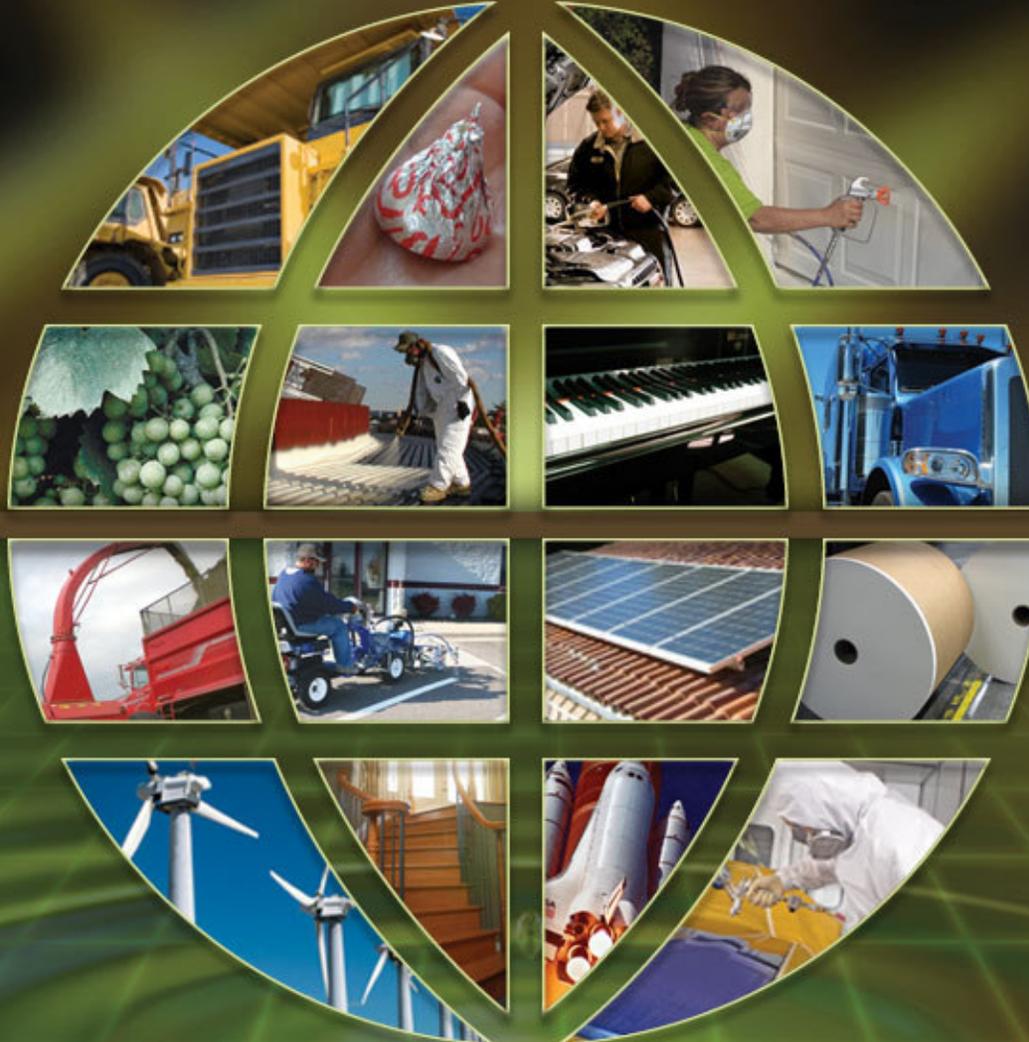


GRACO INC.

**Investing
For
Our
Future**



June 2009



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, and Exhibit 99 to, the Company's 2008 Form 10-K.

Business Overview

- Graco manufactures equipment to pump, meter, mix and dispense a wide variety of fluids – typically difficult to handle fluids with high viscosities, abrasive or corrosive properties
- We are global, with more than 40% of our sales coming from outside the Americas
- We sell primarily through independent 3rd party distributors - approximately 30,000 outlets worldwide. This business model is an important part of our profitability profile.
- Parts and accessories account for approximately 40% of our annual revenue
- Our markets have high barriers to entry and strong but rational competitors
- We report our business in three segments – Contractor, Industrial and Lubrication.

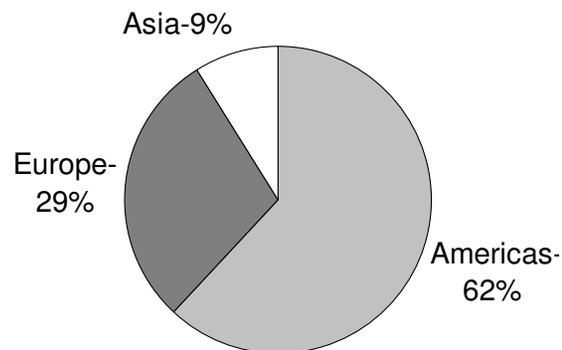
Contractor Equipment

Market Dynamics

- Graco served market size approximately \$450-500M
- Products sold through independent 3rd party distributors
- New residential construction, commercial construction, remodel and repaint
- Applications include paint, texture, stains, pavement marking
- Conversion of end users from manual application methods is major focus outside North America and grows the pie
- Wagner is the only significant competitor worldwide



2008 Revenue - \$267M

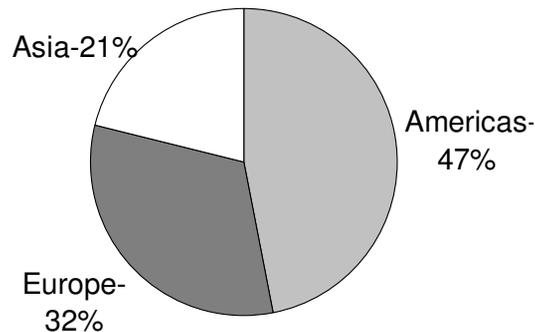


Industrial Equipment

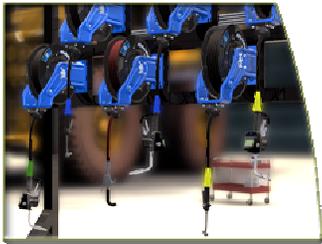
Market Dynamics

- Graco served market is approximately \$2.0B worldwide
 - Liquid Finishing and Process Equipment \$900M
 - Sealant and Adhesive \$600M
 - Protective Coatings, Foam and In-Plant Polyurethane \$500M
- Products sold through independent 3rd party value adding distributors
- End users require equipment “solutions” vs. product in a box
- End user purchases are ROI driven
- Likelihood of new entrants low, rational competitors including ITW, Exel, IDEX, IR, Dover and Wagner
- Strong Graco brand name and large installed base
- Pricing power and strong margins permit aggressive investments

2008 Revenue - \$463M



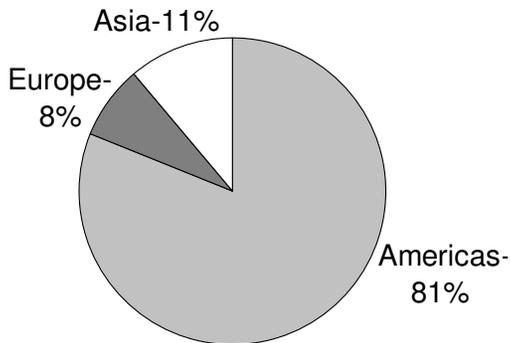
Lubrication Equipment



Market Dynamics

- Worldwide Lubrication Equipment market is approximately \$1.1B worldwide
 - Vehicle Service Equipment - \$400M
 - Industrial Lubrication Equipment - \$700M
- Products sold through independent 3rd party distributors, through oil jobbers and direct to OEM
- Entrenched, stable competition in each market segment
- Major competitors include Lincoln, Vogel, BEKA, Samoa

2008 Revenue - \$87M



Managing in the Current Environment

- We intend to emerge with all of our key business drivers stronger than before the recession
 - Improved and expanded product offering
 - More trained commercial people worldwide
 - Improved and expanded distribution channel
 - Larger served market
 - Improved operating efficiencies

Managing in the Current Environment

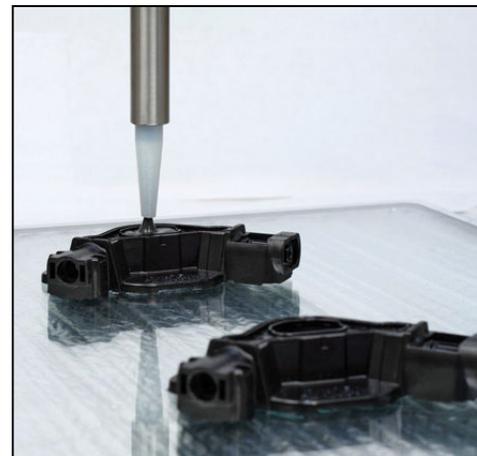
- We are taking the long term view of investments that build our business:
 - New Product Development
 - Global expansion – especially developing markets
 - Channel expansion
 - New Applications and Markets
- We have been selectively targeting cost reductions
 - Actions taken through March 2009 effectively reduce headcount by approximately 20% vs. 2008 high point
- We have a robust contingency planning process and intend to stay agile

Opportunities in the Current Environment

- Maximize opportunities in global stimulus spending
 - Infrastructure

- Maximize opportunities to capitalize on material trends
 - 2 component paints
 - 2 component adhesives
 - Spray foam insulation

- Maximize opportunities to participate in green initiatives
 - VOC reduction
 - High solids
 - Waterborne
 - Alternative energy
 - Insulation



Targeting Growth with New Products



- Increased investment in new product development by 20% in 2008
- Will invest approximately \$40M in 2009
 - Q1 2009 was \$10M
- Target 30% of sales from product developed in the last 3 years
 - 2008 was 26%, increased from 22% in 2007
- Increased emphasis on expanding served market vs. next generation technology
 - But both are important

Example: New Product – Protective Coatings Equipment

Graco XM Plural-Component Sprayer

- Provides precise, on-ratio spraying
 - patent-pending dosing technology
- Industry-first USB drive

Markets Served

- Global infrastructure
- Traditional and alternative energy
- Mass transportation
- Marine & shipbuilding
- Railcar repair & manufacturing
- Pipe manufacturing
- Storage tanks



Example: New Product – Industrial Liquid Finishing

Graco ProMix 2KS

- Up to 30 colors and 4 catalysts
- Enhanced mixing technology for waterborne materials
- Improved design leads to less material waste and lower VOCs
- Web interface

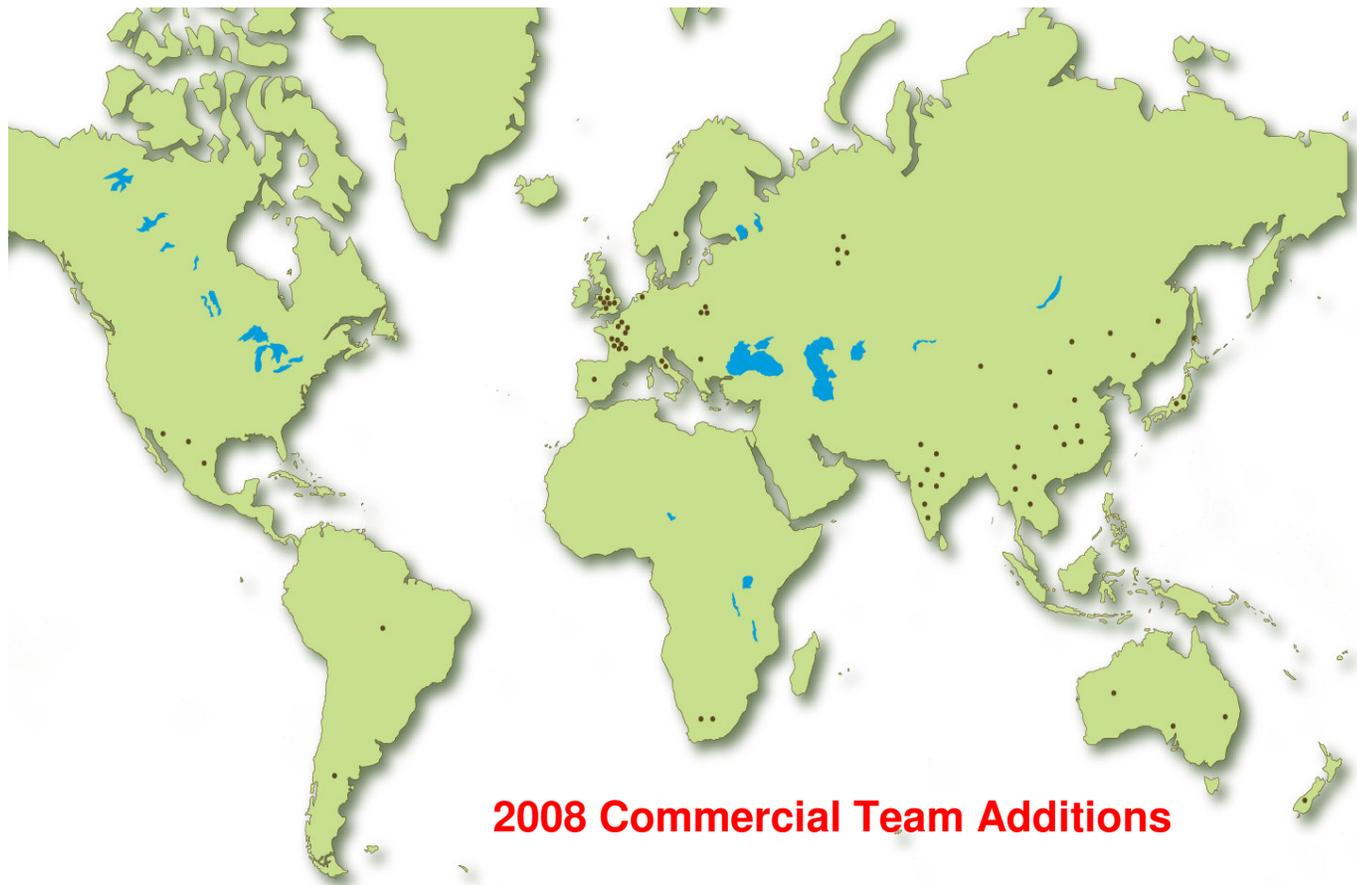
Markets Served

- In-Plant Manufacturing



Targeting Growth Through Global Expansion

- Entering emerging markets early with focused investment in sales and marketing resources to establish our distribution channel



Targeting Growth through Channel Expansion

- Added 1300 distribution locations in 2008
 - 350 in Europe
 - 280 in Asia
- Expanded entry level spray equipment channel
 - Beginning 2008 - 1,600 outlets
 - End 2008 - 4,200 outlets
 - Added 300 outlets in Q1 2009



Targeting Growth in New Markets

- Thermoplastic
- Alternative Energy
- Composites
- Sanitary
- Industrial Lubrication



Example: New Market – Thermoplastic Line Striping

ThermoLazer®

- Launch Mid 2009
- Patentable Technologies

Target Markets

- Worldwide Pavement Marking



Growth Opportunities

Current Served Market
Market Opportunity

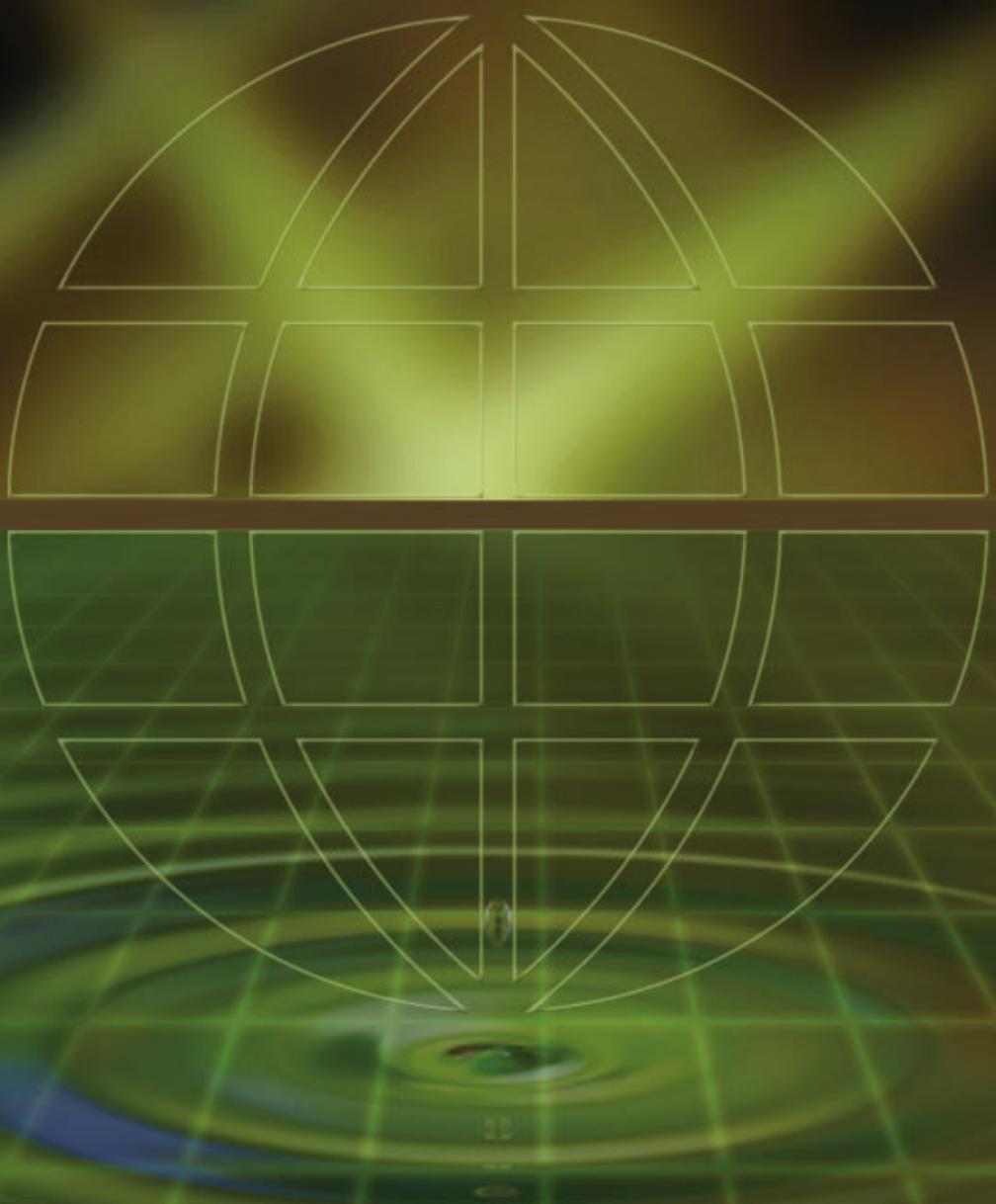
Total Texture	Total Pavement	Total Paint																		
<ul style="list-style-type: none"> • Interior Textures • Elastomeric Textures • Acrylic Textures <p><i>• 19 New Application Markets</i></p>	<ul style="list-style-type: none"> • Pavement Marking – Paint • Sports Turf – Paint • Lot Layout <p><i>• 13 New Application Markets</i></p>	<ul style="list-style-type: none"> • Interior Painting • Exterior Painting • Residential • Commercial / Industrial • New Construction • Repaint / Remodel • Fine Finishing • Roofing <p><i>• 9 New Application Markets</i></p>																		
<p style="text-align: center;"><u>Served Mkt Size</u></p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Current</td> <td style="width: 50%; text-align: right;">\$45M</td> </tr> <tr> <td><i>Opportunity</i></td> <td style="text-align: right;"><i>\$280M</i></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$325M</td> </tr> </table>	Current	\$45M	<i>Opportunity</i>	<i>\$280M</i>	Total	\$325M	<p style="text-align: center;"><u>Served Mkt Size</u></p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Current</td> <td style="width: 50%; text-align: right;">\$40M</td> </tr> <tr> <td><i>Opportunity</i></td> <td style="text-align: right;"><i>\$75M</i></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$115M</td> </tr> </table>	Current	\$40M	<i>Opportunity</i>	<i>\$75M</i>	Total	\$115M	<p style="text-align: center;"><u>Served Mkt Size</u></p> <table border="0" style="width: 100%;"> <tr> <td style="width: 50%;">Current</td> <td style="width: 50%; text-align: right;">\$400M</td> </tr> <tr> <td><i>Opportunity</i></td> <td style="text-align: right;"><i>\$260M</i></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">\$660M</td> </tr> </table>	Current	\$400M	<i>Opportunity</i>	<i>\$260M</i>	Total	\$660M
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Graco Manufacturing

- Factories are measured on annual cost change and expected to achieve zero or better year-to-year total cost change
 - Graco has been on the Lean journey for 20 years
 - Our approach is focused on total cost, not inventory turns

- Key initiatives include:
 - Process improvements – machining and assembly
 - Measurement of labor efficiency
 - Leverage of volume
 - Material cost reduction
 - Supplier consolidation
 - Low-cost geographies
 - Design cost reduction

- Cost-To-Produce is a unique tool Graco has developed to measure progress on cost reduction



**Graco
Financial
Summary**

First Quarter Results

- Sales for the quarter down 32 percent from last year
- Sales were down in all segments and regions
- First quarter gross profit margin of 46.7 percent was lower than last year (54.8 percent) due mainly to low production levels, severance costs and unfavorable currency translations
- Operating expenses were down 2 percent due to increases in product development, pension and severance expense and were offset by effects of workforce reductions in fourth quarter 2008, lower incentives, bonus provisions and currency translations.
- Backlogs decreased \$6M from the end of 2008
- Net earnings decreased 92 percent and diluted EPS at 5 cents were down 91 percent

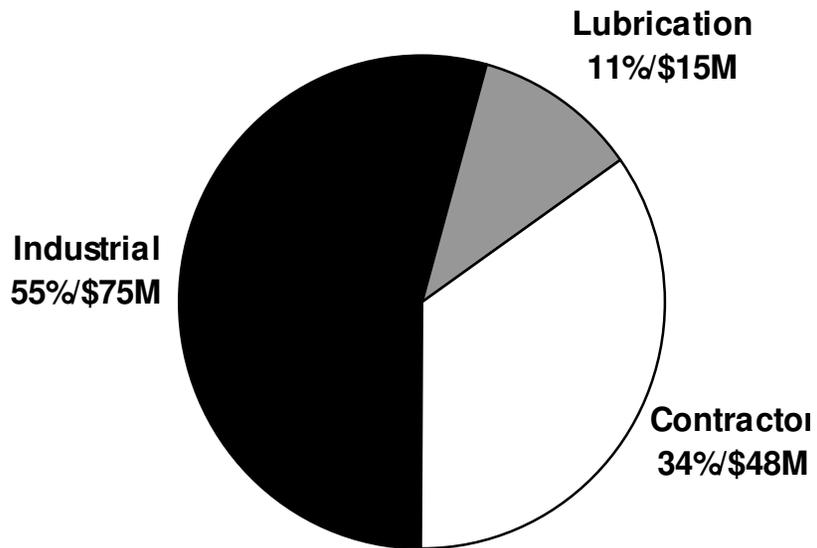
Financial Results – 1st Quarter 2009

(\$ Millions except EPS)	<u>2009</u>	<u>2008</u>	<u>Change</u>
Sales	\$ 137.9	\$ 204.1	(32%)
Gross Profit Rate	46.7%	54.8%	
Operating Expenses	58.2	59.5	(2%)
Operating Earnings	6.1	52.4	(88%)
Net Earnings	\$ 2.8	\$ 35.6	(92%)
Earnings Per Share	\$ 0.05	\$ 0.57	(91%)

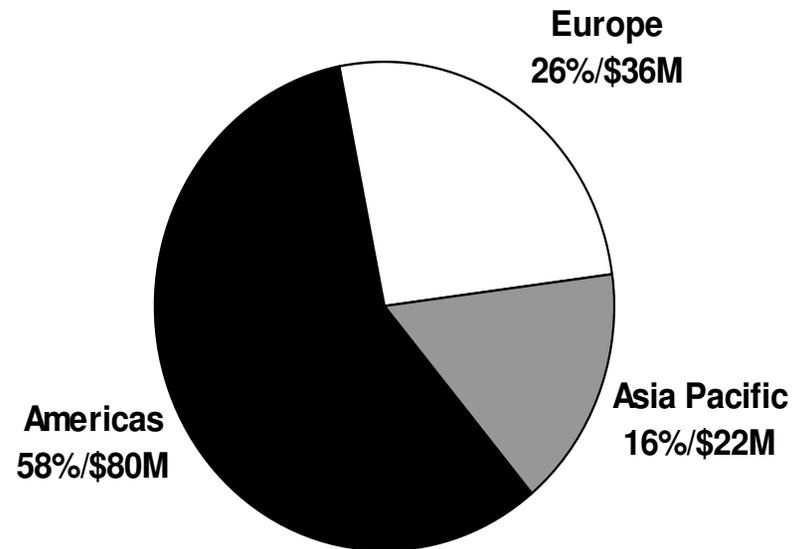
2009 1st Quarter Sales

\$138M

Segment



Geography



Summary – 2008

- Sales down 3%
 - Strong international sales; Europe and Asia up 8% and 3%, respectively
 - Americas mixed but overall revenue down 9%
 - Higher sales in Industrial offset declines in Contractor and Lubrication
- Gross margin – 53%
- Operating profit margin – 23%
- Earnings per share down 14%
- \$112 million in share repurchase – 5% of outstanding shares

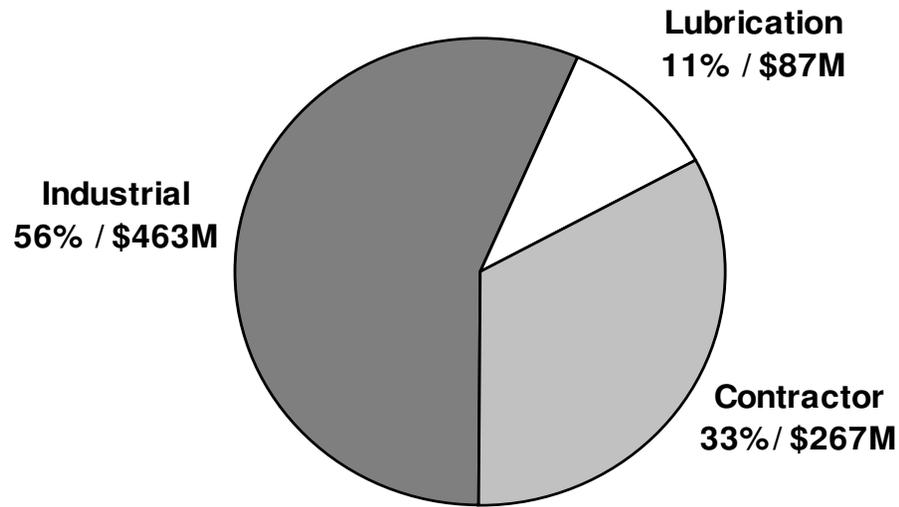
Financial Results – Full Year

(\$ Millions except EPS)	<u>2008</u>	<u>2007</u>	<u>% Change</u>
Sales	\$ 817.3	\$ 841.3	(3%)
Gross Profit Rate	52.9%	53.2%	
Operating Expenses	244.8	214.9	14%
Operating Earnings	187.4	232.5	(19%)
Net Earnings	\$ 120.9	\$ 152.8	(21%)
Earnings Per Share	\$ 1.99	\$ 2.32	(14%)

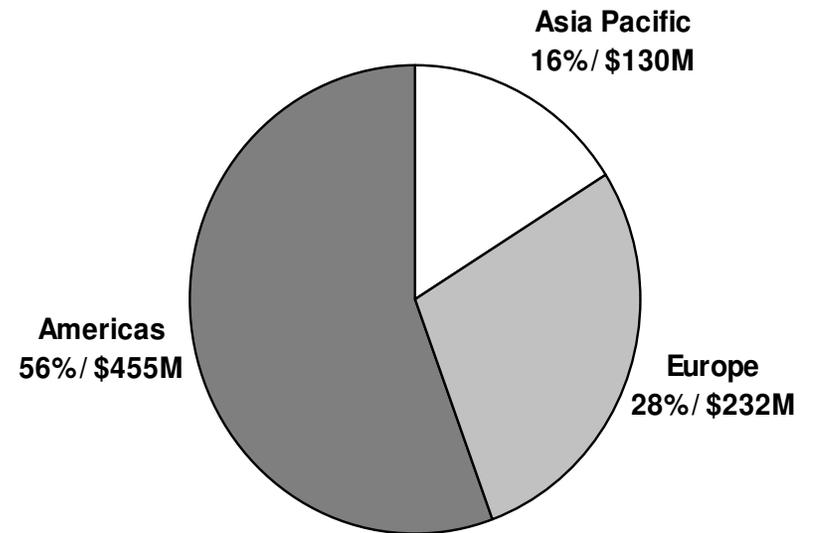
2008 – Full Year of Sales

\$817M

Segment

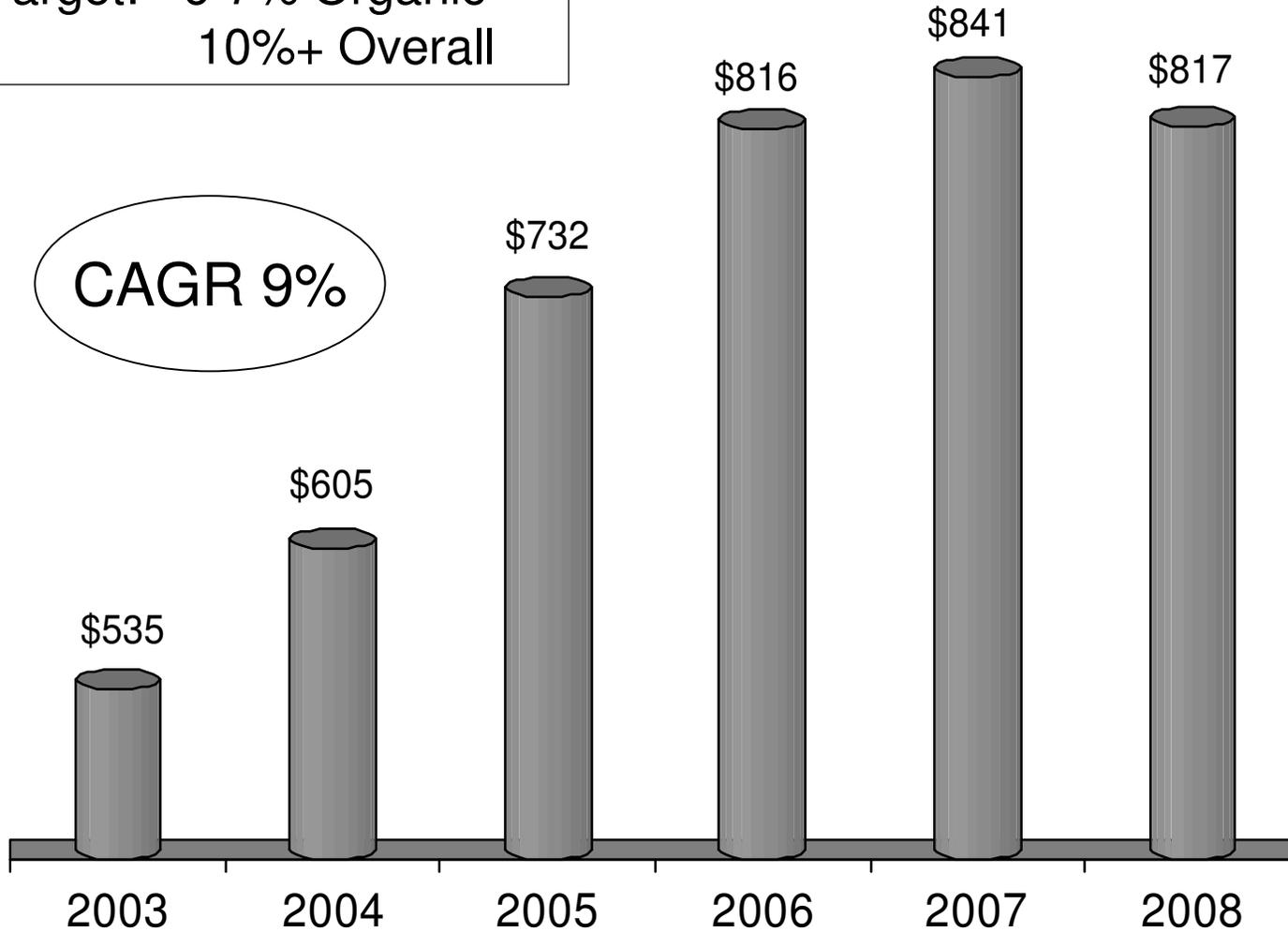


Geography



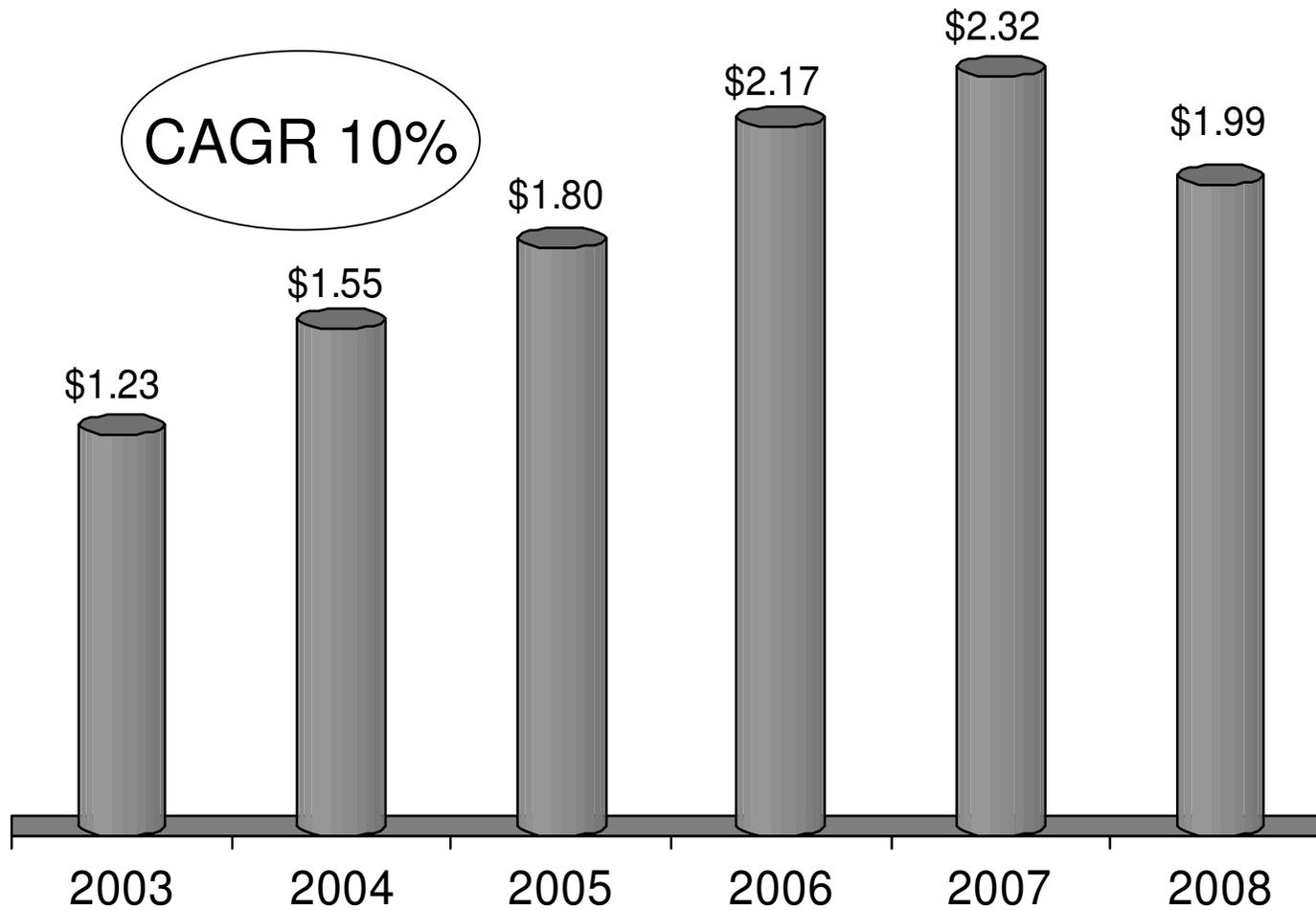
Annual Sales (\$ Millions)

Target: 6-7% Organic
10%+ Overall



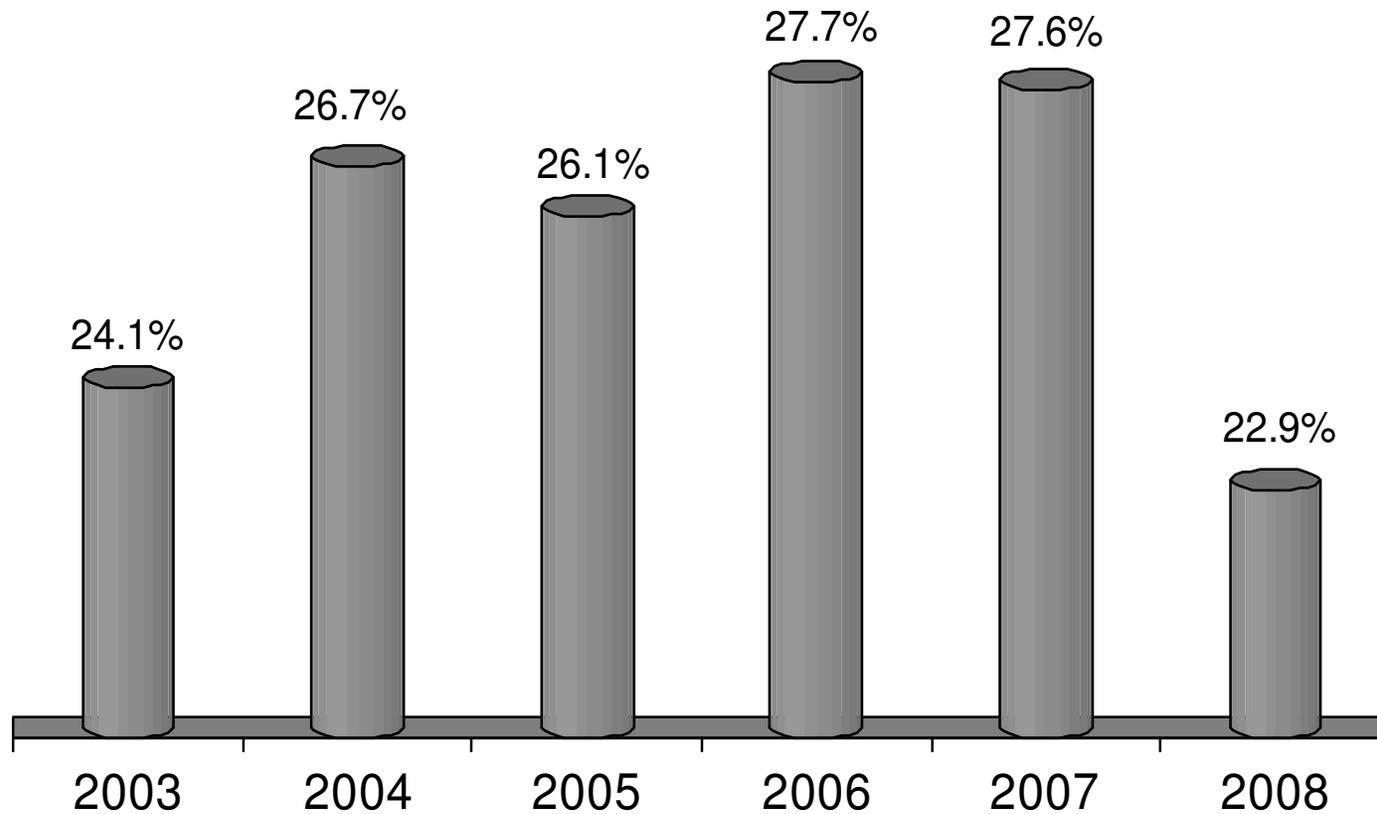
Earnings Per Share

Target: 12%+



Operating Margin

- Disciplined spending
- Increased manufacturing efficiency
- Leverage volume increases
- Continuous improvement culture



Strong Cash Generation

(\$ Millions)	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Operating Cash Flows	\$ 162	\$ 177	\$ 156	\$ 153	\$ 123
% of Net Income	134%	116%	104%	121%	113%
Capital Expenditures	<u>27</u>	<u>37</u>	<u>34</u>	<u>20</u>	<u>17</u>
Free Cash Flow	<u>\$ 135</u>	<u>\$ 140</u>	<u>\$ 122</u>	<u>\$ 133</u>	<u>\$ 106</u>
Dividends	\$ 45	\$ 43	\$ 39	\$ 36	\$ 130
Acquisitions	55	-	31	111	-
Share Repurchases *	<u>101</u>	<u>206</u>	<u>76</u>	<u>32</u>	<u>26</u>
	<u>\$ 201</u>	<u>\$ 249</u>	<u>\$ 146</u>	<u>\$ 179</u>	<u>\$ 156</u>

* Net of shares issued

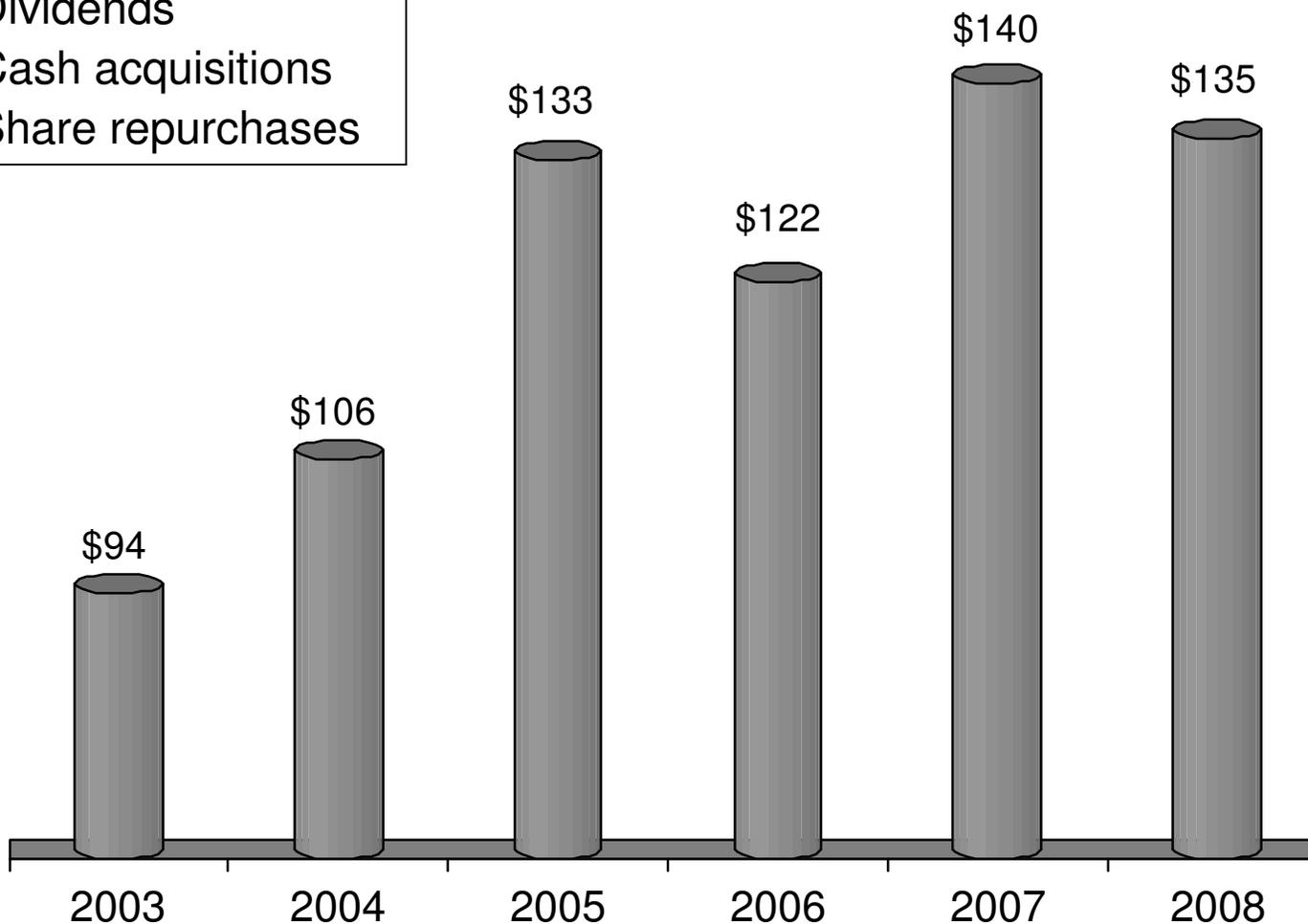
Leverage

(\$ Millions)	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
EBITDA	\$ 222	\$ 261	\$ 252	\$ 213	\$ 179
Debt, Net of Cash	186	121	12	(10)	(55)
Debt to EBITDA	84%	46%	5%		
Operating Earnings	\$ 187	\$ 232	\$ 226	\$ 191	\$ 162
Interest Expense	\$ 8	\$ 3	\$ 1	\$ 1	\$ 0.5

Free Cash Flow (\$ Millions)

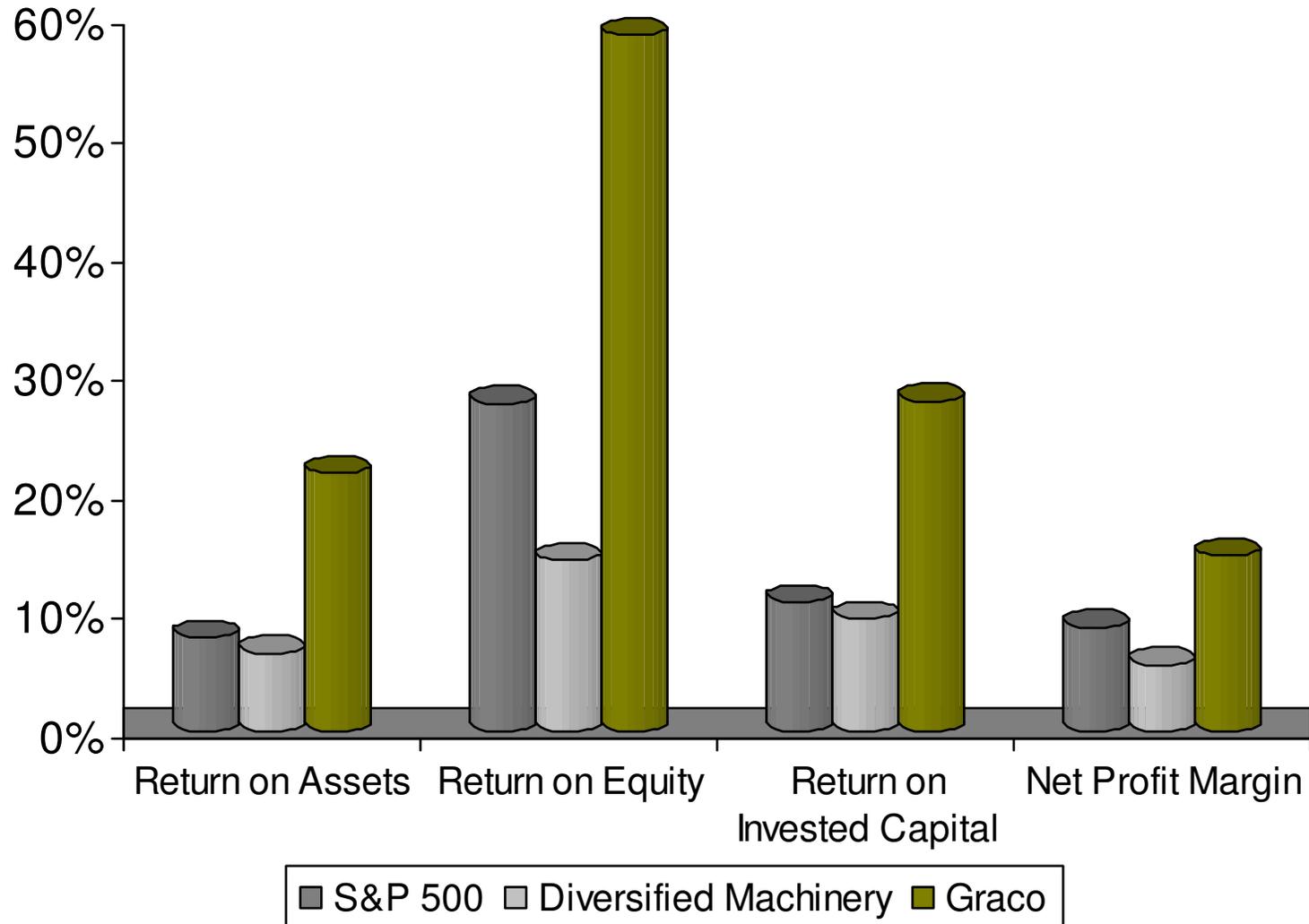
Strong cash flow for:

- Dividends
- Cash acquisitions
- Share repurchases



Cash provided by operating activities less property, plant and equipment additions plus proceeds from sale of property

Capital Efficiency – 2008



Source: Interactive Data, 2009 Thomson Reuters

Cash Deployment Priorities

Organic Internal Investments →

- International footprint
- R&D
- New capital

Acquisitions →

- Supplement to organic growth
- Leverage our strengths

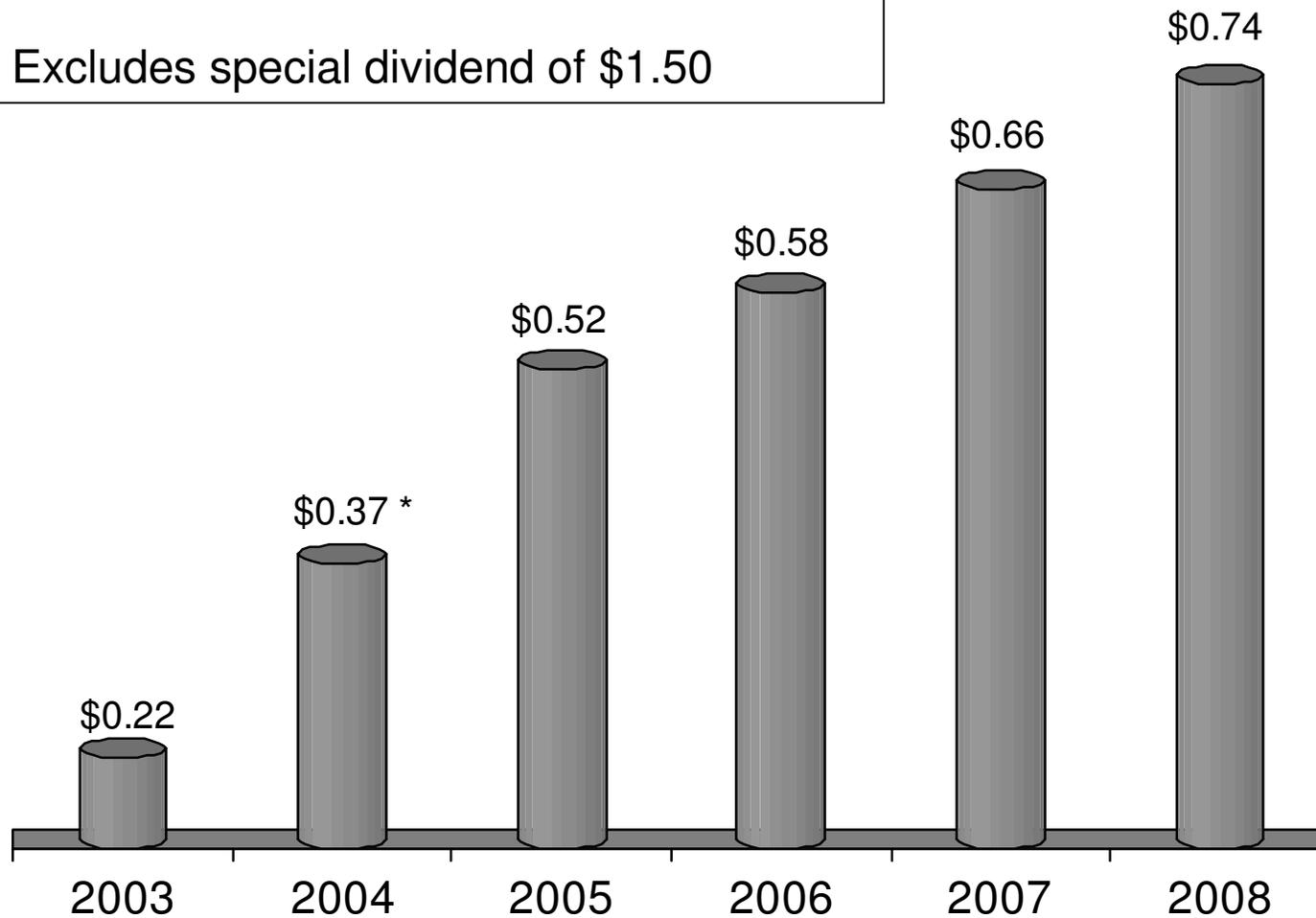
Dividends/Share Repurchase →

- Dividend payout ratio 25-30%
- 7 million authorized share repurchase - 11% of outstanding shares approved September 2007

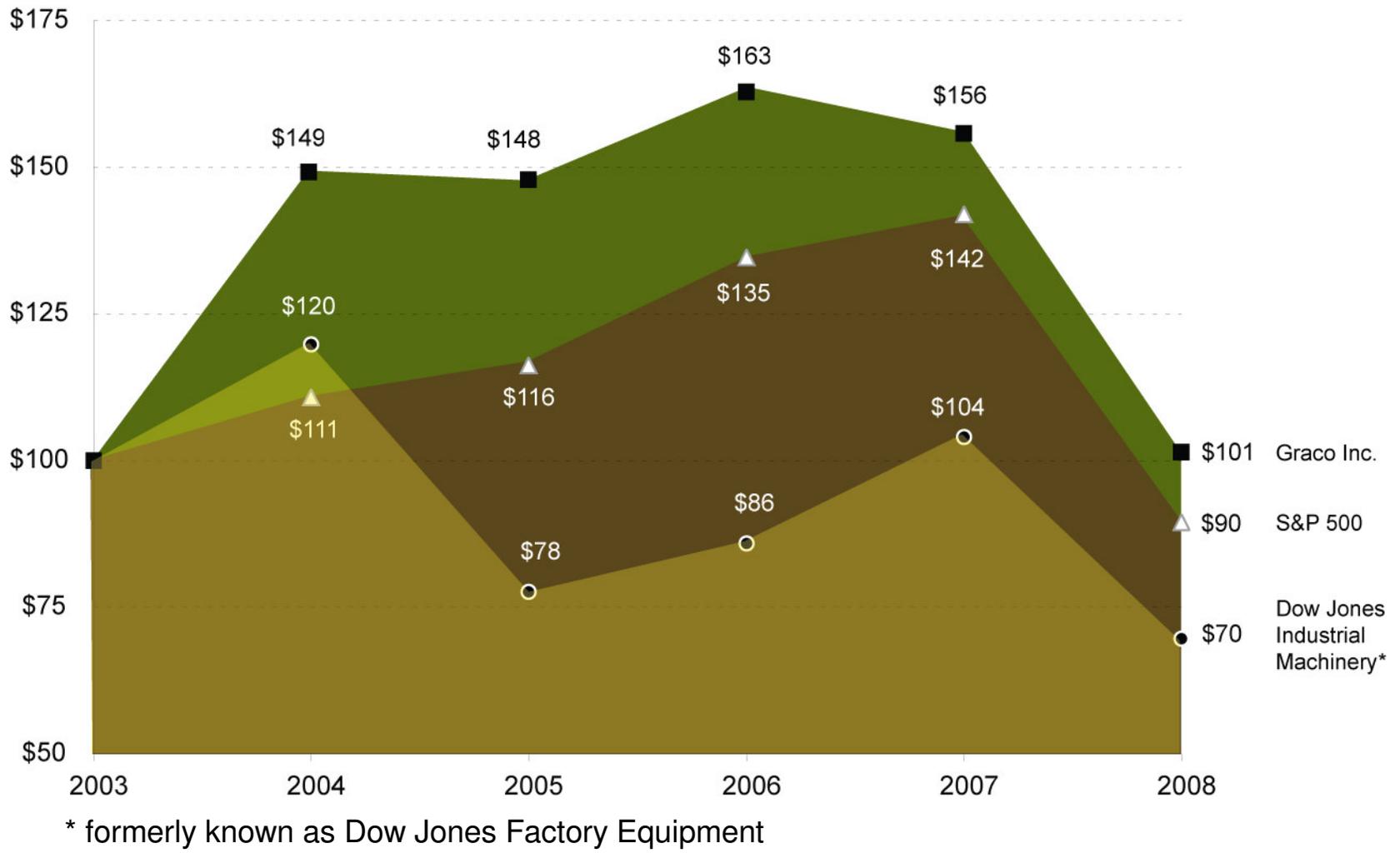
Annual Dividend Growth

- Annual dividend more than tripled

* Excludes special dividend of \$1.50



Shareholder Returns



Key Investment Attributes

- Leading market 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



Proven Quality. Leading Technology.

Move

Measure

Control

Dispense

Spray

