



GRAINGER REPORTS RESULTS FOR THE THIRD QUARTER 2023

***Advancing strategic initiatives while driving continued strong results;
Company narrows full-year 2023 guidance range***

Third Quarter Highlights

- *Delivered sales of \$4.2 billion, up 6.7%, or 8.7% on a daily, constant currency basis*
- *Generated operating earnings of \$667 million, up 10.7%, with operating margin of 15.9%, up 60 basis points*
- *Achieved diluted EPS of \$9.43, an increase of 14.1%*
- *Produced \$523 million in operating cash flow and returned \$287 million to Grainger shareholders through dividends and share repurchases*
- *Narrowing full-year 2023 total Company guidance, including an updated outlook for daily sales growth between 8.5% to 9.5% and diluted EPS of \$36.00 to \$36.60*

CHICAGO, October 26, 2023 - Grainger (NYSE: GWW) today reported results for the third quarter of 2023 with sales of \$4.2 billion, up 6.7%, or 8.7% on a daily, constant currency basis, and diluted EPS of \$9.43, up 14.1% compared to the third quarter of 2022.

"The team continues to drive value for customers and serve them well amidst a reasonably steady demand environment. By executing on our strategy, we saw additional share gain and continued profitability leading to another quarter of strong performance," said D.G. Macpherson, Chairman and CEO. "As we look to the final quarter of 2023, we remain focused on providing a flawless experience for customers and positioning the business for long-term, profitable growth."

2023 Third Quarter Financial Summary

	<u>Q3 2023</u> ⁽¹⁾	<u>Q3 2022</u> ⁽¹⁾	<u>Q3'23 vs. Q3'22</u> <u>Fav. / (Unfav.)</u>
(\$ in millions, except per share amounts)			
Net Sales	\$4,208	\$3,942	6.7%
Gross Profit	\$1,655	\$1,519	9.1%
Operating Earnings	\$667	\$603	10.7%
Net Earnings Attributable to W.W. Grainger, Inc.	\$476	\$426	11.9%
Diluted Earnings Per Share	\$9.43	\$8.27	14.1%
Gross Profit Margin	39.3%	38.5%	80 bps
Operating Margin	15.9%	15.3%	60 bps
Effective Tax Rate	24.4%	24.7%	30 bps

⁽¹⁾ Results are consistent on a reported and adjusted basis.

Revenue

Sales in the quarter, on a reported and daily basis, increased 6.7% compared to the third quarter of 2022. Adjusting for the impact of one less selling day in the third quarter of 2023, and excluding the unfavorable foreign exchange impact of 0.3%, sales on a daily, constant currency basis increased 8.7% compared to the third quarter of 2022.

In the High-Touch Solutions - N.A. segment, daily sales were up 8.7% compared to the third quarter of 2022, primarily due to solid volume growth in all geographies. In the Endless Assortment segment, daily sales were up 6.0%, or 9.2% on a daily, constant currency basis, compared to the third quarter of 2022. Revenue growth was driven by new customer acquisition across the segment as well as enterprise customer growth at MonotaRO, which was partially offset by declining sales to non-core, consumer-like customers and slower overall market demand at Zoro.

Gross Profit Margin

Gross profit margin for the third quarter of 2023 was 39.3%, an 80-basis point increase compared to the third quarter of 2022. The increase was driven by favorability in the High-Touch Solutions - N.A. segment, which was partially offset by a slight decline in the Endless Assortment segment.

In the High-Touch Solutions - N.A. segment, gross profit margin expanded by 110 basis points over the third quarter of 2022 due primarily to sustained freight and supply chain efficiencies, as

well as continued favorable product mix. In the Endless Assortment segment, gross profit margin declined by 20 basis points from the third quarter of 2022 as strong price realization and continued freight efficiencies at MonotaRO were offset by unfavorable product mix at Zoro.

Earnings

Operating earnings for the third quarter of 2023 were \$667 million, up 10.7% compared to the third quarter of 2022. Operating margin in the quarter was 15.9%, a 60-basis point increase over the third quarter of 2022 driven by expanded gross profit margins, which were partially offset by a decrease in SG&A leverage from continued demand generation investments.

Diluted earnings per share of \$9.43 in the third quarter of 2023, increased 14.1% compared to the third quarter of 2022.

Tax Rate

The third quarter 2023 effective tax rate was 24.4%, compared to 24.7% in the third quarter of 2022. The decrease in the effective tax rate was primarily due to a favorable mix of foreign earnings.

Cash Flow

During the third quarter of 2023, the Company generated \$523 million of cash flow from operating activities, as higher net earnings were further aided by favorable working capital. The Company invested \$125 million in capital expenditures, resulting in free cash flow of \$398 million. During the quarter, the Company returned \$287 million to Grainger shareholders through dividends and share repurchases.

Guidance

Total Company⁽¹⁾	Updated 2023 Guidance Range (as of July 27, 2023)	Updated 2023 Guidance Range (as of October 26, 2023)
Net Sales	\$16.4 - \$16.8 billion	\$16.4 - \$16.6 billion
Sales Growth	8.0% - 10.6%	8.0% - 9.1%
Daily Sales Growth	8.5% - 11.0%	8.5% - 9.5%
Gross Profit Margin	39.1% - 39.4%	39.3% - 39.4%
Operating Margin	15.2% - 15.7%	15.6% - 15.7%
Diluted Earnings per Share	\$35.00 - \$36.75	\$36.00 - \$36.60
Operating Cash Flow	\$1.70 - \$1.85 billion	\$1.8 - \$1.9 billion
CapEx (cash basis)	\$450 - \$525 million	\$450 - \$525 million
Share Buyback	\$750 - \$850 million	\$800 - \$875 million
Effective Tax Rate	~24.0%	~24.0%
Segment Operating Margin		
High-Touch Solutions - N.A.	17.3% - 17.8%	17.7% - 17.8%
Endless Assortment	7.4% - 7.8%	7.4% - 7.8%

⁽¹⁾ Guidance provided is on an adjusted basis. Daily sales growth adjusted for the impact of one fewer selling day in 2023 compared to 2022. The Company does not reconcile forward-looking non-GAAP financial measures. For further details see the supplemental information of this release.

Webcast

The Company will conduct a live conference call and webcast at 11:00 a.m. ET on Thursday, October 26, 2023, to discuss the third quarter results. The webcast will be hosted by D.G. Macpherson, Chairman and CEO, and Deidra Merriwether, Senior Vice President and CFO, and can be accessed at invest.grainger.com. For those unable to participate in the live event, a webcast replay will be available for 90 days at invest.grainger.com.

About Grainger

W.W. Grainger, Inc., with 2022 sales of \$15.2 billion, is a leading broad line distributor with operations primarily in North America, Japan and the United Kingdom. Grainger achieves its purpose, We Keep the World Working®, by serving more than 4.5 million customers worldwide with innovative technology and deep customer relationships. The Company operates two business models. In the High-Touch Solutions segment, Grainger offers more than 2 million maintenance, repair and operating (MRO) products and several services, such as technical support and inventory management. In the Endless Assortment segment, Zoro.com offers customers access to more than 11 million items, and MonotaRO.com provides more than 20 million items. For more information, visit invest.grainger.com.

Visit invest.grainger.com to view information about the Company, including a supplement regarding 2023 third quarter results. Additional Company information can be found on the [Grainger Investor Relations website](#) which includes the Company Snapshot and ESG report.

Safe Harbor Statement

All statements in this communication, other than those relating to historical facts, are “forward-looking statements.” Forward-looking statements can generally be identified by their use of terms such as “anticipate,” “estimate,” “believe,” “expect,” “could,” “forecast,” “may,” “intend,” “plan,” “predict,” “project,” “will,” or “would,” and similar terms and phrases, including references to assumptions. Forward-looking statements are not guarantees of future performance and are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such statements. Forward-looking statements include, but are not limited to, statements about future strategic plans and future financial and operating results. Important factors that could cause actual results to differ materially from those presented or implied in the forward-looking statements include, without limitation: inflation, higher product costs or other expenses, including operational and administrative expenses; the impact of macroeconomic pressures and geopolitical trends, changes and events; a major loss of customers; loss or disruption of sources of supply; changes in customer or product mix; increased competitive pricing pressures; changes in third party practices regarding digital advertising; failure to enter into or sustain contractual arrangements on a satisfactory basis with group purchasing organizations; failure to develop, manage or implement new technology initiatives or business strategies, including with respect to the Company’s eCommerce platforms; failure to adequately protect intellectual property or successfully defend against infringement claims; fluctuations or declines in the Company’s gross profit margin; the Company’s responses to market pressures; the outcome of pending and future litigation or governmental or regulatory proceedings, including with respect to wage and hour, anti-bribery and corruption, environmental, regulations related to advertising, marketing and the Internet, consumer protection, pricing (including disaster or emergency declaration pricing statutes), product liability, compliance or safety, trade and export compliance, general commercial disputes, or privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; failure to comply with laws, regulations and standards, including new or stricter environmental laws or regulations; government contract matters; the impact of any government shutdown; disruption or breaches of information technology or data security systems involving the Company or third parties on which the Company depends; general industry, economic, market or political conditions; general global economic conditions including tariffs and trade issues and policies; currency exchange rate fluctuations; market volatility, including price and trading volume volatility or price declines of the Company’s common stock; commodity price volatility; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; outbreaks of pandemic disease or viral contagions such as the COVID-19 pandemic; natural or human induced disasters, extreme weather and other catastrophes or conditions; effects of climate change; failure to execute on our efforts and programs related to environmental, social and governance matters; competition for, or failure to attract, retain, train, motivate and develop executives and key employees; loss of key members of management or key employees; changes in effective tax rates; changes in credit ratings or outlook; the Company’s incurrence of indebtedness or failure to comply with restrictions and obligations under its debt agreements and instruments and other factors identified in the Company’s filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q, which are available on our Investor Relations website. The preceding list is not intended to be an exhaustive list of all of the factors that could impact the Company’s forward-looking statements. Given these risks and uncertainties, you are cautioned not to place undue reliance on the Company’s forward-looking statements and the Company undertakes no obligation to update or revise any of its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

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W.W. Grainger, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In millions of dollars, except for share and per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net sales	\$ 4,208	\$ 3,942	\$ 12,481	\$ 11,426
Cost of goods sold	2,553	2,423	7,548	7,083
Gross profit	1,655	1,519	4,933	4,343
Selling, general and administrative expenses	988	916	2,925	2,672
Operating earnings	667	603	2,008	1,671
Other (income) expense:				
Interest expense – net	22	25	70	70
Other – net	(7)	(9)	(21)	(20)
Total other expense – net	15	16	49	50
Earnings before income taxes	652	587	1,959	1,621
Income tax provision	159	145	468	405
Net earnings	493	442	1,491	1,216
Less net earnings attributable to noncontrolling interest	17	16	57	53
Net earnings attributable to W.W. Grainger, Inc.	<u>\$ 476</u>	<u>\$ 426</u>	<u>\$ 1,434</u>	<u>\$ 1,163</u>
Earnings per share:				
Basic	<u>\$ 9.47</u>	<u>\$ 8.31</u>	<u>\$ 28.45</u>	<u>\$ 22.64</u>
Diluted	<u>\$ 9.43</u>	<u>\$ 8.27</u>	<u>\$ 28.32</u>	<u>\$ 22.52</u>
Weighted average number of shares outstanding:				
Basic	<u>49.9</u>	<u>50.8</u>	<u>50.1</u>	<u>51.0</u>
Diluted	<u>50.1</u>	<u>51.1</u>	<u>50.3</u>	<u>51.3</u>

W.W. Grainger, Inc. and Subsidiaries
CONDENSED CONSOLIDATED BALANCE SHEETS
(In millions of dollars)
(Unaudited)

	As of	
	(Unaudited)	
<u>Assets</u>	September 30, 2023	December 31, 2022
Current assets		
Cash and cash equivalents	\$ 601	\$ 325
Accounts receivable (less allowances for credit losses of \$38 and \$36, respectively)	2,444	2,133
Inventories – net	2,196	2,253
Prepaid expenses and other current assets	171	266
Total current assets	5,412	4,977
Property, buildings and equipment – net	1,543	1,461
Goodwill	364	371
Intangibles – net	238	232
Operating lease right-of-use	413	367
Other assets	170	180
Total assets	<u>\$ 8,140</u>	<u>\$ 7,588</u>
<u>Liabilities and Shareholders' Equity</u>		
Current liabilities		
Current maturities	\$ 34	\$ 35
Trade accounts payable	1,067	1,047
Accrued compensation and benefits	297	334
Operating lease liability	73	68
Accrued expenses	403	474
Income taxes payable	24	52
Total current liabilities	1,898	2,010
Long-term debt	2,260	2,284
Long-term operating lease liability	361	318
Deferred income taxes and tax uncertainties	135	121
Other non-current liabilities	104	120
Shareholders' equity	3,382	2,735
Total liabilities and shareholders' equity	<u>\$ 8,140</u>	<u>\$ 7,588</u>

W.W. Grainger, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions of dollars)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Cash flows from operating activities:				
Net earnings	\$ 493	\$ 442	\$ 1,491	\$ 1,216
Adjustments to reconcile net earnings to net cash provided by operating activities:				
Provision for credit losses	6	5	15	13
Deferred income taxes and tax uncertainties	3	5	20	20
Depreciation and amortization	56	52	162	159
Net (gains) losses from sale of assets	(4)	(1)	(4)	1
Stock-based compensation	18	11	49	38
Change in operating assets and liabilities:				
Accounts receivable	(48)	(89)	(351)	(487)
Inventories	14	(104)	42	(253)
Prepaid expenses and other assets	11	11	104	(39)
Trade accounts payable	(92)	(2)	55	261
Accrued liabilities	71	59	(106)	51
Income taxes – net	(6)	(2)	(34)	8
Other non-current liabilities	1	(7)	(16)	(15)
Net cash provided by operating activities	523	380	1,427	973
Cash flows from investing activities:				
Capital expenditures	(125)	(45)	(318)	(208)
Proceeds from sale of assets	9	5	11	7
Other – net	—	—	—	(11)
Net cash used in investing activities	(116)	(40)	(307)	(212)
Cash flows from financing activities:				
Proceeds from debt	1	1	7	1
Payments of debt	(19)	—	(37)	—
Proceeds from stock options exercised	1	6	29	21
Payments for employee taxes withheld from stock awards	(3)	(3)	(32)	(22)
Purchases of treasury stock	(193)	(184)	(506)	(383)
Cash dividends paid	(106)	(102)	(300)	(285)
Other – net	1	2	—	—
Net cash used in financing activities	(318)	(280)	(839)	(668)
Exchange rate effect on cash and cash equivalents	(3)	(7)	(5)	(19)
Net change in cash and cash equivalents	86	53	276	74
Cash and cash equivalents at beginning of period	515	262	325	241
Cash and cash equivalents at end of period	\$ 601	\$ 315	\$ 601	\$ 315

SUPPLEMENTAL INFORMATION - RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES (Unaudited)

The Company supplements the reporting of financial information determined under U.S. generally accepted accounting principles (GAAP) with the non-GAAP financial measures as defined below. The Company believes these non-GAAP financial measures provide meaningful information to assist investors in understanding financial results and assessing prospects for future performance as they provide a better baseline for analyzing the ongoing performance of its business by excluding items that may not be indicative of core operating results.

Adjusted gross profit, adjusted SG&A, adjusted operating earnings, adjusted net earnings, adjusted diluted EPS
Exclude certain non-recurring items, like restructuring charges, asset impairments, business divestitures and other non-recurring, infrequent or unusual gains and losses (together referred to as “non-GAAP adjustments”), from the Company’s most directly comparable reported U.S. GAAP figures (reported gross profit, SG&A, operating earnings, net earnings and EPS).

Free cash flow (FCF)

Calculated using total cash provided by operating activities less capital expenditures. The Company believes the presentation of FCF allows investors to evaluate the capacity of the Company's operations to generate free cash flow.

Daily sales

Refers to net sales for the period divided by the number of U.S. selling days for the period.

Daily, constant currency sales

Refers to the daily sales adjusted for changes in foreign exchange.

Daily, constant currency sales in local days

Refers to the daily sales adjusted for changes in foreign exchange and local selling days for the business unit.

Foreign exchange impact

Calculated by dividing current period local currency daily sales by current period average exchange rate and subtracting the current period local currency daily sales divided by the prior period average exchange rate.

U.S. selling days:

2022: Q1-64, Q2-64, Q3-64, Q4-63, FY-255

2023: Q1-64, Q2-64, Q3-63, Q4-63, FY-254

2024: Q1-64, Q2-64, Q3-64, Q4-64, FY-256

Because non-GAAP financial measures are not standardized, it may not be possible to compare these financial measures with other companies’ non-GAAP financial measures having the same or similar names. These adjusted financial measures should not be considered in isolation or as a substitute for reported results. These non-GAAP financial measures reflect an additional way of viewing aspects of operations that, when viewed with GAAP results, provide a more complete understanding of the business. The Company strongly encourages investors and shareholders to review Company financial statements and publicly filed reports in their entirety and not to rely on any single financial measure.

This press release also includes certain non-GAAP forward-looking information. The Company believes that a quantitative reconciliation of such forward-looking information to the most comparable financial measure calculated and presented in accordance with GAAP cannot be made available without unreasonable efforts. A reconciliation of these non-GAAP financial measures would require the Company to predict the timing and likelihood of future restructurings, asset impairments, and other charges. Neither of these forward-looking measures, nor their probable significance, can be quantified with a reasonable degree of accuracy. Accordingly, a reconciliation of the most directly comparable forward-looking GAAP measures is not provided.

The reconciliation provided below reconciles GAAP financial measures to the non-GAAP financial measures used in this release: daily sales; daily, constant currency sales; and free cash flow.

Sales growth for the three months ended September 30, 2023

(percent change compared to prior year period)
(unaudited)

	Q3 2023		
	Total Company	High-Touch Solutions North America	Endless Assortment
Reported sales	6.7%	7.0%	4.3%
Day impact	1.7	1.7	1.7
Daily sales ⁽¹⁾	8.4%	8.7%	6.0%
Foreign exchange ⁽²⁾	(0.3)%	0.2%	(3.2)%
Daily, constant currency sales	8.7%	8.5%	9.2%

⁽¹⁾ Based on U.S. selling days, there were 63 and 64 selling days in Q3 2023 and Q3 2022, respectively.

⁽²⁾ Foreign exchange impact is calculated by dividing current period local currency daily sales by current period average exchange rate and subtracting the current period local currency daily sales divided by the prior period average exchange rate.

Free cash flow (FCF) for the three months ended September 30, 2023

(in millions of dollars)
(unaudited)

	Q3 2023	
Cash flows provided by operating activities	\$	523
Capital expenditures		(125)
Free cash flow	\$	398

Basis of presentation

The Company has a controlling ownership interest in MonotaRO, which is part of our Endless Assortment segment. MonotaRO's results are fully consolidated, reflected in U.S. GAAP, and reported one-month in arrears. Results will differ from MonotaRO's externally reported financials which follow Japanese GAAP.

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