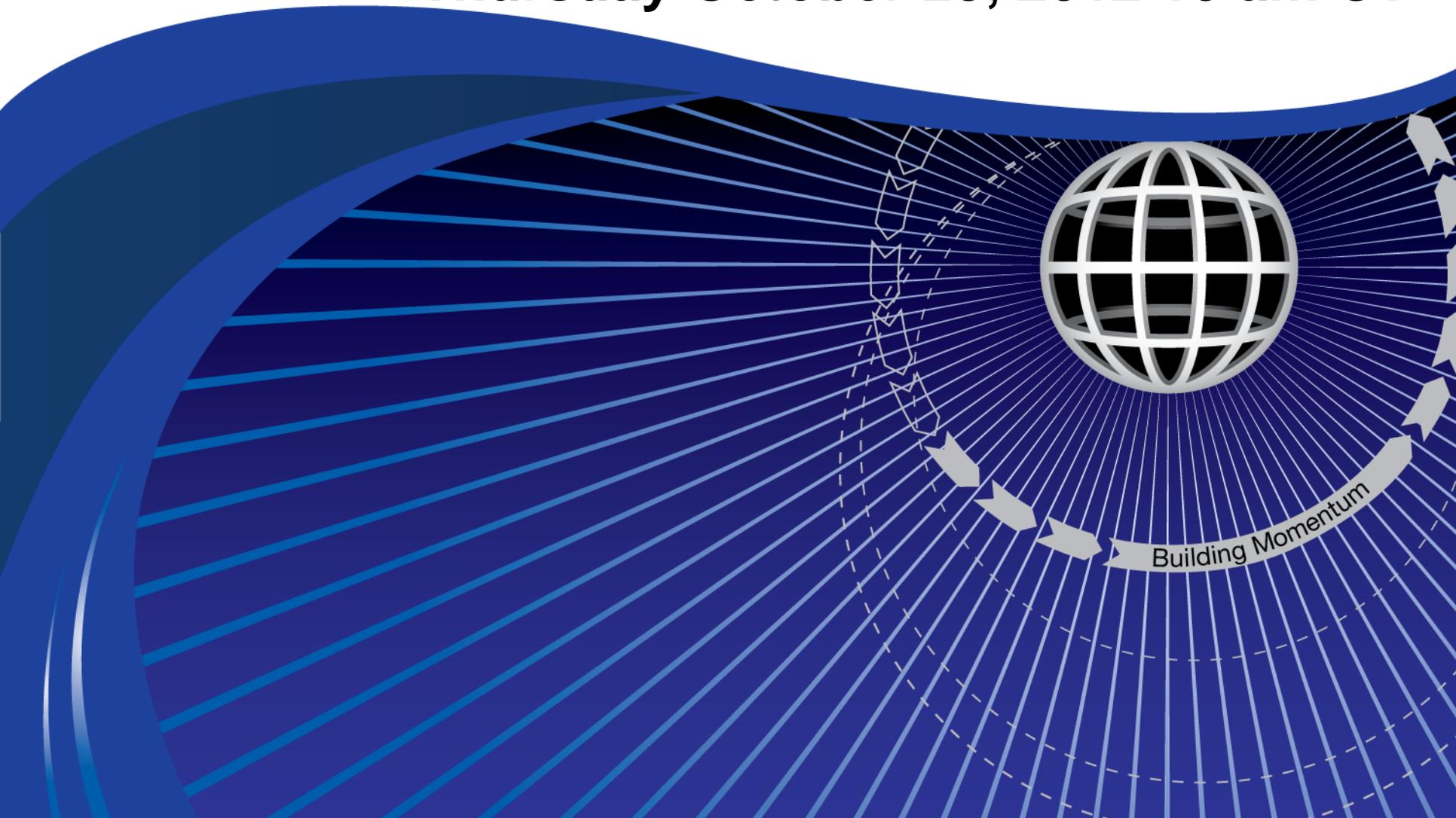




3rd Quarter 2012 Earnings Conference Call

Thursday October 25, 2012 10 am CT





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 Item 1A of the current Quarterly Report on Form 10-Q.



Conference Call Logistics

The release, accompanying slides and replay web cast are available online at investors.graco.com

Telephone replay will be available after 2 p.m. ET, October 25, 2012. The replay by telephone will be available through October 28, 2012.

- 800-406-7325 – Conference ID #4568468
- 303-590-3030 – Conference ID #4568468, for International participants



Consolidated Financial Results

\$ millions except EPS

	Third Quarter			Year-to-Date		
	2012	2011	Change	2012	2011	Change
Sales	\$ 256.5	\$ 227.3	13 %	\$ 758.8	\$ 679.7	12 %
Gross Profit	\$ 139.9	126.3	11 %	411.6	383.2	7 %
% of Sales	54.6 %	55.6 %	(1.0) pts	54.3 %	56.4 %	(2.1) pts
Operating Earnings	\$ 56.3	56.8	(1)%	166.8	172.1	(3)%
% of Sales	22.0 %	25.0 %	(3.0) pts	22.0 %	25.3 %	(3.3) pts
Net Earnings	\$ 37.1	\$ 36.6	2 %	\$ 106.9	\$ 111.9	(5)%
% of Sales	14.5 %	16.1 %	(1.6) pts	14.1 %	16.5 %	(2.4) pts
Diluted Earnings Per Share	\$ 0.60	\$ 0.60	0 %	\$ 1.73	\$ 1.82	(5)%

Acquisition/divestiture related items:

	Third Quarter	Year-to-Date
Non-recurring charges related to inventory	\$ -	\$ 7
Acquisition/divestiture costs- increase	1	9
Amortization of intangibles- increase	2	4
Interest expense- increase	2	9
Liquid Finishing dividend (income) (post-tax)	(4)	(8)



Consolidated Financial Results - Net Sales

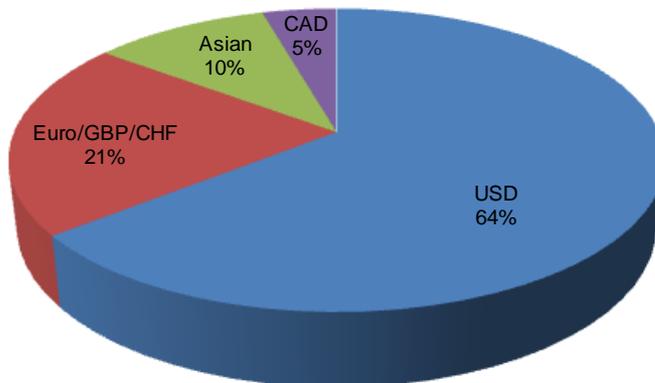
Third Quarter

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	2%	-2%	8%	5%	4%	-10%	1%
Acquisitions	25%	0%	0%	6%	34%	14%	14%
Currency	-3%	-2%	-1%	0%	-10%	0%	-2%
Total	24%	-4%	7%	11%	28%	4%	13%

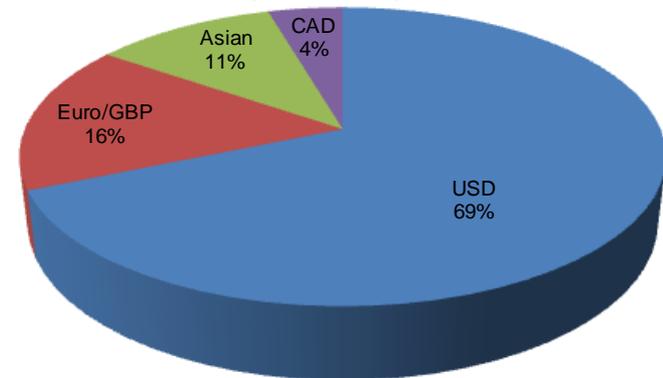
Year-to-Date

	Segment			Region			Consolidated
	Industrial	Contractor	Lubrication	Americas	Europe	Asia Pacific	
Volume and Price	4%	2%	12%	7%	3%	-1%	4%
Acquisitions	17%	0%	0%	4%	21%	10%	9%
Currency	-2%	-2%	-1%	0%	-7%	0%	-1%
Total	19%	0%	11%	11%	17%	9%	12%

Sales by Currency Q3 2012



Sales by Currency Q3 2011



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



Consolidated Third Quarter Acquisition/Divestiture Impact

\$ millions except EPS	Third Quarter			Acquisition/Divestiture Related Items
	2012	2011	Change	
Sales	\$ 256.5	\$ 227.3	13 %	\$30 million Powder Finishing
Gross Profit	\$ 139.9	126.3	11 %	Powder lower gross margin percentage impacted consolidated results by 2 percentage points
% of Sales	54.6 %	55.6 %	(1.0) pts	
Operating Earnings	\$ 56.3	56.8	(1)%	\$2 million recurring Powder Finishing intangible amortization; Acquisition/divestiture cost increase \$1 million, \$4 million in total
% of Sales	22.0 %	25.0 %	(3.0) pts	
Net Earnings	\$ 37.1	\$ 36.6	2 %	Liquid Finishing dividend (post-tax) \$4 million; \$1½ million after tax increase in interest expense
% of Sales	14.5 %	16.1 %	(1.6) pts	
Diluted Earnings Per Share	\$ 0.60	\$ 0.60	0 %	



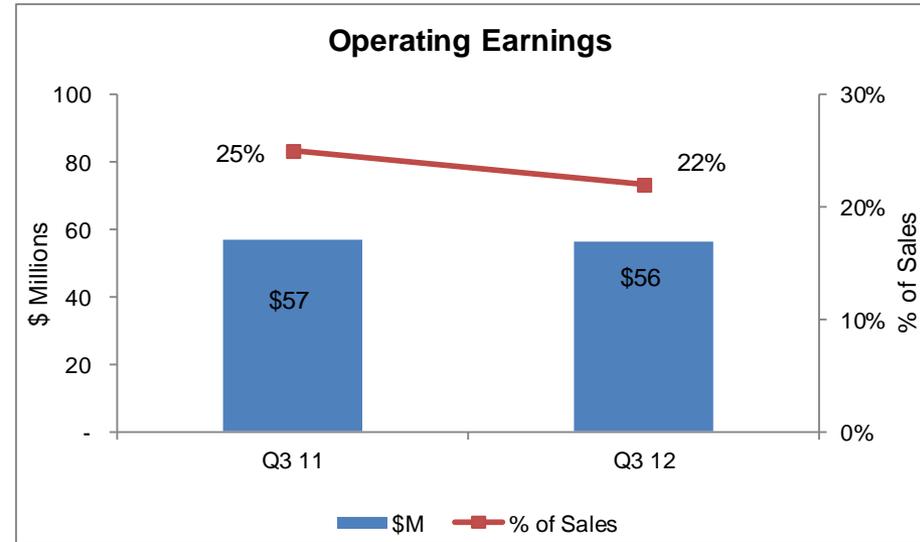
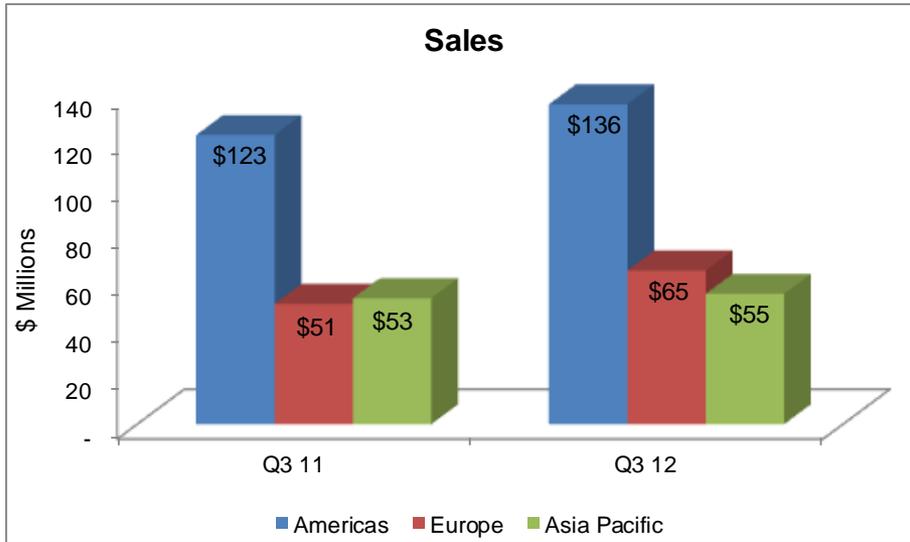
Consolidated Year-to-Date Acquisition/Divestiture Impact

\$ millions except EPS

	Year-to-Date			Acquisition/Divestiture Related Items
	2012	2011	Change	
Sales	\$ 758.8	\$ 679.7	12 %	\$62 million Powder Finishing, 9 percentage points
Gross Profit	411.6	383.2	7 %	\$7 million non-recurring charges related to Powder inventory, 1 percentage point impact on margin; Powder lower gross margin impacted consolidated results by 1 percentage point
% of Sales	54.3 %	56.4 %	(2.1) pts	
Operating Earnings	166.8	172.1	(3)%	\$4 million recurring Powder Finishing intangible amortization; Acquisition/divestiture cost increase \$9 million; \$15 million in total
% of Sales	22.0 %	25.3 %	(3.3) pts	
Net Earnings	\$ 106.9	\$ 111.9	(5)%	Liquid Finishing dividend (post-tax) \$8 million; \$6 million after tax increase in interest expense
% of Sales	14.1 %	16.5 %	(2.4) pts	
Diluted Earnings Per Share	\$ 1.73	\$ 1.82	(5)%	



Consolidated Third Quarter Results

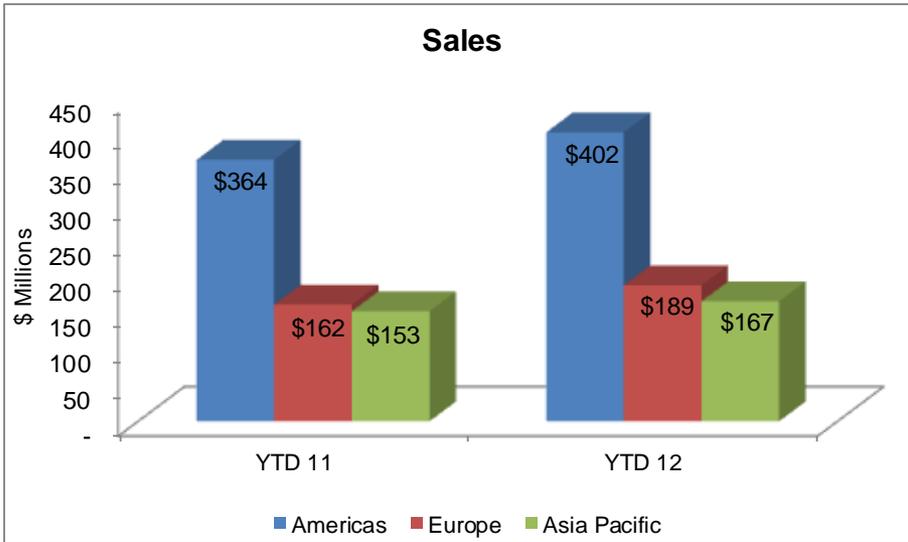


- Sales increase of 13% (15% at consistent currency translation rates)
 - Powder Finishing sales of \$30 million account for 14 percentage points of growth
- Gross margin rate down 1 percentage point from prior year
 - Realized pricing partially offset by higher costs and effect of currency translation
 - Powder Finishing lower margin impacted consolidated by 2 percentage points

- Operating expenses are up \$14 million
 - \$8 million Powder Finishing operations
 - \$6 million general and administrative
- Interest expense \$5 million, up \$2 million from Q3 2011
- Liquid Finishing dividend \$4 million, post tax
- Tax rate 32% is consistent with prior year
 - 2012 reduced by effect of investment income (post-tax) from Liquid Finishing
 - 2011 federal R&D credit, not available in 2012



Consolidated Year-to-Date Results



- Sales increase of 12% (13% at consistent currency translation rates)
 - Powder Finishing sales of \$62 million accounts for 9 percentage points
- Gross margin rate down 2 percentage points from prior year
 - Effect of purchase accounting 1 percentage point
 - Realized pricing partially offset higher costs
 - Powder Finishing lower margin impacted consolidated by 1 percentage point
 - Currency translation and product mix lowers margin by 1 percentage point

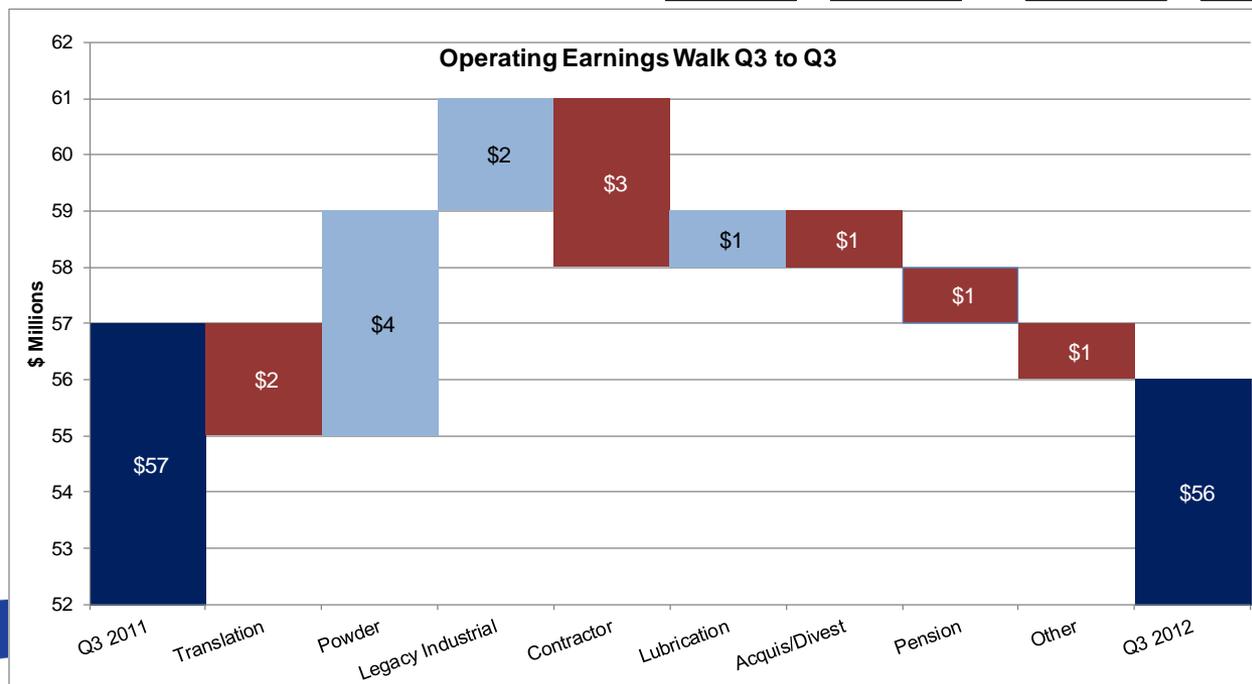
- Operating expenses are up \$34 million
 - \$9 million acquisition /divestiture costs, 1 percentage point of operating margin
 - \$16 million Powder Finishing operations
 - \$9 million general and administrative
 - \$5 million product development
- Interest expense \$14 million, up \$9 million from September 2011
- Liquid Finishing dividend \$8 million, post tax
- Tax rate 33% is comparable to prior year
 - 2012 reduced by effect of the investment income (post-tax) from Liquid Finishing
 - 2011 federal R&D credit, not available in 2012



Consolidated Results

Change in Operating Earnings

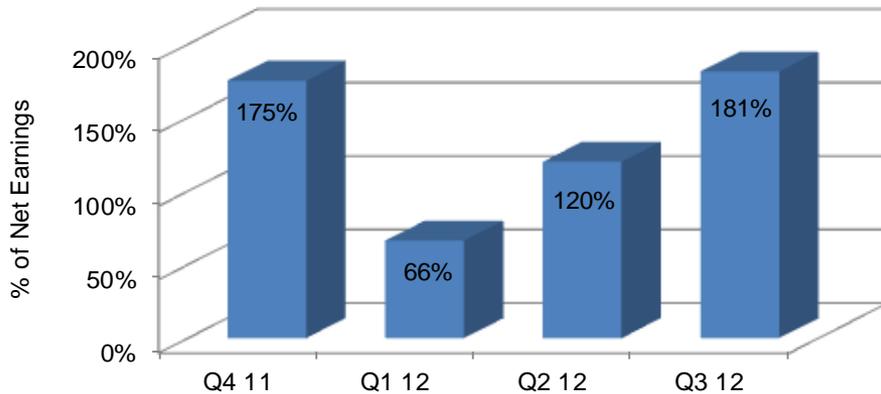
	Third Quarter		Year-to-Date	
2011 Operating Earnings (\$M and % of sales)	\$ 57	25 %	\$ 172	25 %
Translation effect	(2)	(1)	(7)	—
Effect of Powder Finishing				
Purchase accounting effect on inventory	—	—	(7)	(1)
Powder Finishing operating earnings leverage	4	(1)	11	—
Acquisition/divestiture costs increase	(1)	—	(9)	(1)
Pension increase	(1)	(1)	(4)	(1)
Product cost, pricing and mix	5	2	18	—
Volume effect on expense leverage	(6)	(2)	(7)	—
2012 Operating Earnings (\$M and % of sales)	<u>\$ 56</u>	<u>22 %</u>	<u>\$ 167</u>	<u>22 %</u>



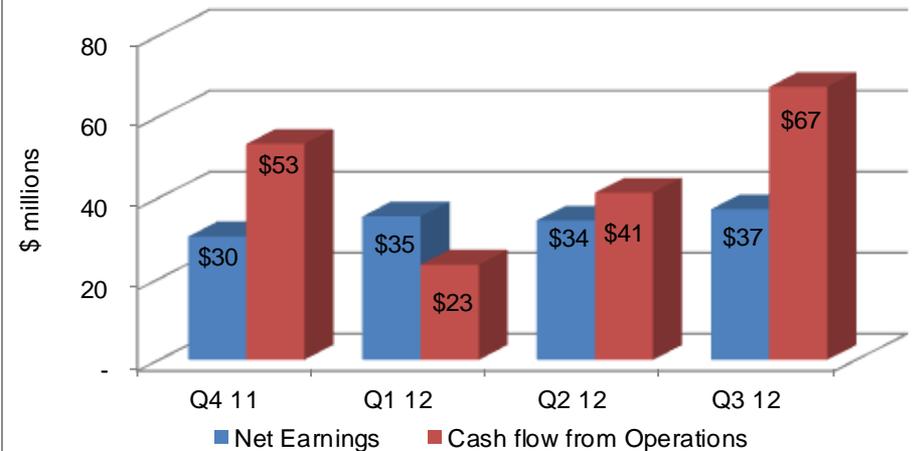


Cash Flow and Liquidity

Cash from Operations as % of Net Income



Net Earnings and Cash from Operations



Long-term debt \$590 million

- Interest expense \$5 million for the quarter, \$14 million year-to-date

Liquid Finishing dividend (post-tax)

- \$4 million for the quarter, \$8 million year-to-date

Voluntary contribution to U.S. funded pension

- \$10 million for the quarter

2012 cash flow from operations \$132 million versus \$109 million in 2011

• Cash uses

- Investment in businesses held separate \$427 million
- Acquired business \$240 million
- Capital expenditures \$14 million
- Dividends paid \$41 million

• Working capital

- Increase in accounts receivable \$6 million
- Decrease in inventories \$7 million



Acquisition of Finishing Businesses

- On April 2, 2012, the Company completed the purchase of the finishing businesses of Illinois Tool Works Inc. The acquisition includes Powder Finishing and Liquid Finishing equipment operations, technologies and brands. Results of the Powder Finishing business have been included in the Industrial segment since the date of acquisition
- The Federal Trade Commission (FTC) issued a Hold Separate Order for Graco to hold the Liquid Finishing assets separate and in compliance with the FTC order, the Liquid Finishing businesses are run independently by existing management under the supervision of a trustee who reports directly to the FTC
- The FTC issued a proposed decision and order (the “Decision and Order”), which requires Graco to sell the Liquid Finishing business assets, no later than 180 days from the date the order becomes final. The FTC has not yet issued its final Decision and Order
- Liquid Finishing businesses held separate from Graco are reflected as a cost-method investment, and its financial results have not been consolidated with those of the Company
 - Income is recognized based on dividends from current earnings, \$4 million (post-tax) received in each of Q2 and Q3

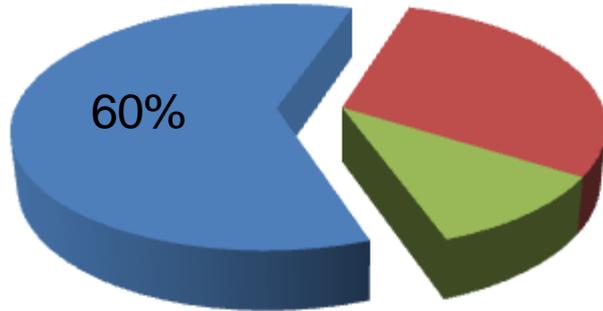


Other Discussion Items

- Divestiture costs expected to run \$2-3 million per quarter going forward, with a higher level of expense anticipated in the quarter the sale closes. Total future costs of the divestiture expected to be approximately \$10 million, though the final amount may be affected by the sales and regulatory review processes
- Interest expense is expected to be \$5 million in the fourth quarter
- Tax rate for fourth quarter and the year expected to be approximately 32-33% (assumes \$4 million (post-tax) in dividends per quarter from the Liquid Finishing business)
- Annual pension expense (excluding Powder) is expected to be approximately \$7 million higher in 2012
 - Voluntary contribution of \$10 million made to U.S. funded pension plan in Q3
- Capital expenditures expected to be \$20 million in 2012



Industrial Equipment Results



Third Quarter Industrial Segment Sales as % of Consolidated



Sales (\$ M)	Third Quarter*			Year-to-Date*		
	2012	2011	Change	2012	2011	Change
Americas	\$ 67	\$ 54	25 %	\$ 192	\$ 163	18 %
Europe	47	33	42	134	104	29
Asia Pacific	41	38	8	121	110	10
Total	\$ 155	\$ 125	24 %	\$ 447	\$ 377	19 %
Operating Earnings	\$ 47	\$ 43	11 %	\$ 139	\$ 133	4 %
% of sales	30 %	34 %		31 %	35 %	

*Includes Powder Finishing sales of \$30M QTD, \$62M YTD

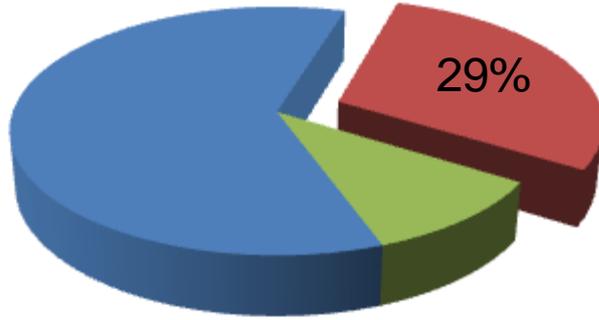


Industrial Equipment Results

<u>Change in Operating Earnings</u>	<u>Third Quarter</u>		<u>Year-to-Date</u>	
2011 Operating Earnings (\$M and % of sales)	\$ 43	34 %	\$ 133	35 %
Translation effect	(2)	(1)	(4)	—
Effect of Powder Finishing				
Purchase accounting effect on inventory	—	—	(7)	(2)
Powder Finishing operating earnings leverage	4	(4)	11	(2)
Product cost, pricing and mix	4	2	13	1
Volume effect on expense leverage	(2)	(1)	(7)	(1)
2012 Operating Earnings (\$M and % of sales)	<u>\$ 47</u>	<u>30 %</u>	<u>\$ 139</u>	<u>31 %</u>



Contractor Equipment Results



Third Quarter Contractor Sales as % of Consolidated



Sales (\$ M)	Third Quarter			Year-to-Date		
	2012	2011	Change	2012	2011	Change
Americas	\$ 49	\$ 51	(5)%	\$ 150	\$ 149	1 %
Europe	16	16	1	49	52	(6)
Asia Pacific	10	11	(5)	30	28	8
Total	\$ 75	\$ 78	(4)%	\$ 229	\$ 229	—
Operating Earnings	\$ 13	\$ 17	(23)%	\$ 43	\$ 44	(2)%
% of sales	17 %	21 %		19 %	19 %	



Contractor Equipment Results

Change in % of sales

2011 Operating Earnings (percentage of sales)

Translation effect

Product cost, pricing

Effect of product mix and channel
inventory realignment

Expense/volume leverage

2012 Operating Earnings (percentage of sales)

Third Quarter

21 %

—

1

(3)

(2)

17 %

Year-to-Date

19 %

—

—

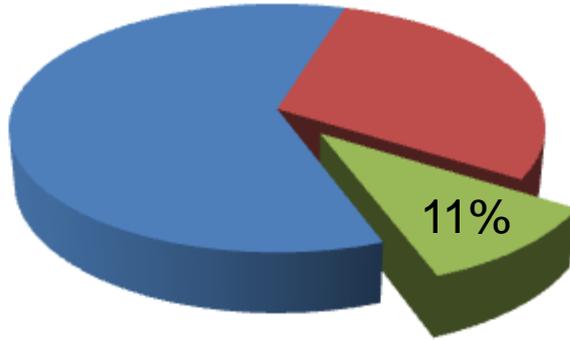
(1)

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19 %



Lubrication Equipment Results



Third Quarter Lubrication Sales as % of Consolidated



Sales (\$ M)	Third Quarter			Year-to-Date		
	2012	2011	Change	2012	2011	Change
Americas	\$ 20	\$ 18	13 %	\$ 61	\$ 53	15 %
Europe	2	2	8	6	6	(2)
Asia Pacific	5	5	(11)	16	15	4
Total	\$ 27	\$ 25	7 %	\$ 83	\$ 74	11 %
Operating Earnings	\$ 5	\$ 4	22 %	\$ 17	\$ 14	24 %
% of sales	20 %	17 %		21 %	18 %	



Lubrication Equipment Results

Change in % of sales

2011 Operating Earnings (percentage of sales)

Translation effect

Product cost / mix / price

Volume effect on expense leverage

2012 Operating Earnings (percentage of sales)

Third Quarter

17 %

—

4

(1)

20 %

Year-to-Date

18 %

—

2

1

21 %



Move – Measure – Control – Dispense – Apply

Building Momentum