


NYSE: GWW

# Q4 2023 Earnings Call

February 2, 2024

GRAINGER

# Safe Harbor Statement and Non-GAAP Financial Measures

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 Grainger’s eCommerce platforms; failure to adequately protect intellectual property or successfully defend against infringement claims; fluctuations or declines in Grainger’s gross profit margin; Grainger’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 Grainger or third parties on which Grainger 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 Grainger’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; 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; loss of operational flexibility and potential for work stoppages or slowdowns if employees unionize or join a collective bargaining arrangement; changes in effective tax rates; changes in credit ratings or outlook; Grainger's incurrence of indebtedness or failure to comply with restrictions and obligations under its debt agreements and instruments; and other factors that can be found in our 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. Forward-looking statements are given only as of the date of this communication and we disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

Additional information relating to certain non-GAAP financial measures referred to in this presentation is available in the appendix to this presentation, including: adjusted return on invested capital; adjusted gross profit, adjusted operating earnings, adjusted EBITDA; adjusted SG&A; daily sales; daily, organic daily sales; constant currency sales; daily, organic constant currency sales; constant currency sales in local days; daily, organic constant currency sales in local days; net leverage ratio; and free cash flow. This communication also includes certain non-GAAP forward-looking information (including, but not limited to slides 16 - 20 & 30). 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 these forward-looking measures, nor their probable significance, can be quantified with a reasonable degree of accuracy. Accordingly, the most directly comparable forward-looking GAAP measures are not provided. Forward-looking non-GAAP financial measures provided without the most directly comparable GAAP financial measures may vary materially from the corresponding GAAP financial measures.

# Opening Remarks

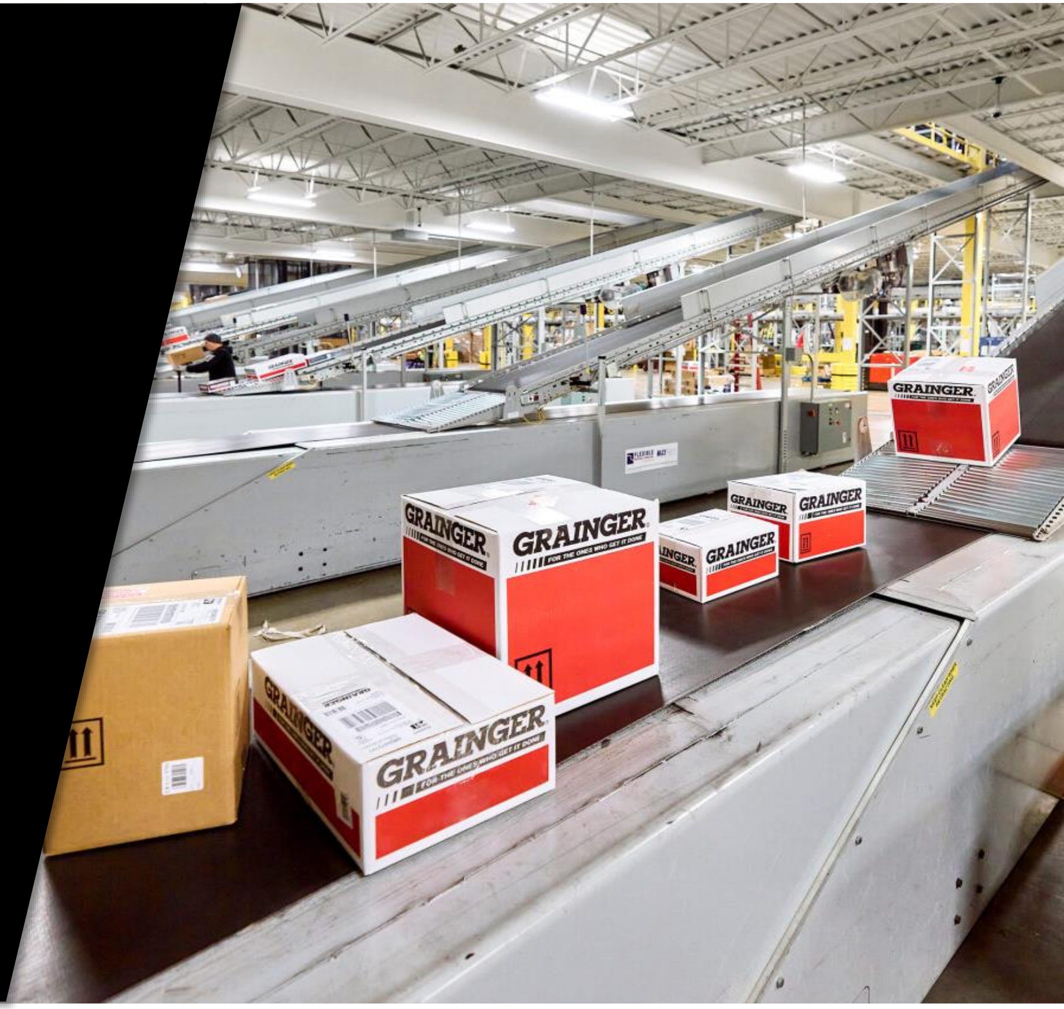
**D.G. Macpherson**

Chairman and CEO

# Driving our strategy forward through focused execution

## *2023 HIGHLIGHTS*

- ✓ Strengthened operational advantage in both segments
  - – Further improved and continue to leverage our proprietary technology and data assets
  - – Drove share gain through continued investment in our strategic growth engines in HTS – N.A.
  - – Propelled the proven Endless Assortment flywheel
- ✓ Invested in additional supply chain capacity and returned service to near pre-pandemic levels
- ✓ Advanced the Grainger Edge building a strong, inclusive culture
- ✓ Delivered record full year sales and earnings

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# Technology and data advantage fueling HTS growth engines

***Large scale creates significant complexity***

## Millions of products

- ✓ From thousands of suppliers
- ✓ With countless attributes unique to each product category

## ~1.2M Customers

- ✓ Across diverse end-markets
- ✓ With varying levels of operational complexity

***Simplified through home-grown technology and data solutions***

### *Product Information Management System*

- ✓ Allowing us to organize and curate the assortment

### *Customer Information Management System*

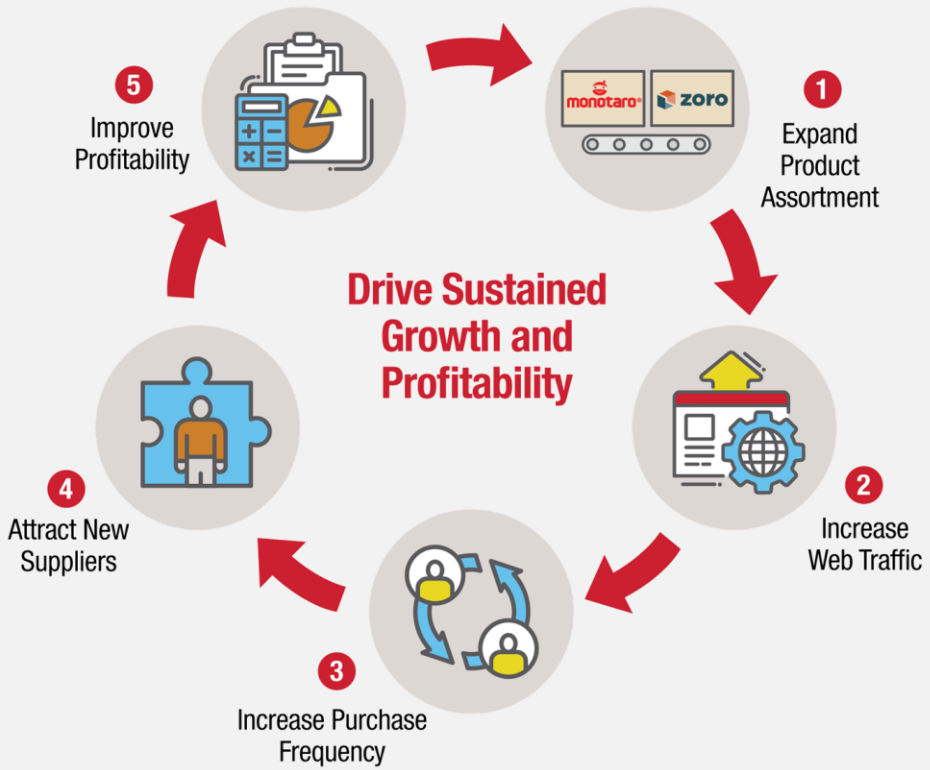
- ✓ Capturing deep customer knowledge

***Driving growth and delivering customer value***

**Growth Engines**

| Growth Engine | |
|---|---|
| **Merchandising** | Completed category reviews on ~80% of revenue to-date and continue to see sales uplift |
| **Marketing** | Continued strong ROAS informing 2024 investment plan |
| **Sales Coverage** | Advanced coverage pilots by adding sellers in three geographies; expanding to additional geographies in 2024 |
| **Seller Effectiveness** | Testing new analytics platform to enrich insights that sellers can bring to customer conversations |
| **Customer Solutions** | Executing against multi-year roadmap as we continue to enhance KeepStock and value-added services offering |

# Continuing to propel the proven Endless Assortment flywheel to deliver long-term value

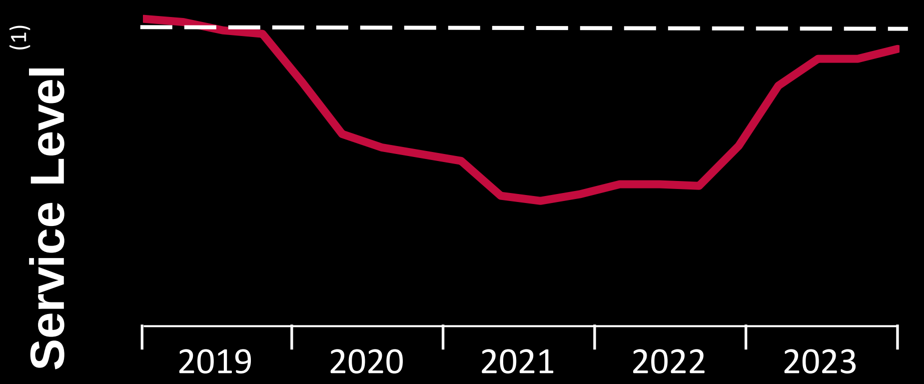



## *2023 HIGHLIGHTS*

- ✓ Increased registered users by 14% within the segment
- ✓ Grew enterprise customer revenue at MonotaRO by 35%
- ✓ Expanded MonotaRO operating margins by over 100 basis points
- ✓ Improved repeat purchase rates at Zoro
- ✓ Added over 2M new products to Zoro's assortment

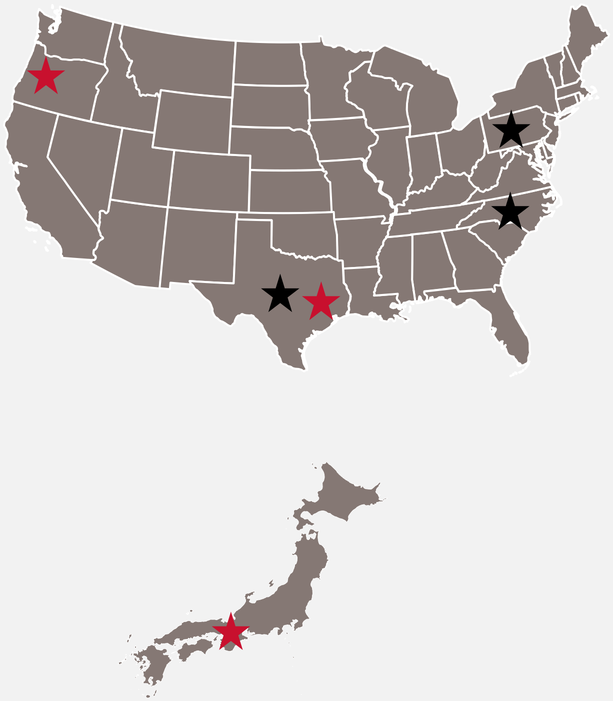
# Improving service levels and customer satisfaction while investing for the future

## Supply chain service nearing pre-pandemic levels




**+15pp**
**Spread**
*(+200 bps vs 2021)*

**Increased spread of overall customer satisfaction scores vs peers**[2]



**Incoming Capacity**

- ✓ Added three new bulk warehouses[3]
- ✓ Broke ground on Pacific N.W. DC
- ✓ Announced new Houston-area DC

- ✓ Opened second phase at Inagawa DC

## Furthering service advantage by investing in new capacity

(1) Defined as having an item in stock at the optimal shipping location.
(2) Based on Company surveys and analysis of customer and non-customer feedback FY 2023.
(3) Bulk warehouses are leased facilities.

# The Grainger Edge® powering an award-winning culture

## Our Purpose

*"We Keep the World Working®"*

## Our Principles

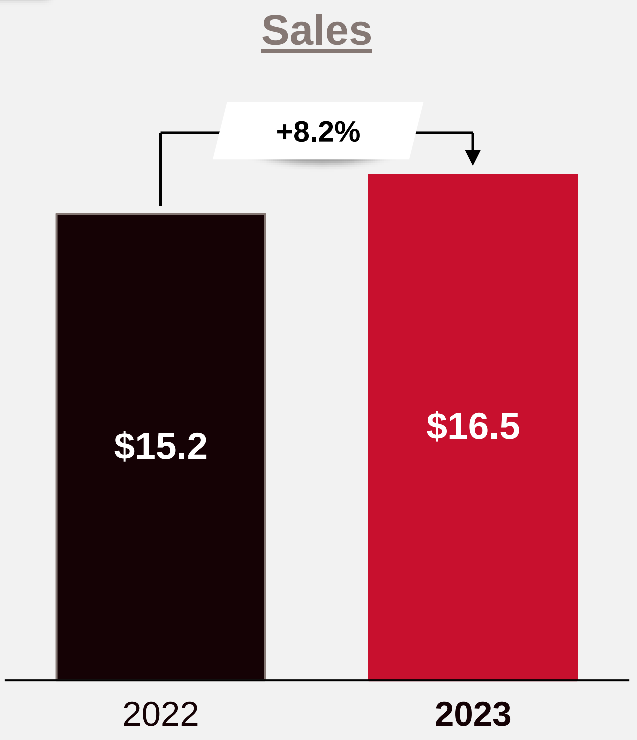
- Start with the Customer
- Win as One Team
- Embrace Curiosity
- Invest in our Success
- Act with Intent
- Compete with Urgency
- Do the Right Thing

### External recognition (1)(2)

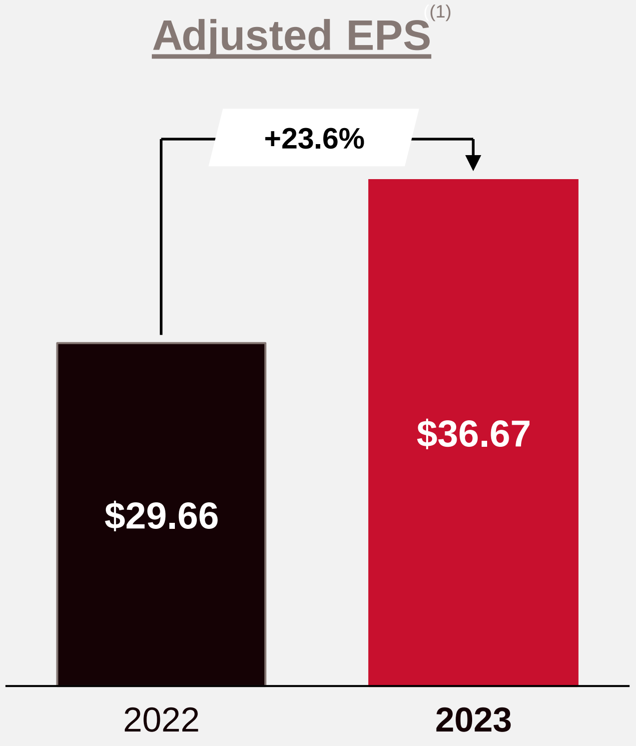
# Delivered strong full-year 2023 results

## Executed well across the business

- Delivered daily sales growth of 8.6% (9.5% in daily, organic constant currency)
- Outgrew U.S. MRO market by ~525 bps in HTS-U.S.
- Expanded operating margins by 130bps to 15.7%
- Produced adjusted ROIC of 42.8%, up over 200bps vs. 2022
- Generated record operating cash flow of over $2.0 billion
- Returned $1.2 billion to shareholders through dividends and share repurchases[1]




| | |
|---|---|
| Daily sales | +8.6% |
| Daily, organic constant currency sales | +9.5% |




Note: Results are shown on an adjusted basis. See appendix for a reconciliation of any non-GAAP financial measures.
(1) Includes only share repurchases and dividends related to Grainger common stock.

# Q4 2023 Results

**Dee Merriwether**

SVP and CFO

# Q4 2023 Results: *Total Company*

## Summary Results (Adjusted)

| *($ in millions)* | Q4 2023 | Q4 2022 | % vs. PY Fav/(Unfav) |
|---|---|---|---|
| Sales | $ 3,997 | $ 3,802 | 5.1% |
| *Daily Sales* | *63.5* | *60.3* | *5.1%* |
| GP | 1,563 | 1,506 | 3.8% |
| SG&A | 980 | 983 | 0.3% |
| Op Earnings | $ 583 | $ 523 | 11.5% |
| **EPS (diluted)** | **$ 8.33** | **$ 7.14** | **16.7%** |

| *(% of sales)* | Q4 2023 | Q4 2022 | bps vs. PY Fav/(Unfav) |
|---|---|---|---|
| GP Margin | 39.1 % | 39.6 % | (50) |
| SG&A | 24.5 % | 25.8 % | 130 |
| Op Margin | 14.6 % | 13.8 % | 80 |

## Commentary vs. Prior Year

**Sales increased 5.1% (reported and daily)**

- 5.5% sales growth on a daily, organic constant currency basis
- Generated growth in both segments

**Gross profit margin declined 50 bps**

- Slight margin contraction in both segments

**Operating margin expanded 80 bps**

- Strong SG&A leverage aided by lap of one-time items in prior year

**Diluted EPS of $8.33, up 16.7% versus prior year**



Note: Results are shown on an adjusted basis. See appendix for a reconciliation of any non-GAAP financial measures. Numbers may not sum due to rounding.

# Q4 2023 Results: *High-Touch Solutions - N.A.*

## Summary Results (Adjusted)

| *($ in millions)* | | Q4 2023 | | Q4 2022 | % vs. PY Fav/(Unfav) |
|---|---|---|---|---|---|
| Sales | $ | 3,215 | $ | 3,071 | 4.7% |
| *Daily Sales* | | *51.0* | | *48.7* | *4.7%* |
| GP | | 1,333 | | 1,285 | 3.7% |
| SG&A | | 806 | | 808 | 0.2% |
| Op Earnings | $ | 527 | $ | 477 | 10.6% |

| *(% of sales)* | Q4 2023 | Q4 2022 | bps vs. PY Fav/(Unfav) |
|---|---|---|---|
| GP Margin | 41.4 % | 41.9 % | (50) |
| SG&A | 25.0 % | 26.3 % | 130 |
| Op Margin | 16.4 % | 15.5 % | 90 |

## Commentary vs. Prior Year

### Sales increased 4.7% (reported and daily)

- Increase consistent on a daily, organic constant currency basis
- Growth across all geographies
- Positive, but decelerating, year-over-year price contribution

### Gross profit margin declined 50 bps, driven by:

- Negative price / cost spread (as anticipated)
- Year-end inventory cost adjustments (including lap of PY LIFO benefit)
- Partially offset by sustained freight and supply chain efficiencies

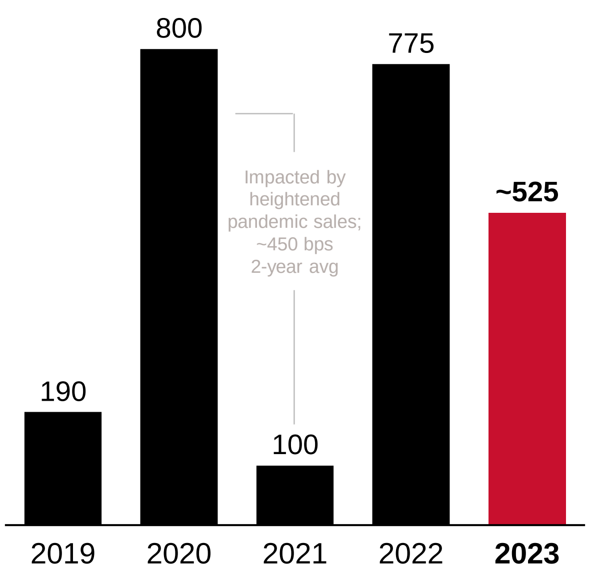
### Operating margin expanded 90 bps

- SG&A leverage aided by lap of one-time items in prior year

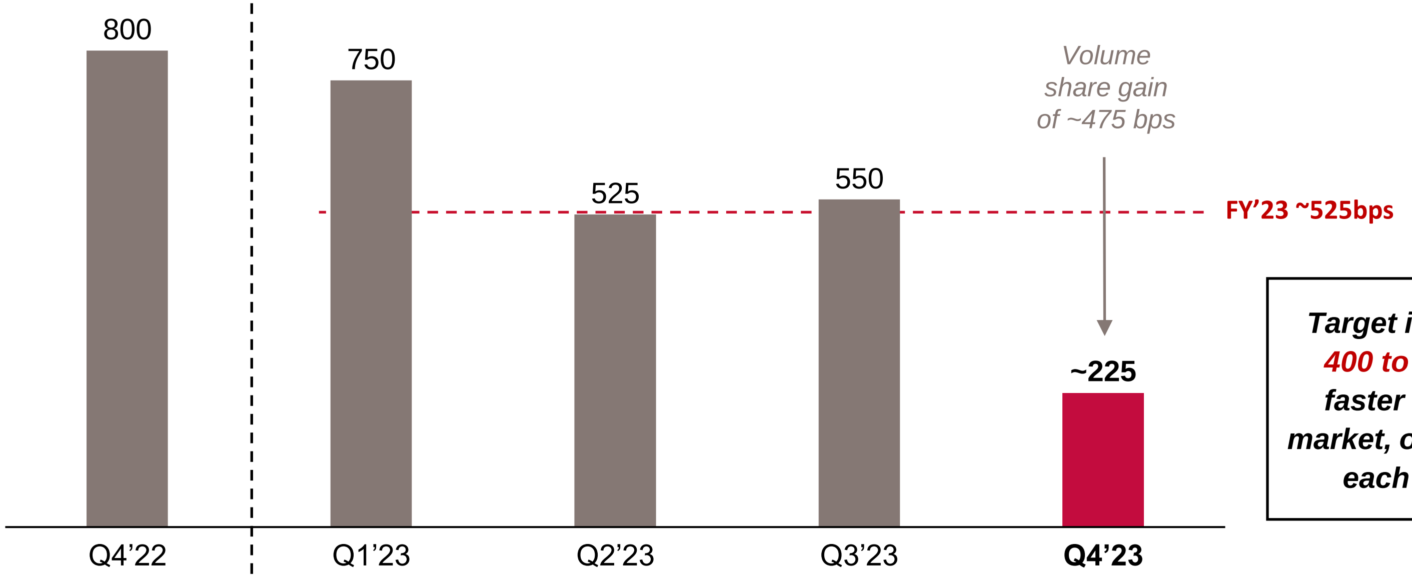
# Sales Outgrowth: *High-Touch Solutions - U.S.*

**Delivered annual outgrowth above target at ~525 bps**

## Annual Trend




## Quarterly Trend




***Target is to grow 400 to 500 bps faster than the market, on average, each year*** (2)

| | 2019 | 2020 | 2021 | 2022 | 2023 | Q4'22 | Q1'23 | Q2'23 | Q3'23 | Q4'23 |
|---|---|---|---|---|---|---|---|---|---|---|
| **U.S. MRO Market (1)** | 0.5% - 1% | (6%) – (5%) | 10% - 11% | 11.5% - 12.5% | 4.0% - 5.0% | 9.0% - 10.0% | 7.0% - 8.0% | 4.5% - 5.0% | 2.5% - 3.5% | 2.5% - 3.0% |

(1) Company estimates using a compilation of IP - NAICS Manufacturing sub-index (volume component) and PPI – Final Demand, Private Capital sub-index (price component) as the primary inputs. Outgrowth measured as High-Touch Solutions - U.S. daily, organic sales growth less estimated U.S. MRO market growth.
(2) Updated target communicated at Company Investor Day on September 21, 2022.

# Q4 2023 Results: *Endless Assortment*

## Summary Results

| *($ in millions)* | Q4 2023 | Q4 2022 | % vs. PY Fav/(Unfav) |
|---|---|---|---|
| Sales | $ 709 | $ 670 | 6.0% |
| *Daily Sales* | *11.3* | *10.6* | *6.0%* |
| GP | 210 | 202 | 3.9% |
| SG&A | 155 | 153 | (1.0)% |
| Op Earnings | $ 55 | $ 48 | 13.3% |

| *(% of sales)* | Q4 2023 | Q4 2022 | bps vs. PY Fav/(Unfav) |
|---|---|---|---|
| GP Margin | 29.6 % | 30.2 % | (60) |
| SG&A | 21.8 % | 22.9 % | 110 |
| Op Margin | 7.8 % | 7.3 % | 50 |

## Commentary vs. Prior Year

**Sales increased 6.0% (reported and daily); up 8.2% on a daily, constant currency basis**

- Zoro growth of 2.6% on a daily basis
- MonotaRO reported growth impacted by depreciating Yen; 9.9% growth in local days, local currency

**Gross profit margin declined 60 bps**

- Unfavorable product mix at Zoro which was partially offset by freight efficiencies at MonotaRO

**Operating margin up 50 bps**

- Zoro decreased 250bps due to unfavorable GP margin and slower than expected top-line growth
- MonotaRO increased 240 bps on higher GP margin coupled with SG&A leverage which was aided by lap of one-time items in prior year



Note: Results are consistent on a reported and adjusted basis for the quarter. See appendix for a reconciliation of any non-GAAP financial measures. Numbers may not sum due to rounding.

# Looking Ahead

**Dee Merriwether**

SVP and CFO

# Solid revenue growth expected across both segments

## 3.5 - 6.5%[1]

### High-Touch Solutions - N.A.

2024 daily, organic constant currency sales growth vs. 2023

#### Key assumptions

- U.S. MRO market growth of (0.5%) to 1.5%
  - Volume: (0.5%) to 0.5%
  - Price: 0% to 1%
- Strategic growth engines drive outgrowth of 400 to 500 bps in HTS-U.S.
- Canada growing mid-single-digits in local currency

## 7.0 - 10.0%[1][2]

### Endless Assortment

2024 daily, constant currency sales growth vs. 2023

#### Key assumptions

- Reported sales growth ~120 basis points lower than daily, constant currency sales growth
- MonotaRO growth in the low-double digits in local days, local currency
- Zoro daily sales growth in the mid-single digits

## $17.2 - 17.7B

### Total Company

2024 net sales

*Implies 2024 daily, organic constant currency sales growth of 4.0% to 7.0% vs. 2023*[1][2]

(1) Ranges in U.S. days.
(2) Assumes average JPY / USD FX rate of 144 for 2024 vs. 2023 average of 140.

# Anticipate operating margin will stay generally stable

**17.4 - 17.9%**

## High-Touch Solutions N.A.

2024 adj. operating margin; down 40 bps to up 10 bps vs. 2023

### Key assumptions

- Gross margins stabilize after lap of one-time benefits captured in 2023
- Continued investment in demand generation activities
- Canada continues to improve profitability

**7.3 - 7.8%**

## Endless Assortment

2024 adj. operating margin; down 70 bps to down 20 bps vs. 2023

### Key assumptions

- Segment-level OM% roughly flat to 2H'23 as Zoro re-baselines following non-core, B2C-like revenue declines
  - Expect OM% roughly neutral at MonotaRO as modest gross margin pressure is offset by SG&A leverage
  - Zoro de-leverage driven by slower top-line growth and strategic project spend

**15.3 - 15.8%**

## Total Company

2024 adj. operating margin

*Implies (40) bps to +10 bps vs. 2023*

# Robust cash flow supporting disciplined capital allocation

**$1.9 - 2.1B**

**Total Company**
2024 operating cash flow

*Executing consistent, return-driven approach to capital allocation*

## 2024 Capital Allocation Priorities

**1** *Invest in the business*

**2** *Return excess cash to shareholders*

### Organic Investment

**$400 - $500M**

- U.S. supply chain capacity expansion
- Continued technology and sustainability investment

### Opportunistic M&A

***Evaluating***

- Small, dedicated team evaluating opportunities

### Dividends

***Amount set in Q2'24***

- Anticipate continued dividend growth in the *HSD-LDD%* range each year *(per share)*

### Share Repurchase

**$900 - $1,100M**

- Expect excess cash to be returned via share repurchases

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# 2024 Full Year Guidance: *Total Company*

**Expect continued strong results while investing for the future**

| | 2023A | 2024 Guidance (updated as of Feb 2, 2024) | Y/Y change |
|---|---|---|---|
| **Sales** *($ billions)* | **$16.5** | **$17.2 – $17.7** | **4.3% to 7.3%** *(4.0% to 7.0% daily, organic constant currency sales)* |
| **Gross Profit Margin** | **39.4%** | **39.1% – 39.4%** | **(30) to Flat** |
| **Operating Margin** | **15.7%** | **15.3% – 15.8%** | **(40) to 10 bps** |
| **EPS (diluted)** | **$36.67** | **$38.00 – $40.50** | **3.6% to 10.5%** |

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Note: Guidance provided on an adjusted basis. The Company does not reconcile forward-looking non-GAAP financial measures. Assumes corporate effective tax rate of ~24% and JPY / USD FX rate of 144.

# Replacing 2025 Targets with long-term earnings framework

*Focused execution*

## Strong top-line growth

+

- Targeting 400 - 500bps of annual market outgrowth in HTS-U.S.
- Goal to return EA revenue CAGR to grow in the teens

## Generally stable gross profit margins

+

- Stability from FY 2024 baseline
- Expect segment mix headwinds as EA grows faster than HTS-N.A.

## Grow SG&A slower than sales[(1)]

- Anticipate productivity initiatives will offset continued demand generation investment

=

*Attractive total return potential*

## Double-digit Adj. EPS CAGR[(1)(2)]

+

## Strong dividend track record

**Robust cash flow generation supporting capital priorities**

- Expect operating cash conversation around ~100% of net earnings
- Anticipate CapEx to remain elevated at ~$500 million average per year through 2027[(3)]
- Executing consistent approach to capital allocation, including *HSD-LDD%* annual dividend growth target

***Significant shareholder value creation***

(1) At Total Company level.
(2) Assumes normal market conditions including U.S. MRO market CAGR of +2.0 - 3.0% (including volume and price) and tax rate of ~24%.
(3) Normalizing to ~1.5 - 2.0% of sales thereafter.

# Closing Remarks

**D.G. Macpherson**

Chairman and CEO

# Q&A

# Appendix

# FY 2023 Results: *Total Company*

## Summary Results (Adjusted)

| *($ in millions)* | | FY 2023 | | FY 2022 | % vs. PY Fav/(Unfav) |
|---|---|---|---|---|---|
| Sales | $ | 16,478 | $ | 15,228 | 8.2% |
| *Daily Sales* | | *64.9* | | *59.7* | *8.6%* |
| GP | | 6,496 | | 5,849 | 11.1% |
| SG&A | | 3,905 | | 3,655 | (6.8)% |
| Op Earnings | $ | 2,591 | $ | 2,194 | 18.1% |
| **EPS (diluted)** | **$** | **36.67** | **$** | **29.66** | **23.6%** |

| *(% of sales)* | FY 2023 | FY 2022 | bps vs. PY Fav/(Unfav) |
|---|---|---|---|
| GP Margin | 39.4 % | 38.4 % | 100 |
| SG&A | 23.7 % | 24.0 % | 30 |
| Op Margin | 15.7 % | 14.4 % | 130 |

## Commentary vs. Prior Year

**Sales increased 8.2%; up 8.6% on a daily basis**

- 9.5% sales growth on a daily, organic constant currency basis
- High-single-digit revenue growth in HTS–N.A. and double-digit growth in EA when adjusting for FX headwinds

**Gross profit margin up 100 bps**

- Margin expansion in both segments

**Operating margin expanded 130 bps**

- Flow through of favorable gross margin
- SG&A leverage with productivity offsetting continued demand generation investment

**Diluted EPS of $36.67, up 23.6% versus prior year**

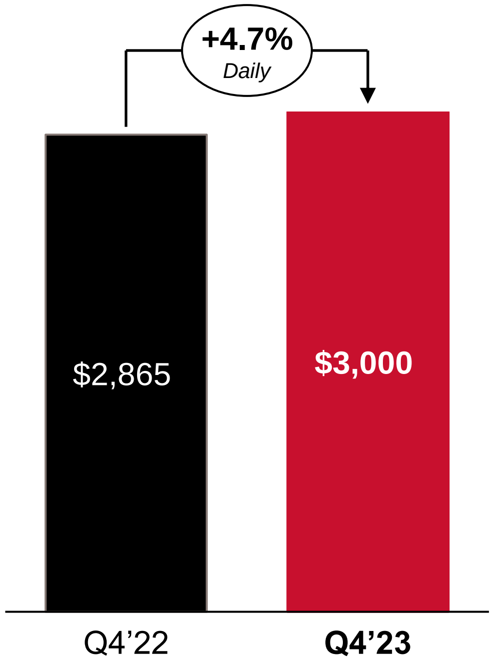
Note: Results shown on an adjusted basis. See appendix for a reconciliation of any non-GAAP financial measures. Numbers may not sum due to rounding.

# Q4 2023 Segment Highlights: *High-Touch Solutions - N.A.*

## HTS - U.S.

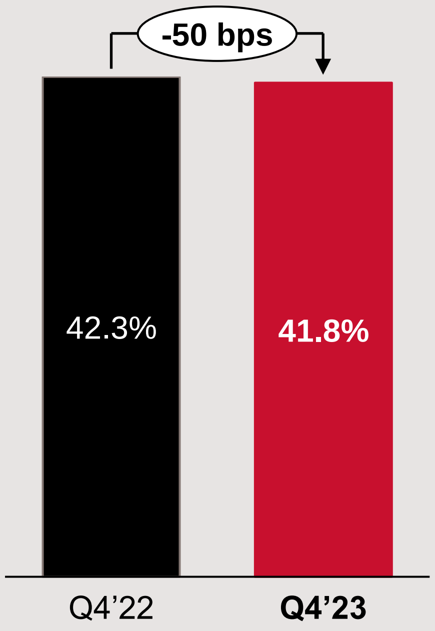
*($ millions)*

### Sales




Daily, organic sales: +4.9%

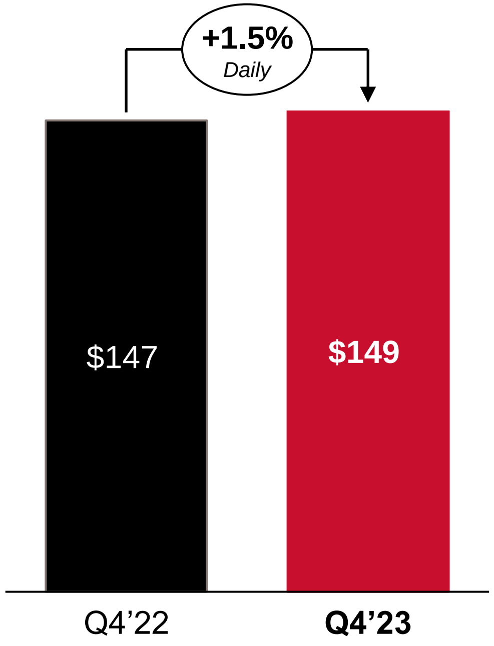
### Gross Profit




## HTS - Canada

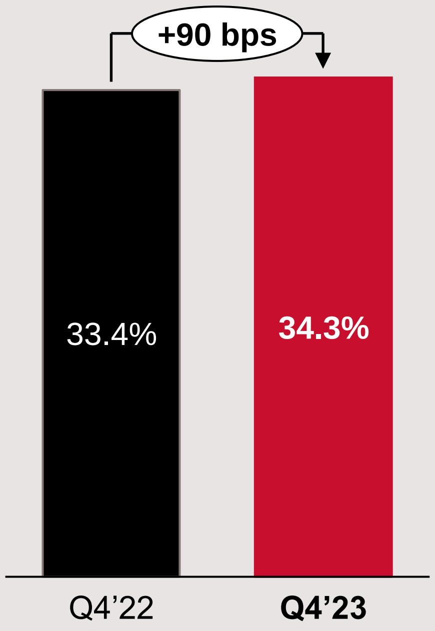
*($ millions)*

### Sales




Local days and currency: +2.0%

### Gross Profit



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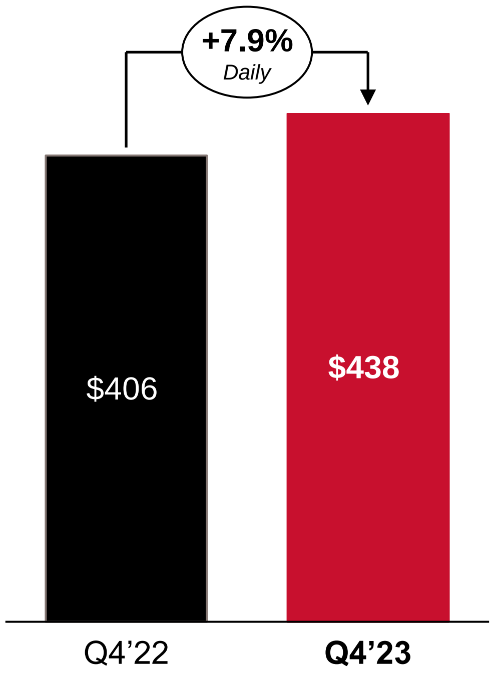
# Q4 2023 Segment Highlights: *Endless Assortment*

## MonotaRO (1)

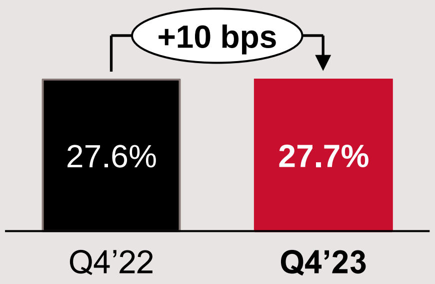
*($ millions)*

### Sales

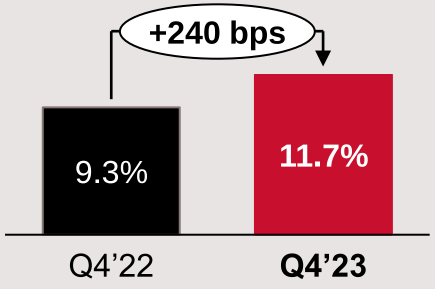



Local days and currency: +9.9%

### Gross Profit



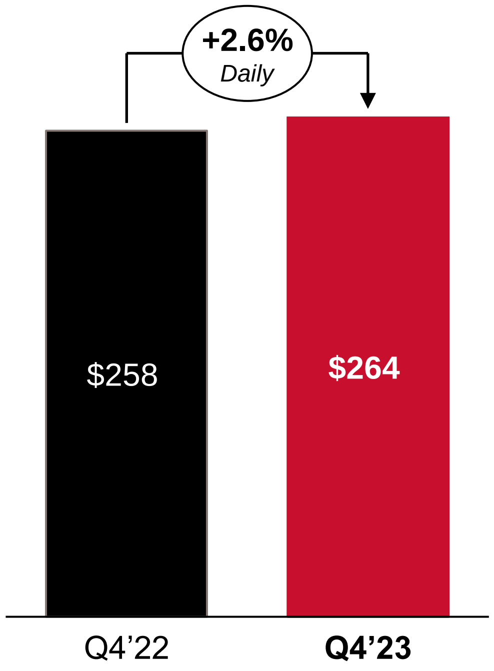

### Op. Margin



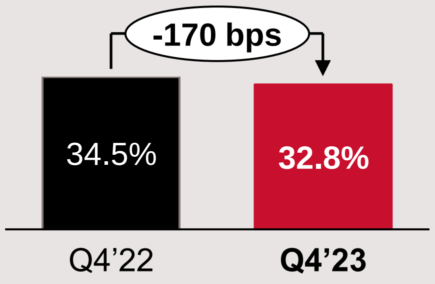

## Zoro - U.S.

*($ millions)*

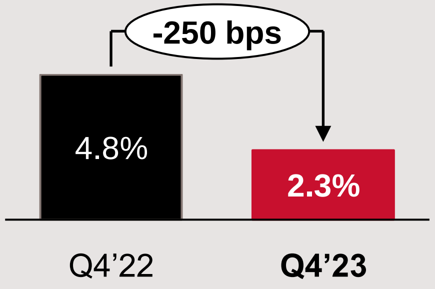
### Sales




### Gross Profit




### Op. Margin

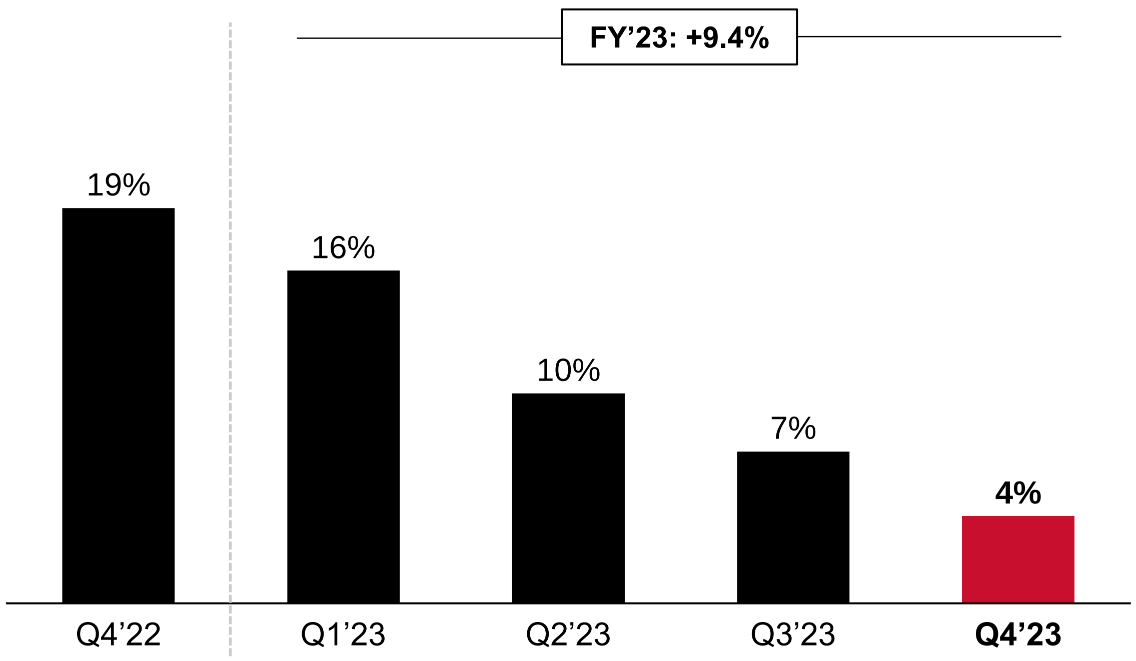



Note: Results are consistent on a reported and adjusted basis for the quarter. See appendix for a reconciliation of any non-GAAP financial measures. Numbers may not sum due to rounding.

(1) 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.

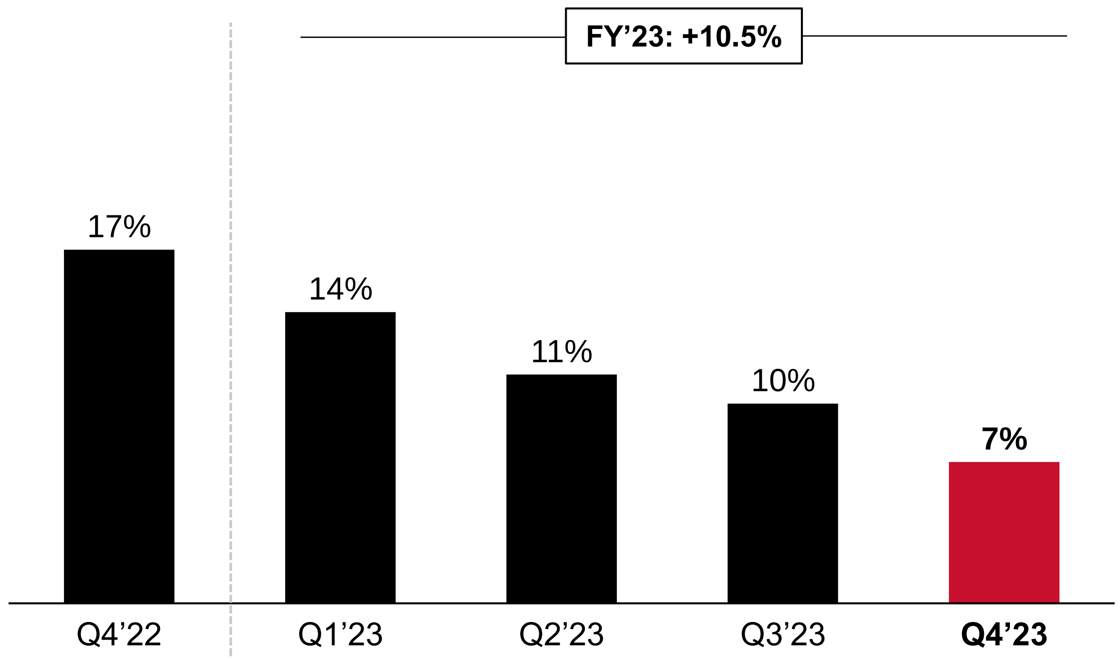
# Q4 2023 Sales Performance: *High-Touch Solutions - U.S.*

## Large Customers[1]




**Note**: FY'22 large customer daily sales growth was 20%

## Mid-sized Customers[1]

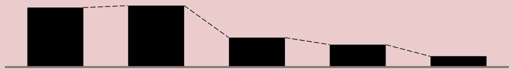
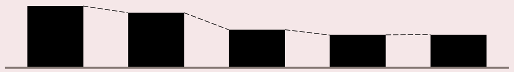
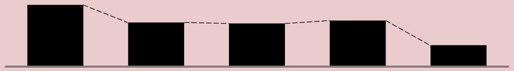
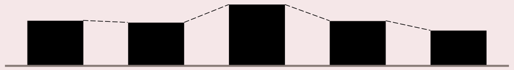
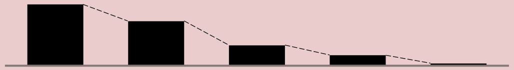
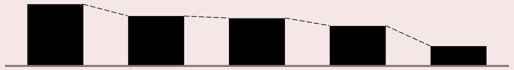
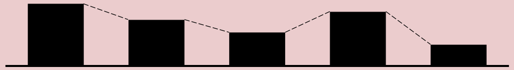
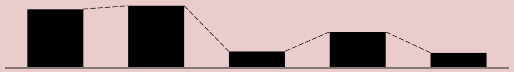
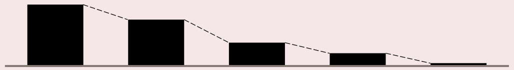
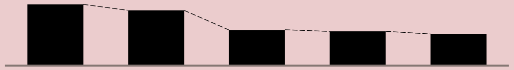



**Note**: FY'22 mid-size customer daily sales growth was 21%

Note: See appendix for a reconciliation of any non-GAAP financial measures.

(1) Large customer revenue of $10.2 billion and mid-sized customer revenue of $1.7 billion for the last twelve-month (LTM) period ending December 31, 2023. These numbers exclude specialty brands and certain revenue recognition adjustments which are included in the HTS - U.S. business. Growth rates are presented on a daily basis.

# Sales Growth By Customer End Market: *HTS - U.S.*

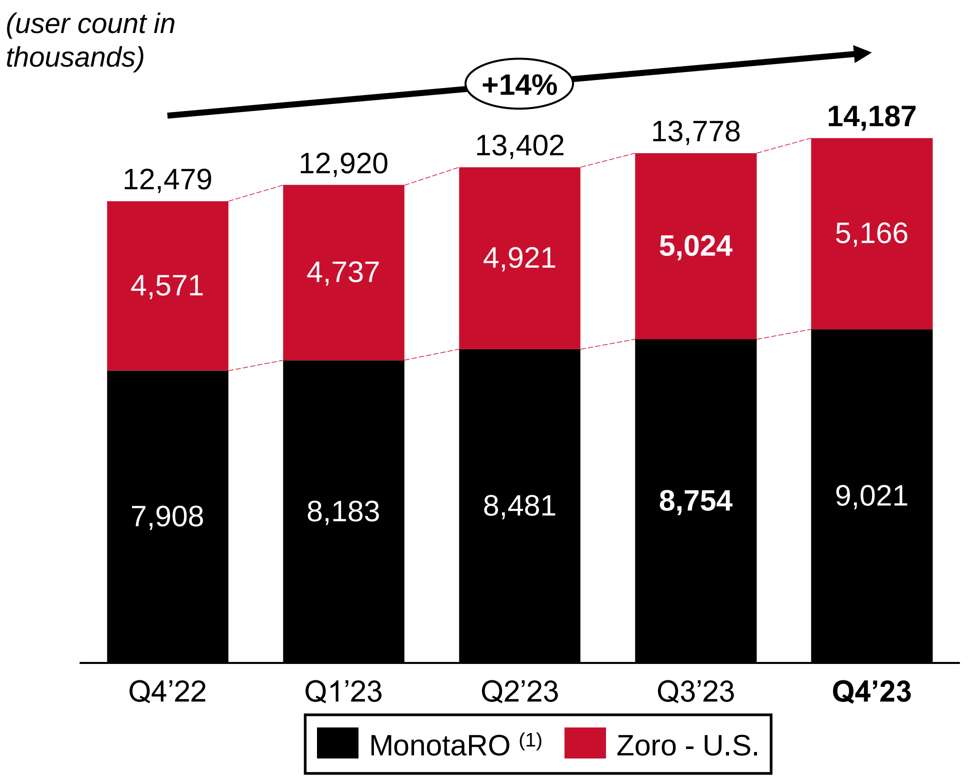
| | Q4'23 | 5 Quarter Trend |
|---|---|---|
| **Commercial Services** | UP Low-Single Digits |  |
| **Contractors** | UP Low-Double Digits |  |
| **Government** | UP High-Single Digits |  |
| **Healthcare** | UP High-Single Digits |  |
| **Manufacturing** | UP Low-Single Digits |  |
| **Retail** | UP Mid-Single Digits |  |
| **Transportation** | UP High-Single Digits |  |
| **Utilities** | DOWN Mid-Single Digits |  |
| **Warehousing** | UP Low-Single Digits |  |
| **Wholesale** | UP Low-Single Digits |  |
| **Other(1)** | UP Mid-Teens |  |

Note: See appendix for a reconciliation of any non-GAAP financial measures. Customer end market definitions primarily follow the North American Industry Classification System (NAICS). This customer classification system was implemented January 2023. Numbers exclude specialty brands and certain revenue recognition adjustments which are included in the HTS - U.S. business. Growth rates are presented on a daily basis in current end segment alignment.

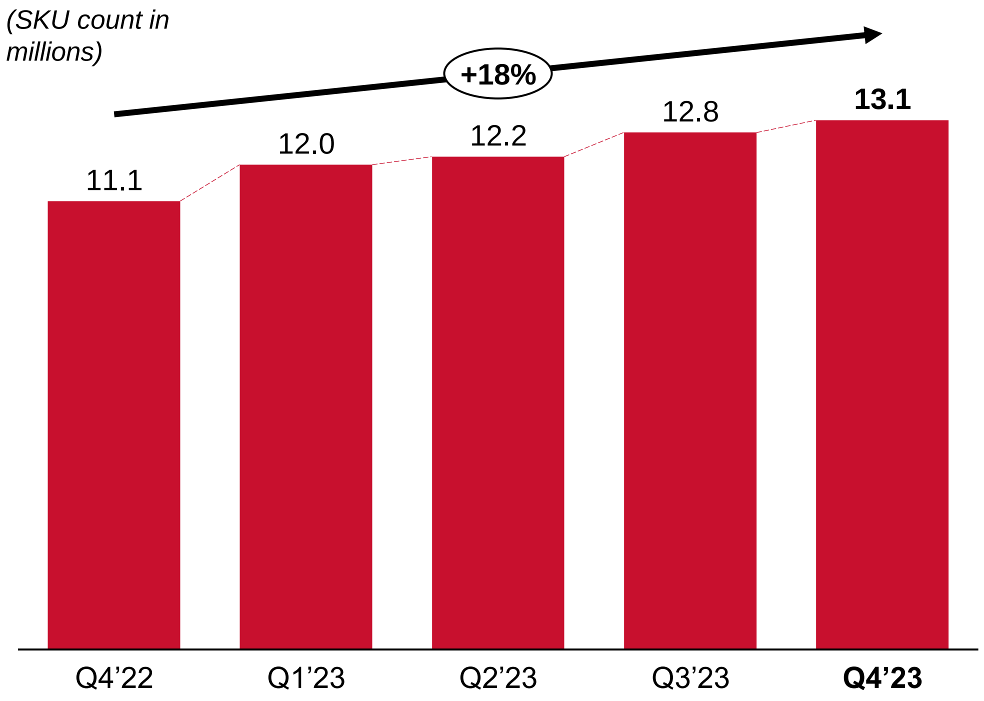
(1) Includes industries that are not material individually, including hospitality, restaurants, property management and natural resources.

# Operating Metrics: *Endless Assortment*

## Total Registered Users




## Total Active SKUs (Zoro U.S.)




Note: Percentages may not tie due to rounding. Registered user count excludes historical non-strategic accounts and channels.
(1) MonotaRO's results are reported one-month in arrears.

# 2024 Full Year Supplemental Guidance

## Cash Flow Guidance

| *($ millions)* | 2023A | 2024 Guidance *(updated as of February 2, 2024)* |
|---|---|---|
| **Operating Cash Flow** | **$2,031** | **$1,900 – $2,100** |
| **Capital Expenditures[(1)]** | **$445** | **$400 – $500** |
| **Share Repurchases[(2)]** | **$850** | **$900 – $1,100** |

## Sales Growth Guidance

| | 2024 Guidance *(updated as of February 2, 2024)* | |
|---|---|---|
| | **Low** | **High** |
| **Reported Sales** | **4.3%** | **7.3%** |
| Daily Impact[(3)] | **(0.8%)** | **(0.8%)** |
| Business Divestiture[(4)] | **0.4%** | **0.4%** |
| Foreign Currency Exchange | **0.1%** | **0.1%** |
| **Daily, Organic Constant Currency Sales** | **4.0%** | **7.0%** |

Note: Guidance provided on an adjusted basis. Assumes corporate effective tax rate of ~24% and JPY / USD FX rate of 144. See appendix for a reconciliation of any non-GAAP financial measures. Numbers may not sum due to rounding.

(1) CapEx as reflected in the Statement of Cash Flows.
(2) Includes only share repurchases related to Grainger common stock.
(3) Based on U.S. selling days: 256 and 254 selling days in 2024 and 2023, respectively.
(4) Reflects the divestiture of Grainger's subsidiary, E & R Industrial Sales, Inc., in the fourth quarter of 2023.

# Definitions & Calculations

**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.

**Non-GAAP financial measures:**

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 EBITDA", "adjusted net earnings", "adjusted EPS (diluted)"**— exclude certain non-recurring items, like restructuring charges, asset impairments, gains and losses associated with 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). The Company believes these non-GAAP adjustments 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 return on invested capital" (ROIC)** — is calculated using the Company's annualized adjusted operating earnings (defined above) divided by average net working assets for the period. Average net working assets is calculated using a two-point average for Q1, a three-point average for Q2, a four-point average for Q3 and a five-point average for Q4. Net working assets are working assets minus working liabilities and defined as follows: working assets equal total assets less cash equivalents, deferred and prepaid income taxes and operating lease right-of-use assets plus any LIFO reserves. Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit-sharing plans and accrued expenses. The Company believes the presentation of adjusted ROIC provides useful information regarding how effectively the Company is using capital to generate financial returns.

**"Free cash flow" (FCF)** — is 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.

**"Net leverage ratio"** — is calculated by dividing the Company's net debt (total debt outstanding less debt issuance costs less cash and cash equivalents) by adjusted EBITDA. Adjusted EBITDA is defined as EBITDA less the Company's non-GAAP adjustments for the last twelve months. The Company believes the presentation of its net debt to adjusted EBITDA ratio provides useful information regarding the Company's liquidity and leverage.

**"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 currency exchange rates.

**"Daily, constant currency sales in local days"** — refers to daily sales adjusted for changes in foreign exchange rates and local selling days for the business unit.

**"Daily, organic sales"** — refers to daily sales excluding the net sales of certain divested businesses in the comparable prior year period after date of the divestiture.

**"Daily, organic constant currency sales"** — refers to daily sales excluding the sales of certain divested businesses in the comparable prior year period post date of divestiture and changes in foreign currency exchange rates.

**"Daily, organic constant currency sales in local days"** — refers to daily sales excluding the net sales of certain divested businesses in the comparable prior year period post date of divestiture, changes in foreign exchange rates and local selling days for the business unit.

**"Foreign currency 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.

**"U.S. market outgrowth"** — a relative metric using HTS - U.S. daily, organic sales growth less estimated U.S. MRO market growth. U.S. MRO market growth is based on Company estimates using a compilation of IP - NAICS Manufacturing sub-index (volume component) and PPI – Final Demand, Private Capital sub-index (price component) as the primary inputs.

**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

# GAAP to Non-GAAP Reconciliations

## Sales growth for the three and twelve months ended December 31, 2023

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

**Total Company - Monthly Detail**

| | October | November | December | Q4 2023 | FY 2023 |
|---|---|---|---|---|---|
| Reported sales | 9.9% | 6.0% | (0.9)% | 5.1% | 8.2% |
| Daily impact | (4.9)% | —% | 5.0% | —% | 0.4% |
| Daily sales(1) | 5.0% | 6.0% | 4.1% | 5.1% | 8.6% |
| Business divestiture(2) | —% | —% | 0.5% | 0.2% | —% |
| Foreign currency exchange(3) | 0.1% | —% | 0.4% | 0.2% | 0.9% |
| Daily, organic constant currency sales | 5.1% | 6.0% | 5.0% | 5.5% | 9.5% |

**Endless Assortment (EA) - Daily Sales**

| | EA | | Zoro - U.S. | | MonotaRO | |
|---|---|---|---|---|---|---|
| | Q4 2023 | FY 2023 | Q4 2023 | FY 2023 | Q4 2023 | FY 2023 |
| Reported sales | 6.0% | 4.7% | 2.6% | 4.4% | 7.9% | 4.5% |
| Daily impact | —% | 0.4% | —% | 0.4% | —% | 0.5% |
| Daily sales(1) | 6.0% | 5.1% | 2.6% | 4.8% | 7.9% | 5.0% |
| Foreign currency exchange(3) | 2.2% | 5.3% | —% | —% | 3.8% | 8.7% |
| Daily, constant currency sales | 8.2% | 10.4% | 2.6% | 4.8% | 11.7% | 13.7% |
| Impact of local days | | | | | (1.8)% | (2.0)% |
| Daily, constant currency sales in local days | | | | | 9.9% | 11.7% |

**High-Touch Solutions - N.A. - Daily Sales**

| | HTS - N.A. | | HTS - U.S. | | HTS - Canada | |
|---|---|---|---|---|---|---|
| | Q4 2023 | FY 2023 | Q4 2023 | FY 2023 | Q4 2023 | FY 2023 |
| Reported sales | 4.7% | 8.9% | 4.7% | 9.0% | 1.5% | 3.4% |
| Daily impact | —% | 0.4% | —% | 0.5% | —% | 0.4% |
| Daily sales(1) | 4.7% | 9.3% | 4.7% | 9.5% | 1.5% | 3.8% |
| Business divestiture(2) | 0.2% | 0.1% | 0.2% | 0.1% | —% | —% |
| Foreign currency exchange(3) | (0.2)% | —% | —% | —% | 0.4% | 4.0% |
| Daily, organic constant currency sales | 4.7% | 9.4% | 4.9% | 9.6% | 1.9% | 7.8% |
| Impact of local days | | | | | 0.1% | (0.5)% |
| Daily, organic constant currency sales in local days | | | | | 2.0% | 7.3% |

**High-Touch Solutions - N.A. - Daily Sales Drivers**

| | HTS - N.A. | | HTS - U.S. | | HTS - Canada | |
|---|---|---|---|---|---|---|
| | Q4 2023 | FY 2023 | Q4 2023 | FY 2023 | Q4 2023 | FY 2023 |
| Volume/product mix | 4.1% | 5.4% | 4.2% | 5.5% | 0.1% | 4.8% |
| Price/customer mix | 0.4% | 3.9% | 0.5% | 4.0% | 1.8% | 3.0% |
| Foreign currency exchange | 0.2% | —% | —% | —% | (0.4)% | (4.0)% |
| Daily sales(1) | 4.7% | 9.3% | 4.7% | 9.5% | 1.5% | 3.8% |
| Business divestiture(2) | 0.2% | 0.1% | 0.2% | 0.1% | —% | —% |
| Daily, organic sales | 4.9% | 9.4% | 4.9% | 9.6% | 1.5% | 3.8% |

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix Definitions and Calculations.
(1) Based on U.S. selling days, there were 63 and 63 selling days in Q4 2023 and Q4 2022; there were 254 and 255 selling days in 2023 and 2022, respectively.
(2) Reflects the divestiture of Grainger's subsidiary, E & R Industrial Sales, Inc., in the fourth quarter of 2023.
(3) Excludes the impact of year-over-year foreign currency exchange rate fluctuations.

# GAAP to Non-GAAP Reconciliations

## Income statement adjustments for the three months ended December 31, 2023 and December 31, 2022

*(in millions, except for percentage data)*
*(unaudited)*

**Total Company results included adjusting items which impacted U.S. GAAP as follows:**

| | Q4 2023 | | | Reported | Adjusted | Q4 2022 | | | Reported | Adjusted |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reported | Business Divestiture(1) | Adjusted | % of Net sales | | Reported | Business Divestiture(2) | Adjusted | % of Net sales | |
| **Earnings reconciliation:** | | | | | | | | | | |
| SG&A | $ 1,006 | $ (26) | $ 980 | 25.2 % | 24.5 % | 962 | 21 | 983 | 25.3 | 25.8 |
| Operating earnings | 557 | 26 | 583 | 13.9 | 14.6 | 544 | (21) | 523 | 14.3 | 13.8 |
| Other expense — net | (16) | — | (16) | 0.4 | 0.5 | (19) | — | (19) | 0.4 | 0.4 |
| Earnings before income taxes | 541 | 26 | 567 | 13.5 | 14.1 | 525 | (21) | 504 | 13.9 | 13.4 |
| Income tax provision(3) | (129) | (4) | (133) | 3.2 | 3.3 | (128) | — | (128) | 3.4 | 3.4 |
| Net earnings | 412 | 22 | 434 | 10.3 | 10.8 | 397 | (21) | 376 | 10.5 | 10.0 |
| Noncontrolling interest(4) | (17) | — | (17) | 0.4 | 0.4 | (13) | — | (13) | 0.4 | 0.4 |
| Net earnings attributable to W.W. Grainger, Inc. | $ 395 | $ 22 | $ 417 | 9.9 % | 10.4 % | $ 384 | $ (21) | $ 363 | 10.1 % | 9.6 % |
| Diluted earnings per share: | $ 7.89 | $ 0.44 | $ 8.33 | | | $ 7.54 | $ (0.40) | $ 7.14 | | |

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix Definitions and Calculations.
(1) Reflects the loss on divestiture of Grainger's subsidiary, E & R Industrial Sales Inc., reported in the Company's HTS-N.A. segment completed in the fourth quarter of 2023.
(2) Reflects the gain on divestiture of Cromwell's enterprise software business completed in the fourth quarter of 2022 and reported in Grainger's other businesses within Total Company results.
(3) The reported and adjusted effective tax rates for Q4 2023 were 23.8% and 23.5%. The reported and adjusted effective tax rates for Q4 2022 were 24.3% and 25.3%, respectively.
(4) The Company has a controlling ownership interest in MonotaRO, with the residual representing noncontrolling interest.

# GAAP to Non-GAAP Reconciliations

## Income statement adjustments for the twelve months ended December 31, 2023 and December 31, 2022

*(in millions, except for percentage data)*
*(unaudited)*

**Total Company results included adjusting items which impacted U.S. GAAP as follows:**

| | FY 2023 | | | Reported | Adjusted | FY 2022 | | | Reported | Adjusted |
|---|---|---|---|---|---|---|---|---|---|---|
| | Reported | Business Divestiture(1) | Adjusted | % of Net sales | | Reported | Business Divestiture(2) | Adjusted | % of Net sales | |
| **Earnings reconciliation:** | | | | | | | | | | |
| SG&A | $ 3,931 | $ (26) | $ 3,905 | 23.8 % | 23.7 % | 3,634 | 21 | 3,655 | 23.9 | 24.0 |
| Operating earnings | 2,565 | 26 | 2,591 | 15.6 | 15.7 | 2,215 | (21) | 2,194 | 14.5 | 14.4 |
| Other expense — net | (65) | — | (65) | 0.4 | 0.4 | (69) | — | (69) | 0.4 | 0.4 |
| Earnings before income taxes | 2,500 | 26 | 2,526 | 15.2 | 15.3 | 2,146 | (21) | 2,125 | 14.1 | 14.0 |
| Income tax provision(3) | (597) | (4) | (601) | 3.6 | 3.6 | (533) | — | (533) | 3.5 | 3.5 |
| Net earnings | 1,903 | 22 | 1,925 | 11.6 | 11.7 | 1,613 | (21) | 1,592 | 10.6 | 10.5 |
| Noncontrolling interest(4) | (74) | — | (74) | 0.5 | 0.5 | (66) | — | (66) | 0.4 | 0.5 |
| Net earnings attributable to W.W. Grainger, Inc. | $ 1,829 | $ 22 | $ 1,851 | 11.1 % | 11.2 % | $ 1,547 | $ (21) | $ 1,526 | 10.2 % | 10.0 % |
| Diluted earnings per share: | $ 36.23 | $ 0.44 | $ 36.67 | | | $ 30.06 | $ (0.40) | $ 29.66 | | |

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix Definitions and Calculations.
(1) Reflects the loss on divestiture of Grainger's subsidiary, E & R Industrial Sales Inc., reported in the Company's HTS-N.A. segment completed in the fourth quarter of 2023.
(2) Reflects the gain on divestiture of Cromwell's enterprise software business completed in the fourth quarter of 2022 and reported in Grainger's other businesses within Total Company results.
(3) The reported and adjusted effective tax rates for 2023 were 23.9% and 23.8%. The reported and adjusted effective tax rates for 2022 were 24.8% and 25.1%, respectively.
(4) The Company has a controlling ownership interest in MonotaRO, with the residual representing noncontrolling interest.

GRAINGER

# GAAP to Non-GAAP Reconciliations

## Key metrics for the three and twelve months ended December 31, 2023

*(in millions, except for percentage data)*
*(unaudited)*

**Net Leverage Ratio**

| | As of December 31, 2023 |
|---|---|
| Total debt | $ 2,300 |
| Debt issuance costs — net of amortization | 19 |
| Cash and cash equivalents | (660) |
| Net debt | $ 1,659 |

| | LTM(1) ended December 31, 2023 |
|---|---|
| Net earnings | $ 1,903 |
| Other expense — net | 65 |
| Income tax provision | 597 |
| Depreciation and amortization | 214 |
| EBITDA | $ 2,779 |
| Business divestiture(2) | 26 |
| Adjusted EBITDA | $ 2,805 |
| Net leverage ratio | 0.59x |

**Free Cash Flow (FCF)**

| | Three months ended December 31, 2023 | Twelve months ended December 31, 2023 |
|---|---|---|
| Cash flows provided by operating activities | $ 604 | $ 2,031 |
| Capital expenditures | (127) | (445) |
| Free cash flow | $ 477 | $ 1,586 |

**Adjusted Return on Invested Capital (ROIC)**

| | Twelve months ended December 31, 2023 |
|---|---|
| Reported operating earnings | $ 2,565 |
| Business divestiture(2) | 26 |
| Adjusted operating earnings(3) | $ 2,591 |

| | Q4'23 | Q3'23 | Q2'23 | Q1'23 | Q4'22 |
|---|---|---|---|---|---|
| Total assets | $ 8,147 | $ 8,140 | $ 8,031 | $ 7,825 | $ 7,588 |
| Cash equivalents | (473) | (494) | (388) | (338) | (208) |
| Deferred and prepaid income taxes | (19) | (25) | (28) | (11) | (20) |
| Right-of-use assets | (429) | (413) | (428) | (386) | (367) |
| LIFO reserves | 770 | 773 | 758 | 724 | 693 |
| Working liabilities | (1,761) | (1,850) | (1,864) | (1,751) | (1,923) |
| Net working assets | $ 6,235 | $ 6,131 | $ 6,081 | $ 6,063 | $ 5,763 |
| Average net working assets | $ 6,055 | | | | |
| Adjusted ROIC | 42.8 % | | | | |

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix *Definitions and Calculations.*
(1) Last twelve months.
(2) Reflects the divestiture of Grainger's subsidiary, E & R Industrial Sales, Inc., in the fourth quarter of 2023.

# IR Contacts

**Kyle Bland**
Vice President, Investor Relations

**Andrew Ansay**
Director, Investor Relations

**InvestorRelations@grainger.com**