



Graco Inc. (GGG)

Updated January 31st, 2023, by Patrick Neuwirth

Key Metrics

Current Price:	\$67	5 Year CAGR Estimate:	8.1%	Market Cap:	\$11 B
Fair Value Price:	\$63	5 Year Growth Estimate:	8.0%	Ex-Dividend Date¹:	04/14/23
% Fair Value:	106%	5 Year Valuation Multiple Estimate:	-1.2%	Dividend Payment Date¹:	05/04/23
Dividend Yield:	1.4%	5 Year Price Target	\$93	Years Of Dividend Growth:	26
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Graco Inc. (GGG) is a manufacturing company, which designs, manufactures, and markets systems and equipment used to move, measure, control, dispense and spray fluid and powder materials. It operates through the following segments: Industrial, Contractor and Process. The Industrial/Automotive unit accounted for 37% of 2022 sales; Contractor, 25%; Process, 25%. 42% of 2022 sales originated from international customers. The \$11 billion company was founded by Russell Gray and Leil Gray in April 1926, is headquartered in Minneapolis, and has about 3,800 employees.

On January 30th, 2023, Graco released its fourth quarter 2022 results for the period ending December 31st, 2022. For the quarter, the company reported revenue of \$555 million, a 3% increase compared to Q4 2021. This result was led by a 15% increase in Process segment sales and a 10% increase in Industrial segment sales, as the Contractor segment contracted by 7%. Adjusted net earnings were \$126.2 million for the quarter and adjusted earnings-per-share equaled \$0.74, up 5% and 7%, respectively, compared to \$120.3 million and \$0.69 in the year ago period. The full year 2022 net sales were \$2,143 million, an increase of \$156 million, or 8% over 2021. Diluted earnings per share increase by 6% in 2022 to \$2.66 compared to the \$2.52 in 2021.

Graco provided a positive outlook for full-year 2023, management expects organic revenue growth to be in the low single-digit on a constant currency basis with growth projected in all segments and regions. This outlook is below the growth figures realized in 2022. Graco expects to launch new products, explore new markets, expand its global channel, and make strategic acquisitions during the period.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS²	\$1.00	\$1.07	\$1.09	\$1.18	\$1.45	\$1.90	\$1.90	\$1.92	\$2.52	\$2.66	\$2.75	\$4.04
DPS	\$0.34	\$0.38	\$0.41	\$0.45	\$0.49	\$0.56	\$0.66	\$0.71	\$0.77	\$0.84	\$0.94	\$1.51
Shares³	183	178	167	168	169	165	167	169	170	169	169	169

Graco's long-term earnings growth track record is strong, with the company's earnings-per-share stabilizing in 2018 and growing thereafter to \$2.52 in 2021. Over the last nine years, the average EPS growth rate is 11.5%, which is above the 9.1% rate for this industry.

We expect the company to grow its earnings-per-share by 8% per year on average over the next five years. The company remains well-positioned in its markets and could continue to grow through new product developments, new markets, global expansion, and acquisitions. Supply-chain issues (related to component availability) and logistic problems will be challenging for Graco. Our intermediate-term growth rate is slightly higher than the company's EPS expectations for 2023.

The company has a long history of paying dividends and has increased its payout for 26 consecutive years. In December 2022, the quarterly dividend increased by 12% from \$0.21 to \$0.2350 per share. Over the last five years, the average annual dividend growth rate is 10.9%.

¹ Estimated date

² Diluted earnings; excludes nonrecurring items.

³ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	22.3	23.7	21.9	21.9	25.3	23.6	25.2	28.8	30.5	25.9	24.5	23.0
Avg. Yld.	1.9%	1.5%	1.7%	1.7%	1.3%	1.2%	1.4%	1.3%	1.0%	1.2%	1.4%	1.6%

During the past decade shares of Graco Inc. have traded with an average price-to-earnings ratio of about 25 times earnings and today, it stands at 24.5. We are using 23 times earnings as a fair value baseline, implying the potential for a valuation headwind. Graco's dividend yield is currently 1.4% and the dividend raises in the last few years have contributed modestly to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	34%	36%	38%	38%	34%	29%	35%	37%	31%	32%	34%	37%

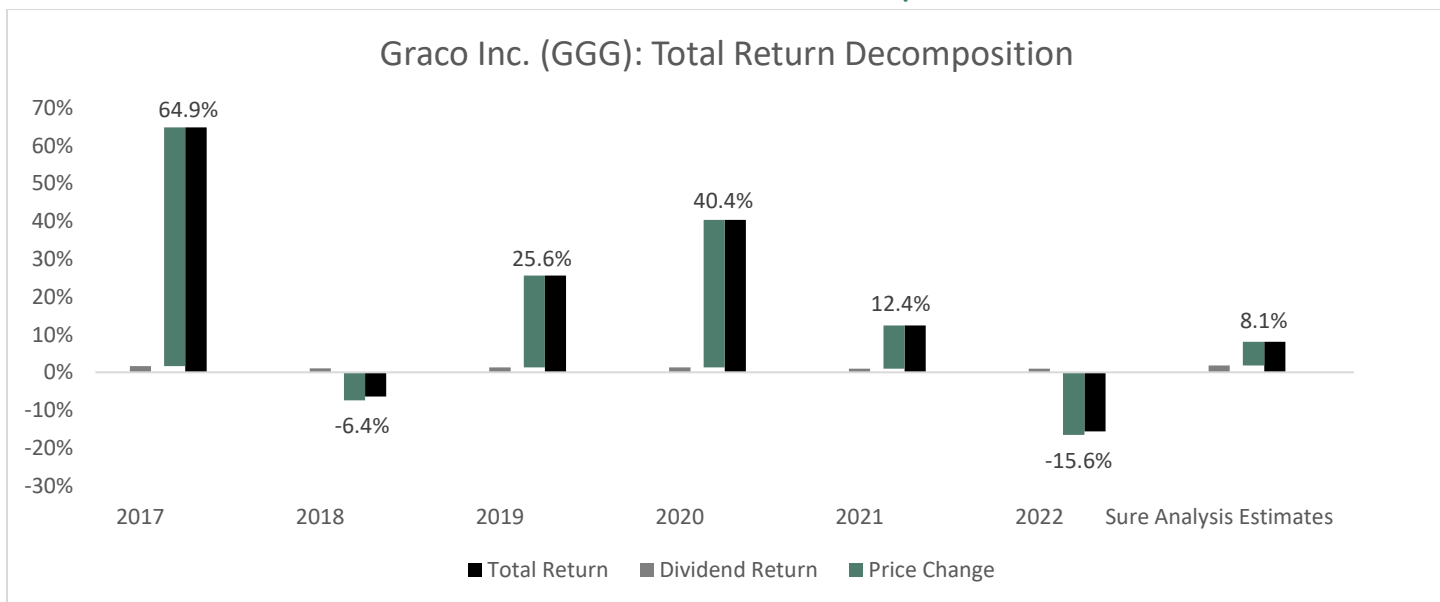
During the past five years, the company's dividend payout ratio has averaged around 33%. The payout ratio is not very high, which makes us believe that the dividend looks quite safe. Given the expected earnings growth, there is still room for the dividend to continue to grow and extend the track record of consecutive dividend increases which is an important factor for dividend growth investors.

Graco's industry is not one with outstanding growth rates, but the company has established itself as a major player that continues to grow profitably year over year. The annual price increases will continue to boost sales and profits. Important elements of Graco's business model are manufacturing excellence, service excellence (same-day delivery) and their extensive reach with 30,000+ outlets/distributors. The company's experienced management and strong fundamentals, such as an above-average return on capital (28%), are also competitive advantages.

Final Thoughts & Recommendation

We expect the company to grow its earnings-per-share by 8% per year on average over the next five years. The expected total returns for Graco are 8.1% per year, driven by earnings growth and a 1.4% dividend yield. We are enthused about the business model and long-term growth potential. Shares earn a hold rating at the moment.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1,012	1,104	1,221	1,286	1,329	1,475	1,653	1,646	1,650	1,988
Gross Profit	551	607	667	685	711	795	883	860	855	1,034
Gross Margin	54.4%	55.0%	54.6%	53.2%	53.5%	53.9%	53.4%	52.2%	51.8%	52.0%
SG&A Exp.	277	276	304	324	338	357	383	368	356	423
D&A Exp.	39	37	36	45	48	46	48	49	55	59
Operating Profit	225	280	309	302	313	379	436	424	427	531
Operating Margin	22.2%	25.3%	25.3%	23.5%	23.6%	25.7%	26.4%	25.8%	25.9%	26.7%
Net Profit	149	211	226	346	41	252	341	344	330	440
Net Margin	14.7%	19.1%	18.5%	26.9%	3.1%	17.1%	20.6%	20.9%	20.0%	22.1%
Free Cash Flow	171	220	211	150	234	298	314	291	323	323
Income Tax	68	78	90	129	56	95	70	62	44	69

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1,322	1,327	1,545	1,391	1,243	1,391	1,473	1,692	1,988	2,443
Cash & Equivalents	31	20	24	52	52	104	132	221	379	624
Accounts Receivable	172	183	215	226	218	266	275	267	315	325
Inventories	122	134	160	202	202	239	284	273	286	382
Goodwill & Int. Ass.	336	341	472	625	440	464	463	473	511	508
Total Liabilities	868	693	949	756	669	668	721	667	704	734
Accounts Payable	29	34	39	41	40	49	57	54	58	78
Long-Term Debt	565	418	620	409	315	233	277	172	172	193
Shareholder's Equity	454	634	596	636	574	723	752	1,025	1,284	1,709
LTD/E Ratio	1.24	0.66	1.04	0.64	0.55	0.32	0.37	0.17	0.13	0.11

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	13.6%	15.9%	15.7%	23.5%	3.1%	19.2%	23.8%	21.7%	18.0%	19.9%
Return on Equity	38.4%	38.7%	36.7%	56.1%	6.7%	38.9%	46.2%	38.7%	28.6%	29.4%
ROIC	18.1%	20.4%	19.9%	30.6%	4.2%	27.4%	34.4%	30.9%	24.9%	26.2%
Shares Out.	182	183	178	167	168	169	165	167	169	170
Revenue/Share	5.47	5.86	6.59	7.27	7.78	8.46	9.54	9.59	9.59	11.39
FCF/Share	0.93	1.17	1.14	0.85	1.37	1.71	1.81	1.69	1.88	1.85

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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