Graco Inc. (GGG)

Updated January 29th, 2025, by Patrick Neuwirth

Key Metrics

Current Price:	$83	**5 Year CAGR Estimate:**	7.7%	**Market Cap:**	$14.3 B
Fair Value Price:	$81	**5 Year Growth Estimate:**	7.0%	**Ex-Dividend Date[1]:**	04/11/25
% Fair Value:	103%	**5 Year Valuation Multiple Estimate:**	-0.6%	**Dividend Payment Date[1]:**	04/25/25
Dividend Yield:	1.3%	**5 Year Price Target**	$114	**Years Of Dividend Growth:**	28
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 segment accounted for 29% of 2024 sales, Contractor for 47%, and Process for 24%. 39% of 2024 sales originated from international customers. The $14.3 billion company was founded by Russell Gray and Leil Gray in April 1926, is headquartered in Minneapolis, and has about 4,000 employees.

On January 27th, 2025, Graco released its fourth quarter and full year 2024 results for the period ending December 27th, 2024. For the quarter, the company reported a decline in net sales, totaling $548.7 million, down 3% from $566.6 million in the corresponding quarter last year. Sales decreased by 1% in the Americas, 2% in Europe, the Middle East, and Africa (EMEA), and fell significantly by 10% in the Asia Pacific (9% at consistent translation rates).

This mixed performance was observed across its segments, with the Contractor segment showing resilience, increasing by 3% to $246.9 million, driven by acquired operations. However, the Industrial segment's revenues declined by 14% to $165.7 million, reflecting continued softness in China and semiconductor markets. The Process segment remained flat at $136.1 million, supported by growth in the Americas offsetting declines in EMEA and Asia Pacific. The gross profit margin rate declined by approximately 2 percentage points for the quarter, as lower sales volume and higher product costs outweighed pricing improvements. Adjusted diluted earnings-per-share for the quarter was $0.64, down 20% from $0.80 in the prior year, indicating that higher operating expenses and a higher effective tax rate weighed on earnings despite cost management efforts.

For the full-year 2024, diluted EPS was $2.82, down from $2.94 in 2023, while adjusted diluted EPS was $2.77, down from $3.04.

Graco management has initiated its full-year 2025 outlook, expecting low single-digit sales growth on an organic constant currency basis despite the challenging market conditions. This guidance reflects stabilization in demand for semiconductor products and improvements in the Chinese market, which were significant headwinds in 2024. While the Industrial and Process segments faced difficulties last year, the company expects incremental profitable growth from its recent business reorganization and strategic acquisitions, including Corob. Graco remains optimistic about its long-term prospects, supported by its strong acquisition pipeline, continued investment in new product development, and expanded distribution strategies.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS[2]	$1.09	$1.18	$1.45	$1.90	$1.90	$1.92	$2.52	$2.66	$2.94	$2.82	***$3.00***	***$4.21***
DPS	$0.41	$0.45	$0.49	$0.56	$0.66	$0.71	$0.77	$0.84	$0.94	$1.02	***$1.10***	***$1.62***
Shares[3]	167	168	169	165	167	172	175	173	173	173	***172***	***173***

[1] Estimated date
[2] Diluted earnings; excludes nonrecurring items.
[3] In millions.

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Graco's long-term earnings growth track record is strong, with the company's earnings-per-share stabilizing in 2019 and growing thereafter to $2.94 in 2023. Over the last decade, the average EPS growth rate is 11.1%, which is above the 9.5% rate for this industry.

We expect the company to grow its earnings-per-share by 7% 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. The company has a long history of paying dividends and has increased its payout for 28 consecutive years. In December 2024, the quarterly dividend increased by 7.8% from $0.2550 to $0.2750 per share. Over the last five years, the average annual dividend growth rate is 9.2%.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	21.9	21.9	25.3	23.6	25.2	28.8	30.5	25.0	25.7	25.7	***27.8***	***27.0***
Avg. Yld.	1.9%	1.7%	1.3%	1.2%	1.4%	1.3%	1.0%	1.3%	1.2%	1.2%	***1.3%***	***1.4%***

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 27.8. We are using 27 times earnings as a fair value baseline, implying the potential for a small valuation headwind. Graco's dividend yield is currently 1.3% and the dividend raises in the last few years have contributed modestly to total returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	38%	38%	34%	29%	35%	37%	31%	32%	32%	36%	***37%***	***38%***

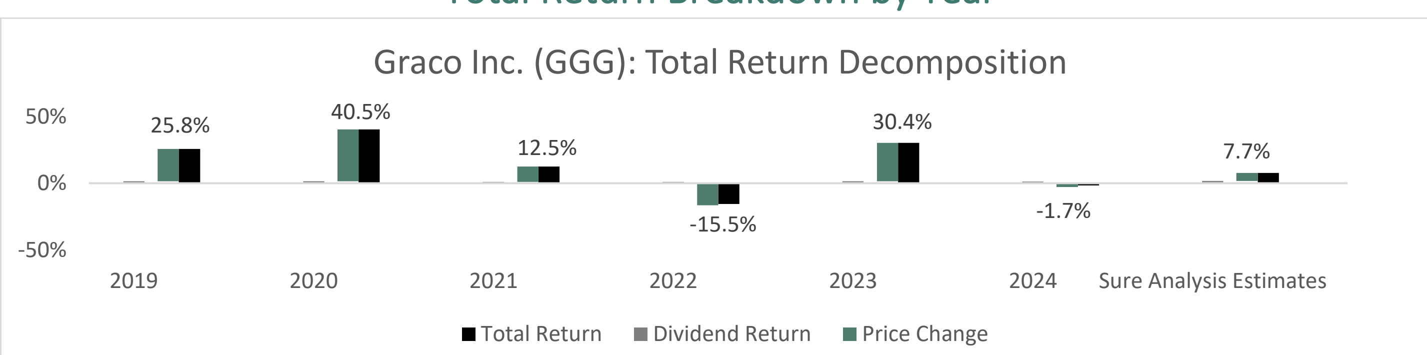
During the past five years, the company's dividend payout ratio has averaged around 33%. The payout ratio is not very high, which makes us believe that the dividend looks quite safe. Given the expected earnings growth, there is still room for the dividend to continue to grow and extend the track record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

Final Thoughts & Recommendation

The expected total returns for Graco are 7.7% per year, driven by earnings growth rate of 6% and the 1.3% dividend yield, offset by a valuation headwind. We are enthused about the business model and long-term growth potential. However, shares earn a hold rating due to projected returns.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	1,221	1,286	1,329	1,475	1,653	1,646	1,650	1,988	2,144	2,196
Gross Profit	667	685	711	795	883	860	855	1,034	1,057	1,161
Gross Margin	54.6%	53.2%	53.5%	53.9%	53.4%	52.2%	51.8%	52.0%	49.3%	52.9%
SG&A Exp.	304	324	338	357	383	368	356	423	405	432
D&A Exp.	36	45	48	46	48	49	55	59	66	74
Operating Profit	309	302	313	379	436	424	427	531	573	640
Operating Margin	25.3%	23.5%	23.6%	25.7%	26.4%	25.8%	25.9%	26.7%	26.7%	29.1%
Net Profit	226	346	41	252	341	344	330	440	461	507
Net Margin	18.5%	26.9%	3.1%	17.1%	20.6%	20.9%	20.0%	22.1%	21.5%	23.1%
Free Cash Flow	211	150	234	298	314	291	323	323	176	466
Income Tax	90	129	56	95	70	62	44	69	105	102

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,545	1,391	1,243	1,391	1,473	1,692	1,988	2,443	2,439	2,722
Cash & Equivalents	24	52	52	104	132	221	379	624	339	538
Accounts Receivable	215	226	218	266	275	267	315	325	346	354
Inventories	160	202	202	239	284	273	286	382	477	438
Goodwill & Int. Ass.	472	625	440	464	463	473	511	508	508	499
Total Liabilities	949	756	669	668	721	667	704	734	579	498
Accounts Payable	39	41	40	49	57	54	58	78	84	72
Long-Term Debt	620	409	315	233	277	172	172	193	96	30
Shareholder's Equity	596	636	574	723	752	1,025	1,284	1,709	1,860	2224
LTD/E Ratio	1.04	0.64	0.55	0.32	0.37	0.17	0.13	0.11	0.06	0.01

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	15.7%	23.5%	3.1%	19.2%	23.8%	21.7%	18.0%	19.9%	18.9%	19.6%
Return on Equity	36.7%	56.1%	6.7%	38.9%	46.2%	38.7%	28.6%	29.4%	25.8%	24.8%
ROIC	19.9%	30.6%	4.2%	27.4%	34.4%	30.9%	24.9%	26.2%	23.4%	24.1%
Shares Out.	178	167	168	169	165	167	169	170	173	172
Revenue/Share	6.59	7.27	7.78	8.46	9.54	9.59	9.59	11.39	12.40	12.75
FCF/Share	1.14	0.85	1.37	1.71	1.81	1.69	1.88	1.85	1.02	2.71

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