NYSE: GWW

Q1 2020 Earnings Call

April 23, 2020

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 in the forward-looking statements include, among others: the unknown duration and economic, operational and financial impacts of the global outbreak of the Coronavirus (COVID-19 pandemic) and the actions taken or contemplated by governmental authorities or others in connection with the pandemic on the company’s businesses, its employees, customers and suppliers, including the uncertain duration of mandated shut-downs for our customers and suppliers, changes in our customers’ product needs, our suppliers’ inability to meet unprecedented demand for COVID-19 related products, the potential for government action to allocate or direct products to certain customers which may cause disruption in our relationships with other customers, and disruption caused by business responses to COVID-19, including working remote arrangements, which may create increased vulnerability to cybersecurity incidents; higher product costs or other expenses; a major loss of customers; loss or disruption of sources of supply; increased competitive pricing pressures; failure to develop or implement new technology initiatives or business strategies; failure to adequately protect intellectual property or successfully defend against infringement claims; fluctuations or declines in the company’s gross profit percentage; 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, advertising, consumer protection, pricing (including disaster or emergency declaration pricing statutes), product liability, safety or compliance, or privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; failure to comply with laws, regulations and standards; government contract matters; disruption of information technology or data security systems involving us or third parties on which we depend; 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 volatility or price declines of the company’s common stock; commodity price volatility; labor shortages; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; pandemic diseases or viral contagions; natural and other catastrophes; unanticipated and/or extreme weather conditions; loss of key members of management; our ability to operate, integrate and leverage acquired businesses; changes in effective tax rates; changes in credit ratings or outlook; the company’s incurrence of indebtedness and other factors which 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, including daily sales in constant currency, adjusted operating earnings, adjusted segment operating earnings, adjusted net earnings and adjusted diluted earnings per share, is available in the appendix to this presentation and our most recent earnings release.

DG Macpherson

Chairman & CEO

"Doing our part to keep America running"

- **Mike Williamson**

(Branch Network Manager - NYC Market)

Pictured:

Branch 556 - Brooklyn, NY

Pandemic Response

Support our customers, protect our workforce and ensure continued financial stability

1. **Remain open as an "essential business" in order to serve our customers**
   - Many customers running hard including healthcare, government, food production and infrastructure
   - Prioritizing customer and team member safety; changes in operations
   - Despite pressure, supply chain remains resilient

2. **Committed to supporting our team members by providing as much job continuity as possible**
   - Voluntary and involuntary short-term furloughs, some hour reductions, keeping short-term pay close to whole in most cases

3. **Ensure we remain in strong financial position**
   - Cost reductions enacted; contingency plans in place depending on length and depth of shutdown

Q1 2020 Summary

Delivered strong top-line results while navigating the company through unprecedented period

- **Achieved 5.7% daily sales growth** *(total company, on a constant currency basis)*
- **Outgrew U.S. MRO market ~700 bps** aided by pandemic-related sales
- **Margins pressured** by a number of factors including the timing of year-over-year pricing and cost actions, as well as impacts from COVID-19
- **Generated strong operating cash flow** of $244 million; $194 million of free-cash-flow
- **Continue to progress on a number of key 2020 initiatives across the business;** others paused during pandemic

Note: See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.

Tom Okray

Senior Vice President & CFO

Pandemic Response (cont.)

Maintaining strong balance sheet and robust liquidity position

Industry-leading financial strength

- Proactive $1.0B draw on $1.25B revolver, carrying $1.5B cash on balance sheet (1) (2)
- Strong credit ratings, including A+ from Standard & Poor's and A3 from Moody's
- No debt maturities or material financial obligations due within next 5 years

Executing plan to preserve financial flexibility, while maintaining long-term view on value creation

- Thoughtfully reducing non-essential spend and deferring discretionary capital projects
- Paused share repurchase program

Well-positioned to weather extraordinary uncertainty and volatility

- Contingency plans established depending on top-line performance
- Track-record of resilience through contractions

$1.7B

Available liquidity (1) (2)

(cash + undrawn revolver)

$1.5B in cash

1.2x

Net Leverage (1)

- **No significant maturities until 2025**

(1) As of March 31, 2020. All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.
(2) $1.25B revolving credit facility is a 5-year committed facility maturing in 2025, with no financial covenants.

Q1 2020 Adjusted Results: *Total Company*

Summary Results

($ in millions)	Q1 2020	Q1 2019	**% vs. PY** Fav/(Unfav)
Sales	$ 3,001	$ 2,799	7.2%
GP	1,121	1,096	2.3%
SG&A	778	731	(6.5)%
Op Earnings	$ 343	$ 365	(6.2)%
EPS	**$ 4.24**	**$ 4.51**	**(6.0)%**

(% of sales)	Q1 2020	Q1 2019	**bps vs. PY** Fav/(Unfav)
GP Margin	37.4%	39.2%	(180)
SG&A	25.9%	26.1%	20
Op Margin	11.4%	13.0%	(160)

Commentary

Daily sales increased 5.5%, 5.7% on a constant currency basis

- Volume up ~7%
- Price/mix headwinds ~2%

GP margin rate down 180 bps in Q1 driven by:

- U.S. segment headwinds due to Y-o-Y timing of FY'19 pricing and cost actions and customer/product mix largely from sales of pandemic-related items
- Business unit mix from growth in endless assortment

SG&A leverage of 20 bps with cost up $47M reflects:

- Headcount additions in 2H'19, increased marketing and pandemic-related costs (primarily U.S. segment)
- Additional payroll day and other non-recurring costs

Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.

Q1 2020 Adjusted Results: *U.S. Segment*

Summary Results

($ in millions)	Q1 2020	Q1 2019	% vs. PY Fav/(Unfav)
Sales	$ 2,307	$ 2,149	7.4%
GP	881	869	1.3%
SG&A	535	505	(6.1)%
Op Earnings	$ 346	$ 364	(5.3)%

(% of sales)	Q1 2020	Q1 2019	bps vs. PY Fav/(Unfav)
GP Margin	38.2%	40.5%	(230)
SG&A	23.2%	23.5%	30
Op Margin	15.0%	17.0%	(200)

Commentary

Daily sales up 5.7% vs. prior year

- Volume up ~8%
- Price/mix headwinds ~2%

GP margin rate was down 230 bps driven by:

- Timing of FY’19 pricing and cost actions
- Customer and product mix, largely related to sales of pandemic-related items

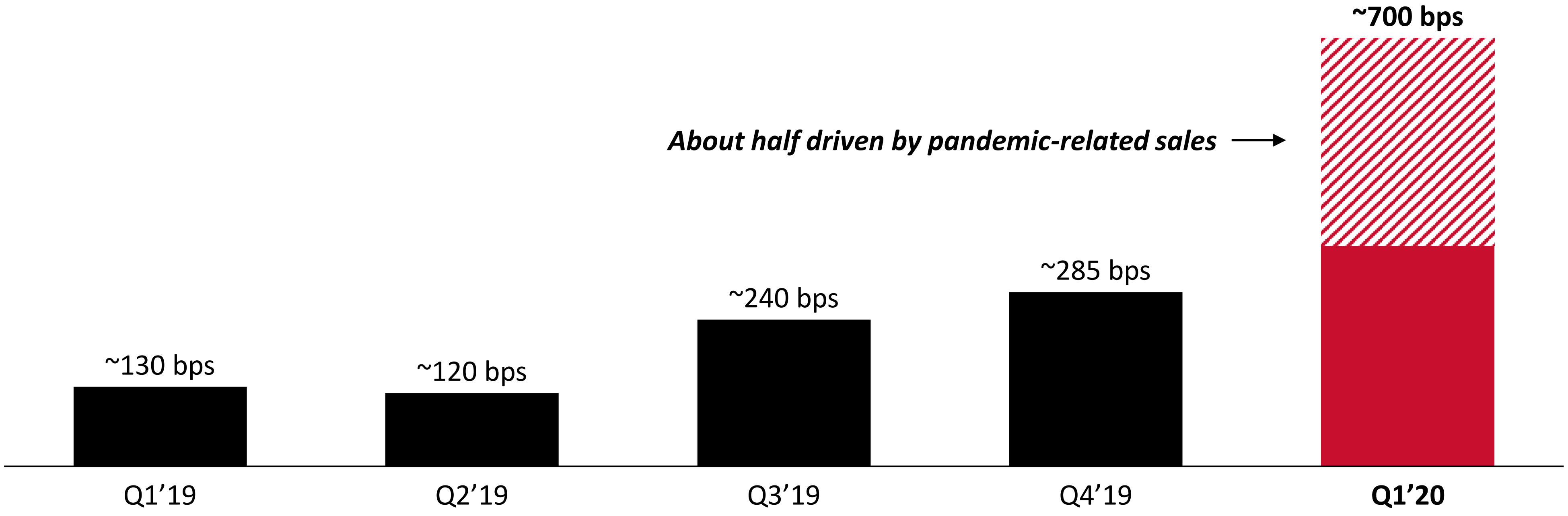
SG&A leverage of 30 bps with cost up $30M reflects:

- Headcount additions in 2H’19 and additional payroll day in current year period
- Increased marketing investments
- Pandemic-related costs

Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.

Q1 2020 Sales Performance: *U.S. Segment*

U.S. Segment outgrew MRO market by ~700 bps in Q1'20; within our 300 – 400 bps target when excluding estimated increase from pandemic-related items



	Q1'19	Q2'19	Q3'19	Q4'19	Q1'20
U.S. MRO Market [(1)]	2% - 2.5%	~1%	~0%	(1%) - 0%	**(1.5%) - (1%)**

(1) Company estimates using compilation of external market data. Outgrowth measured as U.S. segment daily sales growth less estimated U.S. MRO Market growth

Q1 2020 Adjusted Results: *Other Businesses*

Summary Results

($ in millions)	Q1 2020	Q1 2019	% vs. PY Fav/(Unfav)
Sales	$ 698	$ 633	10.2%
GP	200	185	8.0%
SG&A	161	155	(3.8)%
Op Earnings	$ 39	$ 30	29.5%

(% of sales)	Q1 2020	Q1 2019	bps vs. PY Fav/(Unfav)
GP Margin	28.7%	29.3%	(60)
SG&A	23.1%	24.5%	140
Op Margin	5.6%	4.8%	80

Note: Endless assortment businesses include Zoro (primarily in U.S.) and MonotaRO (in Japan). International high-touch portfolio comprised of other small businesses in Europe and Mexico.

Commentary

Daily sales up 8.5%, 8.8% on a constant currency basis

- Endless assortment sales growth of 17% on a daily basis
- International high-touch businesses down 8%

GP headwind from business unit mix and lower margins at Zoro

Operating margin expanded 80 bps driven by SG&A leverage at endless assortment and decreased cost at Cromwell

Q1 2020 Adjusted Results: *Canada Segment*

Summary Results

($ in millions)	Q1 2020	Q1 2019	% vs. PY Fav/(Unfav)
Sales	$ 129	$ 136	(4.6)%
GP	40	42	(4.4)%
SG&A	42	45	7.7%
Op Earnings	$ (2)	$ (3)	44.9%

(% of sales)	Q1 2020	Q1 2019	bps vs. PY Fav/(Unfav)
GP Margin	31.0%	30.9%	—
SG&A	32.6%	33.7%	110
Op Margin	(1.6)%	(2.7)%	110

Commentary

Daily sales down 6.1%, down 5.0% on a constant currency basis

- Volume down ~4%
- Price/mix headwinds ~1%
- FX headwind of 1.1%

Operating margin up 110 bps as cost management actions drove meaningful SG&A leverage

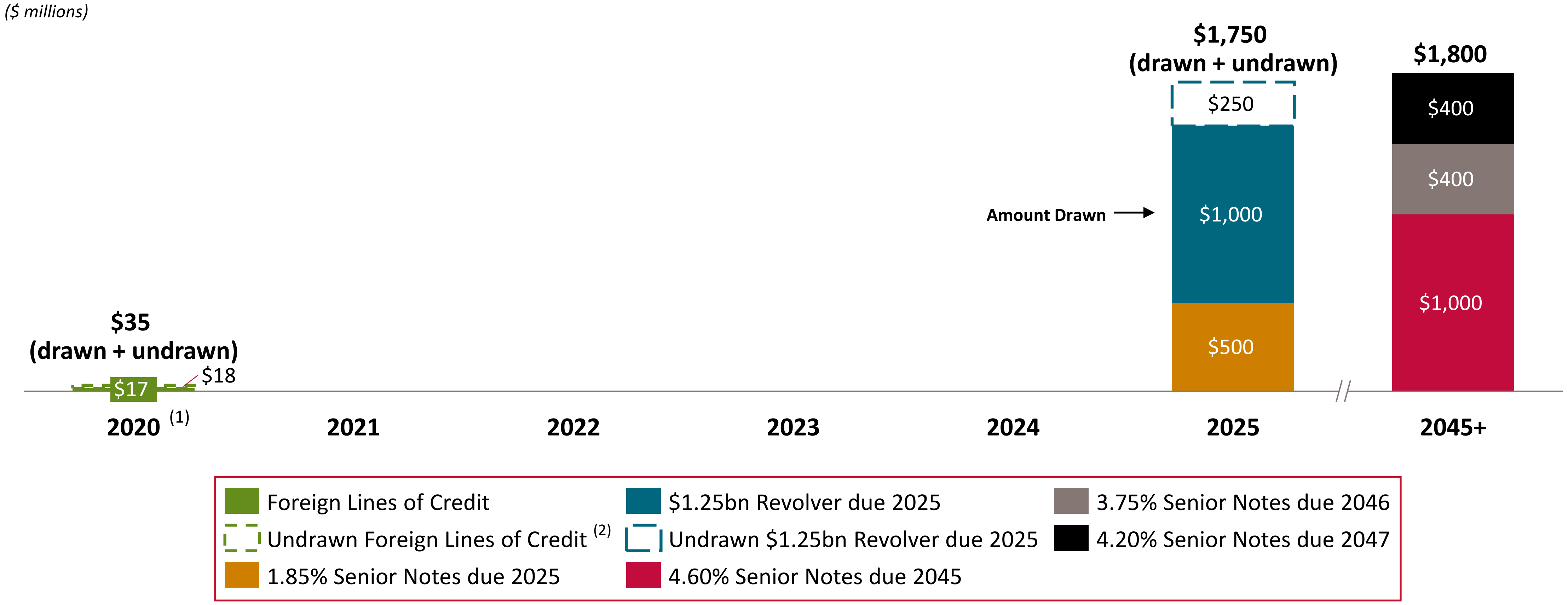
Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.

Closing Remarks / Q&A

Appendix

Debt Maturity Schedule (as of March 31, 2020)

No significant debt maturities upcoming



(1) Excludes current portion of long-term debt ($21M) and other immaterial items.
(2) Foreign Lines of Credit includes debt outstanding under the $35M Chinese Revolvers due 2020. Assumes USD:RMB conversion rate of 7.08 as of 3/31/20.

Q1 2020 U.S. Sales By Customer End Market

- Retail: up Mid-Twenties
- Commercial: up Mid-Single Digits
- Contractor: up Mid-Single Digits
- Government: up High-Single Digits
- Healthcare: up High-Twenties
- Light Manufacturing: up High-Single Digits
- Heavy Manufacturing: down Mid-Single Digits
- Natural Resources: down Mid-Single Digits

Quarterly Daily Sales

Company Q1 2020 Daily Sales

Month	Constant Currency	FX Impact	Reported Sales*
January	1.8%	0.4%	2.2%
February	6.6%	(0.2)%	6.4%
March	8.6%	(0.6)%	8.0%
Q1 Daily Sales	**5.7%**	**(0.2)%**	**5.5%**

Selling Days

	2020	2019	2018
1Q	64	63	64
2Q	64	64	64
3Q	64	64	63
4Q	64	64	64
Full Year	**256**	**255**	**255**

Q1 2020 Daily Sales vs. Q1 2019

Drivers	Company	United States	Canada	Other Businesses
Volume	7.4%	7.8%	(4.4)%	8.8%
Price / Mix	(1.7)	(2.4)	(0.6)	—
Intersegment	—	0.3	—	—
Foreign Exchange	(0.2)	—	(1.1)	(0.3)
Change vs. Prior	**5.5%**	**5.7%**	**(6.1)%**	**8.5%**
Foreign Exchange	0.2	—	1.1	0.3
Constant Currency	**5.7%**	**5.7%**	**(5.0)%**	**8.8%**
% of Company Revenue	*100%*	*73%*	*4%*	*23%*

* Total company monthly sales performance is based on U.S. sales days. Adjusting for local country sales days, monthly sales performance would be consistent throughout the quarter.

Q1 2020 GAAP to Non-GAAP Reconciliations (1 of 4)

(in millions of dollars)	Three Months Ended March 31,			
	2020	Gross Profit %	2019	Gross Profit %
Gross profit reported	$ 1,121	37.4%	$ 1,095	39.1%
Restructuring (Canada)	—	—%	1	0.1%
Gross profit adjusted	$ 1,121	37.4%	$ 1,096	39.2%

(in millions of dollars)	Three Months Ended March 31,		%
	2020	2019	
Operating earnings reported	$ 159	$ 363	(56)%
Restructuring, net branch gains (United States)	6	—	
Restructuring (Canada)	1	2	
Impairment charges (Other businesses)	177	—	
Subtotal	184	2	
Operating earnings adjusted	$ 343	$ 365	(6)%

Note: The reconciliations above provides the information necessary to reconcile reported gross profit, reported gross profit margin and reported SG&A to adjusted gross profit, adjusted gross profit margin and adjusted SG&A, therefore no separate reconciliation is provided.

Q1 2020 GAAP to Non-GAAP Reconciliations (2 of 4)

(in millions of dollars)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	%
Net earnings reported	$ 173	$ 253	(32)%
Restructuring, net of branch gains (United States)	4	—	
Restructuring (Canada)	1	2	
Impairment charges (Other businesses)	139	—	
Tax benefit (Other businesses)	(87)	—	
Subtotal	57	2	
Net earnings adjusted	$ 230	$ 255	(9)%

(in dollars per share)	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019	%
Diluted earnings per share reported	$ 3.19	$ 4.48	(29)%
Restructuring (United States)	0.10	0.01	
Restructuring (Canada)	0.02	0.03	
Impairment charges (Other businesses)	3.26	—	
Total pretax adjustments	3.38	0.04	
Tax effect (1)	(2.33)	(0.01)	
Total, net of tax	1.05	0.03	
Diluted earnings per share adjusted	$ 4.24	$ 4.51	(6)%

(1) The tax impact of adjustments is calculated based on the income tax rate in each applicable jurisdiction, subject to deductibility limitations and the company's ability to realize the associated tax benefits. The lower tax rate effect in the current year quarter was primarily driven by tax benefits related to the Fabory business.

Q1 2020 GAAP to Non-GAAP Reconciliations (3 of 4)

ROIC (Reported)

(in millions of dollars)	Three Months Ended March 31, 2020		Three Months Ended March 31, 2019	
Sales				
United States	$	2,307	$	2,149
Canada		129		136
Other Businesses		698		633
Intersegment sales		(133)		(119)
Net sales to external customers	$	3,001	$	2,799

	2020	Operating Margin %	2019	Operating Margin %
Operating earnings reported				
United States	$ 340	14.7%	$ 364	17.0%
Canada	(3)	(2.5)%	(5)	(3.9)%
Other Businesses	(138)	(19.8)%	30	4.8%
Unallocated expense	(40)	N/A	(26)	N/A
Operating earnings reported	$ 159	5.3%	$ 363	13.0%
ROIC* for Company	13.6%		31.1%	
ROIC* for United States	39.6%		45.0%	
ROIC* for Canada	(3.3)%		(5.5)%	

ROIC (Adjusted)

(in millions of dollars)	Three Months Ended March 31, 2020		Operating Margin %	Three Months Ended March 31, 2019		Operating Margin %
Segment operating earnings adjusted						
United States	$	346	15.0%	$	364	17.0%
Canada		(2)	(1.6)%		(3)	(2.7)%
Other Businesses		39	5.6%		30	4.8%
Unallocated corporate costs		(40)	N/A		(26)	N/A
Segment operating earnings adjusted	$	343	11.4%	$	365	13.0%
ROIC* for Company			29.4%			31.3%
ROIC* for United States			40.2%			45.1%
ROIC* for Canada			(2.1)%			(3.9)%

* Return on Invested Capital (ROIC) is calculated using operating earnings divided by net working assets (a 2-point average for the year-to-date). Net working assets are working assets minus working liabilities defined as follows: working assets equal total assets less cash equivalents (2-point average of $707.2 million), deferred taxes, and investments in unconsolidated entities, plus the LIFO reserve (2-point average of $431.1 million). Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit sharing plans, and accrued expenses.

Q1 2020 GAAP to Non-GAAP Reconciliations (4 of 4)

(in millions of dollars)		March 31, 2020
Condensed Consolidated Balance Sheet		
Short-term debt	$	17
Current maturities of long-term debt		21
Long-term debt		3,303
Less: Cash and cash equivalents		1,492
Net Debt	$	1,849
		LTM ending March 31, 2020
Condensed Consolidated Statement of Earnings		
Net earnings	$	818
Income taxes		182
Other expense, net		58
Condensed Consolidated Statement of Cash Flows		
Depreciation and amortization		217
EBITDA	$	1,275
Restructuring, net and impairment charges		308
Adjusted EBITDA	$	1,583
Net Debt to Adjusted EBITDA		1.2

Note: Management believes the presentation of Net Debt to Adjusted EBITDA ratio provides useful information regarding the Company's liquidity and leverage. The ratio is calculated by dividing the Company's Net Debt by the sum of the most recent four quarters Adjusted EBITDA.

IR Contacts

Irene Holman
Vice President, Investor Relations
847.535.0809

Abby Sullivan
Sr. Manager, Investor Relations
847.535.0939

InvestorRelations@grainger.com