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GGG.N - Q2 2024 Graco Inc Earnings Call

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OVERVIEW:

Company Summary

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David Lowe *Graco Inc - Chief Financial Officer, Treasurer*

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Saree Boroditsky *Jefferies - Analyst*

Bryan Blair *Oppenheimer & Co., Inc. - Analyst*

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PRESENTATION

Operator

Good morning, and welcome to the second quarter conference call for Graco Inc, if you wish to access the replay for this call, you may do so by visiting the company website at www.graco.com. Graco has additional information available in a PowerPoint slide presentation, which is available as part of the webcast player.

At the request of the company, we will open the conference up for question and answers after the opening remarks from management. During this call, various remarks may be made by management about their expectations, plans and prospects for the future. This remarks constitute forward-looking statements for the purposes of the Safe Harbor provisions of the Private Securities Litigation Reform Act.

Actual results may differ materially from those indicated as a result of various risk factors, including those identified in Item 1A of the company's 2023 Annual Report on Form 10-K in Item 1A of the company's most recent quarterly reports on Form 10-Q. These reports are available on the company's website at www.graco.com and the SEC's website at www.sec.gov.

Forward-looking statements reflect management's current views and speak only as of the time they are made. The company undertakes no obligation to update these statements in light of new information or future events. I will now turn the conference over to Chris Knutson, Executive Vice President, Corporate Controller.

Christopher Knutson - Graco Inc - Executive Vice President, Corporate Controller

Good morning, everyone, and thank you for joining our call. I'm here today with Mark Sheahan and David Lowe. I will provide a brief overview of our quarterly results before turning the call over to Mark for additional commentary.

Yesterday, Graco reported second quarter sales of \$553 million, a decrease of 1% from the same quarter last year. Reported net earnings decreased 1% to \$133 million, or \$0.77 per diluted share. Excluding the impact of excess tax benefits from stock option exercises, adjusted non-GAAP net earnings were \$132 million, or \$0.77 per diluted share an increase of 3%.

The effect of currency translation had no significant impact on sales or net earnings for the quarter. The gross margin rate increased 230 basis points in the quarter. Realized pricing and lower product costs were more than enough to offset sales volume declines from the industrial and process segments. We had favorable factory volume in contractor as we built inventory ahead of the new product introductions.

Total operating expenses increased \$5 million or 4% in a quarter, mainly due to \$3 million associated with the relocation to a new distribution center and \$2 million related to product development spending, growth initiatives and other corporate items.

Gross margin rate improvement primarily in contractor was able to offset lower sales volumes and increased expenses in the industrial and process segments, during the quarter, resulting in operating margin rate of 29%, an improvement of 1-percentage-point from the same period last year. Contractor operating margin rate increased 4-percentage-points to 31% compared to the second quarter last year.

Interest and other, decreased \$1 million during the quarter, driven primarily by lower interest expense as our long-term debt was repaid in 2023. The adjusted effective tax rate was 20%, which is consistent with our expected full year tax rate of approximately 19.5% to 20.5% on an as-adjusted basis.

Cash provided by operations totaled \$258 million for the year, a decrease of \$24 million from last year, driven mostly by timing of inventory purchases related to new product launches and lower net earnings. Cash provided by operations as a percent of reported net earnings was 101% for the year.

Significant year-to-date uses of cash include repurchases of 224,000 shares for \$18 million. Dividends of \$86 million and capital expenditures of \$73 million, of which \$47 million related to facility expansion projects. These cash uses were offset by share issuances of \$42 million.

A few comments as we look forward to the second half of the year. Based on current exchange rates, assuming the same volumes, mix of products and mix of business by currency as in 2023 movement in foreign currencies would have no impact on net sales or net earnings for the full year.

Finally, our full-year estimates for unallocated corporate expense and capital expenditures remain unchanged and can be found in a conference call slide deck on page 10. I'll now turn the call over to Mark for further segment and regional commentary.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Thank you Chris. Good morning, everyone. All my comments this morning will be on an organic constant currency basis. Sales in the second quarter were below expectations. Contractor performed well, but weakness in process and industrial more than offset that growth.

Contractor had record sales in the quarter on strong demand globally for new products. Asia Pacific continued to experience deteriorating demand in the quarter with noted declines across many key product categories, including semiconductor, sealants and adhesives and industrial lubrication.

Incoming order rates in Asia Pacific for both the industrial and process segments were down double digits and we expect that current conditions will remain for the balance of the year. Despite lower sales, our profitability remains strong. Our factories performed well, and we're seeing good price realization, which led to an improved gross margin rate in the second quarter.

Company-wide operating margins were also higher as our teams have done a good job managing their spending during what is shaping up to be a challenging revenue environment. Consolidated operating profit margin was up nicely in the quarter and all segments were at or greater than 29%. Our consolidated backlog has now returned to pre-COVID levels, except for the powder coating business, which remains slightly elevated.

Now turning to some commentary on our segments. Contractor sales rebounded nicely in the second quarter, growing by 6% when compared to last year. Year to date, sales in contractor are now flat, erasing the deficit that we saw in the first quarter.

Our new products are being well received by customers everywhere, but North America was particularly strong with 9% sales growth in the quarter. Asia Pacific was another bright spot and the container market started to improve after minimal activity last year.

The positive momentum created by our new products is encouraging with additional products launching in the second half of the year, we remain cautiously optimistic that contractor will post growth for the full year.

Operating margins in contractor remained strong at 31% for the quarter and 30% for the year. Improved operating performance and lower input costs drove the increase despite higher new product development spending.

The industrial segment declined 4% during the quarter. Overall, we are seeing less project activity in many geographies, and we believe that there is excess manufacturing capacity in parts of Asia Pacific.

Growth in North America came primarily from backlog reduction and pricing, which was not enough to offset weak results in Asia Pacific particularly China. There's also a slowing of activity in end markets which have been strong the past couple of years, such as solar and battery.

In EMEA activity has slowed with some projects either being delayed or shifted to future quarters. We expect the operating environment in both EMEA And Asia Pacific to remain tough for the remainder of the year. Despite volume declines operating margins for the quarter improved sequentially and were flat with last year, reflecting favorable price and cost dynamics.

Moving on to the process segment, sales were down 9% compared to the same quarter last year with declines in all regions. Vehicle services and environmental equipment sales were positive for the quarter, but they were not enough to offset the broad-based weakness in our industrial lubrication, process transfer equipment, and semiconductor businesses. We expect softness to continue in both EMEA and Asia-Pacific, particularly in the semiconductor and mining markets for the rest of the year.

Moving on to the outlook. Our first half results were below expectations in our industrial and process segments. The strength in contractor will not be enough to offset this, so we are lowering our full year 2024 guidance to a low single digit revenue decline on an organic constant currency basis. While overall economic conditions are challenging, we continue to invest in our growth strategies and will manage the business for the long term.

That concludes our prepared remarks. Operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Deane Dray, RBC Capital Markets.

Deane Dray - RBC Capital Markets - Analyst

Thank you. Good morning, everyone.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Morning Deane.

Deane Dray - RBC Capital Markets - Analyst

Mark, typically start with key end markets and geographies, and I think most of your prepared remarks addressed those. But if you just kind of step back and say what are the biggest needle movers and changes since last quarter in geography and the end markets, which ones are a bubble up to the top? It sounds like China deteriorated the most. But if you could frame for us that for starters, that would be helpful.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, I think for sure, we saw less business activity in the industrial and the process segments. And I would characterize it as really across multiple industries, kind of a general slowdown. I called out a couple of ones that have been particularly hot for us the last couple of years being semiconductor and battery. But that's just related to some project activity that didn't repeat and long term, I still think those are really good markets for Graco. So I would characterize as a general decline.

Asia Pacific was weak. But as you know, China is a big chunk of it for us. And China in particular has been weaker than what we had hoped it would be. When I look at the incoming order rates and the levels of activity in Asia Pacific, they've been pretty consistent in terms of absolute levels based on what we've seen year to date, but when compared to last year, it is lower than what we had, which was -- orders were much higher in particular in and some of those industries I mentioned.

So Europe hung in there. Okay. They started to see a little bit of softness in here in Q2, but pretty confident in the team there and what they're accomplishing. There's still got good project activity that they're looking at and we'll just see how the rest of the year plays out.

Deane Dray - RBC Capital Markets - Analyst

That's really helpful.

David Lowe - Graco Inc - Chief Financial Officer, Treasurer

If I could just add little bit of granularity Deane for you, if we look at the markets that have a positive tilt towards them, think North America, I guess Mark touched on several of them. I would call out some of the markets we talked about last quarter, e-mobility, defense, aerospace, packaging, some of the markets that disappoint wind, window and door, wood products generally, appliance, even a little bit of ag and of course, Mark touched and semiconductor and mining.

Deane Dray - RBC Capital Markets - Analyst

Got it. That's helpful. And can we put the spotlight on the new product introductions this quarter? I've heard descriptions of some of them, especially at the entry level for spray paint finishing and the big box, sounds exciting, but can you size for us the contribution? And is there an impact on a channel fill? And then you also suggested there was more coming in the second half. Could you just kind of size for us the expectation there, too? Thanks.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, I think it's hard for us to give you a like actual dollars, but we're seeing really good growth in the new products that we launched. Some of them include our new extreme torque sprayers, which have the Graco design motor and Graco manufactured motor included in them, they're quieter and they have better performance than our old models that use more, I'll call it an off-the-shelf type of a motor.

We have a cordless connect product that's doing well in the home centers. It's a product where you can connect it to a cordless drill or an impact driver and you turn it into a paint sprayer that really resonates with the DIY customer. And so I would say sales there have been great as well.

And then I will mention our QuickShot product, which we launched last year has remained extremely strong. And you'll probably remember that that's a solenoid actuated gun versus a mechanically actuated gun and customers really like it. It's lightweight, it's portable. It's really good for small jobs.

So for sure, the combination of those products have really helped contribute to the growth we saw here in the quarter, particularly in North America. We do have some products coming out on the back half of the year that we're excited about, now getting into a lot of the details on what those are. I think they are needle movers as well. And that really kind of bled into the outlook that we've got, which I would call we're looking for growth in CED and I think it will be tougher for the other businesses this year.

Deane Dray - RBC Capital Markets - Analyst

That's good. And just can you -- is there a channel fill impact on these new product introductions?

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, I would say that there's sure there is, but I think the sell-through has been really well for all these things. It's not like they're sitting on inventory, they're placing orders every week.

Deane Dray - RBC Capital Markets - Analyst

Great. Thank you.

Operator

Mike Halloran, Baird.

Mike Halloran - Robert W. Baird - Analyst

Hey, good morning, everyone.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Hey Mike.

Mike Halloran - Robert W. Baird - Analyst

So just following up on Deane's question a little bit start out with -- I know your guide had some element of decent orders towards the end of the quarter -- towards the end of the first quarter expectation for that to roll through and therefore some improving underlying demand.

But if you were just to take a step back, how much of the guidance cut is just we didn't see things improve the way we thought versus actual deterioration. I mean, I'm looking more qualitative versus quantitative. So any help there would be great.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, I think it's more of the latter. I think that we may have gotten ourselves a little bit excited at what we saw toward the end of the quarter in Q1. Of course, I always tell people, hey, it's 13 weeks, so you don't want to throw in the towel after 13 weeks. And based on what we saw, we felt like our low single digit growth guide was appropriate, but we really didn't see that sustain itself and materialize into more growth than really in those two segments that I talked about and got to the point where we felt like a change in our full year guide was appropriate.

Mike Halloran - *Robert W. Baird - Analyst*

So is it fair to say then trends were just kind of choppy, week-to-week or month-to-month, or how are you think about it, that the net trends that you saw through the front half of the year, maybe even through July just really haven't changed all that much trajectory wise, if you add all up or do you think that there's been something different relative to what I just said?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, other than contractor, which obviously they did change a little bit to the favorable side on the second quarter, I would say with regard to the industrial businesses, yes, I think it's kind of a sluggish environment.

Yeah, there's business out there. There's projects that are happening, but at the level of activity and the level of capital investment that we're seeing, factories around the world has been markedly less than what we saw a year ago, and that's what's showing up in our numbers.

Mike Halloran - *Robert W. Baird - Analyst*

Thanks. And then just generic margin question, as we think to the back half of the year -- front half run rate. Anything we can't take to the front -- from the front half run rate on margins and applied to the back half mix variance. Some pressures you're seeing or some tailwinds and just any way to think about -- how to think about the margin trajectory across the segments in the back half?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

I'd call it pretty stable, but I'll let Chris give some insight on that.

Christopher Knutson - *Graco Inc - Executive Vice President, Corporate Controller*

I would say the same. There's really been not a lot of one-time items outside of what we called out in the relocation of the distribution center that won't recur. When you're thinking about the margin side, it's all volume dependent. So if we see volume where we're at today, we should be okay. But if we see any further decline, that's when you could start seeing some impact on both the operating and the gross margin lines.

David Lowe - *Graco Inc - Chief Financial Officer, Treasurer*

Yeah, I would just add this is David. I would just add that, I'm glad you asked the margin question that the performance from factory has been very good. I think Mark touched on the spending side, which is strong but I also would like to call out the commercial organization. The price realization has been real and it's been consistent across all of the businesses and all the regions. And we think that's very sustainable.

Mike Halloran - *Robert W. Baird - Analyst*

Great. Really appreciate the color. Thank you.

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Thanks Mike.

Operator

Saree Boroditsky, Jefferies.

Saree Boroditsky - *Jefferies - Analyst*

Hi, thanks for taking the question. So just building up your last commentary, you talked about the level of factory investment being lower globally. What do you need to see to improve demand there? What should we be watching for sales to inflect positively?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Well, I think it's more macro. I don't think it's a Graco's specific problem. Of course, we got our ear to the street on this topic. We watch other people. We see what they're experiencing. We talk to our salespeople, they're working with our end users every day. So I think it's sort of an adverse macro conditions, if you look at the data really doesn't matter what geography you look at most of the end markets are flashing signs of either neutral or negative at this point with expectations are that there will be a pickup in 2025, and we're hopeful that, that happens.

I'd say that there's fairly low capacity utilization across most of the factories. A lot of people added stuff over the last few years to react to all the supply chain issues they were experiencing. And now they're playing catch up a little bit with those investments, sound like they're not doing anything, but in terms of big incremental opportunities that are not there.

Of course, the high interest rate environment we're in gives people other places where they can park cash, maybe there's some of that that's happening as well but that could be leading to lower investment as well. And there's -- we have seen in some cases some project delays, the projects are going away, but people are saying hey, let's hold off for now. And we still want to do the project like a powder system, for example, may get pushed out by a few months and that's causing some delays as well.

So I think it's kind of a general slow sluggish environment that we're operating in. And I am pleased that in this environment where top line is challenging, as I said, the company is doing well. I mean, we're performing well, operationally, we're ready to go in orders do pick up. There will be really nice things that we put in place here to be able to capitalize on that -- when that happens.

Saree Boroditsky - *Jefferies - Analyst*

Are there any particular industries that are you're seeing a push out process?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Well, I think in some of the powder applications that we've seen, maybe some of the construction area where we do work with vertical lines, putting powder on the vertical lines, automotive would be another one where they're in the battery production area where people are maybe taking a step back and reevaluating their longer-term capital plans and putting slowdown on that. And then solar energy would be another one that I would say has been pushed out a bit.

Saree Boroditsky - *Jefferies - Analyst*

And then lastly, you mentioned parking cash. So maybe you could talk through how you're thinking about the optimal balance sheet for Graco, no debt to pay down really. So how are you thinking about continuing to build cash? Thank you.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, we would definitely like to deploy cash, but we're pretty smart about it. We've gone through a significant capacity expansion here at the company. It puts us in great shape for at least the next 10 years, I think in terms of our ability to absorb organic growth within the businesses.

And with respect to the cash that we have on the balance sheet, our top priority would be to find good strategic acquisitions to acquire companies that we think we can add some value to and that can drive our growth higher than what we've done historically, which has really been primarily organic if I look back over the last five years or so.

Of course, we can also like to share repurchases. We did some of that here in Q2, we're not out of the business of doing that long term strategic buys. I think that's another use of our cash.

Saree Boroditsky - Jefferies - Analyst

Good to hear. Thank you so much for the questions.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah.

Operator

Bryan Blair, Oppenheimer.

Bryan Blair - Oppenheimer & Co., Inc. - Analyst

Thank you, morning everyone.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Morning Bryan.

Bryan Blair - Oppenheimer & Co., Inc. - Analyst

We just had a nice segue there to -- you're discussing your M&A pipeline. We tend to ask every quarter and I think it's appropriate given Graco's new market position balance sheet, enhanced focus in that area for the last couple of years.

But I guess particularly relevant now, we have seen an inflection in deal activity of late there seems to be a lot of confidence in actionability for industrial assets going forward. I'm curious if that applies to your team as well, whether there's meaningful momentum in your deal pipeline and any shift quarter by quarter that you would call it?

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, I call it a couple of things. I mean, obviously, I brought in Inge Grasdahl a couple of years ago to help our teams build out the pipelines. I think I may have mentioned before, but I'll mention it again that a couple of years ago, I could have asked people for names and who's on their target list and they would have give me a list, but there really wasn't a whole lot of work done, vetting the list, understanding the strategic fit, knowing the size of the company and having a strategy for what we would do if we acquire them.

Plus there wasn't a whole lot of connections that were taking place between our people and those companies and mostly because we've been more focused on organic growth. So we're gone through that process of creating what I'll call a fairly well thought, well vetted pipeline.

We have more than 100 companies in that pipeline. Today, we're having active discussions with the ones that are real prospects. And I would say that you're right. It feels to us like the market has gotten a little bit better than what it was even six months ago.

Valuations are still high for good businesses, but they are closer to the range today that we would be interested in and without telling you specifically about what we're doing I do feel like my confidence level in our ability to actually execute our M&A strategy has gone up substantially over the last two years, and I am hopeful that we will see some activity here as we work through the balance of this year and into 2025.

David Lowe - Graco Inc - Chief Financial Officer, Treasurer

Yeah, I'd just like to underline Mark's comments about. Yes, there's a larger target list than there was before. And yes, there are conversations going on, on an ongoing basis with principals and bankers and other people who are close or owners of businesses that could be of interest to us.

And talking with Inge, I would say there is merchandise available, there are clearly some properties that are being held back due to maybe expectations that were created a couple of three years ago. And some private equity owners also have to sell properties that may be lower multiples or hold on for a couple more years to drive them to the next level.

To just put a point on Mark's comments, Inge has estimated it maybe multiples over the last this last year, year and half time frame where we've been talking about this have moderated, say 1.5 to 2 turns. So I think while there is plenty of variation around the mean and you see that in some of the transactions that go on in these niche industrial markets. I think it leans us towards an expectation that low to mid teen range for turns is closer to normal than we saw two or three years ago.

Bryan Blair - Oppenheimer & Co., Inc. - Analyst

That's extremely helpful color and encouraging to hear. Looking at your Asia Pac demand Mosaic for solid red industrial and process. That's pretty easily explains may be new capital spending or their life thereof. Contractor stepping up to more of a neutral outlook is encouraging given the overall backdrop, Mark, did you say that it would largely driven by the container market. Did I hear that correct?

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yes, that's correct. Yeah, shipping containers.

Bryan Blair - Oppenheimer & Co., Inc. - Analyst

Okay. Is that the primary factor or are there other callouts there?

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, that's I think the primary driver of what we see in China contractor, of course, for Asia contractor, another significant market is Australia, and they were off to a slow start. In the first quarter we've seen a little bit of a pickup here as we've gotten through the first half of the year, and we're hopeful that, that team can deliver for us in the back half of the year.

Bryan Blair - *Oppenheimer & Co., Inc. - Analyst*

Okay understood, thanks again.

Operator

Jeff Hammond, KeyBanc Capital Markets.

Jeff Hammond - *KeyBanc Capital Markets Inc. - Analyst*

Hey, good morning, everyone.

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Hey, Jeff.

Jeff Hammond - *KeyBanc Capital Markets Inc. - Analyst*

Hey, So just on contractor, you seem a little more confident that there's growth there for the year. It seems like resi and commercial are still choppy. Maybe commercial is getting a little worse, but just talk about tone from the customers and activity levels. I know there were some -- their activity levels were healthy if you're seeing any cracks there? Or is this just all, new product momentum that's driving that confidence?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I think it's new product momentum that really gives us the confidence. You guys all know what's going on in the market, maybe even more than we do. But housing starts are, they're not as good as you'd like them to be at like \$1.37 million, which is down from last year.

Single-family starts are projected to go up, though, and that's good for painters. You're remodeling spend is down a little bit. Interest rates are still high. So affordability is an issue for a lot of people that are looking to either move out of their existing home or they got a low interest rate or new buyers who are trying to get into the market.

Commercial construction appears to be hanging in there pretty well. And then outside of the Americas, if you look at Europe construction trends are down as well as in AP with places like China that are also down.

So all in all, it's kind of a mixed bag. You could probably paint a picture if we didn't have new products that we would be in a flat to decline like we are sort of projecting for the overall Graco business. But with the pipeline of products that these talented people and contractor have come out with and launched this year, I think it gives us confidence and then seeing the results gives us confidence that we think that we can get -- we can pull some growth in CED this year.

David Lowe - *Graco Inc - Chief Financial Officer, Treasurer*

Yeah, I would just add to that, very complete list that the in the protective coatings space where we serve markets like oil and gas in locations like the Middle East with energy prices at the levels that they're at now. We are seeing those markets remain active for us and quite solid. And I think that's a maybe additional ballast that increases my confidence.

Jeff Hammond - KeyBanc Capital Markets Inc. - Analyst

Okay. And then just semiconductor, maybe just level set us and when you start to hit easy comps and if you're starting to see any pickup in the pipeline or discussions of kind of that cycle turning back up?

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, I would start up by saying that the decline this year was not expected by us. We obviously see the forecast and that's a highly cyclical end market and it didn't matter what you picked up by everyone who is calling for a pretty substantial decline in semiconductor.

And obviously, as we work down our backlogs from all the orders we got in '22 and '23, we started to see that in our incoming order rates as well, just from a pure comparison standpoint, I will say that last year's orders were not great, but our performance was good because we were working down backlog.

But the order rates last year compared to this year so far are actually up a little bit so I think we're starting to see some green shoots in semiconductor. Everyone's calling for growth in 2025 with all the new fab construction and expansion that's happening there. So I hopeful that we've seen the bottom and that will start to be able to grow from here.

Jeff Hammond - KeyBanc Capital Markets Inc. - Analyst

All right. Thanks, Mark.

Operator

Joe Ritchie, Goldman Sachs.

Joe Ritchie - Goldman Sachs & Company, Inc. - Analyst

Hi, good morning, guys.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Morning.

Joe Ritchie - Goldman Sachs & Company, Inc. - Analyst

So I know we talked a little bit about margins going forward, I guess is just the expectation with the new product introductions continuing in contractor in the second half of the year and growth that expected for the year. Is your expectation for contractor margins and you could -- you should be able to hold like this 31%-plus type number going forward, at least into the second half. Just any thoughts around that would be helpful.

Mark Sheahan - Graco Inc - President, Chief Executive Officer, Director

Yeah, there's I think Chris said it well, it at all cost, okay, it depends on volume and mix and what you sell and what you don't sell. But as we sit here today, if the volumes are consistent with what we're experiencing and the mix stays reasonably the same, we should be in decent shape in contractor to be at that level of in that range, I should say.

And when -- usually when we launch a new product, just so you know, a lot of times the margin rates are higher, sometimes there are a refresh of an existing product where we've been able to take some costs out or bringing in new technology where we can -- the customer can realize enough value that our pricing is a little bit on more solid footing than some of the other products. So putting all that together, I feel pretty good about where that business sits here halfway through the year and hopefully we can maintain it for the balance.

Joe Ritchie - *Goldman Sachs & Company, Inc. - Analyst*

Got it. Okay. That's helpful. And then just a quick follow-up question on industrial. I know we've talked a little bit about semis and you guys have mentioned battery to some degree. I'm just -- can you just level set us again just in terms of how much of your business sells into the auto and EV market, you can put a battery in there as well, specifically for the industrial segment.

Christopher Knutson - *Graco Inc - Executive Vice President, Corporate Controller*

For the -- well we look at it on a total company basis and for the total company, when you think about it on a full year for 2023, automotive, which included the EV was about 9% of our total sales.

Joe Ritchie - *Goldman Sachs & Company, Inc. - Analyst*

Okay, great. And most of that, if not all of it, it sits in the industrial segment, correct?

Christopher Knutson - *Graco Inc - Executive Vice President, Corporate Controller*

Correct. There are probably is a little bit from the process side, but the bulk of that comes from industrial.

Joe Ritchie - *Goldman Sachs & Company, Inc. - Analyst*

Okay, perfect. Thank you.

Operator

Ross Sparenblek, William Blair.

Ross Sparenblek - *William Blair & Company, LLC - Analyst*

Hey guys. Maybe just starting a contractor. I don't get the sense that all these new products hit on April 1. So can you just kind of give us a sense of the timing there hasn't moved the quarter? I know you also had another announcement yesterday, so it feels like it's an ongoing process. Just trying to get a sense of how we should inform the market outgrowth expectations in the second half.

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I think for the most part, the ones that I mentioned got launched really early in Q2. So the XT, the Cordless Connect, obviously, QuickShot was launched last year. And as we -- those are probably the big ones in Q2. And as we get through three and four, they got another slate of products coming out. One of those is our new fusion air gun for the spray foam industry that was just recently launched.

And we've got some new plural component machines that are coming out the high-performance coatings and foam market as well. That are just being launched now.

Ross Sparenblek - *William Blair & Company, LLC - Analyst*

Okay. And then maybe just on the quantum pumps. I know you guys are in customer trials, but any updates there and maybe expectations on a broader commercialization?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I think long term, there's definitely still a trend toward electrification. And our team is really working to identify where the big opportunities are and then we're putting dedication onto those customers and those applications where we think it's going to resonate the most.

What I would tell you is that the opportunities for it, are there. It is particularly attractive to industries where they're running their pumps more on a continuous basis and they're consuming a lot of air as opposed to some of the industries were they're not doing that. The ROI really comes from energy savings. And to extent that somebody is producing something in a factory where their pumps are running continuously quantum is still a great opportunity for them.

David Lowe - *Graco Inc - Chief Financial Officer, Treasurer*

Yeah, as far as that example goes in high-volume, players that Mark's talking about, I think the chemical industry generally and paint manufacturers specifically.

Ross Sparenblek - *William Blair & Company, LLC - Analyst*

Okay. I mean, so just given that ROI, is there a case where you could see customer investment for the energy savings despite the overall uncertain macro? (multiple speaker) CapEx or say incremental.

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I mean, it kind of depends on the company. I can tell you if it were here, Graco where we like ROI we do it. Whether times are good or times are bad, but of course, some companies, they tighten the up the purse strings, they put projects off and they wait until they see things are picking up a little bit before they make the investments but the ROI is nice, it's compelling and it fits in with -- what a lot of companies are trying to do, which is really reduce their footprint for usage of like of energy, and this is one way that they can do that.

Ross Sparenblek - *William Blair & Company, LLC - Analyst*

All right, thank you, gentlemen.

Operator

Matt Summerville, D.A. Davidson.

Matt Summerville - *D.A. Davidson & Company - Analyst*

Thanks. Just a couple of quick follow-ups on contractor. Mark, last quarter, I remember you made some pretty bullish comments around the fact that this is probably the most or one of the most significant contractor launch cycles that you've observed with all the time you've been at Graco.

Given that comment and kind of what you're seeing from a sell-in, sell-through standpoint, does this cycle you're seeing this year then create in uncharacteristically difficult comp for next year? I guess I'm trying to understand how to kind of think about that aspect going forward?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. So first, I stand by the comment. I think these products are fantastic. And I'm really glad we have them because if we didn't, I think you'd see a much different results in CED. I don't want to speculate what the number is, but it wouldn't be the kind of growth we saw here in Q2. I think going forward next year, our hope is the market itself improves and we're on better footing with respect to the housing market in general, the interest rates, hopefully they come down a little bit. There's more new construction happening.

Those types of macro tailwinds that we might get would be something that we would hope to see in 2025 I'm super confident the products are going to be great. People are going to want them. They're buying them. You know bad market that's even better, it says a lot about what people expect and what they are getting from Graco. And if we had it in a good market which hopefully our next year, it should be fantastic.

Matt Summerville - *D.A. Davidson & Company - Analyst*

Got it. And then just another follow-up to contractor. Can you maybe just delineate a little bit, what you're seeing outside of new product demand specifically within the home center channel and contrast that with the pro paint channel and how that should inform mix going forward?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah. I think in the home center channel, we haven't seen like robustness in terms of the overall growth, but it is growing. So we're happy with that. I don't really have a good today data for you on foot traffic, but it's probably not as good as it was a couple of years ago. But our products are resonating pretty well in the home center.

The pro side has been good. The pro channel in North America in particular, you saw a nice pickup in Q2 and we think contractors are busy. They got work. They've got projects, they're willing to invest in new equipment that makes it more efficient, which really lines up with what we're trying to do.

David Lowe - *Graco Inc - Chief Financial Officer, Treasurer*

Yeah, I would just add that on the home center side, yeah, the business did grow in the quarter. You do see mixed results from different home center partners. There is some variation around the mean at least a couple of those partners report respectable, if not -- respectable foot traffic, if not at the levels of the prior years.

Sure. I think in terms of, as you think about the future and for viewing projections, mix is a factor. But I would add that the contractor team spent a lot of time over the last year striving to improve the -- what I would call the profile, the business profit profile for home centers. And we're starting to see some respectable momentum in that area, too.

So obviously, all you have to do is look at the units to know that pro paint and high-performance coatings in foams products are going to have more margin than home center, because of the value, the value added, but home center is a good business for us too.

Matt Summerville - *D.A. Davidson & Company - Analyst*

Thank you, guys. Appreciate it.

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Thanks Matt.

Operator

(Operator Instructions) Andrew Buscaglia, BNP Paribas.

Andrew Buscaglia - *BNP Paribas Exane - Analyst*

Hey, good morning, guys.

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Morning.

Andrew Buscaglia - *BNP Paribas Exane - Analyst*

So the slowdown in industrial and process. We haven't seen this little while and it seems like things are just getting a little bit more weaker, where you're taking down the guidance. But how do you -- at what point do you start thinking about costs in industrial and process and what you can do to protect margins? Is it too early or I'm just trying to get a sense on how does it -- how the year shakes out for margins in each?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Well, these are pretty profitable businesses to begin with there's not a lot of low hanging fruit to go clean up. And we tried to take a longer-term view of the markets and we realize there's going to be good times and bad, but through a cycle, that's really what we're trying to manage to. So right now, I'm very happy with the overall performance of the company, as I said. And of course, if things fell off a cliff and you had to do some different things, we'd evaluate that, but I really don't see that happening.

Andrew Buscaglia - *BNP Paribas Exane - Analyst*

Yeah. Okay. And then I don't know if you had a ton of commentary on or around the distribution channel and what your distributors are saying? Yeah, can you provide a bit of color around what's the latest on that avenue?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Yeah, I think like I said earlier, I just feel like it's a sluggish macro environment. It isn't any real meaningful changes in terms of the dynamics that customers are looking at when they're making purchase decisions. They're still looking for process improvements in their factories, returns on investments, which include lower usage of the materials that they're applying, anything that we can do to drive those savings for them, those are still factors that they look at.

But the macros just different than what it was, there's been a ton of investment that's happened over the last couple of years. Like I said, I think they're playing catch-up a little bit, it registered that period of time where it's softer across multiple end markets.

Companies in a great spot, weather the storm, we're still investing in new products. We're still looking to expand our channel, we're looking at some new market opportunities. And all in all, it's not a robust economic environment like I've been in the past, but it's not all doom and gloom either.

Andrew Buscaglia - *BNP Paribas Exane - Analyst*

Yeah, so that sounding any alarm or anything like that, either sounds like?

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

No.

Andrew Buscaglia - *BNP Paribas Exane - Analyst*

All right. Thank you.

Operator

Thank you. I'm showing no further questions in the queue. I will now turn the conference over to Mark Sheahan.

Mark Sheahan - *Graco Inc - President, Chief Executive Officer, Director*

Okay. Well, that concludes today's phone call. I appreciate all the participation and I look forward to speaking with you again. Have a good day.

Operator

This concludes our conference for today. Thank you all for participating and have a nice day. All parties may now disconnect.

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