

GRACO INC
Form 10-Q
July 20, 2016

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 June 24, 2016
Commission File Number: 001-09249

GRACO INC.
(Exact name of registrant as specified in its charter)

Minnesota 41-0285640
(State of incorporation) (I.R.S. Employer Identification Number)

88 - 11th Avenue N.E. 55413
Minneapolis, Minnesota
(Address of principal executive offices) (Zip Code)
(612) 623-6000
(Registrant's telephone number, including area code)

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large Accelerated Filer Accelerated Filer
Non-accelerated Filer Smaller reporting company

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

Yes No

55,679,000 shares of the Registrant's Common Stock, \$1.00 par value, were outstanding as of July 13, 2016.

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PART I Item 1.

GRACO INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS

(Unaudited) (In thousands except per share amounts)

	Thirteen Weeks		Twenty-six Weeks	
	Ended		Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Net Sales	\$348,126	\$335,489	\$653,038	\$641,942
Cost of products sold	162,985	154,866	306,101	299,190
Gross Profit	185,141	180,623	346,937	342,752
Product development	15,607	14,907	30,293	30,197
Selling, marketing and distribution	56,136	50,126	108,837	101,550
General and administrative	35,056	31,699	68,516	61,883
Operating Earnings	78,342	83,891	139,291	149,122
Interest expense	4,543	4,125	9,036	9,428
Held separate investment (income), net	—	(158,833)	—	(188,356)
Other expense (income), net	392	(438)	(754)	272
Earnings Before Income Taxes	73,407	239,037	131,009	327,778
Income taxes	22,460	66,400	40,510	86,300
Net Earnings	\$50,947	\$172,637	\$90,499	\$241,478
Per Common Share				
Basic net earnings	\$0.92	\$2.96	\$1.63	\$4.12
Diluted net earnings	\$0.89	\$2.90	\$1.59	\$4.02
Cash dividends declared	\$0.33	\$0.30	\$0.66	\$0.60

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited) (In thousands)

	Thirteen Weeks		Twenty-six Weeks	
	Ended		Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Net Earnings	\$50,947	\$172,637	\$90,499	\$241,478
Components of other comprehensive income (loss)				
Cumulative translation adjustment	(7,635)	12,404	(10,037)	9,393
Pension and postretirement medical liability adjustment	1,777	1,919	3,250	4,357
Income taxes - pension and postretirement medical liability adjustment	(635)	(739)	(1,204)	(1,641)
Other comprehensive income (loss)	(6,493)	13,584	(7,991)	12,109
Comprehensive Income	\$44,454	\$186,221	\$82,508	\$253,587

See notes to consolidated financial statements.

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GRACO INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Unaudited) (In thousands)

	June 24, 2016	December 25, 2015
ASSETS		
Current Assets		
Cash and cash equivalents	\$43,864	\$ 52,295
Accounts receivable, less allowances of \$11,800 and \$10,400	244,047	225,509
Inventories	205,344	202,136
Other current assets	24,971	29,077
Total current assets	518,226	509,017
Property, Plant and Equipment		
Cost	479,612	461,173
Accumulated depreciation	(289,943)	(282,736)
Property, plant and equipment, net	189,669	178,437
Goodwill	416,188	394,488
Other Intangible Assets, net	240,407	227,987
Deferred Income Taxes	62,029	56,976
Other Assets	24,370	24,447
Total Assets	\$1,450,889	\$ 1,391,352
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Notes payable to banks	\$13,306	\$ 15,901
Trade accounts payable	40,030	40,505
Salaries and incentives	32,852	44,673
Dividends payable	18,150	18,447
Other current liabilities	65,478	75,090
Total current liabilities	169,816	194,616
Long-term Debt	429,495	392,695
Retirement Benefits and Deferred Compensation	139,225	137,457
Deferred Income Taxes	27,491	22,303
Other Non-current Liabilities	8,730	8,730
Shareholders' Equity		
Common stock	55,673	55,766
Additional paid-in-capital	435,452	398,774
Retained earnings	297,495	285,508
Accumulated other comprehensive income (loss)	(112,488)	(104,497)
Total shareholders' equity	676,132	635,551
Total Liabilities and Shareholders' Equity	\$1,450,889	\$ 1,391,352
See notes to consolidated financial statements.		

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GRACO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited) (In thousands)

	Twenty-six Weeks Ended	
	June 24, 2016	June 26, 2015
Cash Flows From Operating Activities		
Net Earnings	\$90,499	\$241,478
Adjustments to reconcile net earnings to net cash provided by operating activities		
Depreciation and amortization	24,500	21,969
Deferred income taxes	(7,397)	(11,324)
Share-based compensation	12,736	10,990
Excess tax benefit related to share-based payment arrangements	(5,500)	(700)
Gain on sale of business, net	—	(147,261)
Change in		
Accounts receivable	(14,826)	(33,934)
Inventories	(1,744)	(24,540)
Trade accounts payable	(34)	7,879
Salaries and incentives	(12,336)	(8,230)
Retirement benefits and deferred compensation	4,217	6,094
Other accrued liabilities	(38)	56,035
Other	(2,070)	(21,792)
Net cash provided by operating activities	88,007	96,664
Cash Flows From Investing Activities		
Property, plant and equipment additions	(25,961)	(19,886)
Acquisition of businesses, net of cash acquired	(49,110)	(187,853)
Proceeds from sale of assets	—	589,808
Investment in restricted assets	934	—
Other	(146)	(250)
Net cash provided by (used in) investing activities	(74,283)	381,819
Cash Flows From Financing Activities		
Borrowings (payments) on short-term lines of credit, net	(2,616)	5,336
Borrowings on long-term line of credit	416,079	458,540
Payments on long-term line of credit	(379,279)	(773,130)
Excess tax benefit related to share-based payment arrangements	5,500	700
Common stock issued	24,478	14,511
Common stock repurchased	(48,050)	(130,635)
Cash dividends paid	(36,685)	(35,339)
Net cash provided by (used in) financing activities	(20,573)	(460,017)
Effect of exchange rate changes on cash	(1,582)	2,136
Net increase (decrease) in cash and cash equivalents	(8,431)	20,602
Cash and cash equivalents		
Beginning of year	52,295	23,656
End of period	\$43,864	\$44,258
See notes to consolidated financial statements.		

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Basis of Presentation

The consolidated balance sheet of Graco Inc. and Subsidiaries (the "Company") as of June 24, 2016 and the related statements of earnings for the thirteen and twenty-six weeks ended June 24, 2016 and June 26, 2015, and cash flows for the twenty-six weeks ended June 24, 2016 and June 26, 2015 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 June 24, 2016, 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 2015 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. Earnings per Share

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

	Thirteen Weeks Ended		Twenty-six Weeks Ended	
	June 24, 2016	June 26, 2015	June 24, 2016	June 26, 2015
Net earnings available to common shareholders	\$50,947	\$172,637	\$90,499	\$241,478
Weighted average shares outstanding for basic earnings per share	55,634	58,235	55,514	58,608
Dilutive effect of stock options computed using the treasury stock method and the average market price	1,406	1,387	1,361	1,436