

# Investor Presentation — August 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 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



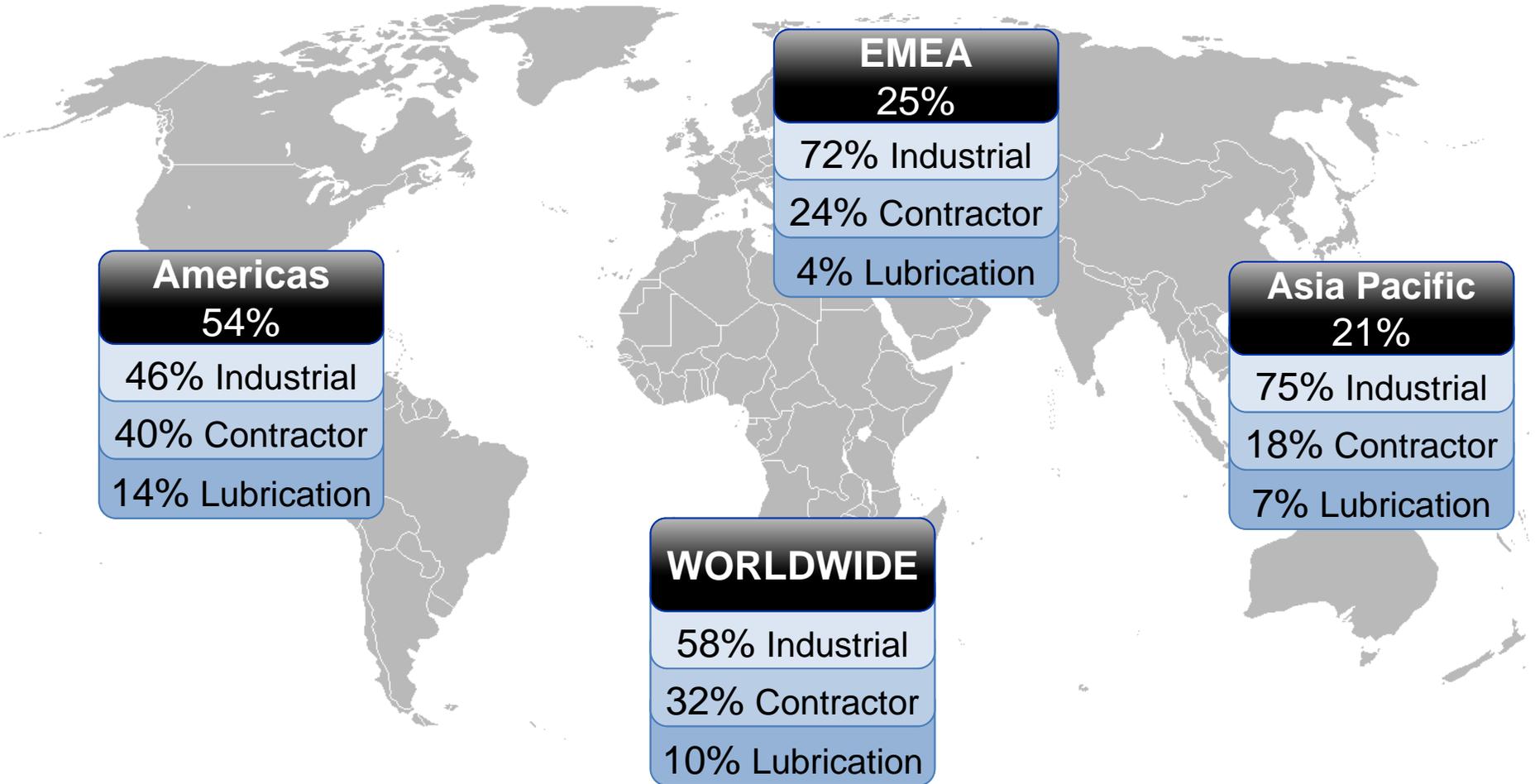
# Business Overview



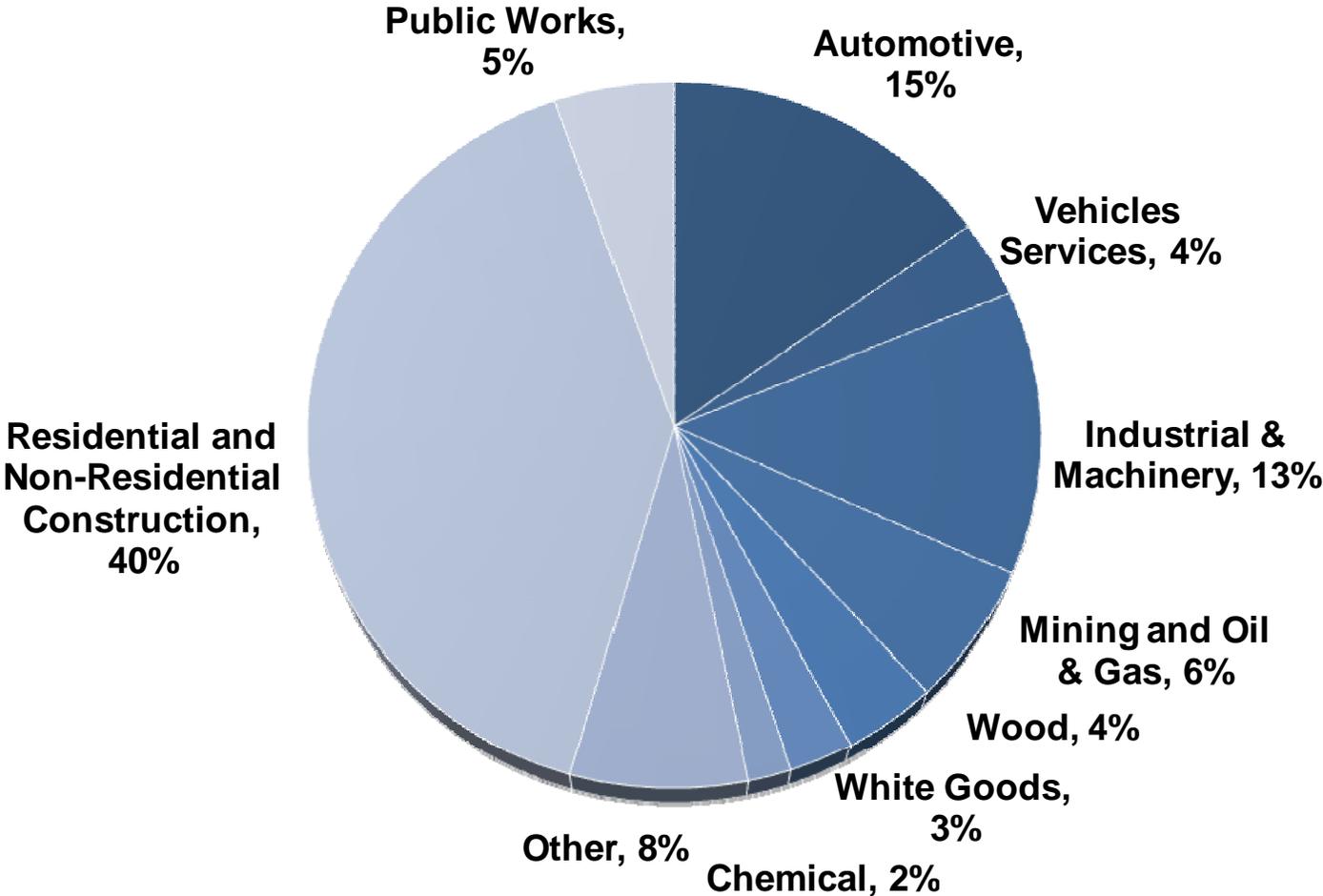
- Graco manufactures premium equipment to pump, meter, mix and dispense a wide variety of fluids and coatings
  - Difficult to handle materials with high viscosities
  - Abrasive and corrosive properties
  - Multiple component materials that require precise ratio control
  - Serving a broad number of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



# Year-to-date June 2013 Sales \$555.1 Million



# 2012 Sales by End Market \*



\* Graco management estimate

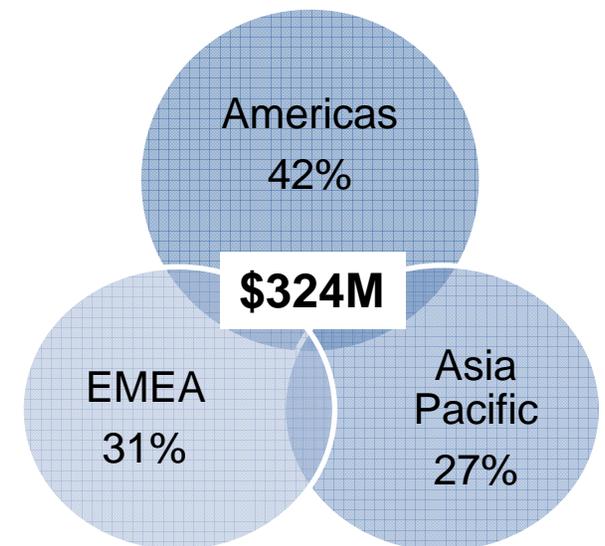
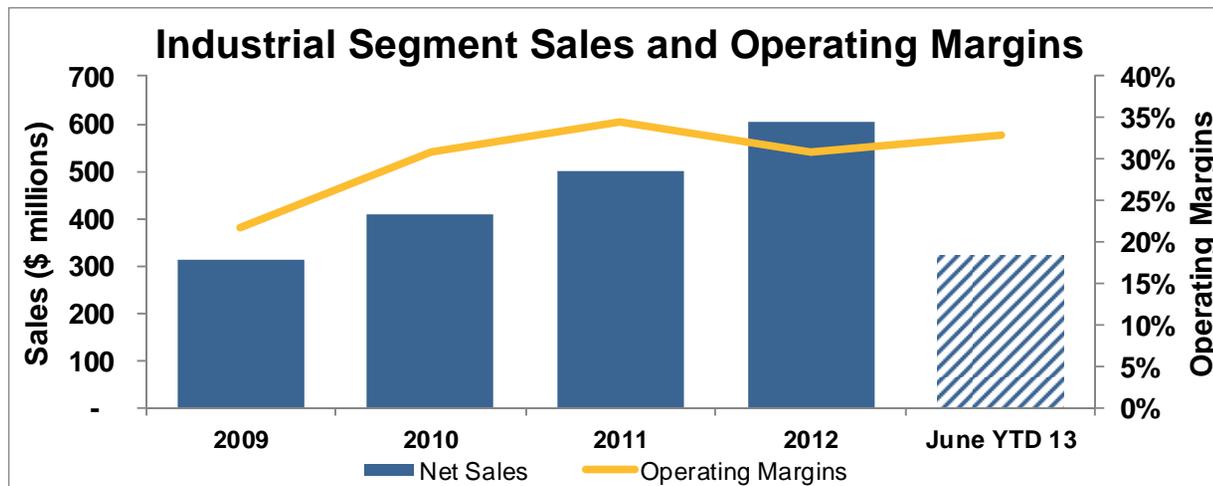


# Industrial Equipment Segment

- 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



## YTD June 2013 Sales



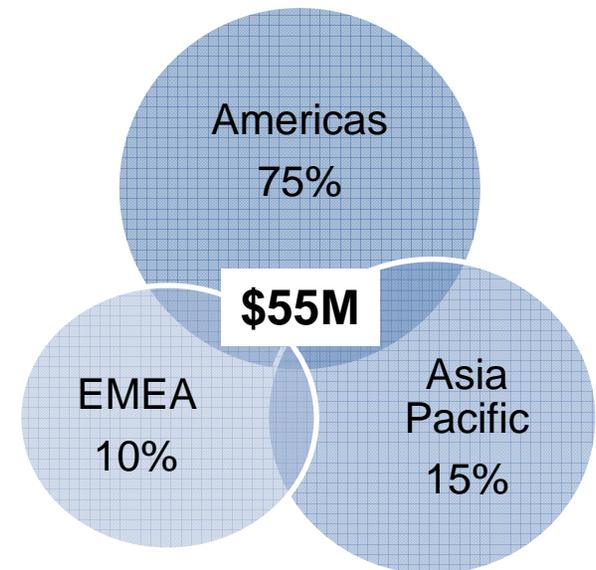
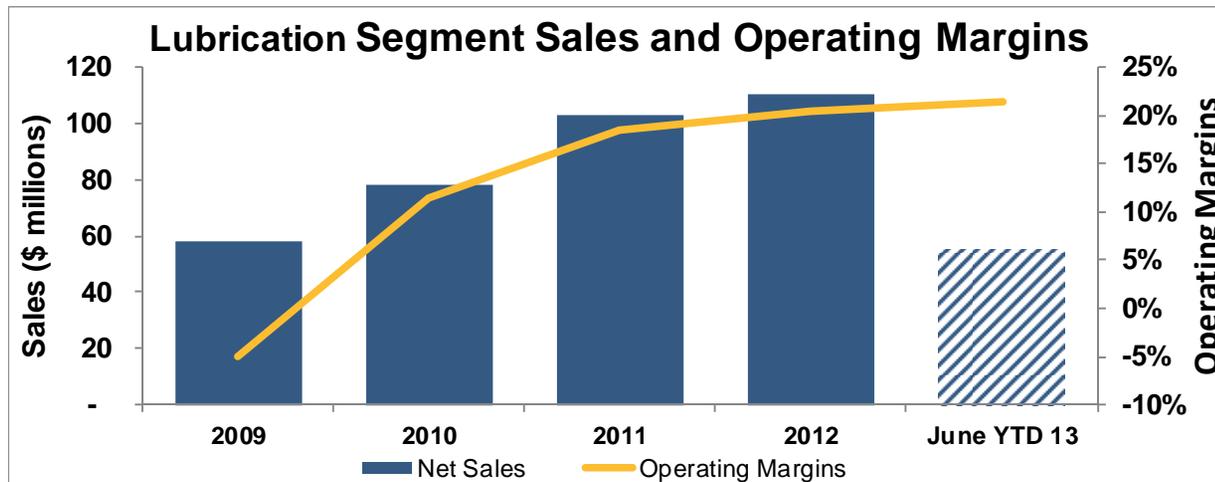
Includes Powder beginning April 2, 2012

# 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 2013 Sales**

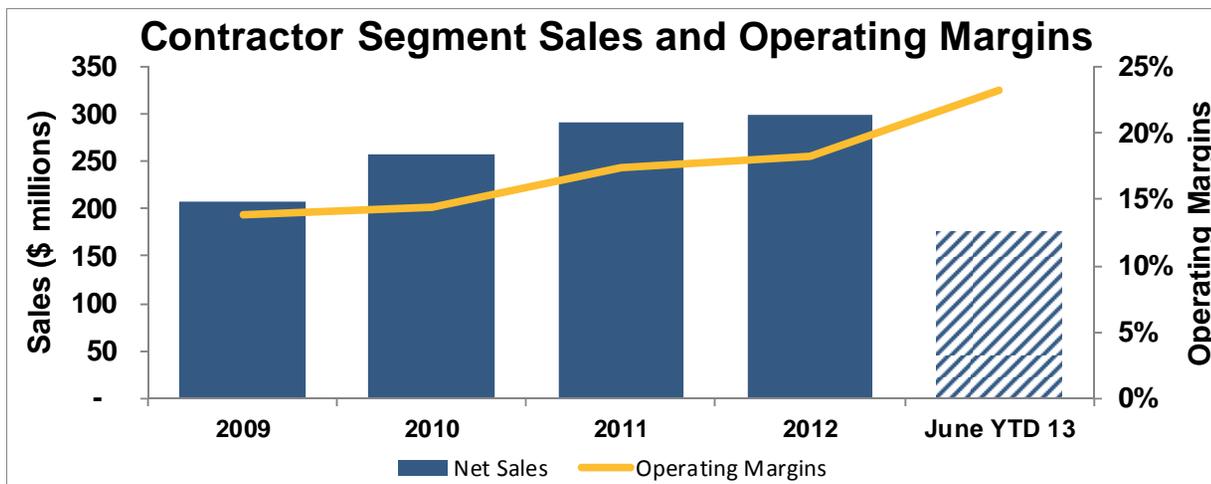
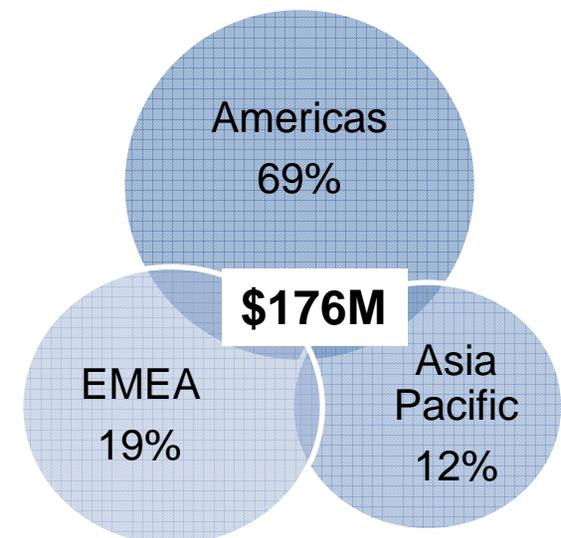


# Contractor Equipment Segment

- 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 2013 Sales



❖ Overview

➤ **Enduring Business Model**

❖ Strategies for Long-Term Growth

- Invest in New Products
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❖ 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





## 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>

❖ Overview

❖ Enduring Business Model

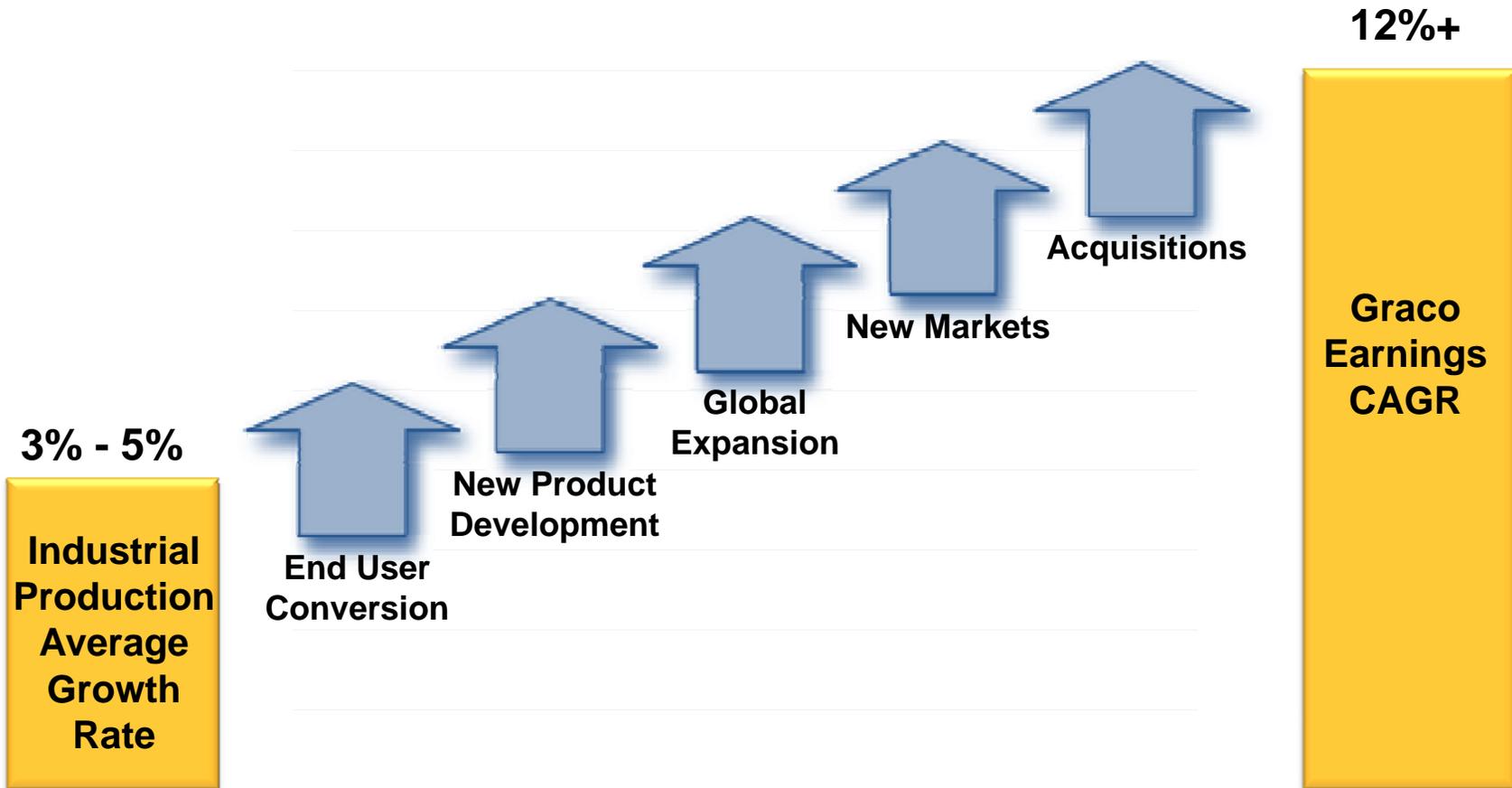
➤ **Strategies for Long-Term Growth**

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

❖ Company Performance



# Graco's Growth Plans and Earnings Drivers



- ❖ Overview
- ❖ Enduring Business Model

## ➤ **Strategies for Long-Term Growth**

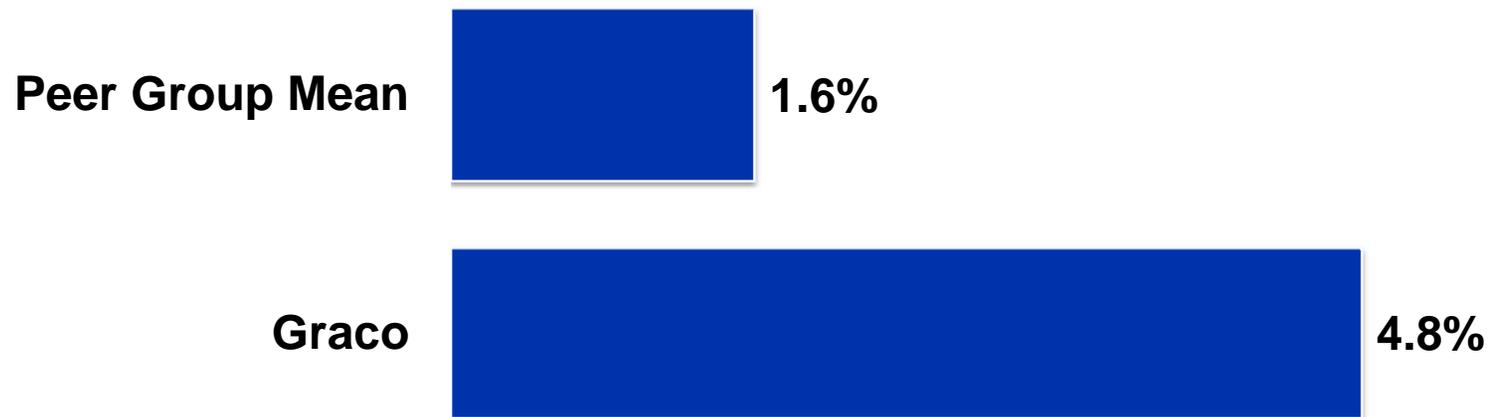
- **Invest in New Products**
  - Expand Geographically
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- ❖ Company Performance



# 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



## 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



# 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™**

# 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

# 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**



# 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

- ❖ Overview
- ❖ Enduring Business Model

➤ **Strategies for Long-Term Growth**

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- ❖ Company Performance

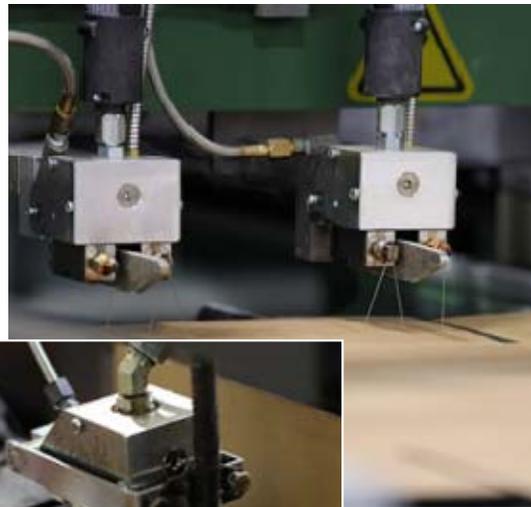


# InvisiPac™ Tank-Free Hot Melt Delivery System



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

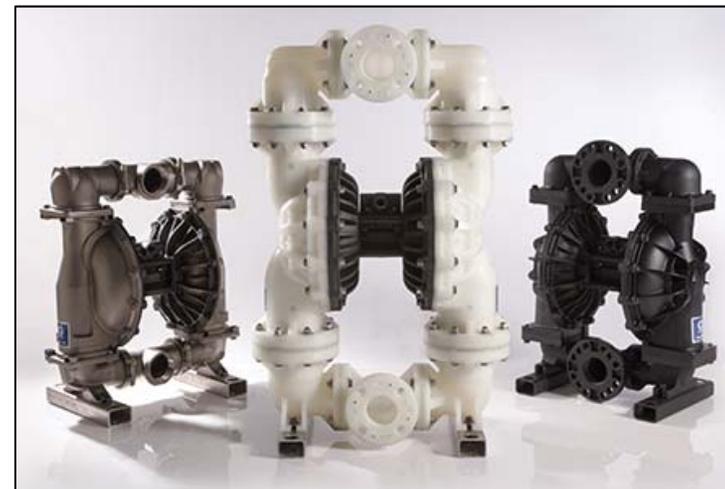


**Graco XM™ PFP  
Plural-Component Sprayer**

# 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



## 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**

- ❖ Overview
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  - **Make Acquisitions**
- ❖ Company Performance



# Gema<sup>®</sup> Acquired April 2012 – Strong Strategic Fit



- Well established brand name
  - High quality
  - A technology leader
- Large installed base
- Access to attractive end markets
- Desirable emerging market exposure
- Strong and growing global distribution base
- Scale to drive long-term growth worldwide



# Gema<sup>®</sup> Product Range



## Electrostatic Powder Guns



## Complete Systems



## Powder Kitchens



## Reciprocators



- ❖ Overview
- ❖ Enduring Business Model
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  - Invest in New Products
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## ➤ **Company Performance**





# Graco Reported Q2 Results on July 24, 2013

\$ millions except EPS	Second Quarter			Year-to-Date		
	2013	2012	Change	2013	2012	Change
Sales	\$ 286.0	\$ 268.2	7 %	\$ 555.1	\$ 502.3	11 %
Gross Profit	\$ 158.7	139.5	14 %	309.4	271.7	14 %
% of Sales	55.5 %	52.0 %	3.5 pts	55.7 %	54.1 %	1.6 pts
Operating Earnings	\$ 75.2	52.5	43 %	146.7	110.4	33 %
% of Sales	26.3 %	19.6 %	6.7 pts	26.4 %	22.0 %	4.4 pts
Net Earnings	\$ 57.8	\$ 34.4	68 %	\$ 110.0	\$ 69.7	58 %
% of Sales	20.2 %	12.8 %	7.4 pts	19.8 %	13.9 %	5.9 pts
Diluted Earnings Per Share	\$ 0.92	\$ 0.56	64 %	\$ 1.76	\$ 1.13	56 %

Includes dividends from Liquid Finishing businesses held separate:

\$ 11	\$ 4	\$ 15	\$ 4
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# Current Environment



	Americas	EMEA	Asia Pacific
Industrial Segment	 <p>Stable: General Industrial, Automotive, Ag, Heavy Machinery, Construction</p>	 <p>Favorable: Emerging EMEA Challenging: Western Europe, Middle East</p>	 <p>Stable: General Industrial Challenging: Project Activity</p>
Contractor Segment	 <p>Improving: Pro Paint and General Construction, DIY</p>	 <p>Favorable: Emerging EMEA Challenging: Western Europe</p>	 <p>Favorable: Emerging Markets Stable: General Construction</p>
Lubrication Segment	 <p>Favorable: Vehicle Services Unfavorable: On &amp; Off Road</p>	 <p>Favorable: Industrial Lubrication Challenging: Western Europe</p>	 <p>Challenging: Industrial Lubrication Unfavorable: Mining</p>

# Cash Deployment Priorities

**Organic Growth Investments**



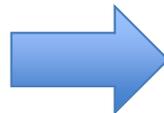
- International footprint
- Product development
- Production capacity and capabilities

**Acquisitions**



- Supplement to organic growth
- Leverage our strengths

**Dividends/Share Repurchase**



- Dividend payout ratio 25-30%
- 6 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 2013 – Appendix





## Financial Results – Year-to-Date June

(\$ Millions except EPS)	<u>2013</u>	<u>2012</u>	<u>Change</u>
Sales	\$ 555.1	\$ 502.3	11%
Gross Profit Rate	55.7%	54.1%	
Operating Expenses	162.7	161.3	1%
Operating Earnings	146.7	110.4	33%
Net Earnings	\$ 110.0	\$ 69.7	58%
Earnings Per Share	\$ 1.76	\$ 1.13	56%



## Year-to-Date June 2013 Results

- Sales year-to-date up 11 percent compared to prior year (no impact from currency translation)
- Year-to-date gross profit margin of 55½ percent, up 1½ percentage point from last year
  - Realized pricing plus manufacturing cost improvements
  - Non-recurring purchase accounting effects reduced 2012 margin by 1½ percentage points
- Operating expenses were up \$1 million
  - Acquisition/divestiture expenses down \$10 million
- Backlog increased \$7 million as compared to prior year-end
- Net earnings increased by 58 percent compared to last year
- Diluted EPS was \$1.76



## Financial Results – Second Quarter

(\$ Millions except EPS)	<u>2013</u>	<u>2012</u>	<u>Change</u>
Sales	\$ 286.0	\$ 268.2	7%
Gross Profit Rate	55.5%	52.0%	
Operating Expenses	83.5	87.1	(4%)
Operating Earnings	75.2	52.5	43%
Net Earnings	\$ 57.8	\$ 34.4	68%
Earnings Per Share	\$ 0.92	\$ 0.56	64%



## Second Quarter 2013 Results

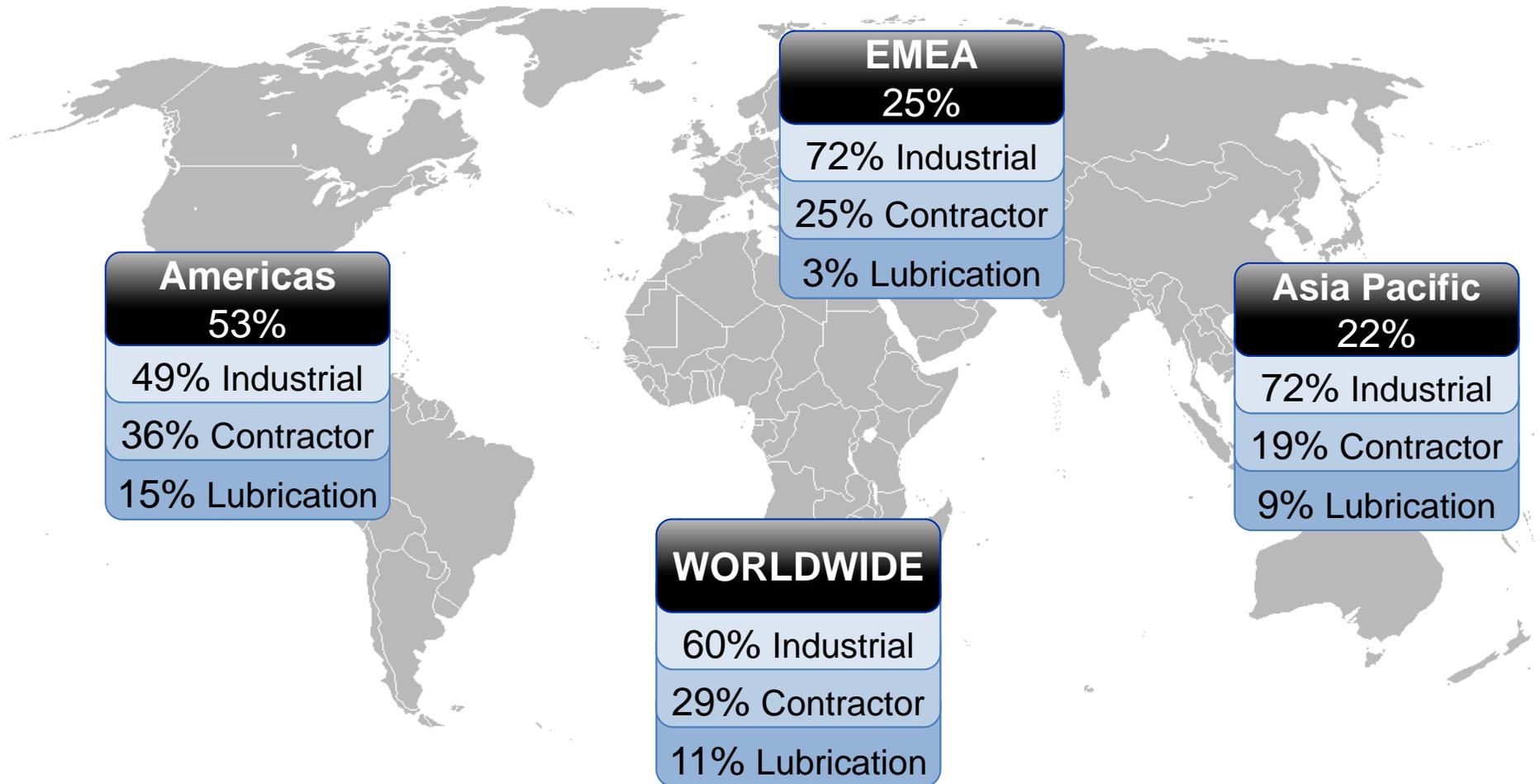
- Sales for the quarter up 7 percent compared to second quarter 2012 (no impact from currency translation)
- Gross profit margin for the quarter of 55½ percent, up 3½ percentage points from last year
  - Realized pricing plus manufacturing cost improvements
  - Non-recurring purchase accounting effects reduced 2012 margin by 3 percentage points
- Operating expenses were down \$4 million
  - Acquisition/divestiture expenses down \$7 million
- Net earnings increased by 68 percent compared to second quarter 2012
- Diluted EPS was \$0.92

# Financial Summary 2012 – Appendix





# 2012 Sales \$1.012 Billion





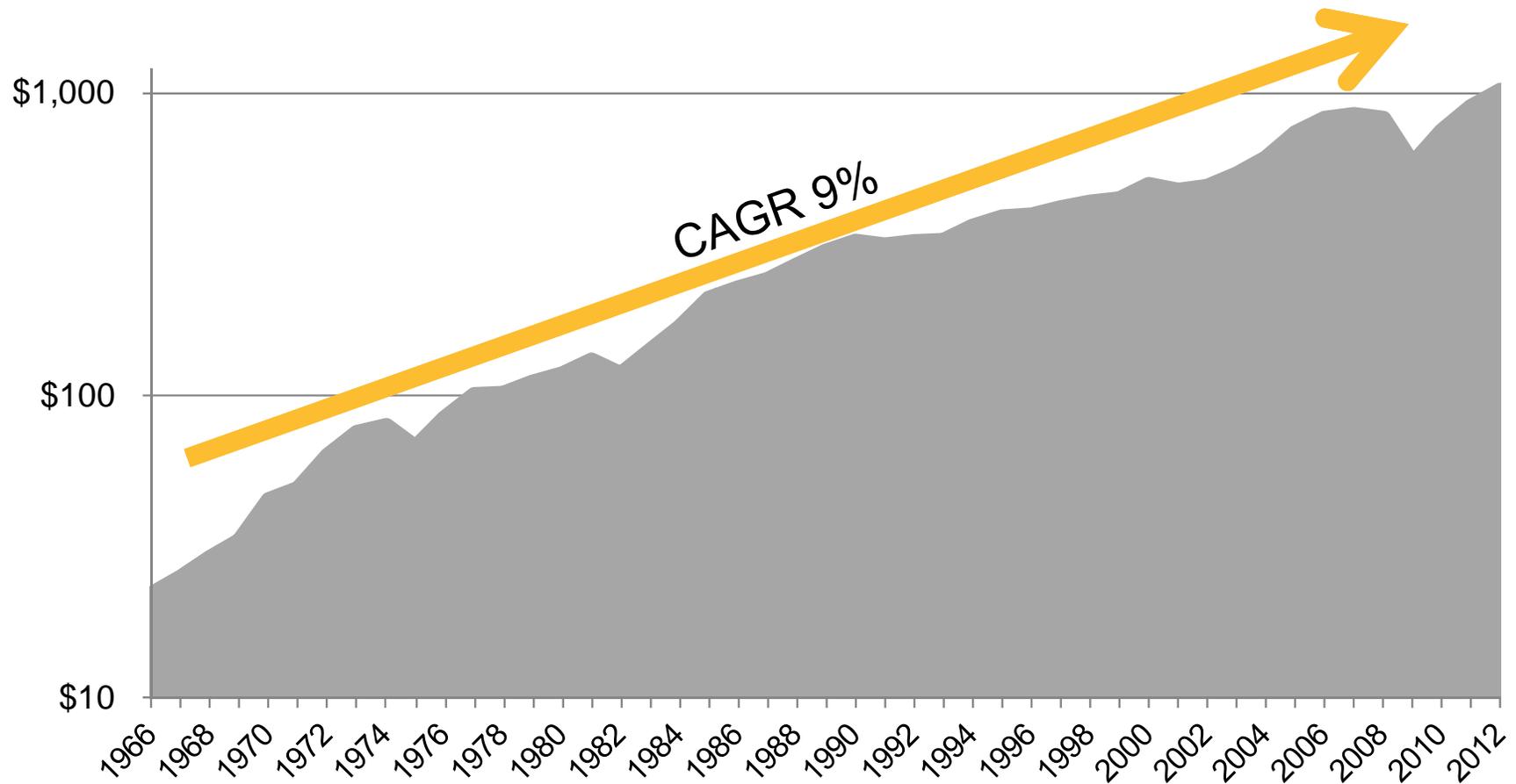
# Financial Performance

## Sales and Operating Margin

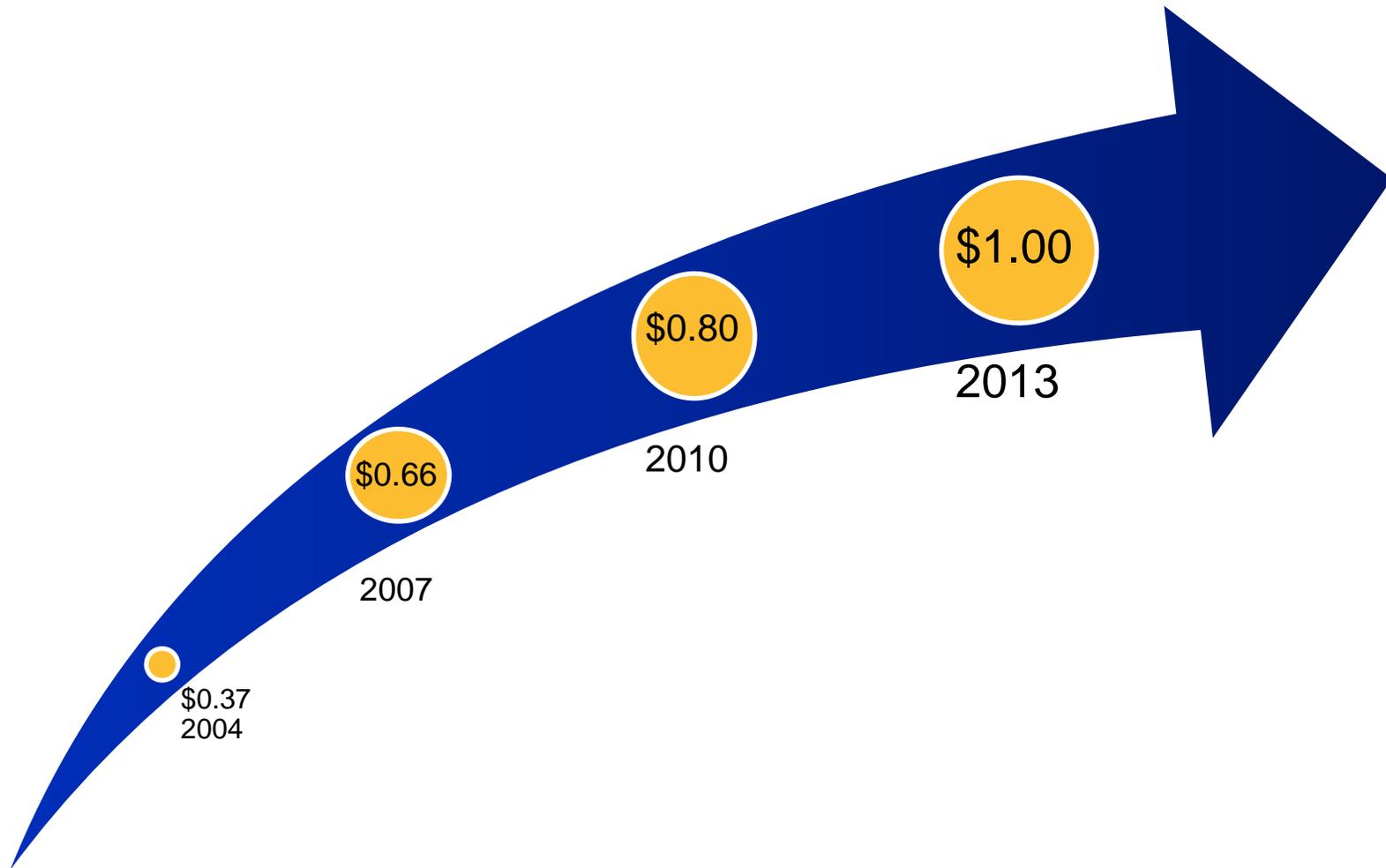




# Historic Sales (\$ Millions)



# Stock Dividend Growth



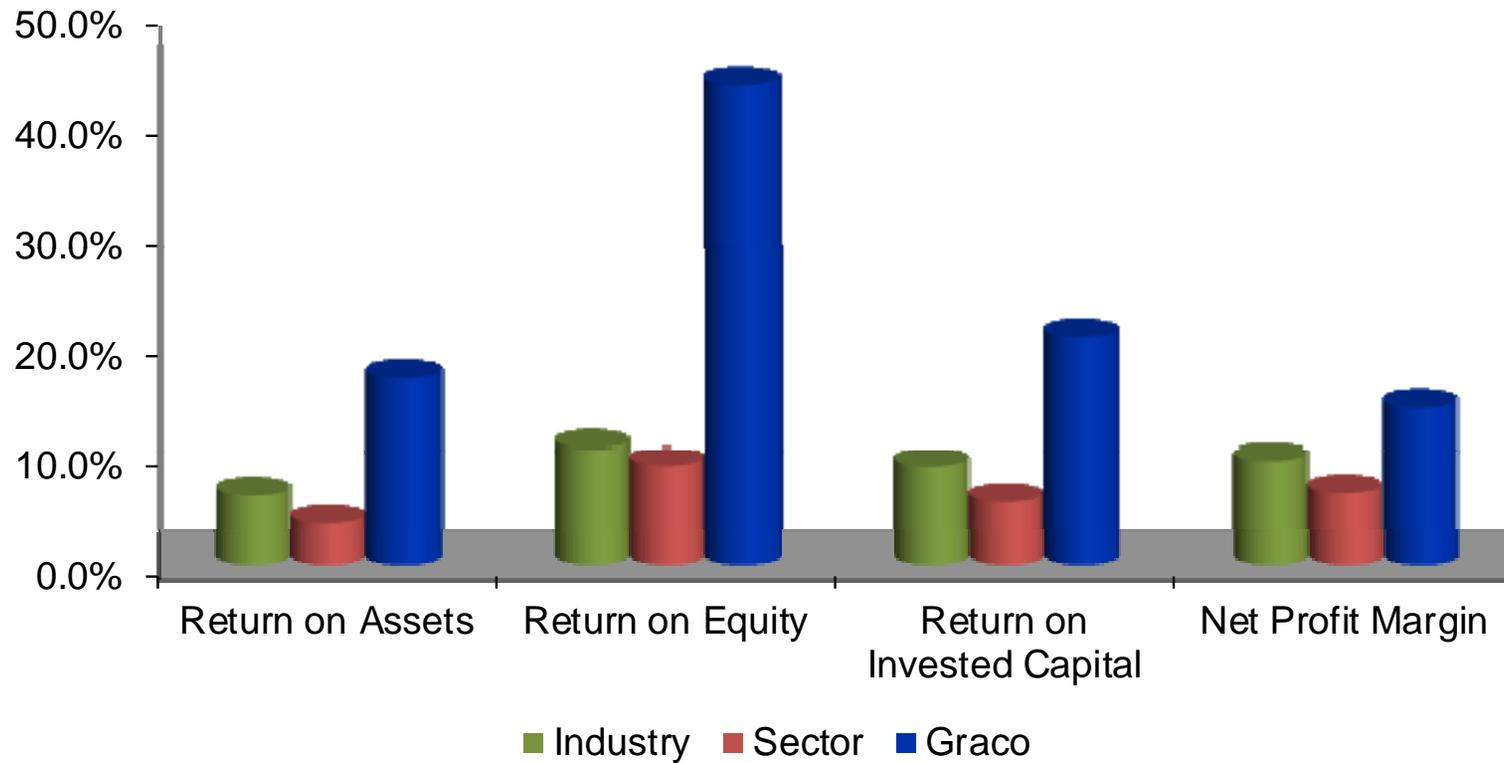


# Strong Cash Generation

(\$ 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	29	37	34	20	17
Free Cash Flow	\$ 172	\$ 138	\$ 84	\$ 136	\$ 133	\$ 140	\$ 122	\$ 133	\$ 106
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
	\$ 697	\$ 74	\$ 59	\$ 39	\$ 201	\$ 249	\$ 146	\$ 179	\$ 156

\* Net of shares issued

# Capital Efficiency – 5 Year Average



Source: Interactive Data, 2013 Thomson Reuters

# INNOVATION IN FLUID HANDLING



move

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# MANUFACTURING EXCELLENCE