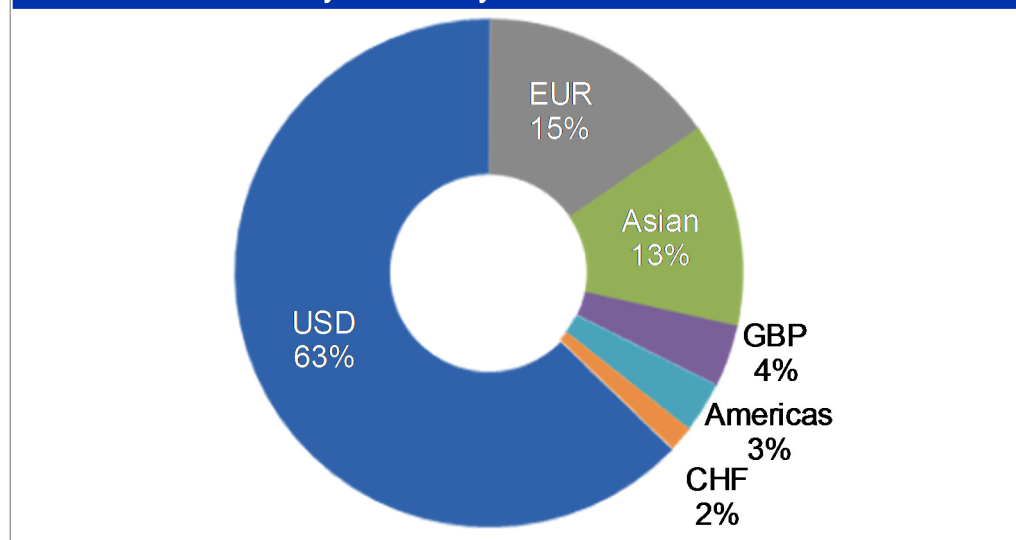


## Components of Net Sales Change

Second Quarter June 2016							
	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	(15)%	15 %	4 %	3 %	(1)%	3 %
Acquisitions	—	6 %	—	2 %	3 %	—	1 %
Currency	(1)%	(1)%	—	(1)%	—	(2)%	—
<b>Total</b>	<b>2 %</b>	<b>(10)%</b>	<b>15 %</b>	<b>5 %</b>	<b>6 %</b>	<b>(3)%</b>	<b>4 %</b>

Year-to-Date June 2016							
	Segment			Region			Consolidated
	Industrial	Process	Contractor	Americas	EMEA	Asia Pacific	
Volume and Price	3 %	(13)%	8 %	(1)%	6 %	2 %	1 %
Acquisitions	1 %	7 %	—	1 %	3 %	2 %	2 %
Currency	(2)%	(2)%	(1)%	—	(1)%	(3)%	(1)%
<b>Total</b>	<b>2 %</b>	<b>(8)%</b>	<b>7 %</b>	<b>—</b>	<b>8 %</b>	<b>1 %</b>	<b>2 %</b>

## 2016 YTD Sales by Currency



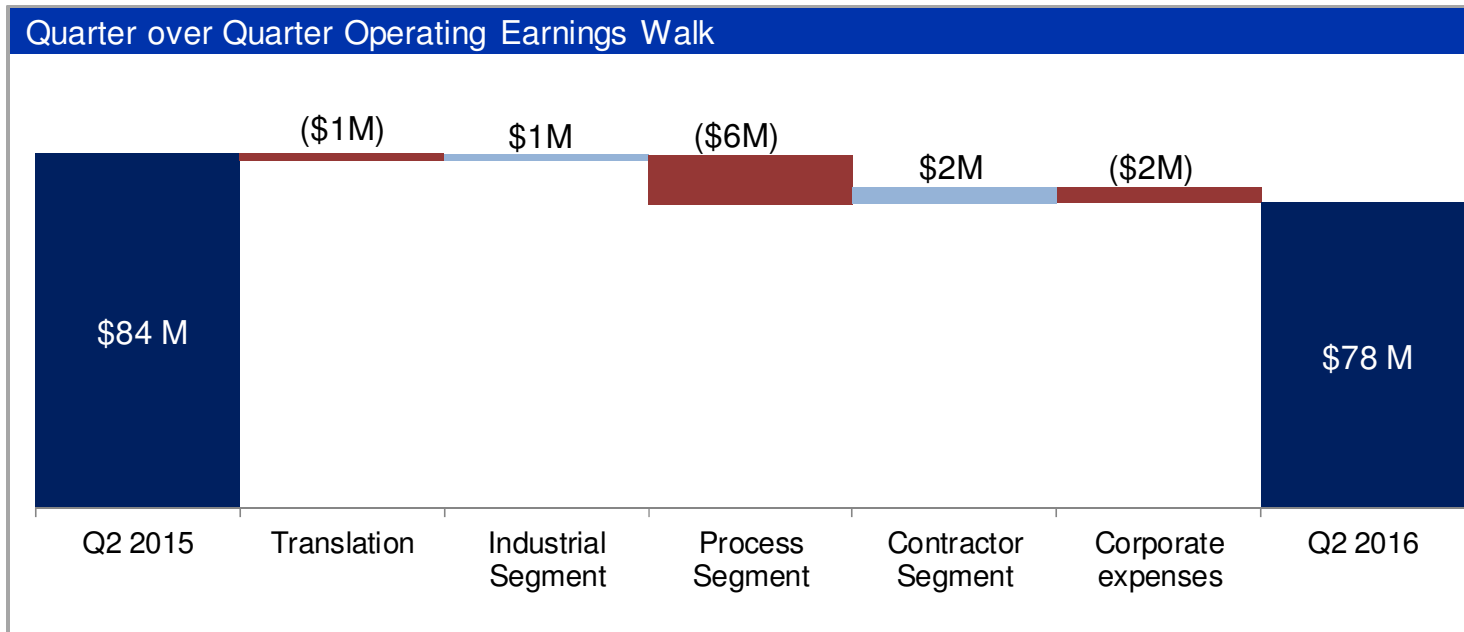
Asian currencies include:  
AUD, CNY/RMB, KRW,  
JPY

Americas currencies  
include:  
CAD, BRL, MXN

# Operating Earnings



Change in Operating Earnings	Second Quarter		Year-to-Date	
2015 Operating Earnings (\$M and % of sales)	\$ 84	25 %	\$ 149	23 %
Translation effect	(1)	—	(3)	—
Mix, pricing and product cost	6	—	10	—
Incremental investment in growth initiatives and other corporate items	(2)	—	(3)	—
Facility relocation and integration costs for acquired businesses	(1)	—	(1)	—
New product launch	(1)	—	—	—
Unallocated corporate expenses (pension, stock compensation)	(2)	(1)	(3)	(1)
Volume effect on expense leverage	(5)	(1)	(10)	(1)
2016 Operating Earnings (\$M and % of sales)	<u>\$ 78</u>	<u>23 %</u>	<u>\$ 139</u>	<u>21 %</u>



# Second Quarter 2016 Results



- Sales increased 4 percent (the same at consistent currency translation rates); acquired businesses account for 1 percentage point of growth
- Gross profit margin slightly lower than 2015 for the quarter
  - Unfavorable impacts of lower factory volume and product and channel mix more than offset the favorable effects of realized pricing
- Operating expenses were \$10 million (10 percent) higher than second quarter 2015
  - Increase included incremental expenses of acquired operations \$2 million, increased unallocated corporate expenses, primarily stock compensation and pension, \$2 million, support for new product launches \$1 million, factory and warehouse relocation costs \$1 million and approximately \$2 million related to initiatives and other corporate items

# Year-to-Date June 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 slightly lower than 2015
  - Unfavorable impacts of lower factory volume and product and channel mix more than offset the favorable effects of realized pricing and the favorable impact of reduced acquisition related purchase accounting
- Operating expenses were \$14 million (7 percent) higher than 2015
  - Increase included \$5 million of incremental expenses of acquired operations, and a \$3 million increase in unallocated corporate expenses
- Effective tax rate for the quarter and year-to-date was 31%, up from 28% and 26% in the second quarter and year-to-date 2015. Last year's rate included favorable impacts of non-recurring tax benefits and 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 Q2 2016 Earnings Release & Call

- Capital expenditures are expected to be approximately \$40 million in 2016
  - Building expansion for the Contractor business is not expected until 2017, at the earliest
- Unallocated corporate expenses may vary by quarter; full year 2016 expenses are expected to be approximately \$3 million higher than 2015
- 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 the second half of the year
- The tax rate for third quarter and the full year is expected to be approximately 31%

# 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 Q2 2016 4% YTD 2016 (1%)	Sales Growth Q2 2016 3% YTD 2016 6%	Sales Growth Q2 2016 (1%) YTD 2016 2%	Sales Growth Q2 2016 3% YTD 2016 1%
Industrial Segment	 Sales Growth Q2 2016 (3%) YTD 2016 (4%)	 Sales Growth Q2 2016 9% YTD 2016 10%	 Sales Growth Q2 2016 6% YTD 2016 8%	Sales Growth Q2 2016 3% YTD 2016 3%
Contractor Segment	 Sales Growth Q2 2016 19% YTD 2016 7%	 Sales Growth Q2 2016 8% YTD 2016 16%	 Sales Growth Q2 2016 (5%) YTD 2016 1%	Sales Growth Q2 2016 15% YTD 2016 8%
Process Segment	 Sales Growth Q2 2016 (11%) YTD 2016 (11%)	 Sales Growth Q2 2016 (19%) YTD 2016 (16%)	 Sales Growth Q2 2016 (23%) YTD 2016 (16%)	Sales Growth Q2 2016 (15%) YTD 2016 (13%)
Full Year 2016 Outlook	<b>Low Single Digits</b>	<b>Low-to-Mid Single Digits</b>	<b>Low Single Digits</b>	<b>Low Single Digits</b>

The full-year outlook for Graco worldwide was reduced from low-to-mid single digit growth to low single digit growth

- Reduced the Americas region outlook to low single digit growth
- Raised the full year outlook for the EMEA region to low-to-mid single digit growth
- Maintained the Asia Pacific region outlook at low single digits

Headwinds in the Process segment are expected to persist into the second half, keeping us from achieving our goal of growth in every reportable segment for the full year 2016



# 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





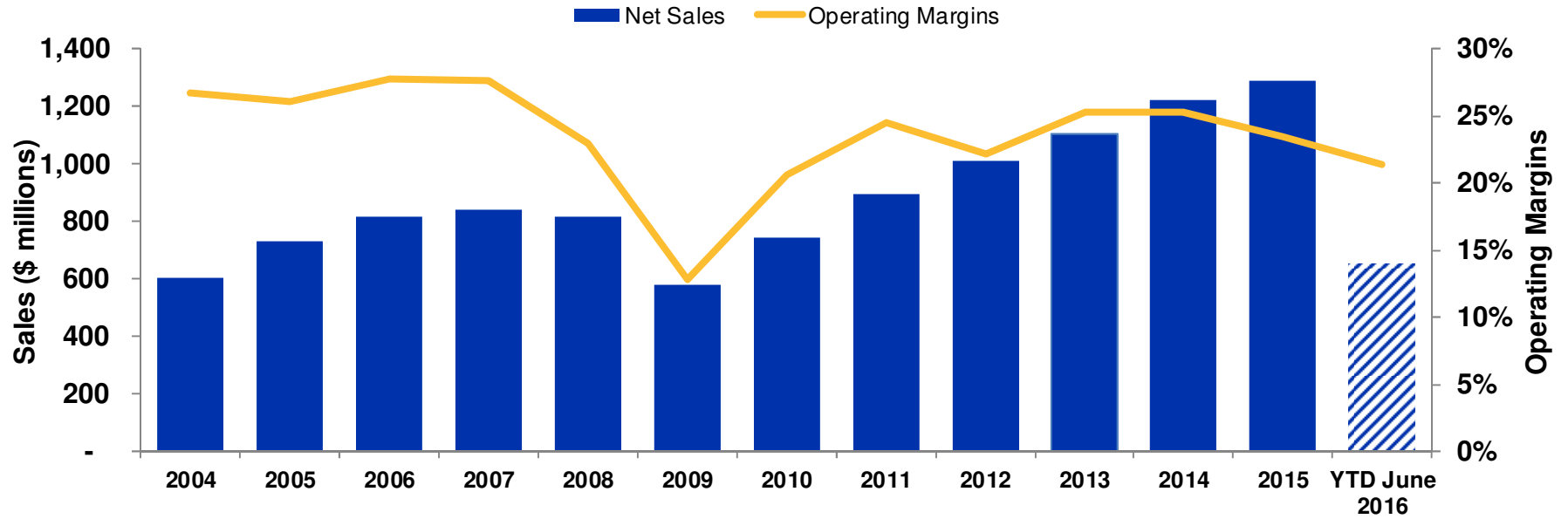
# Financial Summary 2015

## *Appendix*

# Financial Performance

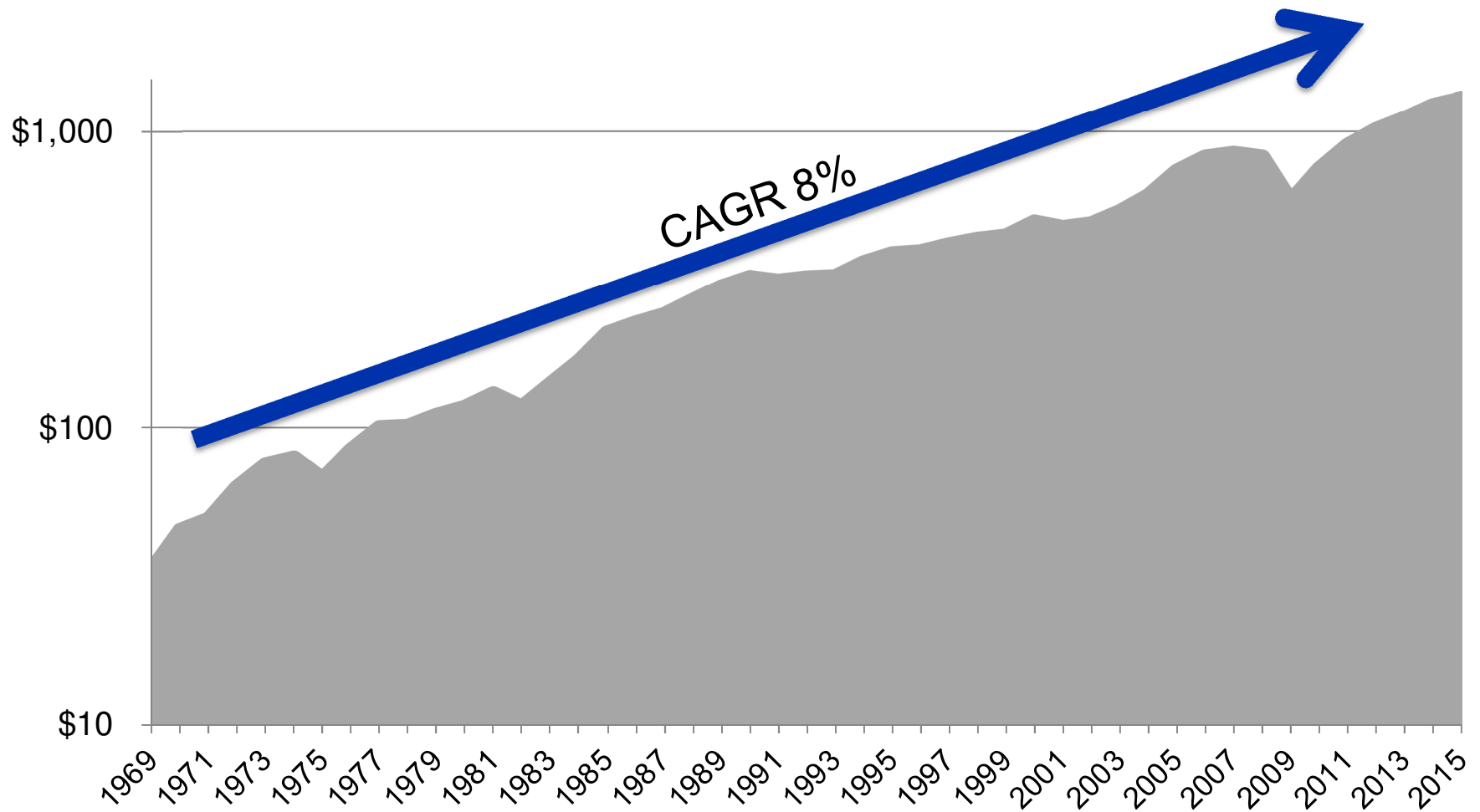


## Sales and Operating Margin

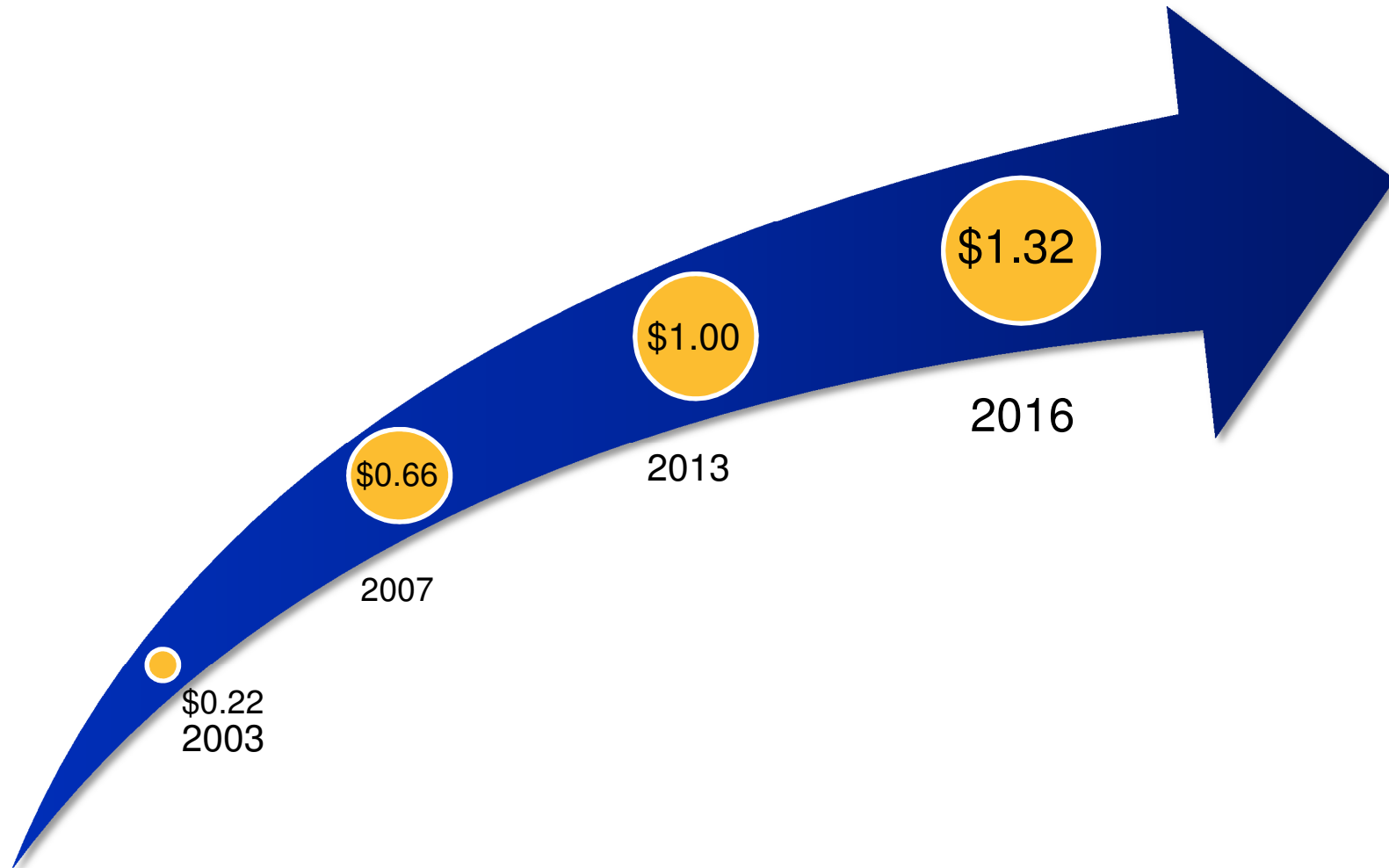


Diluted EPS	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD June 2016
	\$1.55	\$1.80	\$2.17	\$2.32	\$1.99	\$0.81	\$1.69	\$2.32	\$2.42	\$3.36	\$3.65	\$5.86	\$1.59

# 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

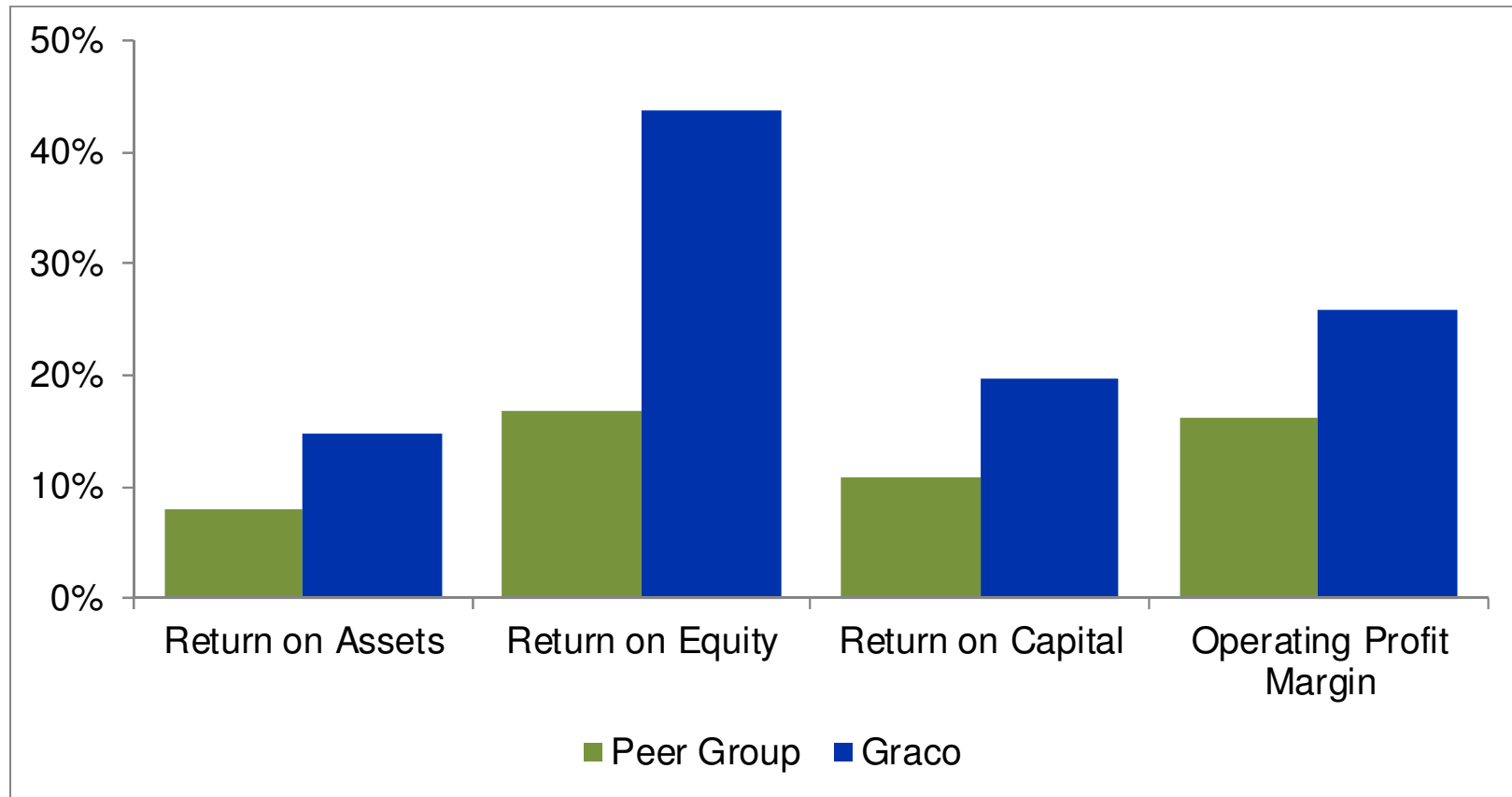
Divestiture of Liquid Finishing Held Separate assets - sale completed in Q2 2015

- 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

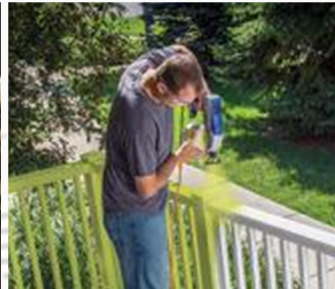
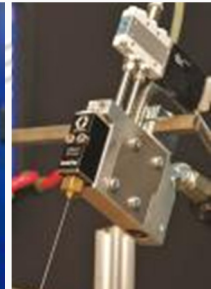
\* Net of shares issued

# 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)