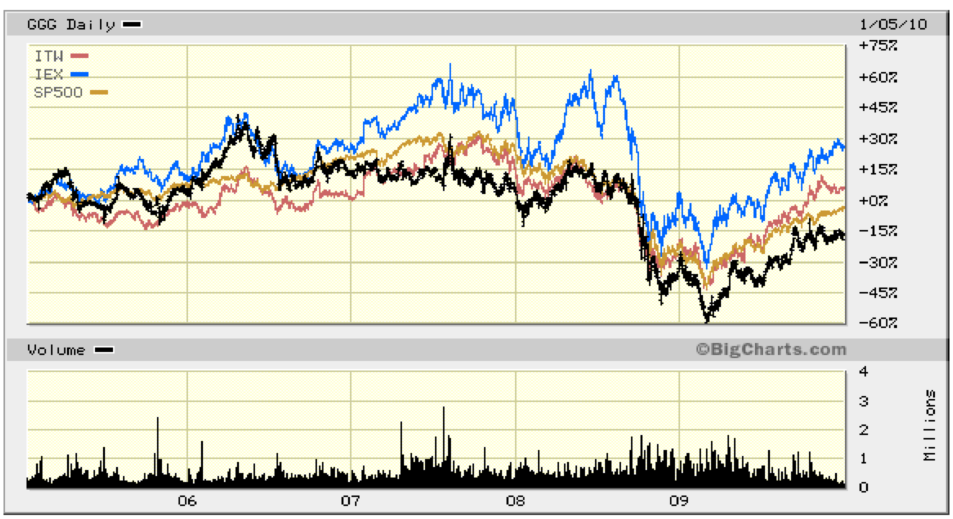
Graco Inc. (GGG) 1/5/10

GGG operates as a fluid handling and producer to other industrial, construction, and maintenance companies. The company operates in the following segments with percentages of 2007 sales; Industrial at 57%, Contractor at 36%, and Lubrication at 11%. The company has sales throughout the world, with about half coming from North America. GGG is headquartered in Minneapolis, Minnesota and was founded in 1969.

Current Price	$29.39
52 Week High	$32.09
52 Week Low	$14.17
One Yr Target	$32.00
Market Cap (in billions)	$1.76
P/E (Trailing)	42.23
P/E(1 Yr Forward)	23.51
P/E/G	3.53
ROA	7.57%
ROE	19.97%
EPS	$0.70
Beta	1.39
Annualized Dividend	$0.76
Dividend Yield	2.59%
Analyst Consensus	2.90
Debt to Equity	1.70



Annual EPS

2005	$1.84	
2006	$2.24	21.84%
2007	$2.47	10.02%
2008	$2.03	-17.67%
2009	$0.70	-65.73%

Annual Revenue (in millions)

2005	$731.70	
2006	$816.47	11.59%
2007	$841.34	3.05%
2008	$817.27	-2.86%

Annual Net Income (in millions)

2005	$125.85	
2006	$149.77	19.01%
2007	$152.84	2.05%
2008	$120.88	-20.91%

Free Cash Flows (in millions)

2005	$132.51	
2006	$121.78	-8.10%
2007	$140.15	15.08%
2008	$132.05	-5.78%

Required Rate of Return

13.08%

Dividend Growth Model

Present Value of 2015 Price	$9.76
Holding Period Return (5 years)	-2.84%

Expected Annualized Return Model

Present Value of 2015 Price	$10.97
Holding Period Return (5 years)	-15.18%

Residual Income Model

Intrinsic Stock Price	$4.92

Analysis

Positives

Negatives

Rough 2006 with most revenue measures falling against past years' numbers

Current stock price is overvalued according to all valuation models

Financial Statements

Income Statement is ok, nothing really strong of weak to note

Balance Sheet is ok, have increased Debt in past couple years but results in a huge ROE

Cash Flow's Capital Expenditures are ok, still company has traded new Debt for retiring Equity

Industry Analysis

Industry should see increased demand from other industy and contractor production

GGG has average financial ratios compared with its industry

Summary

GGG operates in a good industry for the cyclical swing the economy is coming into, yet it seems to operate as just an average stock. Its financial ratios and financial statements are all pretty solid, with nothing really outstanding or weak among them. Revenues should increase due to increased construction and manufacturing but it would be nice to see GGG handle this money better, say by increasing Dividends or repurchasing more Stock. Some areas of concern are rising steel costs which GGG's customers use as a main input, and the value of the Dollar versus the Euro and Asian currencies as GGG has considerable foreign exchange exposure. Overall GGG should see some price appreciation in the coming years but not much to outperform the market and therefore earns a **hold** rating.