NYSE: GWW

Q2 2021
Earnings Call

July 30, 2021

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: the unknown duration and health, economic, operational and financial impacts of the global outbreak of the coronavirus disease 2019 and its variants (COVID-19), as well as the impact of actions taken or contemplated by government authorities to mitigate the spread of COVID-19 (such as mask mandates or social distancing requirements) and to promote economic stability and recovery, on the Company’s businesses, its employees, customers and suppliers, including disruption to Grainger’s operations resulting from employee illnesses, the development, availability and usage of effective treatment or vaccines, changes in customers’ product needs, raw material, inventory and labor shortages, continued strain on global supply chains and diminished transportation carrier performance, disruption caused by business responses to the COVID-19 pandemic, including working remote arrangements, which may create increased vulnerability to cybersecurity incidents, including breaches of information systems security, adaptions to the Company’s controls and procedures required by working remote arrangements, including financial reporting processes, which could impact the design or operating effectiveness of such controls or procedures, and global or regional economic downturns or recessions, which could result in a decline in demand for the Company’s products; higher product costs or other expenses; a major loss of customers; loss or disruption of sources of supply; changes in customer or product mix; increased competitive pricing pressures; failure to sustain contractual arrangements on a satisfactory basis with group purchasing organizations; 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 and marketing, 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; government contract matters; disruption 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; other pandemic diseases or viral contagions; natural or human induced disasters, extreme weather and other catastrophes or conditions; failure to attract, retain, train, motivate, develop and transition 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 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, including organic daily sales, organic daily sales in constant currency, adjusted gross profit, adjusted gross profit margin, adjusted selling, general and administrative expenses, adjusted selling, general and administrative expenses operating margin, adjusted operating earnings, adjusted segment operating earnings, adjusted operating margin, free cash flow, adjusted return on invested capital, EBITDA, adjusted EBITDA, effective tax rate, adjusted effective tax rate, adjusted net earnings and adjusted diluted earnings per share, is available in the appendix to this presentation and our most recent earnings release. This communication also includes certain non-GAAP forward-looking information (including, but not limited to, slides 16-17). 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, the most directly comparable forward-looking GAAP measures are not provided.

Opening Remarks

DG Macpherson
Chairman & CEO

GRAINGER®

The Grainger Edge: *Our Principles*

Our Purpose — **We Keep the World Working**

Our Aspiration — **We relentlessly expand our leadership position by being the go-to partner for people who build and run safe, sustainable, and productive operations**

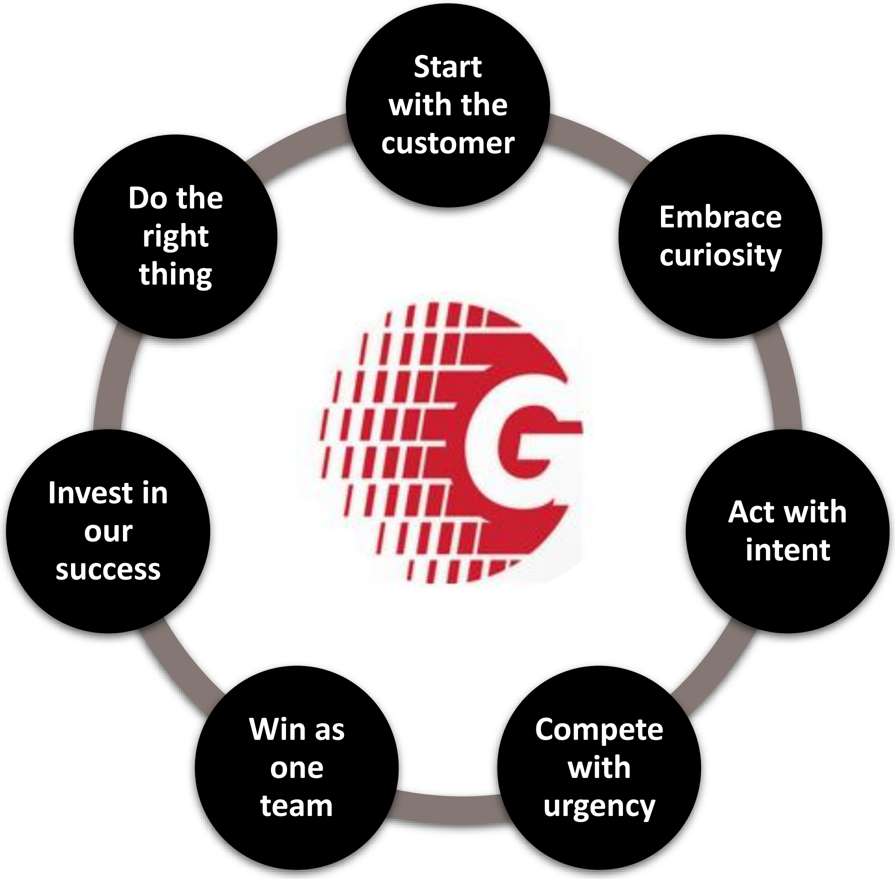
Our Strategy

High-Touch Solutions North America (N.A.) Model

- Advantaged MRO solutions
- Differentiated sales and services
- Unparalleled customer service

Endless Assortment Model

- Expansive product assortment
- Innovative customer acquisition and retention capabilities



Q2 Industry-wide Supply Chain Challenges

Serving customers well and navigating challenges, delivering strong operational performance

Broad industry challenges:

Commodity-driven product shortages

Late supplier shipments

Hiring challenges

Transportation constraints

Actions to mitigate challenges:

- Leveraging scale to deliver strong relative service
  - Delivering product from alternate locations in network
  - Investing in non-pandemic inventory
  - Ramping up Louisville DC faster than planned
- Partnering with product suppliers to mitigate constraints
- Increased wages to attract and retain distribution center talent
- Actively managing transportation lanes
  - Adding carriers selectively where it makes sense
  - Prioritizing inbound loads to ensure service and optimize cost

Q2 2021 Financial Summary

Strong revenue growth drives performance in line with expectations,
Gross profit impacted by inventory adjustments, amplified by easing mask mandates

- Achieved **organic daily sales growth of 15.0%** *(total company, constant currency)* [(1)]
  - Two-year average U.S. market outgrowth of ~275 bps (lapping volatile Q2 2020)
  - Strong customer acquisition at both MonotaRO and Zoro
- **GP challenged by accelerated timing of mask mandate changes**, resulting in ~$15 million incremental inventory adjustments above internally planned scenarios
- **Canadian business drove positive operating earnings growth** on higher sales in targeted end segments and continued expense management
- **Generated $269 million in operating cash flow**
- **Achieved strong, adjusted ROIC of 29.2%** *(total company)*

High-Touch Solutions N.A.

12.7%

Daily Sales, constant currency growth

Endless Assortment

23.9%

Daily Sales, constant currency growth

Note: See the appendix for any non-GAAP reconciliations.
(1) Organic daily sales exclude 2020 results for Fabory (pre-June 30, 2020 divestiture) and Grainger China (pre-August 21, 2020) to compare like-for-like performance.

Q2 2021 Adjusted Results: *Total Company*

Summary Results

($ in millions)	Q2 2021	Q2 2020	% vs. PY Fav/(Unfav)
Sales	$ 3,207	$ 2,837	13.1 % / 15.9%[1]
GP	1,124	1,016	10.6%
SG&A	790	701	(12.8)%
Op Earnings	$ 334	$ 315	5.8%
EPS	**$ 4.27**	**$ 3.75**	**13.9%**

(% of sales)	Q2 2021	Q2 2020	bps vs. PY Fav/(Unfav)
GP Margin	35.0 %	35.8%	(75)
SG&A	24.6 %	24.7%	5
Op Margin	10.4 %	11.1%	(70)

Commentary

Organic daily sales up 15.9%, 15.0% in constant currency

- Results driven by solid performance in both segments
- Daily sales up 13.1%, without adjusting for divestitures

GP margin rate down 75 bps, driven primarily by U.S. pandemic-fueled inventory adjustments

- U.S. adjustments lowered total company GP by 200 bps
- Endless Assortment and Cromwell both expanded GP margins year over year

SG&A within guided range of $780-800 million, on investments in DC wages and marketing

Excluding *incremental* inventory adj. of ~$15 million, GP roughly flat sequentially and EPS = ~$4.50

Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding. The Company has a controlling ownership interest in MonotaRO. 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.

(1) Change in sales and change in organic daily sales.

Q2 2021 Results

Dee Merriwether
SVP & CFO

Q2 2021 Adjusted Results: *High-Touch Solutions N.A.*

Summary Results

($ in millions)	Q2 2021	Q2 2020	% vs. PY Fav/(Unfav)
Sales	$ 2,498	$ 2,197	13.7%[1]
GP	922	838	10.0%
SG&A	640	552	(15.8)%
Op Earnings	$ 282	$ 286	(1.2)%

(% of sales)	Q2 2021	Q2 2020	bps vs. PY Fav/(Unfav)
GP Margin	36.9 %	38.1%	(125)
SG&A	25.6 %	25.1%	(45)
Op Margin	11.3 %	13.0%	(170)

Commentary

Daily sales up 13.7% vs. prior year, 12.7% in constant currency

- Robust non-pandemic revenue growth, mix returning to pre-pandemic levels

Gross profit margin down 125 bps year over year

- Excluding the U.S. inventory adjustments, GP would have been 39.4%, up ~125 basis points versus prior year

SG&A ramped sequentially within expected range, lapping 2020 low point

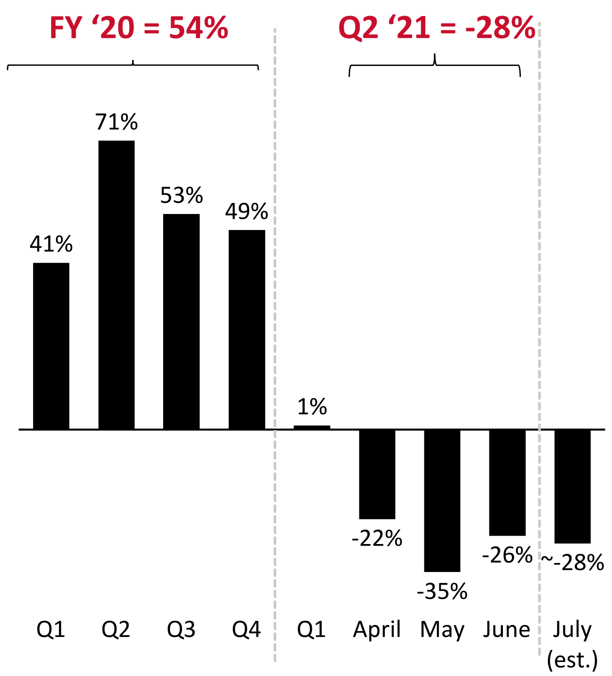
Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.
(1) Q2'21 had the same number of selling days as Q2'20.

Sales by Product: *High-Touch Solutions – U.S.*

Solid non-pandemic product growth over 2019 as product mix reverts to more normalized levels

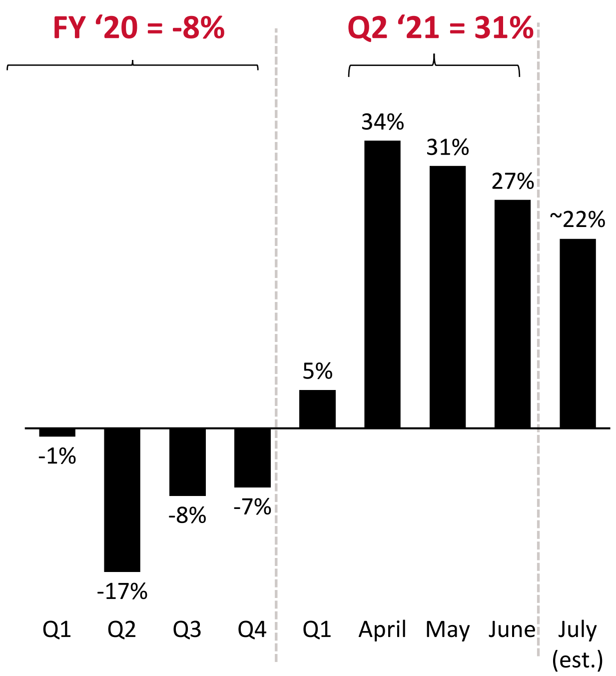
(year-over-year change in daily sales)

Pandemic-related Sales [1]



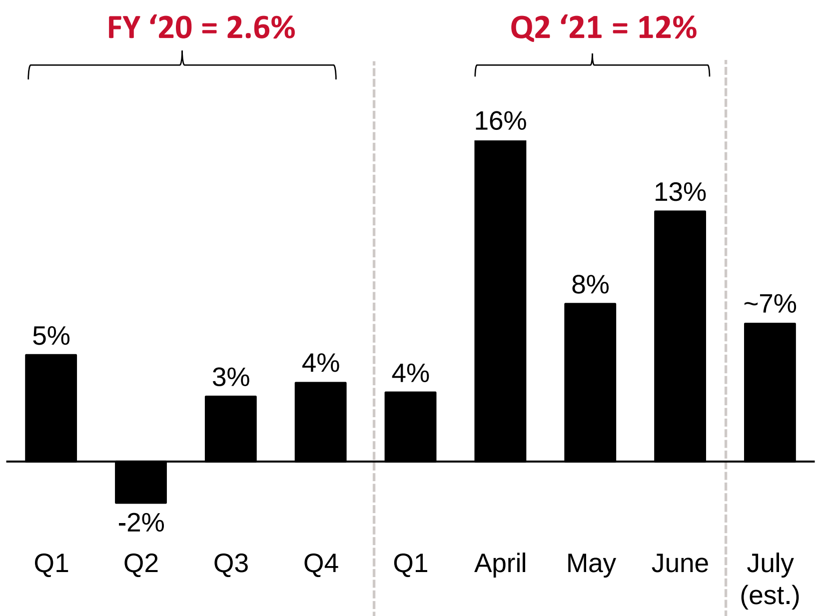
Growth v. 2019: +46% +29% +24% +28% +27%

Non-pandemic Sales [1]



Growth v. 2019: +2% +5% +8% +9% +7%

High-Touch Solutions – U.S.

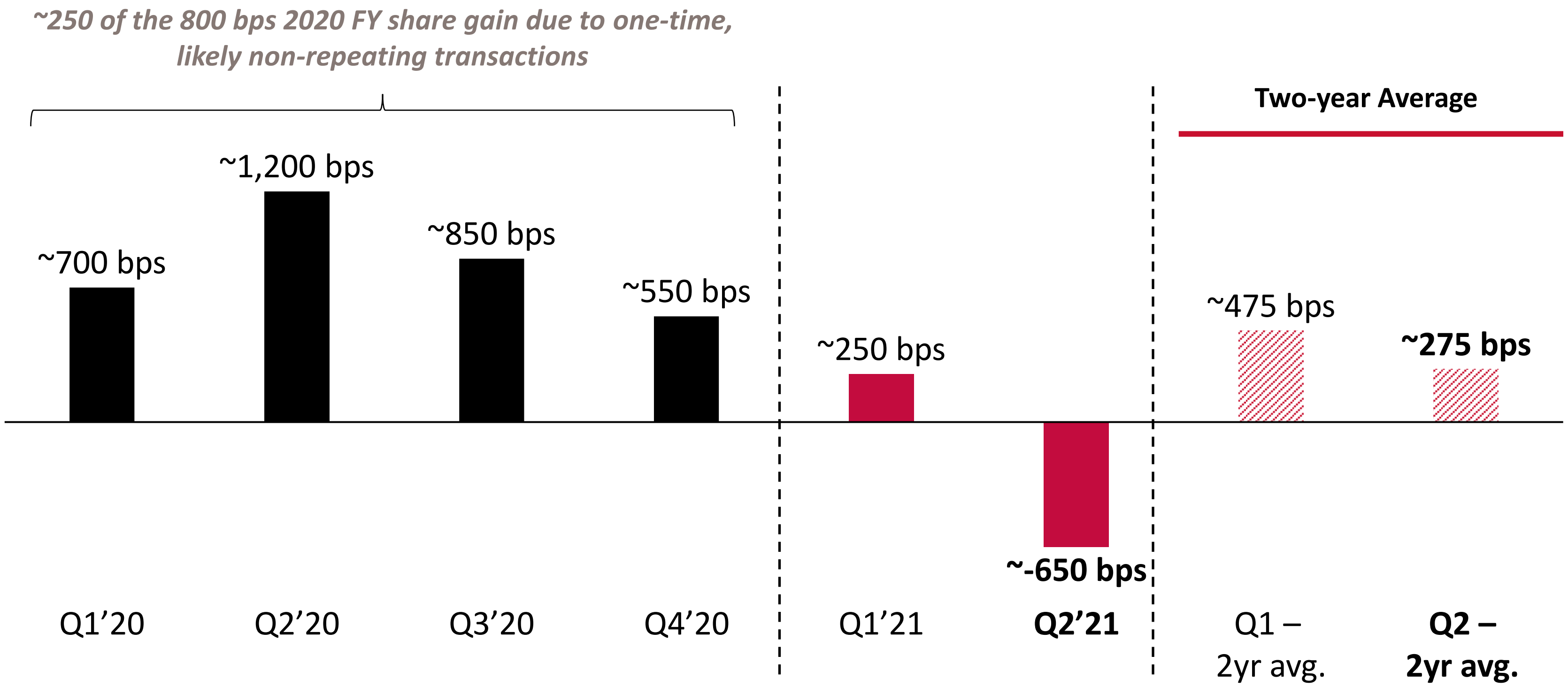


Growth v. 2019: +9% +8% +9% +12% +11%

(1) Change in daily sales. Based on company's current categorization of SKUs for pandemic and non-pandemic products. These exclude specialty brands and revenue recognition adjustments which are included in the High-Touch Solutions - U.S.

Q2 2021 Sales Performance: *High-Touch Solutions - U.S.*

Lapping highest concentration of pandemic one-time purchases experienced in 2020, delivered two-year average share gain of ~275 basis points

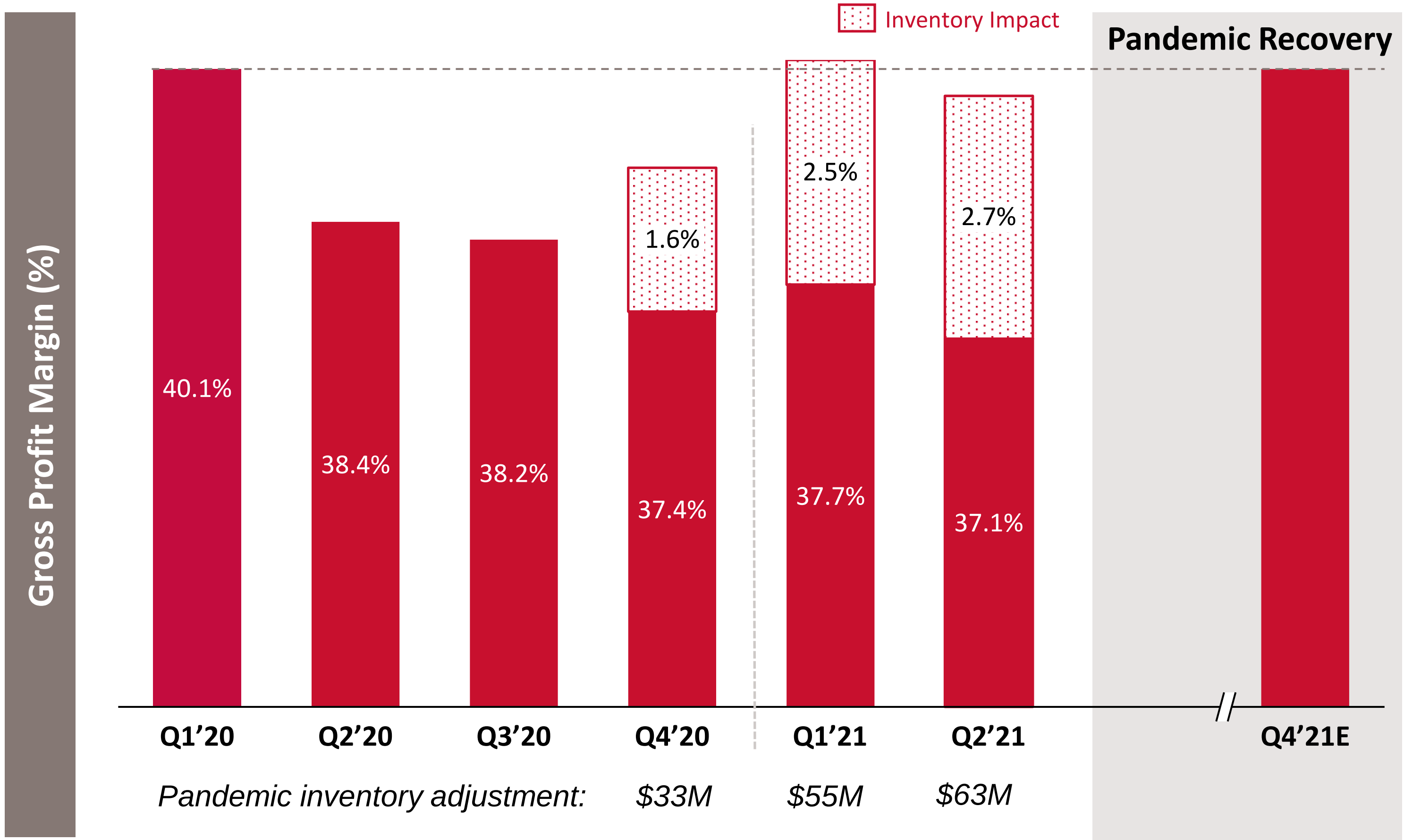


U.S. MRO Market [1]	(1.5%) - (1%)	(15%) - (14%)	(6%) - (5%)	(2%) - (1.5%)	0.5% - 1.5%	18.5% – 19.5%	0%	2% - 3%

(1) Company estimates using compilation of external market data. Outgrowth measured as High-Touch Solutions – U.S. daily sales growth less estimated U.S. MRO market growth.

Q2 2021 GP Performance and Outlook: *High-Touch Solutions - U.S.*

Reiterate expectations to exit 2021 with High-Touch Solutions - U.S. GP rates as high or higher than Q1 2020



Commentary

Q2'21 GP decline resulted from inventory adjustments of $63 million

- Changes in mask mandates contributed incremental ~$15 million in the quarter

Confident in our ability to achieve Q1 2020 levels based on…

- No further material pandemic-related inventory adjustments expected
- Anticipated pandemic product mix improvements
- Achieving price / cost neutrality in H1'21; expected realization through H2'21

Note: Guidance as of July 30, 2021

Q2 2021 Adjusted Results: *Endless Assortment*

Summary Results

($ in millions)	Q2 2021	Q2 2020	% vs. PY Fav/(Unfav)
Sales	$ 645	$ 525	23.0%[1]
GP	182	144	26.3%
SG&A	124	102	(21.7)%
Op Earnings	$ 58	$ 42	37.2%

(% of sales)	Q2 2021	Q2 2020	bps vs. PY Fav/(Unfav)
GP Margin	28.1 %	27.4%	75
SG&A	19.2 %	19.4%	20
Op Margin	8.9 %	8.0%	95

Commentary

Daily sales increased 23.0%, 23.9% on a constant currency basis

- Strong customer acquisition at both businesses
- Continued growth with Enterprise customers at MonotaRO

Operating profit margin up 95 bps due to:

- Gross margin expansion at both businesses
- Significant SG&A leverage at Zoro

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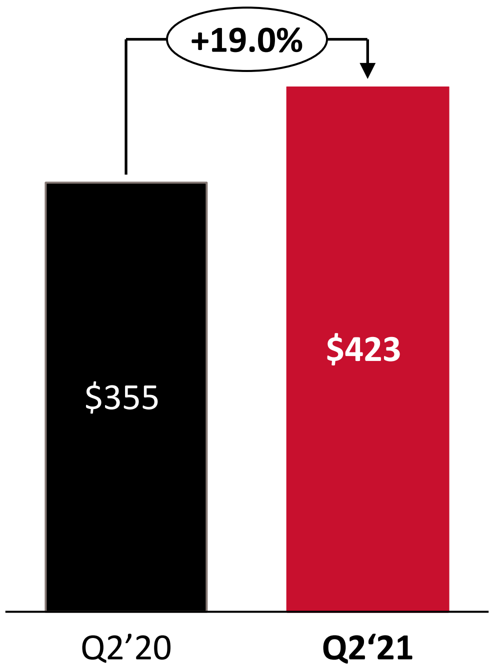
(1) Q2'21 had the same number of selling days as Q2'20.

Q2 2021 Segment Highlights: *Endless Assortment*

MonotaRO (1)

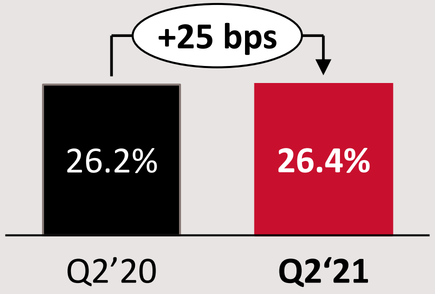
($ millions)

Daily Sales

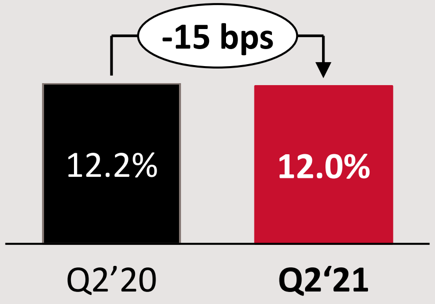


Local days and currency: 16.7%

Gross Profit



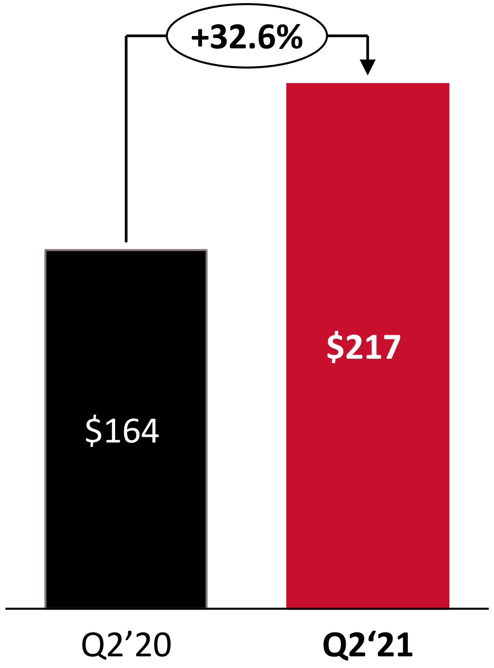
Op. Margin



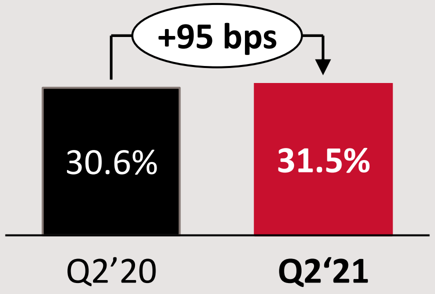
Zoro U.S.

($ millions)

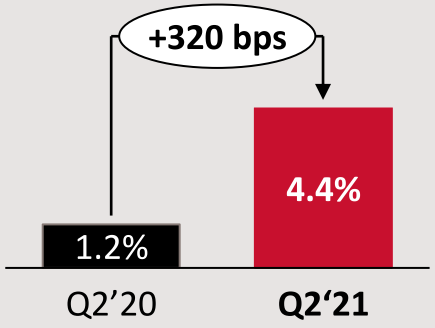
Daily Sales



Gross Profit



Op. Margin



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Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.
(1) The Company has a controlling ownership interest in MonotaRO. 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.

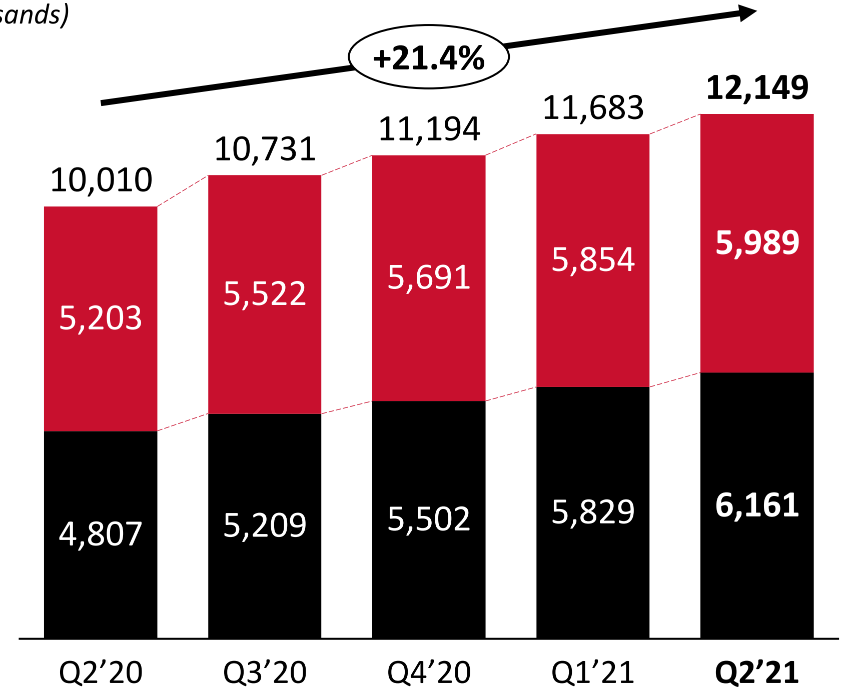
Operating Metrics: *Endless Assortment*

Zoro on accelerated pace to achieve 8 million total SKUs by year end

MonotaRO (1) | Zoro U.S.

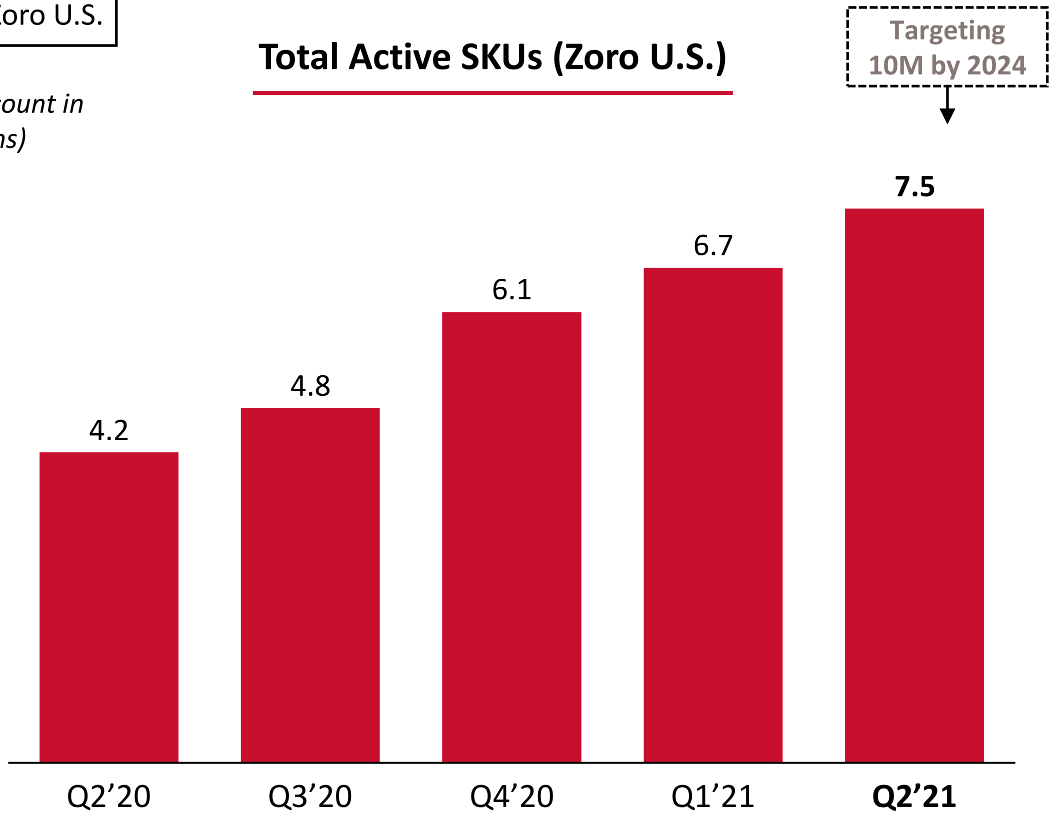
Total Registered Users

(user count in thousands)



Total Active SKUs (Zoro U.S.)

(SKU count in millions)



Note: Numbers may not sum due to rounding.
(1) The Company has a controlling ownership interest in MonotaRO. 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.

Looking Forward

Dee Merriwether

SVP & CFO

2021 Full Year Guidance – *Total Company*

Expect strong sales with GP, Operating Margin and EPS pressured by inventory adjustments and freight costs, along with investments in marketing and DC wages

	2019A	2020A	2021 Guidance	2021 Guidance (as of July 30, 2021)
Sales *($ billions)*	**$11.5**	**$11.8**	**$12.7 – $13.0**	**Maintain**
Daily growth	*2.5%*	*2.3%*	*8.5% - 11.0%*	
Organic daily growth		*3.6%*	*10.0% – 12.5%*	
Gross Profit Margin	**38.3%**	**35.9%**	**36.1 – 36.6%**	***Trending at the low end of the range***
bps vs. prior year	*(50)*	*(235)*	*20 – 70*	
Operating Margin	**12.1%**	**11.2%**	**11.8% – 12.4%**	
bps vs. prior year	*10*	*(80)*	*50 - 115*	
Tax Rate	**24.8%**	**25.3%**	**25.0% - 26.0%**	
EPS	**$17.29**	**$16.18**	**$19.00 - $20.50**	
% vs. prior year	*3.5%*	*(6.4)%*	*17.5% - 26.5%*	

Note: Guidance as of July 30, 2021
Total company 3Q'21 estimates in comparison to 3Q'20: revenue +10% – 11% on a daily, organic basis; GP: +100 – 120 bps; SG&A: $805 – $815 million

Closing Remarks

DG Macpherson

Chairman & CEO

Q&A

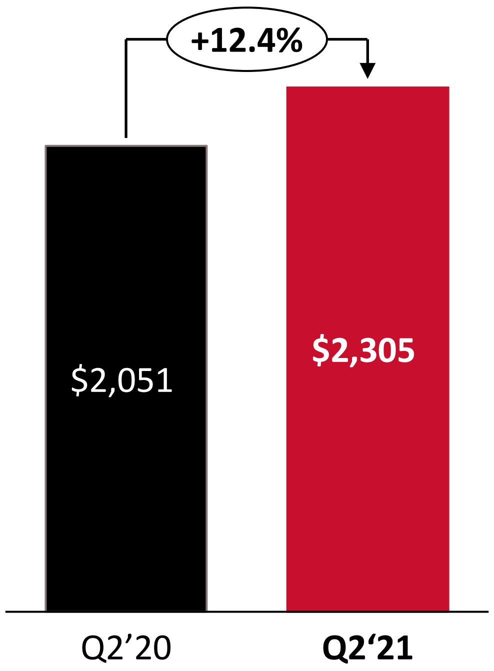
Appendix

Q2 2021 Segment Highlights: *High-Touch Solutions N.A.*

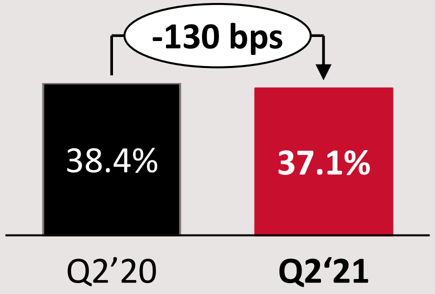
U.S.

($ millions)

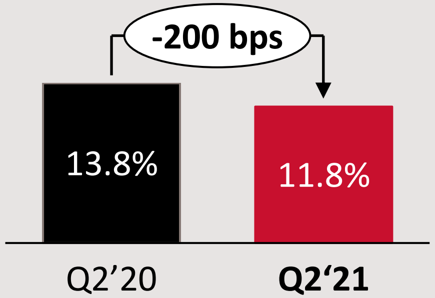
Daily Sales



Gross Profit



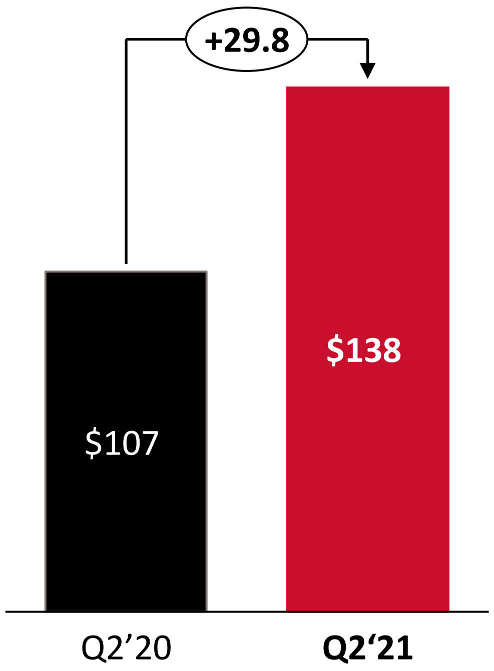
Op. Margin



Canada

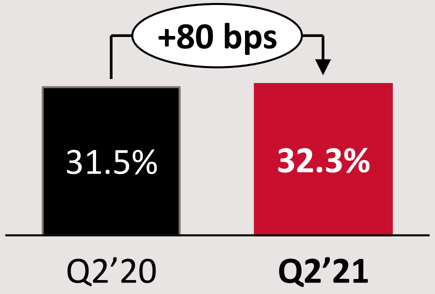
($ millions)

Daily Sales

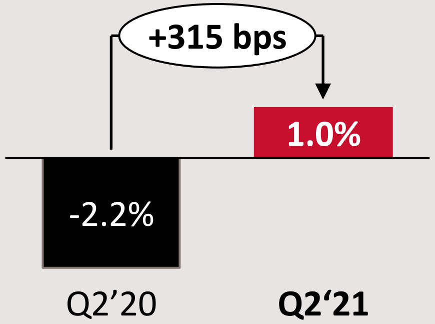


Local days and currency: 15.1%

Gross Profit

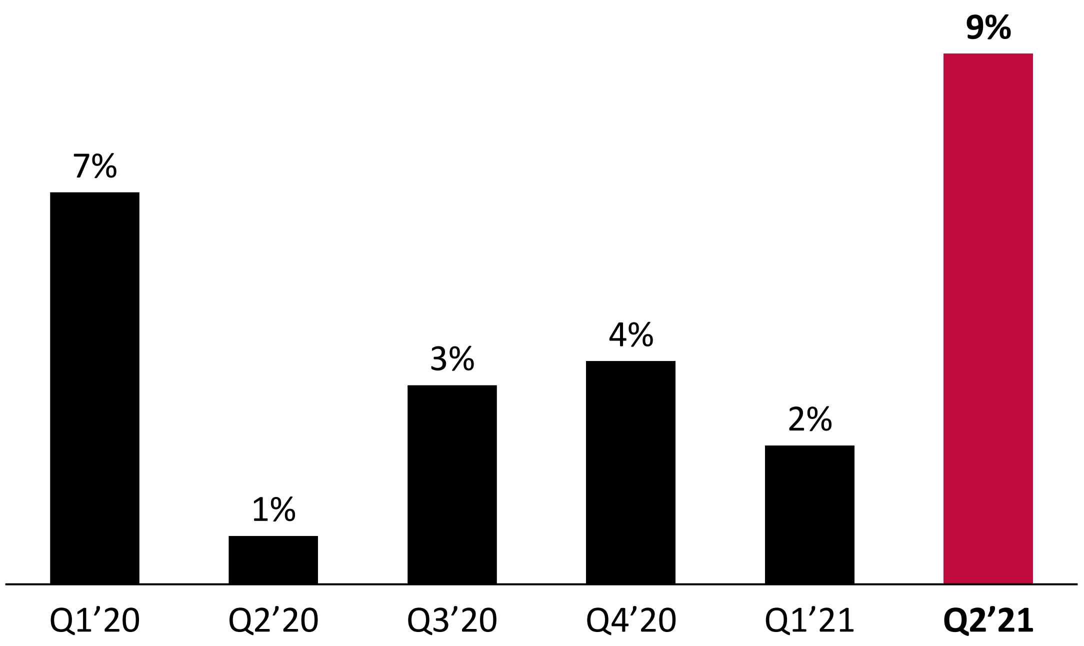


Op. Margin

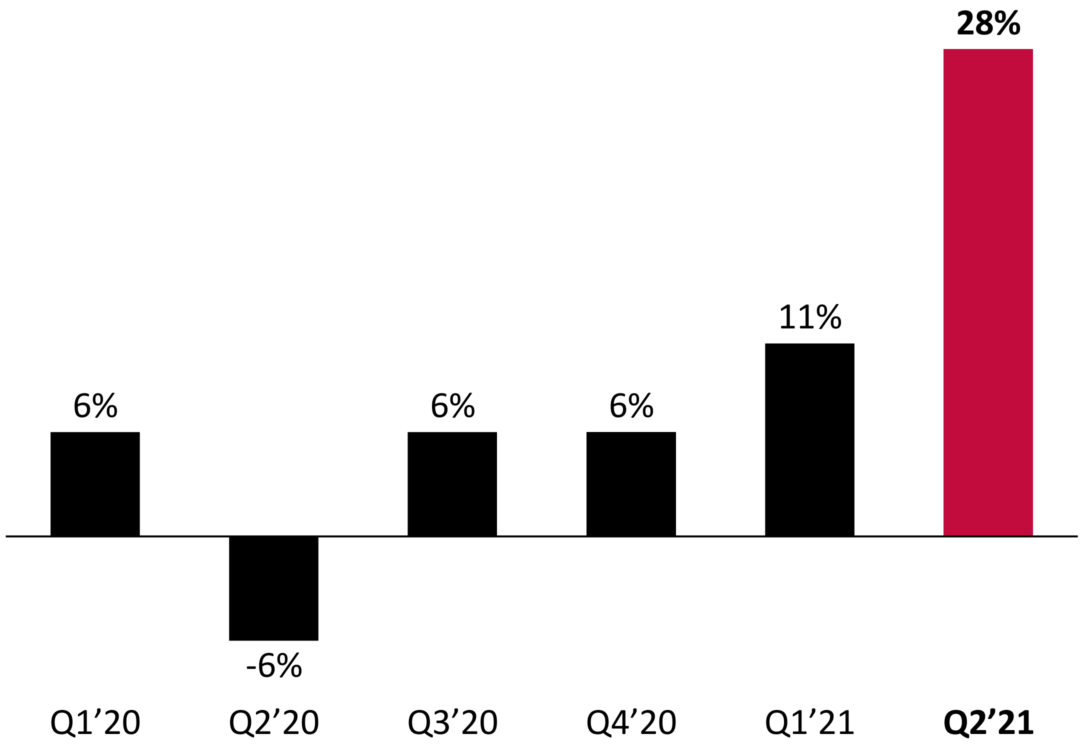


Q2 2021 Sales Performance: *High-Touch Solutions - U.S. business*

Large Customers (1)



Mid-sized Customers (1)



(1) Large customer revenue of $7.5 billion and Midsize customer revenue of $1.2 billion for the last twelve-month period ending June 30, 2021. These numbers exclude specialty brands and revenue recognition adjustments which are included in the High Touch Solutions U.S. business.

Q2 2021 U.S. Business Sales By Customer End Market

- **Commercial* (includes hospitality, restaurants, business services):** up High-Thirties
- **Heavy Manufacturing:** up High-Twenties
- **Contractor:** up High-Teens
- **Natural Resources:** up High-Teens
- **Transportation*:** up Mid-Teens
- **Retail (includes eCommerce businesses):** up Mid-Teens
- **Wholesale*:** up Mid-Teens
- **Light Manufacturing:** up High-Single Digits
- **Government:** down Low-Single Digits
- **Healthcare:** down High-Twenties

*Starting in Q2'20: the Wholesale, Commercial and Transportation end-markets, which were previously all included under the Commercial grouping, have been separated to increase transparency.

Q2 2021 Quarterly Daily Sales Growth

Q2 2021 Daily Sales (Total Company) (1)

Month	Reported Sales (U.S. Selling Days) Q2 2020	Reported Sales (U.S. Selling Days) Q2 2021	FX Impact	Constant Currency
April	(6.6)%	17.8%	(0.9)%	16.9%
May	1.7%	10.6%	(1.0)%	9.6%
June	(0.9)%	11.0%	(0.7)%	10.3%
Q2 Daily Sales	**(1.9)%**	**13.1%**	**(0.9)%**	**12.2%**

U.S. Selling Days

	2021	2020	2019
1Q	63	64	63
2Q	64	64	64
3Q	64	64	64
4Q	63	64	64
Full Year	**254**	**256**	**255**

Q2 2021 Daily Sales vs. Q2 2020 (1)

Drivers	High-Touch Solutions	High-Touch Solutions - US	High-Touch Solutions - Canada
Volume/product mix	10.6%	10.4%	12.2%
Price/customer mix	2.1	2.0	2.9
Foreign exchange	1.0	—	14.7
Daily sales	**13.7%**	**12.4%**	**29.8%**
Foreign exchange	(1.0)	—	(14.7)
Constant currency	**12.7%**	**12.4%**	**15.1%**

(1) Based on U.S. Selling Days

Q2 2021 GAAP to Non-GAAP Reconciliations (1 of 7)

(in millions of dollars)

	Three Months Ended June 30,			
	2021	Gross Margin	2020	Gross Margin
Total company gross profit reported	$ 1,124	35.0 %	$ 1,016	35.8 %
Restructuring (High-Touch Solutions N.A.)	—	—	—	—
Restructuring (Endless Assortment)	—	—	—	—
Restructuring (Other)	—	—	—	—
Total company gross profit adjusted	$ 1,124	35.0 %	$ 1,016	35.8 %

(in millions of dollars)

	Six Months Ended June 30,			
	2021	Gross Profit %	2020	Gross Profit %
Total company gross profit reported	$ 2,217	35.2 %	$ 2,137	36.6 %
Restructuring (High-Touch Solutions N.A.)	—	—	—	—
Restructuring (Endless Assortment)	—	—	—	—
Restructuring (Other)	—	—	—	—
Total company gross profit adjusted	$ 2,217	35.2 %	$ 2,137	36.6 %

(in millions of dollars)

	Three Months Ended June 30,		%
	2021	2020	
Total company operating earnings reported	$ 334	$ 205	62 %
Restructuring, net (High-Touch Solutions N.A.)	—	1	
Restructuring, net (Endless Assortment)	—	—	
Other:			
Fabory divestiture	—	109	
Subtotal - other	—	109	
Subtotal - total company	—	110	
Total company operating earnings adjusted	$ 334	$ 315	6%

(in millions of dollars)

	Six Months Ended June 30,		%
	2021	2020	
Total company operating earnings reported	$ 692	$ 364	90 %
Restructuring, net (High-Touch Solutions N.A.)	—	8	
Restructuring, net (Endless Assortment)	—	—	
Other:			
Impairment charges	—	177	
Fabory divestiture	—	109	
Subtotal - other	—	286	
Subtotal - total company	—	294	
Total company operating earnings adjusted	$ 692	$ 658	5 %

Note: The reconciliations provided in the tables for reported gross profit to adjusted gross profit and reported operating earnings to adjusted operating earnings are on a total company level and are comprised of the adjustments indicated in the tables above. The reconciliations for reported gross profit to adjusted gross profit and reported operating earnings to adjusted operating earnings on a segment level contain the same adjustments as the adjustments specified for the applicable segment as provided in the tables above for the applicable period reported. The reconciliations for reported operating earnings to adjusted operating earnings on a segment level, and as classified as "Other", contain the same adjustments as the adjustments specified for the applicable segment, or for "Other", as provided in the tables above for the applicable period reported. Therefore, no separate reconciliation is provided for segment information. The reconciliations for reported SG&A to adjusted SG&A on a total company and segment levels contain the same adjustments in the same amounts presented in the reported gross profit to adjusted gross profit and reported operating earnings to adjusted operating earnings tables. Therefore, no separate reconciliation is provided.

Q2 2021 GAAP to Non-GAAP Reconciliations (2 of 7)

(in millions of dollars)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	%
U.S. operating earnings reported	$ 273	$ 283	(4)%
Restructuring, net (U.S.)	—	—	
Subtotal - U.S.	—	—	
U.S. operating earnings adjusted	$ 273	$ 283	(4)%

(in millions of dollars)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	%
U.S. operating earnings reported	$ 572	$ 593	(3)%
Restructuring, net (U.S.)	—	6	
Subtotal - U.S.	—	6	
U.S. operating earnings adjusted	$ 572	$ 599	(4)%

(in millions of dollars)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	%
Canada operating earnings reported	$ 1	$ (3)	151 %
Restructuring, net (Canada)	—	1	
Subtotal - Canada	—	1	
Canada operating earnings adjusted	$ 1	$ (2)	160 %

(in millions of dollars)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	%
Canada operating earnings reported	$ —	$ (6)	111 %
Restructuring, net (Canada)	—	2	
Subtotal - Canada	—	2	
Canada operating earnings adjusted	$ —	$ (4)	114 %

Note: Reported gross profit and reported operating earnings are the same as adjusted gross profit and adjusted operating earnings for MonotaRO and Zoro. Therefore, no separate reconciliation is provided.

Q2 2021 GAAP to Non-GAAP Reconciliations (3 of 7)

(in millions of dollars)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	%
Net earnings reported	$ 225	$ 114	98 %
Restructuring, net (High-Touch Solutions N.A.)	—	—	
Restructuring, net (Endless Assortment)	—	—	
Other:			
Impairment charges	—	(3)	
Fabory divestiture	—	93	
Subtotal - other	—	90	
Subtotal - total company	—	90	
Net earnings adjusted	$ 225	$ 204	11 %

(in millions of dollars)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	%
Net earnings reported	$ 463	$ 287	62 %
Restructuring, net (High-Touch Solutions N.A.)	—	5	
Restructuring, net (Endless Assortment)	—	—	
Other:			
Impairment charges	—	136	
Fabory divestiture	—	93	
Tax benefit	—	(87)	
Subtotal - other	—	142	
Subtotal - total company	—	147	
Net earnings adjusted	$ 463	$ 434	7 %

(in dollars per share)

	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	%
Diluted earnings per share reported	$ 4.27	$ 2.10	103 %
Restructuring, net (High-Touch Solutions N.A.)	—	0.01	
Restructuring, net (Endless Assortment)	—	—	
Other:			
Fabory divestiture	—	2.02	
Subtotal other	—	2.02	
Total pretax adjustments	—	2.03	
Tax effect [1]	—	(0.38)	
Total, net of tax	—	1.65	
Diluted earnings per share adjusted	$ 4.27	$ 3.75	14 %

(in dollars per share)

	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020	%
Diluted earnings per share reported	$ 8.76	$ 5.29	66 %
Restructuring, net (High-Touch Solutions N.A.)	—	0.14	
Restructuring, net (Endless Assortment)	—	—	
Other:			
Impairment charges	—	3.26	
Fabory divestiture	—	2.02	
Subtotal other	—	5.28	
Total pretax adjustments	—	5.42	
Tax effect [1]	—	(2.71)	
Total, net of tax	—	2.71	
Diluted earnings per share adjusted	$ 8.76	$ 8.00	10%

GRAINGER

(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 tax effect in the prior year quarter was primarily related to the divested Fabory business (divested 6/30/2020).

Q2 2021 GAAP to Non-GAAP Reconciliations (4 of 7)

(in millions of dollars)	Three Months Ended June 30, 2021	Three Months Ended June 30, 2020	Six Months Ended June 30, 2021	Six Months Ended June 30, 2020
Sales				
High-Touch Solutions N.A.	$ 2,498	$ 2,197	$ 4,895	$ 4,552
Endless Assortment	645	525	1,267	1,021
Other	64	115	129	265
Net sales	$ 3,207	$ 2,837	$ 6,291	$ 5,838

	2021	Op. Margin	2020	Op. Margin	2021	Op. Margin	2020	Op. Margin
Operating earnings reported								
High-Touch Solutions (N.A.)	$ 282	11.3 %	$ 285	13.0 %	$ 588	12.0 %	$ 599	13.2 %
Endless Assortment	58	8.9 %	42	8.0 %	113	8.9 %	77	7.5 %
Other	(6)	(10.1)%	(122)	(105.7)%	(9)	(7.3)%	(312)	(117.3)%
Operating earnings reported	$ 334	10.4 %	$ 205	7.3 %	$ 692	11.0 %	$ 364	6.2 %
ROIC* Company					29.2 %		15.6 %	
ROIC* High-Touch Solutions N.A.					29.2 %		30.1 %	
ROIC* Endless Assortment					35.4 %		31.7 %	

(in millions of dollars)	Three Months Ended June 30, 2021	Op. Margin	2020	Op. Margin
Segment operating earnings adjusted				
High-Touch Solutions N.A.	$ 282	11.3 %	$ 286	13.0 %
Endless Assortment	58	8.9 %	42	8.0 %
Other	(6)	(10.1)%	(13)	(10.7)%
Segment operating earnings adjusted	$ 334	10.4 %	$ 315	11.1 %

(in millions of dollars)	Six Months Ended June 30, 2021	Op. Margin	2020	Op. Margin
Segment operating earnings adjusted				
High-Touch Solutions N.A.	$ 588	12.0 %	$ 607	13.3 %
Endless Assortment	113	8.9 %	77	7.5 %
Other	(9)	(7.3)%	(26)	(9.3)%
Segment operating earnings adjusted	$ 692	11.0 %	$ 658	11.3 %
ROIC* Company	29.2 %		28.2 %	
ROIC* High-Touch Solutions N.A.	29.2 %		30.4 %	
ROIC* Endless Assortment	35.4 %		31.7 %	

(1) *The GAAP financial statements are the source for all amounts used in the Return on Invested Capital (ROIC) calculation. ROIC is calculated using operating earnings divided by net working assets (a 3-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 (3-point average of $365.9 million), prepaid and deferred taxes, operating lease right-of-use assets and investments in unconsolidated entities, plus the LIFO reserve (3-point average of $445.9 million). Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit sharing plans, and accrued expenses.

Q2 2021 GAAP to Non-GAAP Reconciliations (5 of 7)

(in millions of dollars)

	June 30, 2021
Condensed Consolidated Balance Sheet	
Long-term debt	$ 2,375
Less: Cash and cash equivalents	(547)
Net Debt	$ 1,828

	LTM ending June 30, 2021
Condensed Consolidated Statement of Earnings	
Net earnings	$ 939
Income taxes	344
Other expense, net	64
Condensed Consolidated Statement of Cash Flows	
Depreciation and amortization	179
EBITDA	$ 1,526
Restructuring, net, impairment charges and business divestitures	14
Adjusted EBITDA	$ 1,540
Net Debt to Adjusted EBITDA	**1.2x**

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.

(in millions of dollars)

	Three Months Ended June 30, 2021
Operating Cash Flow	$ 269
Less: Additions to property, buildings, equipment and intangibles	(74)
Free Cash Flow	$ 195

Q2 2021 GAAP to Non-GAAP Reconciliations (6 of 7)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Bps impact	2021	2020	Bps impact
Effective tax rate reported[1]	23.6 %	30.2 %	(660)	24.7 %	3.9 %	2,080
Tax benefit related to the Fabory business	—	(4.4)		—	21.8	
Tax impact of restructuring, net, impairment and business divestiture	—	—		—		
Effective tax rate adjusted	23.6 %	25.8 %	(220)	24.7 %	25.7 %	(100)

Note: 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.

	Total Company Three Months Ended June 30,		High-Touch Solutions N.A. Three Months Ended June 30,		Endless Assortment Three Months Ended June 30,	
	2021	2020	2021	2020	2021	2020
Reported sales	13.1%	(1.9)%	13.7%	(3.7)%	23.0%	15.6%
Daily impact	—	—	—	—	—	—
Daily sales	13.1%	(1.9)%	13.7%	(3.7)%	23.0%	15.6%
Business divestitures[2]	2.8	—	—	—	—	—
Organic daily sales	**15.9%**	**(1.9)%**	**13.7%**	**(3.7)%**	**23.0%**	**15.6%**
Foreign exchange	(0.9)	0.1	(1.0)	0.6	0.9	(3.0)
Organic constant currency sales	**15.0%**	**(1.8)%**	**12.7%**	**(3.1)%**	**23.9%**	**12.6%**

Local Selling Day Impact			Canada		MonotaRO	
Reported sales			29.8%	(21.7)%	19.0%	21.6%
Local day impact			—	—	(3.8)	(2.0)
Local daily sales			29.8%	(21.7)%	15.2%	19.6%
Foreign exchange			(14.7)	2.7	1.5	(3.7)
Local days and currency			**15.1%**	**(19.0)%**	**16.7%**	**15.9%**

(1) The reported higher tax rate in the prior year quarter was primarily related to the divested Fabory business (divested 6/30/2020).
(2) Represents the results of the Fabory business (divested on 6/30/2020) and the Grainger China business (divested on 8/21/2020).

GAAP to Non-GAAP Metrics Reconciliations (7 of 7)

2021 Pandemic Inventory Impact

Total Company

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Bps Impact	2021	2020	Bps Impact
Gross margin reported	35.0 %	35.8 %	(75)	35.2 %	36.6 %	(135)
Pandemic-related inventory adjustments	2.0	—		1.9	—	
Gross margin excluding pandemic-related inventory adjustments	37.0 %	35.8 %	120	37.1 %	36.6 %	50

High-Touch Solutions N.A.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Bps Impact	2021	2020	Bps Impact
Gross margin reported	36.9 %	38.1 %	(125)	37.1 %	38.9 %	(180)
Pandemic-related inventory adjustments	2.5	—		2.5	—	
Gross margin excluding pandemic-related inventory adjustments	39.4 %	38.1 %	125	39.6 %	38.9 %	65

Note: Numbers may not sum due to rounding.

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