

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ Quarterly Report Pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934
For the quarterly period ended **March 31, 2023**

☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to

Commission File Number: 001-09249

GRACO INC.

(Exact name of registrant as specified in its charter)

<u>Minnesota</u> (State or other jurisdiction of incorporation or organization)	<u>41-0285640</u> (I.R.S. Employer Identification Number)
<u>88 - 11th Avenue N.E.</u> <u>Minneapolis, Minnesota</u> (Address of principal executive offices)	<u>55413</u> (Zip Code)
<u>(612) 623-6000</u> (Registrant's telephone number, including area code)	

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value \$1.00 per share	GGG	The New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

168,340,317 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of April 12, 2023.

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PART I Item 1.
GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited) (In thousands except per share amounts)

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Sales	\$ 529,646	\$ 494,285
Cost of products sold	244,506	239,810
Gross Profit	285,140	254,475
Product development	20,479	19,078
Selling, marketing and distribution	65,383	62,995
General and administrative	42,610	44,039
Operating Earnings	156,668	128,363
Interest expense	1,347	5,287
Other (income) expense, net	(2,029)	153
Earnings Before Income Taxes	157,350	122,923
Income taxes	28,184	22,080
Net Earnings	\$ 129,166	\$ 100,843
Net Earnings per Common Share		
Basic	\$ 0.77	\$ 0.59
Diluted	\$ 0.75	\$ 0.58

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited) (In thousands)

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Earnings	\$ 129,166	\$ 100,843
Components of other comprehensive income (loss)		
Cumulative translation adjustment	4,975	(2,960)
Pension and postretirement medical liability adjustment	1,132	894
Income taxes - pension and postretirement medical liability adjustment	(244)	(194)
Other comprehensive income (loss)	5,863	(2,260)
Comprehensive Income	\$ 135,029	\$ 98,583

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Unaudited) (In thousands)

	March 31, 2023	December 30, 2022
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 395,313	\$ 339,196
Accounts receivable, less allowances of \$ 5,600 and \$ 7,000	356,473	346,010
Inventories	497,242	476,790
Other current assets	39,433	43,624
Total current assets	1,288,461	1,205,620
Property, Plant and Equipment, net	633,482	607,609
Goodwill	370,103	368,171
Other Intangible Assets, net	134,131	137,507
Operating Lease Assets	29,742	29,785
Deferred Income Taxes	56,183	57,090
Other Assets	34,161	33,118
Total Assets	\$ 2,546,263	\$ 2,438,900
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	\$ 41,910	\$ 20,974
Trade accounts payable	80,375	84,218
Salaries and incentives	43,342	63,969
Dividends payable	39,457	39,963
Other current liabilities	176,614	190,793
Total current liabilities	381,698	399,917
Long-term Debt	75,000	75,000
Retirement Benefits and Deferred Compensation	61,994	61,672
Operating Lease Liabilities	21,384	21,057
Deferred Income Taxes	8,986	9,443
Other Non-current Liabilities	10,858	12,159
Shareholders' Equity		
Common stock	168,308	167,702
Additional paid-in-capital	821,570	784,477
Retained earnings	1,059,980	976,851
Accumulated other comprehensive income (loss)	(63,515)	(69,378)
Total shareholders' equity	1,986,343	1,859,652
Total Liabilities and Shareholders' Equity	\$ 2,546,263	\$ 2,438,900

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited) (In thousands)

	Three Months Ended	
	March 31, 2023	April 1, 2022
Cash Flows From Operating Activities		
Net Earnings	\$ 129,166	\$ 100,843
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	17,987	15,570
Deferred income taxes	230	10,973
Share-based compensation	8,914	7,088
Change in		
Accounts receivable	(8,519)	(14,296)
Inventories	(18,959)	(52,979)
Trade accounts payable	(3,802)	9,216
Salaries and incentives	(21,303)	(35,341)
Retirement benefits and deferred compensation	1,156	(136)
Other accrued liabilities	(10,787)	(8,690)
Other	(3,254)	(923)
Net cash provided by operating activities	90,829	31,325
Cash Flows From Investing Activities		
Property, plant and equipment additions	(38,290)	(47,093)
Acquisition of businesses, net of cash acquired	—	(25,016)
Other	(352)	(134)
Net cash used in investing activities	(38,642)	(72,243)
Cash Flows From Financing Activities		
Borrowings on short-term lines of credit, net	20,721	(3,420)
Payments on long-term debt	—	(75,000)
Payments of debt issuance costs	(6)	—
Common stock issued	31,026	21,294
Common stock repurchased	(7,766)	(108,706)
Taxes paid related to net share settlement of equity awards	(1,225)	(1,219)
Cash dividends paid	(39,431)	(35,801)
Net cash provided (used) in financing activities	3,319	(202,852)
Effect of exchange rate changes on cash	611	(45)
Net increase (decrease) in cash and cash equivalents	56,117	(243,815)
Cash and Cash Equivalents		
Beginning of year	339,196	624,302
End of period	\$ 395,313	\$ 380,487

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(Unaudited) (In thousands)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Three Months Ended March 31, 2023					
Balance, December 30, 2022	\$ 167,702	\$ 784,477	\$ 976,851	\$ (69,378)	\$ 1,859,652
Shares issued	721	29,080	—	—	29,801
Shares repurchased	(115)	(539)	(7,112)	—	(7,766)
Stock compensation cost	—	8,552	—	—	8,552
Net earnings	—	—	129,166	—	129,166
Dividends declared (\$ 0.235 per share)	—	—	(38,925)	—	(38,925)
Other comprehensive income (loss)	—	—	—	5,863	5,863
Balance, March 31, 2023	<u>\$ 168,308</u>	<u>\$ 821,570</u>	<u>\$ 1,059,980</u>	<u>\$ (63,515)</u>	<u>\$ 1,986,343</u>
Three Months Ended April 1, 2022					
Balance, December 31, 2021	\$ 170,308	\$ 742,288	\$ 876,916	\$ (80,169)	\$ 1,709,343
Shares issued	437	19,638	—	—	20,075
Shares repurchased	(1,522)	(6,636)	(100,548)	—	(108,706)
Stock compensation cost	—	6,670	—	—	6,670
Restricted stock canceled (issued)	—	(1)	—	—	(1)
Net earnings	—	—	100,843	—	100,843
Dividends declared (\$ 0.210 per share)	—	—	(35,708)	—	(35,708)
Other comprehensive income (loss)	—	—	—	(2,260)	(2,260)
Balance, April 1, 2022	<u>\$ 169,223</u>	<u>\$ 761,959</u>	<u>\$ 841,503</u>	<u>\$ (82,429)</u>	<u>\$ 1,690,256</u>

See notes to consolidated financial statements.

GRACO INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation

The consolidated balance sheet of Graco Inc. and subsidiaries (the "Company") as of March 31, 2023 and the related statements of earnings, comprehensive income and shareholders' equity for the three months ended March 31, 2023 and April 1, 2022, and cash flows for the three months ended March 31, 2023 and April 1, 2022 have been prepared by the Company and have not been audited.

In the opinion of management, these consolidated financial statements reflect all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of March 31, 2023, and the results of operations and cash flows for all periods presented.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. Therefore, these statements should be read in conjunction with the financial statements and notes thereto included in the Company's 2022 Annual Report on Form 10-K.

The results of operations for interim periods are not necessarily indicative of results that will be realized for the full fiscal year.

2. Segment Information

The Company has three reportable segments: Contractor, Industrial and Process. Sales and operating earnings by segment were as follows (in thousands):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Sales		
Contractor	\$ 245,971	\$ 234,592
Industrial	150,190	144,669
Process	133,485	115,024
Total	\$ 529,646	\$ 494,285
Operating Earnings		
Contractor	\$ 73,772	\$ 58,947
Industrial	52,770	52,630
Process	40,565	27,488
Unallocated corporate (expense)	(10,439)	(10,702)
Total	\$ 156,668	\$ 128,363

Assets by segment were as follows (in thousands):

	March 31, 2023	December 30, 2022
Contractor	\$ 779,617	\$ 752,729
Industrial	603,494	578,302
Process	575,792	564,539
Unallocated corporate	587,360	543,330
Total	\$ 2,546,263	\$ 2,438,900

Geographic information follows (in thousands):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Sales (based on customer location)		
United States	\$ 288,989	\$ 255,082
Other countries	240,657	239,203
Total	<u>\$ 529,646</u>	<u>\$ 494,285</u>
	March 31, 2023	December 30, 2022
Long-lived Assets		
United States	\$ 550,124	\$ 532,401
Other countries	83,358	75,208
Total	<u>\$ 633,482</u>	<u>\$ 607,609</u>

3. Earnings per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share amounts):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net earnings available to common shareholders	<u>\$ 129,166</u>	<u>\$ 100,843</u>
Weighted average shares outstanding for basic earnings per share	168,018	169,809
Dilutive effect of stock options computed using the treasury stock method and the average market price	3,658	4,869
Weighted average shares outstanding for diluted earnings per share	<u>171,676</u>	<u>174,678</u>
Basic earnings per share	\$ 0.77	\$ 0.59
Diluted earnings per share	\$ 0.75	\$ 0.58
Anti-dilutive shares not included in diluted earnings per share computation	3,235	1,250

4. Share-Based Awards

Options on common shares granted and outstanding, as well as the weighted average exercise price, are shown below (in thousands, except exercise prices):

	Option Shares	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
Outstanding, December 30, 2022	10,265	\$ 44.40	7,793	\$ 37.22
Granted	1,101	71.38		
Exercised	(427)	29.80		
Canceled	(37)	66.85		
Outstanding, March 31, 2023	10,902	\$ 47.63	8,033	\$ 39.68

The Company recognized year-to-date share-based compensation of \$ 8.9 million in 2023 and \$ 7.1 million in 2022. As of March 31, 2023, there was \$ 33.0 million of unrecognized compensation cost related to unvested options, expected to be recognized over a weighted average period of 3.1 years.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions and results:

	Three Months Ended	
	March 31, 2023	April 1, 2022
Expected life in years	6.7	7.3
Interest rate	4.0 %	1.9 %
Volatility	26.3 %	25.5 %
Dividend yield	1.3 %	1.2 %
Weighted average fair value per share	\$ 21.74	\$ 19.06

Under the Company's Employee Stock Purchase Plan, the Company issued 323,000 shares in 2023 and 298,000 shares in 2022. The fair value of the employees' purchase rights under this Plan was estimated on the date of grant. The benefit of the 15 percent discount from the lesser of the fair market value per common share on the first day and the last day of the plan year was added to the fair value of the employees' purchase rights determined using the Black-Scholes option-pricing model with the following assumptions and results:

	Three Months Ended	
	March 31, 2023	April 1, 2022
Expected life in years	1.0	1.0
Interest rate	5.1 %	0.9 %
Volatility	26.4 %	20.5 %
Dividend yield	1.4 %	1.2 %
Weighted average fair value per share	\$ 18.04	\$ 16.01

5. Retirement Benefits

The components of net periodic benefit cost for retirement benefit plans were as follows (in thousands):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Pension Benefits		
Service cost	\$ 1,464	\$ 2,170
Interest cost	3,777	2,738
Expected return on assets	(3,975)	(4,802)
Amortization and other	440	1,076
Net periodic benefit cost	\$ 1,706	\$ 1,182
Postretirement Medical		
Service cost	\$ 100	\$ 175
Interest cost	210	225
Amortization	90	175
Net periodic benefit cost	\$ 400	\$ 575

6. Shareholders' Equity

Changes in components of accumulated other comprehensive income (loss), net of tax were as follows (in thousands):

	Pension and Postretirement Medical	Cumulative Translation Adjustment	Total
Three Months Ended March 31, 2023			
Balance, December 30, 2022	\$ (39,734)	\$ (29,644)	\$ (69,378)
Other comprehensive income (loss) before reclassifications	—	4,975	4,975
Reclassified to pension cost and deferred tax	888	—	888
Balance, March 31, 2023	\$ (38,846)	\$ (24,669)	\$ (63,515)
Three Months Ended April 1, 2022			
Balance, December 31, 2021	\$ (60,107)	\$ (20,062)	\$ (80,169)
Other comprehensive income (loss) before reclassifications	—	(2,960)	(2,960)
Reclassified to pension cost and deferred tax	700	—	700
Balance, April 1, 2022	\$ (59,407)	\$ (23,022)	\$ (82,429)

Amounts related to pension and postretirement medical adjustments are reclassified to non-service components of pension cost that are included within other non-operating expenses.

7. Receivables and Credit Losses

Accounts receivable includes trade receivables of \$ 345 million and other receivables of \$ 11 million as of March 31, 2023 and \$ 334 million and \$ 12 million, respectively, as of December 30, 2022.

Allowance for Credit Losses

Following is a summary of activity in the year to date allowance for credit losses (in thousands):

	March 31, 2023	April 1, 2022
Balance, beginning	\$ 6,130	\$ 3,254
Additions (reversals) charged to costs and expenses	(137)	3,220
Deductions from reserves ⁽¹⁾	(1,820)	(33)
Other additions (deductions) ⁽²⁾	59	33
Balance, ending	<u>\$ 4,232</u>	<u>\$ 6,474</u>

(1) Represents amounts determined to be uncollectible and charged against reserves, net of collections on accounts previously charged against reserves.

(2) Includes effects of foreign currency translation.

8. Inventories

Major components of inventories were as follows (in thousands):

	March 31, 2023	December 30, 2022
Finished products and components	\$ 246,401	\$ 222,326
Products and components in various stages of completion	147,687	138,957
Raw materials and purchased components	232,913	248,636
Subtotal	627,001	609,919
Reduction to LIFO cost	(129,759)	(133,129)
Total	<u>\$ 497,242</u>	<u>\$ 476,790</u>

9. Intangible Assets

Components of other intangible assets were as follows (dollars in thousands):

	Finite Life			Indefinite Life	
	Customer Relationships	Patents and Proprietary Technology	Trademarks, Trade Names and Other	Trade Names	Total
As of March 31, 2023					
Cost	\$ 197,417	\$ 26,374	\$ 1,300	\$ 62,633	\$ 287,724
Accumulated amortization	(122,816)	(18,738)	(388)	—	(141,942)
Foreign currency translation	(9,301)	(863)	—	(1,487)	(11,651)
Book value	\$ 65,300	\$ 6,773	\$ 912	\$ 61,146	\$ 134,131
Weighted average life in years	<u>13</u>	<u>10</u>	<u>6</u>	<u>N/A</u>	
As of December 30, 2022					
Cost	\$ 202,103	\$ 26,374	\$ 1,300	\$ 62,633	\$ 292,410
Accumulated amortization	(123,603)	(18,027)	(330)	—	(141,960)
Foreign currency translation	(10,060)	(894)	—	(1,989)	(12,943)
Book value	\$ 68,440	\$ 7,453	\$ 970	\$ 60,644	\$ 137,507
Weighted average life in years	<u>13</u>	<u>10</u>	<u>6</u>	<u>N/A</u>	

Amortization of intangibles for the year to date was \$ 4.5 million in 2023 and \$ 4.6 million in 2022. Estimated annual amortization expense based on the current carrying amount of other intangible assets is as follows (in thousands):

	2023 (Remainder)	2024	2025	2026	2027	Thereafter
Estimated Amortization Expense	\$ 12,786	\$ 16,311	\$ 15,849	\$ 9,050	\$ 6,406	\$ 12,583

Changes in the carrying amount of goodwill for each reportable segment were as follows (in thousands):

	Contractor	Industrial	Process	Total
Balance, December 30, 2022	\$ 77,034	\$ 134,771	\$ 156,366	\$ 368,171
Additions, adjustments from business acquisitions	—	—	—	—
Foreign currency translation	259	1,257	416	1,932
Balance, March 31, 2023	\$ 77,293	\$ 136,028	\$ 156,782	\$ 370,103

10. Other Current Liabilities

Components of other current liabilities were as follows (in thousands):

	March 31, 2023	December 30, 2022
Accrued self-insurance retentions	\$ 9,246	\$ 9,338
Accrued warranty and service liabilities	14,917	14,674
Accrued trade promotions	8,951	13,799
Payable for employee stock purchases	1,055	16,497
Customer advances and deferred revenue	45,134	50,747
Income taxes payable	27,258	15,987
Tax payable, other	11,584	9,614
Right of return refund liability	18,533	18,449
Operating lease liabilities, current	9,451	9,555
Other	30,485	32,133
Total	\$ 176,614	\$ 190,793

A liability is established for estimated future warranty and service claims that relate to current and prior period sales. The Company estimates warranty costs based on historical claim experience and other factors including evaluating specific product warranty issues. Following is a summary of activity in accrued warranty and service liabilities (in thousands):

Balance, December 30, 2022	\$ 14,674
Charged to expense	2,392
Margin on parts sales reversed	1,351
Reductions for claims settled	(3,500)
Balance, March 31, 2023	\$ 14,917

Customer Advances and Deferred Revenue

Revenue is deferred when cash payments are received or due in advance of performance, including amounts which are refundable. This is also the case for services associated with certain product sales. During the three months ended March 31, 2023 , we recognized \$ 20.6 million that was included in deferred revenue at December 30, 2022. During the

three months ended April 1, 2022, we recognized \$ 22.5 million that was included in deferred revenue at December 31, 2021.

11. Fair Value

Assets and liabilities measured at fair value on a recurring basis and fair value measurement level were as follows (in thousands):

	Level	March 31, 2023	December 30, 2022
Assets			
Cash surrender value of life insurance	2	\$ 20,239	\$ 19,192
Liabilities			
Contingent consideration	3	\$ 13,410	\$ 14,914
Deferred compensation	2	5,830	5,842
Forward exchange contracts	2	132	520
Total liabilities at fair value		\$ 19,372	\$ 21,276

Contracts insuring the lives of certain employees who are eligible to participate in certain non-qualified pension and deferred compensation plans are held in trust. Cash surrender value of the contracts is based on performance measurement funds that shadow the deferral investment allocations made by participants in certain deferred compensation plans. The deferred compensation liability balances are valued based on amounts allocated by participants to the underlying performance measurement funds.

Contingent consideration liability represents the estimated value (using a probability-weighted expected return approach) of future payments to be made to previous owners of certain acquired businesses based on future revenues.

Long-term notes payable with fixed interest rates had a carrying amount of \$ 75 million and estimated fair value of \$ 75 million as of both March 31, 2023 and December 30, 2022. The fair value of variable rate borrowings approximates carrying value. The Company uses significant other observable inputs to estimate fair value (level 2 of the fair value hierarchy) based on the present value of future cash flows and rates that would be available for issuance of debt with similar terms and remaining maturities.

Item 2. GRACO INC. AND SUBSIDIARIES

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

The Company supplies technology and expertise for the management of fluids and coatings in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure, control, dispense and spray fluid and coating materials. Management classifies the Company's business into three reportable segments: Contractor, Industrial and Process. Key strategies include developing and marketing new products, leveraging products and technologies into additional, growing end-user markets, expanding distribution globally and completing strategic acquisitions that provide additional channel and technologies.

The Company continued to experience supply chain disruptions and the associated effects of inflation in the first quarter of 2023; however, the impact was not as significant as compared to the same period in the prior year. Pricing actions implemented have generally mitigated the effects of increased costs and expenses. The Company expects isolated supply chain disruptions and an overall inflationary environment to continue through the remainder of 2023.

The following Management's Discussion and Analysis reviews significant factors affecting the Company's results of operations and financial condition. This discussion should be read in conjunction with the financial statements and the accompanying notes to the financial statements.

Consolidated Results

A summary of financial results follows (in millions except per share amounts):

	Three Months Ended		
	Mar 31, 2023	Apr 1, 2022	% Change
Net Sales	\$ 529.6	\$ 494.3	7 %
Operating Earnings	156.7	128.4	22 %
Net Earnings	129.2	100.8	28 %
Net Earnings, adjusted ⁽¹⁾	126.6	99.3	27 %
Diluted Net Earnings per Common Share	\$ 0.75	\$ 0.58	29 %
Diluted Net Earnings per Common Share, adjusted ⁽¹⁾	\$ 0.74	\$ 0.57	30 %

(1) See below for a reconciliation of adjusted non-GAAP financial measures to GAAP.

Sales increased 7 percent for the quarter, led by double-digit growth in the Process segment. Sales increases in the Americas and EMEA were partially offset by a decrease in Asia Pacific. Changes in currency translation rates decreased sales and net earnings by approximately \$11 million and \$6 million, respectively, for the quarter. Sales from acquired operations contributed approximately \$2 million for the quarter.

Gross profit margin rate was more than 2 percentage points higher than the first quarter last year mainly due to the impact of price changes and favorable product and channel mix.

Total operating expenses increased 2 percentage points, but decreased as a percentage of sales by 1 percentage point.

Excluding the impact of excess tax benefits related to stock option exercises presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Earnings before income taxes	\$ 157.4	\$ 122.9
Income taxes, as reported	\$ 28.2	\$ 22.1
Excess tax benefit from option exercises	2.6	1.5
Income taxes, adjusted	\$ 30.8	\$ 23.6
Effective income tax rate		
As reported	17.9 %	18.0 %
Adjusted	19.5 %	19.2 %
Net Earnings, as reported	\$ 129.2	\$ 100.8
Excess tax benefit from option exercises	(2.6)	(1.5)
Net Earnings, adjusted	\$ 126.6	\$ 99.3
Weighted Average Diluted Shares	171.7	174.7
Diluted Earnings per Share		
As reported	\$ 0.75	\$ 0.58
Adjusted	\$ 0.74	\$ 0.57

The following table presents an overview of components of net earnings as a percentage of net sales:

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Sales	100.0 %	100.0 %
Cost of products sold	46.2	48.5
Gross Profit	53.8	51.5
Product development	3.9	3.9
Selling, marketing and distribution	12.3	12.7
General and administrative	8.0	8.9
Operating Earnings	29.6	26.0
Interest expense	0.3	1.1
Other (income) expense, net	(0.4)	—
Earnings Before Income Taxes	29.7	24.9
Income taxes	5.3	4.5
Net Earnings	24.4 %	20.4 %

Net Sales

The following table presents net sales by geographic region (in millions):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Americas ⁽¹⁾	\$ 331.9	\$ 293.2
EMEA ⁽²⁾	108.8	106.2
Asia Pacific	88.9	94.9
Consolidated	\$ 529.6	\$ 494.3

(1) North, South and Central America, including the United States

(2) Europe, Middle East and Africa

The following table presents the components of net sales change by geographic region:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	13%	1%	(1)%	13%
EMEA	7%	0%	(5)%	2%
Asia Pacific	(1)%	0%	(5)%	(6)%
Consolidated	10%	0%	(3)%	7%

Gross Profit

Gross profit margin rate for the quarter was more than 2 percentage points higher than the first quarter last year. Favorable effects of realized pricing and product and channel mix offset the adverse impacts of higher product costs and changes in currency translation rates.

Operating Expenses

Total operating expenses for the quarter increased \$2 million (2 percent) compared to the first quarter last year. The increase includes higher stock compensation of \$2 million and volume and rate-related increases of \$5 million. Partially offsetting the increase was \$2 million of favorable changes in currency translation rates and \$3 million of credit losses on customer receivables in Russia in the prior year that did not repeat.

Interest and Other (Income) Expense

Interest expense for the quarter decreased \$4 million as private placement debt was repaid in the first quarter last year. Other non-operating expenses for the quarter decreased by \$2 million due to increased interest income and favorable market valuation changes on investments held to fund certain retirement benefits.

Income Taxes

The effective income tax rate of 18 percent for the quarter was flat compared with the first quarter last year.

Segment Results

Certain measurements of segment operations compared to last year are summarized below:

Contractor Segment

The following table presents net sales and operating earnings as a percentage of sales for the Contractor segment (dollars in millions):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Sales		
Americas	\$ 184.1	\$ 170.5
EMEA	42.1	41.2
Asia Pacific	19.7	22.9
Total	\$ 245.9	\$ 234.6
Operating earnings as a percentage of net sales	30 %	25 %

The following table presents the components of net sales change by geographic region for the Contractor segment:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	8%	0%	0%	8%
EMEA	7%	0%	(5)%	2%
Asia Pacific	(8)%	0%	(6)%	(14)%
Segment Total	7%	0%	(2)%	5%

Contractor segment sales increased 5 percent, with favorable response to new product offerings and improved product availability. Price realization and favorable product and channel mix drove the operating margin rate 5 percentage points higher.

Industrial Segment

The following table presents net sales and operating earnings as a percentage of sales for the Industrial segment (dollars in millions):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Sales		
Americas	\$ 63.3	\$ 54.3
EMEA	48.1	47.9
Asia Pacific	38.8	42.5
Total	\$ 150.2	\$ 144.7
Operating earnings as a percentage of net sales	35 %	36 %

The following table presents the components of net sales change by geographic region for the Industrial segment:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	17%	0%	0%	17%
EMEA	5%	0%	(5)%	0%
Asia Pacific	(3)%	0%	(6)%	(9)%
Segment Total	7%	0%	(3)%	4%

Underlying sales growth in the Americas and EMEA was partially offset by weakness in Asia Pacific, where finishing system sales and other project activity decreased. The unfavorable effects of currency translation drove a 1 percentage point decrease in the operating margin rate.

Process Segment

The following table presents net sales and operating earnings as a percentage of sales for the Process segment (dollars in millions):

	Three Months Ended	
	March 31, 2023	April 1, 2022
Net Sales		
Americas	\$ 84.5	\$ 68.4
EMEA	18.6	17.1
Asia Pacific	30.4	29.5
Total	\$ 133.5	\$ 115.0
Operating earnings as a percentage of net sales	30 %	24 %

The following table presents the components of net sales change by geographic region for the Process segment:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	22%	2%	0%	24%
EMEA	12%	1%	(4)%	9%
Asia Pacific	6%	0%	(3)%	3%
Segment Total	16%	2%	(2)%	16%

The Process segment had sales growth in all product applications. The operating margin rate for this segment increased 6 percentage points primarily due to price realization and expense leverage.

Liquidity and Capital Resources

Net cash provided by operating activities of \$91 million in the first quarter of 2023 increased \$60 million from the comparable period of 2022, mostly driven by higher net earnings, decreased inventory purchases, and decreased salary and incentive payments. Significant uses of cash in 2023 included dividend payments of \$39 million and plant and equipment additions of \$38 million. Net proceeds from shares issued in 2023 totaled \$30 million, which was partially offset by share repurchases of \$8 million.

Significant uses of cash in the first quarter of 2022 included share repurchases of \$109 million, payments of long-term debt of \$75 million, property, plant and equipment additions of \$47 million, dividend payments of \$36 million and \$25 million to acquire businesses that were not material to the consolidated financial statements. Proceeds from shares issued in the first quarter of 2022 totaled \$21 million.

As of March 31, 2023, the Company had available liquidity of \$917 million, including cash and cash equivalents of \$395 million, of which \$146 million was held outside of the U.S., and available credit under existing committed credit facilities of \$522 million.

Cash balances and unused financing sources are expected to provide the Company with the flexibility to meet its liquidity needs in 2023, including its capital expenditure plan, planned dividends, share repurchases, acquisitions and operating requirements. Capital expenditures for 2023 are expected to be approximately \$200 million, including \$130 million in facility expansion projects. The Company may make opportunistic share repurchases going forward.

Outlook

While end market activity and demand trends for the Company's new and existing products are solid, the Company remains cautious given the current macroeconomic uncertainty. The Company is confirming the revenue outlook for the year of low single-digit growth on an organic, constant currency basis.

Cautionary Statement Regarding Forward-Looking Statements

The Company desires to take advantage of the "safe harbor" provisions regarding forward-looking statements of the Private Securities Litigation Reform Act of 1995 and is filing this Cautionary Statement in order to do so. From time to time various forms filed by our Company with the Securities and Exchange Commission, including our Form 10-K, Form 10-Qs and Form 8-Ks, and other disclosures, including our 2022 Overview report, press releases, earnings releases, analyst briefings, conference calls and other written documents or oral statements released by our Company, may contain forward-looking statements. Forward-looking statements generally use words such as "expect," "foresee," "anticipate," "believe," "project," "should," "estimate," "will," and similar expressions, and reflect our Company's expectations concerning the future. All forecasts and projections are forward-looking statements. Forward-looking statements are based upon currently available information, but various risks and uncertainties may cause our Company's actual results to differ materially from those expressed in these statements. The Company undertakes no obligation to update these statements in light of new information or future events.

Future results could differ materially from those expressed due to the impact of changes in various factors. These risk factors include, but are not limited to: the impact of the COVID-19 pandemic on our business; Russia's invasion of Ukraine, and the sanctions and actions taken against Russia and Belarus in response to the invasion; economic conditions in the United States and other major world economies; our Company's growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; the ability to meet our customers' needs and changes in product demand; supply interruptions or delays; security breaches; new entrants who copy our products or infringe on our intellectual property; risks incident to conducting business internationally; catastrophic events; changes in laws and regulations; compliance with anti-corruption and trade laws; changes in tax rates or the adoption of new tax legislation; the possibility of asset impairments if acquired businesses do not meet performance expectations; political instability; results of and costs associated with litigation, administrative proceedings and regulatory reviews incident to our business; our ability to attract, develop and retain qualified personnel; the possibility of decline in purchases from a few large customers of the Contractor segment, variations in activity in the construction, automotive, mining and oil and natural gas industries, and the impact of declines in interest rates, asset values and investment returns on pension costs and required pension contributions. Please refer to Item 1A of our Annual Report on Form 10-K for fiscal year 2022 and Item 1A of this Form 10-Q for a more comprehensive discussion of these and other risk factors. These reports are available on the Company's website at www.graco.com and

the Securities and Exchange Commission's website at www.sec.gov. Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

Investors should realize that factors other than those identified above and in Item 1A might prove important to the Company's future results. It is not possible for management to identify each and every factor that may have an impact on the Company's operations in the future as new factors can develop from time to time.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes related to market risk from the disclosures made in the Company's 2022 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Evaluation of disclosure controls and procedures

As of the end of the fiscal quarter covered by this report, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures. This evaluation was done under the supervision and with the participation of the Company's President and Chief Executive Officer and the Chief Financial Officer and Treasurer. Based upon that evaluation, the Company's President and Chief Executive Officer and the Chief Financial Officer and Treasurer concluded that the Company's disclosure controls and procedures are effective.

Changes in internal controls

During the quarter, there was no change in the Company's internal control over financial reporting that has materially affected or is reasonably likely to materially affect the Company's internal control over financial reporting.

PART II OTHER INFORMATION

Item 1A. Risk Factors

There have been no material changes to the Company's risk factors from those disclosed in the Company's 2022 Annual Report on Form 10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Issuer Purchases of Equity Securities

On December 7, 2018, the Board of Directors authorized the purchase of up to 18 million shares of common stock, primarily through open market transactions. The authorization is for an indefinite period of time or until terminated by the Board.

In addition to shares purchased under the Board authorization, the Company purchases shares of common stock held by employees who wish to tender owned shares to satisfy the exercise price or tax due upon exercise of options or vesting of restricted stock.

Information on issuer purchases of equity securities follows:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (at end of period)
December 31, 2022 - January 27, 2023	—	\$ —	—	14,971,377
January 28, 2023 - February 24, 2023	115,297	\$ 67.36	—	14,856,080
February 25, 2023 - March 31, 2023	—	\$ —	—	14,856,080

Item 6. Exhibits

- 3.1 Restated Articles of Incorporation as amended December 8, 2017. ([Incorporated by reference to Exhibit 3.1 to the Company's Report on Form 8-K filed December 8, 2017.](#))
- 3.2 Restated Bylaws as amended February 17, 2023. ([Incorporated by reference to Exhibit 3.2 to the Company's 2022 Annual Report on Form 10-K.](#))
- [31.1](#) Certification of President and Chief Executive Officer pursuant to Rule 13a-14(a).
- [31.2](#) Certification of Chief Financial Officer and Treasurer pursuant to Rule 13a-14(a).
- [32](#) Certification of President and Chief Executive Officer and Chief Financial Officer and Treasurer pursuant to Section 1350 of Title 18, U.S.C.
- [99.1](#) Press Release Reporting First Quarter Earnings dated April 26, 2023.
- 101 Interactive data files pursuant to Rule 405 of Regulation S-T formatted in iXBRL (Inline eXtensible Business Reporting Language).
- 104 Cover Page Interactive Data File (formatted as iXBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GRACO INC.

Date:	<u>April 26, 2023</u>	By:	<u>/s/ Mark W. Sheahan</u>
			Mark W. Sheahan President and Chief Executive Officer (Principal Executive Officer)

Date:	<u>April 26, 2023</u>	By:	<u>/s/ David M. Lowe</u>
			David M. Lowe Chief Financial Officer and Treasurer (Principal Financial Officer)

Date:	<u>April 26, 2023</u>	By:	<u>/s/ Kathryn L. Schoenrock</u>
			Kathryn L. Schoenrock Executive Vice President, Corporate Controller and Information Systems (Principal Accounting Officer)

CERTIFICATION

I, Mark W. Sheahan, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2023

/s/ Mark W. Sheahan

Mark W. Sheahan

President and Chief Executive Officer

CERTIFICATION

I, David M. Lowe, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Graco Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: April 26, 2023

/s/ David M. Lowe
 David M. Lowe
 Chief Financial Officer and Treasurer

CERTIFICATION UNDER SECTION 1350

Pursuant to Section 1350 of Title 18 of the United States Code, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Graco Inc.

Date: <u>April 26, 2023</u>	<u>/s/ Mark W. Sheahan</u> Mark W. Sheahan President and Chief Executive Officer
Date: <u>April 26, 2023</u>	<u>/s/ David M. Lowe</u> David M. Lowe Chief Financial Officer and Treasurer

News Release

GRACO INC.
P.O. Box 1441
Minneapolis, MN
55440-1441
NYSE: GGG


FOR IMMEDIATE RELEASE:

Wednesday, April 26, 2023

FOR FURTHER INFORMATION:

Financial Contact: David Lowe, 612-623-6456
Media Contact: Laura Evanson, 612-656-7435
Laura.L.Evanson@graco.com

Graco Reports Record First Quarter Sales and Operating Earnings Sales Growth in All Segments

MINNEAPOLIS (April 26, 2023) – Graco Inc. (NYSE: GGG) today announced results for the first quarter ended March 31, 2023.

Summary

\$ in millions except per share amounts

	Three Months Ended		
	Mar 31, 2023	Apr 1, 2022	% Change
Net Sales	\$ 529.6	\$ 494.3	7 %
Operating Earnings	156.7	128.4	22 %
Net Earnings	129.2	100.8	28 %
Diluted Net Earnings per Common Share	\$ 0.75	\$ 0.58	29 %
Adjusted (non-GAAP): ⁽¹⁾			
Net Earnings, adjusted	\$ 126.6	\$ 99.3	27 %
Diluted Net Earnings per Common Share, adjusted	\$ 0.74	\$ 0.57	30 %

(1) Excludes impacts of excess tax benefits from stock option exercises. See Financial Results Adjusted for Comparability below for a reconciliation of adjusted non-GAAP financial measures to GAAP.

- Sales increased 7 percent, led by double-digit growth in the Process segment. Sales increases in the Americas and EMEA were partially offset by a decrease in Asia Pacific. Sales activity in Asia Pacific improved as the quarter progressed.
- Gross profit margin rate was more than 2 percentage points higher than the first quarter last year mainly due to the impact of price changes and favorable product and channel mix.
- Total operating expenses increased 2 percent, but decreased as a percentage of sales by 1 percentage point.

"We started the year strong with low double-digit revenue growth on an organic, constant currency basis, resulting in record first quarter revenue and operating earnings," said Mark Sheahan, Graco's President and CEO. "While the operating environment remains challenging, we were able to grow in all segments as component availability improved, previous pricing actions took hold and foreign exchange headwinds moderated driving improved margin results during the quarter."

Consolidated Results

Changes in currency translation rates decreased sales and net earnings by approximately \$11 million and \$6 million, respectively, for the quarter.

Net sales for the quarter increased 7 percent compared to last year (10 percent at consistent translation rates). Sales increased 13 percent in the Americas, 2 percent in EMEA (7 percent at consistent translation rates) and decreased 6 percent in Asia Pacific (1 percent at consistent translation rates).

Gross profit margin rate for the quarter was more than 2 percentage points higher than the first quarter last year. The favorable effects of realized pricing and product and channel mix offset the adverse impacts of higher product costs and changes in currency translation rates.

Total operating expenses for the quarter increased \$2 million (2 percent) compared to the first quarter last year. The increase includes higher stock compensation of \$2 million and volume and rate-related increases of \$5 million. Partially offsetting the increase was \$2 million of favorable changes in currency translation rates and \$3 million of credit losses on customer receivables in Russia in the prior year that did not repeat.

Interest expense for the quarter decreased \$4 million as private placement debt was repaid in the first quarter last year. Other non-operating expenses for the quarter decreased by \$2 million due to increased interest income and favorable market valuation changes on investments held to fund certain retirement benefits.

The effective income tax rate of 18 percent for the quarter was flat compared with the first quarter last year.

Segment Results

Management assesses performance of segments by reference to operating earnings excluding unallocated corporate expenses. For a reconciliation of segment operating earnings to consolidated operating earnings, refer to the segment information table included in the financial statement section of this release. Certain measurements of segment operations are summarized below:

	Three Months		
	Contractor	Industrial	Process
Net Sales (in millions)	\$ 245.9	\$ 150.2	\$ 133.5
Percentage change from last year			
Sales	5 %	4 %	16 %
Operating earnings	25 %	0 %	48 %
Operating earnings as a percentage of sales			
2023	30 %	35 %	30 %
2022	25 %	36 %	24 %

Components of net sales change by geographic region for the Contractor segment were as follows:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	8%	0%	0%	8%
EMEA	7%	0%	(5)%	2%
Asia Pacific	(8)%	0%	(6)%	(14)%
Consolidated	7%	0%	(2)%	5%

Contractor segment sales increased 5 percent, with favorable response to new product offerings and improved product availability. Price realization and favorable product and channel mix drove the operating margin rate 5 percentage points higher.

Components of net sales change by geographic region for the Industrial segment were as follows:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	17%	0%	0%	17%
EMEA	5%	0%	(5)%	0%
Asia Pacific	(3)%	0%	(6)%	(9)%
Consolidated	7%	0%	(3)%	4%

Underlying sales growth in the Americas and EMEA was partially offset by weakness in Asia Pacific, where finishing system sales and other project activity decreased. The unfavorable effects of currency translation drove a 1 percentage point decrease in the operating margin rate.

Components of net sales change by geographic region for the Process segment were as follows:

	Three Months			
	Volume and Price	Acquisitions	Currency	Total
Americas	22%	2%	0%	24%
EMEA	12%	1%	(4)%	9%
Asia Pacific	6%	0%	(3)%	3%
Consolidated	16%	2%	(2)%	16%

The Process segment had sales growth in all product applications. The operating margin rate for this segment increased 6 percentage points primarily due to price realization and expense leverage.

Outlook

"We are pleased with the results of the first quarter and while end market activity and demand trends for our new and existing products are solid, we remain cautious given the current uncertainty in the macroeconomic backdrop," said Sheahan. "We are confirming our revenue outlook for the year of low single-digit growth on an organic, constant currency basis."

Financial Results Adjusted for Comparability

Excluding the impacts of excess tax benefits from stock option exercises presents a more consistent basis for comparison of financial results. A calculation of the non-GAAP measurements of adjusted income taxes, effective income tax rates, net earnings and diluted earnings per share follows (in millions except per share amounts):

	Three Months Ended	
	Mar 31, 2023	Apr 1, 2022
Earnings before income taxes	\$ 157.4	\$ 122.9
Income taxes, as reported	\$ 28.2	\$ 22.1
Excess tax benefit from option exercises	2.6	1.5
Income taxes, adjusted	\$ 30.8	\$ 23.6
Effective income tax rate		
As reported	17.9 %	18.0 %
Adjusted	19.5 %	19.2 %
Net Earnings, as reported	\$ 129.2	\$ 100.8
Excess tax benefit from option exercises	(2.6)	(1.5)
Net Earnings, adjusted	\$ 126.6	\$ 99.3
Weighted Average Diluted Shares	171.7	174.7
Diluted Earnings per Share		
As reported	\$ 0.75	\$ 0.58
Adjusted	\$ 0.74	\$ 0.57

Cautionary Statement Regarding Forward-Looking Statements

The Company desires to take advantage of the “safe harbor” provisions regarding forward-looking statements of the Private Securities Litigation Reform Act of 1995 and is filing this Cautionary Statement in order to do so. From time to time various forms filed by our Company with the Securities and Exchange Commission, including our Form 10-K, Form 10-Qs and Form 8-Ks, and other disclosures, including our overview report, press releases, earnings releases, analyst briefings, conference calls and other written documents or oral statements released by our Company, may contain forward-looking statements. Forward-looking statements generally use words such as “expect,” “foresee,” “anticipate,” “believe,” “project,” “should,” “estimate,” “will,” and similar expressions, and reflect our Company’s expectations concerning the future. All forecasts and projections are forward-looking statements. Forward-looking statements are based upon currently available information, but various risks and uncertainties may cause our Company’s actual results to differ materially from those expressed in these statements. The Company undertakes no obligation to update these statements in light of new information or future events.

Future results could differ materially from those expressed due to the impact of changes in various factors. These risk factors include, but are not limited to: the impact of the COVID-19 pandemic on our business; Russia’s invasion of Ukraine, and the sanctions and actions taken against Russia and Belarus in response to the invasion; economic conditions in the United States and other major world economies; our Company’s growth strategies, which include making acquisitions, investing in new products, expanding geographically and targeting new industries; changes in currency translation rates; the ability to meet our customers’ needs and changes in product demand; supply interruptions or delays; security breaches; new entrants who copy our products or infringe on our intellectual property; risks incident to conducting business internationally; catastrophic events; changes in laws and regulations; compliance with anti-corruption and trade laws; changes in tax rates or the adoption of new tax legislation; the possibility of asset impairments if acquired businesses do not meet performance expectations; political instability; results of and costs associated with litigation, administrative proceedings and regulatory reviews incident to our business; our ability to attract, develop and retain qualified personnel; the possibility of decline in purchases from a few large customers of the Contractor segment; variations in activity in the construction, automotive, mining and oil and natural gas industries; and the impact of declines in interest rates, asset values and investment returns on pension costs and required pension contributions. Please refer to Item 1A of our Annual Report on Form 10-K for fiscal year 2022 (and most recent Form 10-Q) for a more comprehensive discussion of these and other risk factors. These reports are available on the Company’s website at www.graco.com and the Securities and Exchange Commission’s website at www.sec.gov. Shareholders, potential investors and other readers are urged to consider these factors in evaluating forward-looking statements and are cautioned not to place undue reliance on such forward-looking statements.

Investors should realize that factors other than those identified above and in Item 1A might prove important to the Company’s future results. It is not possible for management to identify each and every factor that may have an impact on the Company’s operations in the future as new factors can develop from time to time.

Conference Call

Graco management will hold a conference call, including slides via webcast, with analysts and institutional investors on Thursday, April 27, 2023, at 11 a.m. ET, 10 a.m. CT, to discuss Graco’s first quarter results.

A real-time listen-only webcast of the conference call will be broadcast by Nasdaq. Individuals can access the call and view the slides on the Company’s website at www.graco.com. Listeners should go to the website at least 15 minutes prior to the live conference call to install any necessary audio software.

About Graco

Graco Inc. supplies technology and expertise for the management of fluids and coatings in both industrial and commercial applications. It designs, manufactures and markets systems and equipment to move, measure,

control, dispense and spray fluid and powder materials. A recognized leader in its specialties, Minneapolis-based Graco serves customers around the world in the manufacturing, processing, construction and maintenance industries. For additional information about Graco Inc., please visit us at www.graco.com.

GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)
(In thousands except per share amounts)

	Three Months Ended	
	Mar 31, 2023	Apr 1, 2022
Net Sales	\$ 529,646	\$ 494,285
Cost of products sold	244,506	239,810
Gross Profit	285,140	254,475
Product development	20,479	19,078
Selling, marketing and distribution	65,383	62,995
General and administrative	42,610	44,039
Operating Earnings	156,668	128,363
Interest expense	1,347	5,287
Other (income) expense, net	(2,029)	153
Earnings Before Income Taxes	157,350	122,923
Income taxes	28,184	22,080
Net Earnings	\$ 129,166	\$ 100,843
Net Earnings per Common Share		
Basic	\$ 0.77	\$ 0.59
Diluted	\$ 0.75	\$ 0.58
Weighted Average Number of Shares		
Basic	168,018	169,809
Diluted	171,676	174,678

SEGMENT INFORMATION (Unaudited)
(In thousands)

	Three Months Ended	
	Mar 31, 2023	Apr 1, 2022
Net Sales		
Contractor	\$ 245,971	\$ 234,592
Industrial	150,190	144,669
Process	133,485	115,024
Total	\$ 529,646	\$ 494,285
Operating Earnings		
Contractor	\$ 73,772	\$ 58,947
Industrial	52,770	52,630
Process	40,565	27,488
Unallocated corporate (expense)	(10,439)	(10,702)
Total	\$ 156,668	\$ 128,363