NYSE: GWW

Q4 2021 Earnings Call

February 3, 2022

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 vaccine mandates for certain federal contractors, mask mandates, social distancing or other 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, the acquisition of excess inventory leading to additional inventory carrying costs and inventory obsolescence, raw material, inventory and labor shortages, continued strain on global supply chains, and diminished transportation availability and efficiency, 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, 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; inflation, higher product costs or other expenses, including operational 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 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; failure to adequately protect intellectual property or successfully defend against infringement claims; fluctuations or declines in the company’s gross profit margin; the company’s responses to market pressures; the outcome of pending and future litigation or governmental or regulatory proceedings, including with respect to wage and hour, anti-bribery and corruption, environmental, 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, including new or stricter environmental laws or regulations; 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; effects of climate change; competition for, or failure to attract, retain, train, motivate, and develop 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. 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

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 (HTS-NA) Model

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

Endless Assortment (EA) Model

- Expansive product assortment
- Innovative customer acquisition and retention capabilities

2021 Year in Review

Demonstrated resilience and strength, leveraging scale in serving customers through the continued pandemic, supply chain volatility and uncertainty

- Maintained high levels of customer satisfaction throughout the year
- Invested in inventory to improve availability and meet growing demand
- Closed staffing gaps and labor challenges by investing in team members

Maintained focus on key initiatives, setting stage for continued growth

- Re-merchandised an additional $1.5B of our product assortment
- Increased investment in marketing with improved returns, helping to drive share gain
- Grew KeepStock and eProcurement services, making it easier for customers to buy
- Strong progress on technology investments, including product and customer information
- Achieved Zoro SKU count goals, adding over 2.5M SKUs in the year
- Opened Ibaraki, Japan DC with focus on stocking MonotaRO's high-demand items locally
- Continued progress on ESG initiatives

By the Numbers

~$4.4B
Total product re-merchandised

~60%
U.S. revenue from customers with one or more embedded solutions (e.g., KeepStock, ePro)

~8.7M
Active SKUs on Zoro.com (U.S.)

FY 2021 Financial Highlights

Delivered exceptional growth and strong service to customers, achieving full year expectations

	2021 Guidance	2021A
Sales *($ billions)*	**$12.7 – $13.0**	**$13.0**
Daily growth	*8.5% - 11.0%*	*11.3%*
Organic daily growth	*10.0% – 12.5%*	*12.7%*
Gross Profit Margin	**36.1% – 36.6%**	**36.2%**
Operating Margin	**11.8% – 12.4%**	**11.9%**
Tax Rate	**25.0% - 26.0%**	**25.0%**
EPS	**$19.00 - $20.50**	**$19.84**

- Achieved **organic FY daily sales growth of 12.4%** *(total company, constant currency)* (1)
  - **High-Touch Solutions N.A. FY daily sales growth of 10.8%** *(constant currency)* fueled by core, non-pandemic sales growth
  - **Two-year average market outgrowth of ~450 bps in the U.S.**
  - **Endless Assortment** achieved **FY daily sales growth of 20.5%** (*constant currency*)
- **Delivered operating margin of 11.9%,** 65 bps improvement over prior year
- **Returned over $1B to shareholders** through dividends and share repurchases
- Maintained **strong adjusted ROIC of over 31.9%** *(total company)*

Note: See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.
(1) Organic daily sales remove results for Fabory (post June 30) and Grainger China (post August 21) in the prior year period to reflect the completed divestitures.

Q4 2021 Adjusted Results: *Total Company*

Summary Results

($ in millions)	Q4 2021	Q4 2020	% vs. PY Fav/(Unfav)
Sales	$ 3,359	$ 2,941	14.2% / 16.0 % (1)
GP	1,253	1,027	22.1%
SG&A	836	732	(14.4)%
Op Earnings	$ 417	$ 295	41.2%
EPS	**$ 5.44**	**$ 3.66**	**48.6%**

(% of sales)	Q4 2021	Q4 2020	bps vs. PY Fav/(Unfav)
GP Margin	37.3 %	34.9%	240
SG&A	24.9 %	24.9%	-
Op Margin	12.4 %	10.0%	240

Commentary

Daily sales up 16.0%, 16.9% in constant currency

- Double-digit revenue growth in both segments on robust customer demand

GP margin expanded 240 bps

- Continued expansion in both segments and at Cromwell

SG&A increased primarily due to

- Higher payroll and benefits, including variable compensation on strong revenue growth
- Investment in marketing

Expanded operating margin 240 bps year over year

EPS for the quarter at $5.44, 48.6% over prior year

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, 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.

1. Change in sales and change in daily sales.

Q4 2021 Results

Dee Merriwether

SVP & CFO

Q4 2021 Adjusted Results: *High-Touch Solutions N.A.*

Summary Results

($ in millions)	Q4 2021	Q4 2020	% vs. PY Fav/(Unfav)
Sales	$ 2,628	$ 2,292	14.7% / 16.5% [(1)]
GP	1,041	851	22.5%
SG&A	682	591	(15.5)%
Op Earnings	$ 359	$ 260	38.1%

(% of sales)	Q4 2021	Q4 2020	bps vs. PY Fav/(Unfav)
GP Margin	39.6 %	37.1%	250
SG&A	26.0 %	25.8%	(20)
Op Margin	13.7 %	11.3%	230

Commentary

Daily sales up 16.5% vs. prior year, 16.3% in constant currency

- Investments in marketing, merchandising and on-site services continue to drive strong volume, with both large and mid-size customers
- Continued solid price realization

Gross profit margin up 250 bps year over year

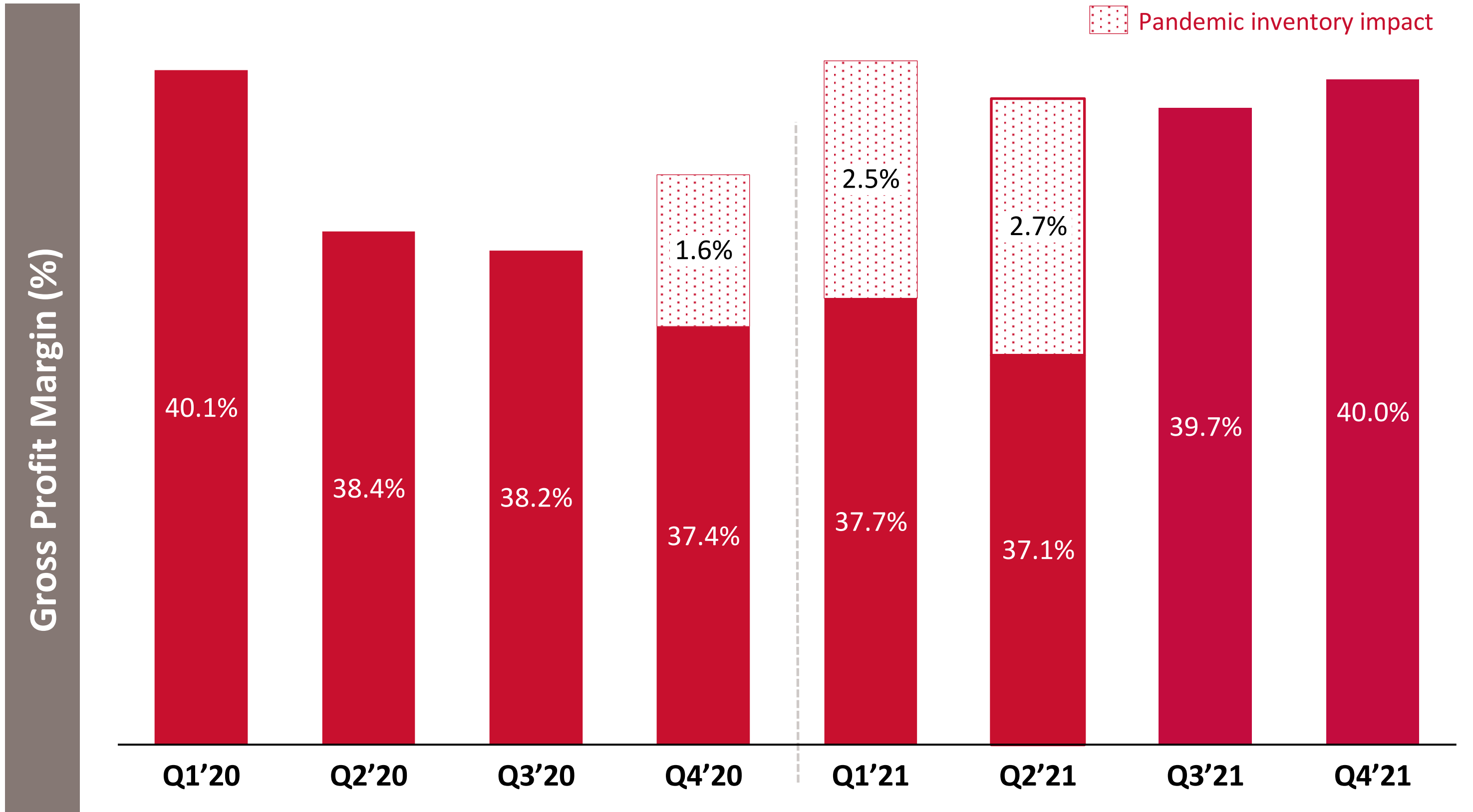
- Price/cost above neutral for the quarter
- Pandemic product mix near pre-pandemic levels
- Prior year inventory adjustment tailwind

Operating margin up 230 bps year over year

Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.
1. Change in sales and change in daily sales

Q4 2021 GP Performance: *High-Touch Solutions - U.S.*

GP Margin stabilized near pre-pandemic levels at 40%



Pandemic inventory adjustment to P&L[1]: $33M $55M $63M

Commentary

HTS - U.S. Q4'21 GP was 40%

- Non-pandemic sales drove positive mix year over year
- Solid continued price realization through Q4'21
- Navigated supply chain, cost, and freight challenges well
- Inclusive of non-cash LIFO adjustment, due to building inventory at higher costs in Q4

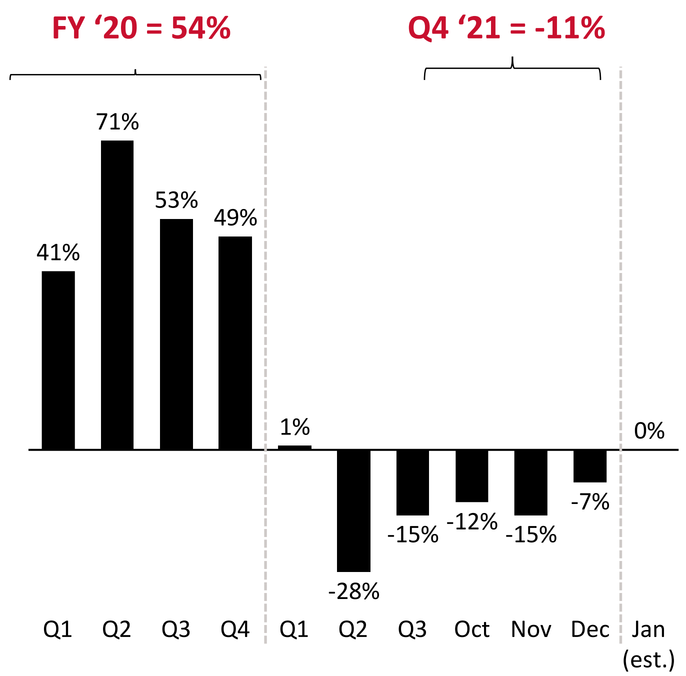
1. Pandemic inventory adjustments to the P&L in Q3'21 and Q4'21 were immaterial.

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

High-Touch Solutions - U.S. continues to be fueled by core, non-pandemic sales growth as we return to normalized mix

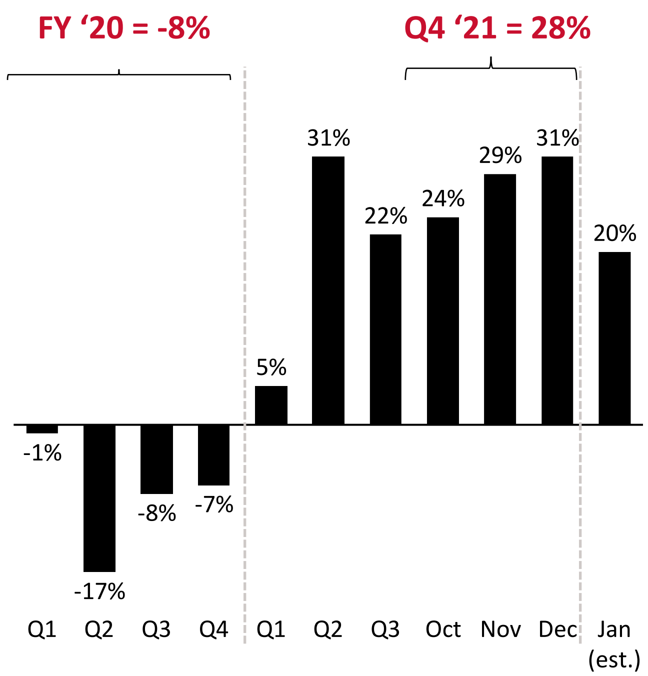
(year-over-year change in daily sales)

Pandemic-related Sales [1]



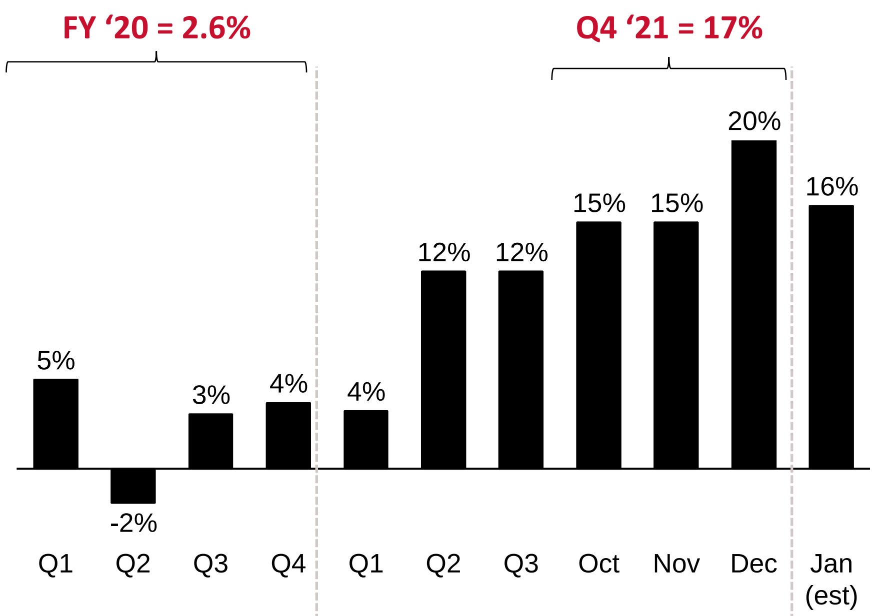
Growth v. 2019: +46% +27% +28% +35% +39% +50% +32%

Non-pandemic Sales [1]



Growth v. 2019: +2% +7% +12% +15% +15% +23% +20%

High-Touch Solutions - U.S.

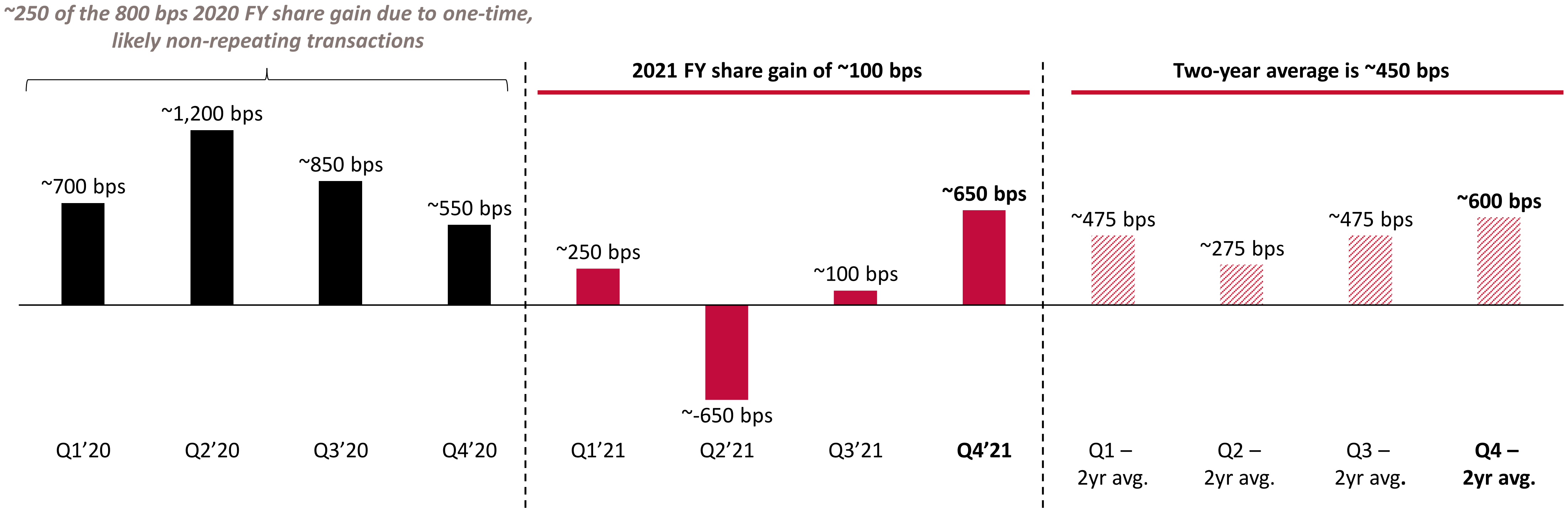


Growth v. 2019: +9% +10% +16% +18% +20% +28% +25%

(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.

Q4 2021 Sales Performance: *High-Touch Solutions - U.S.*

Delivered strong market outgrowth, surpassing expectations, fueled by continued execution of strategic initiatives



U.S. MRO Market [(1)]	(1.5%) - (1%)	(15%) - (14%)	(6%) - (5%)	(2%) - (1.5%)	0.5% - 1.5%	18.5% – 19.5%	10.5% – 11.5%	10% - 11%	0%	2% - 3%	2% - 3%	4% - 5%

(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.

Q4 2021 Adjusted Results: *Endless Assortment*

Summary Results

($ in millions)	Q4 2021	Q4 2020	% vs. PY Fav/(Unfav)
Sales	$ 663	$ 585	13.4% / 15.2%[1]
GP	189	163	15.9%
SG&A	129	113	(14.4)%
Op Earnings	$ 60	$ 50	19.2%

(% of sales)	Q4 2021	Q4 2020	bps vs. PY Fav/(Unfav)
GP Margin	28.5 %	27.9%	60
SG&A	19.4 %	19.2%	(15)
Op Margin	9.1 %	8.6%	45

Commentary

Daily sales increased 15.2%, 20.6% on a constant currency basis

- Continued customer acquisition at both Zoro and MonotaRO
- Strong enterprise customer growth at MonotaRO

Operating margin up 45 bps primarily driven by:

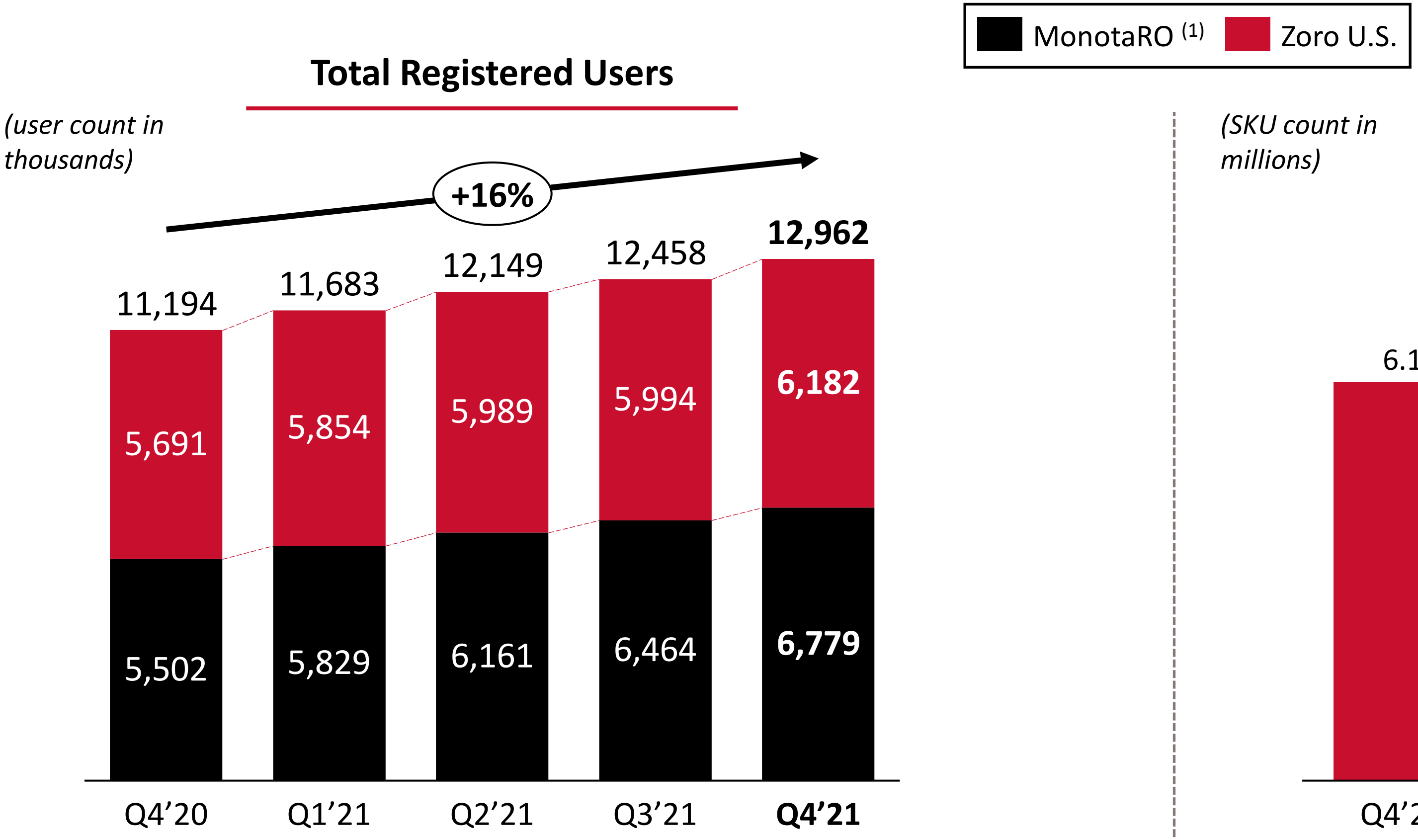
- Zoro OM expansion of 195 basis points year over year driven by gross profit reflecting continued freight efficiencies as B2B sales increase
- MonotaRO OM declined 35 bps primarily due to gross profit headwinds related to product mix

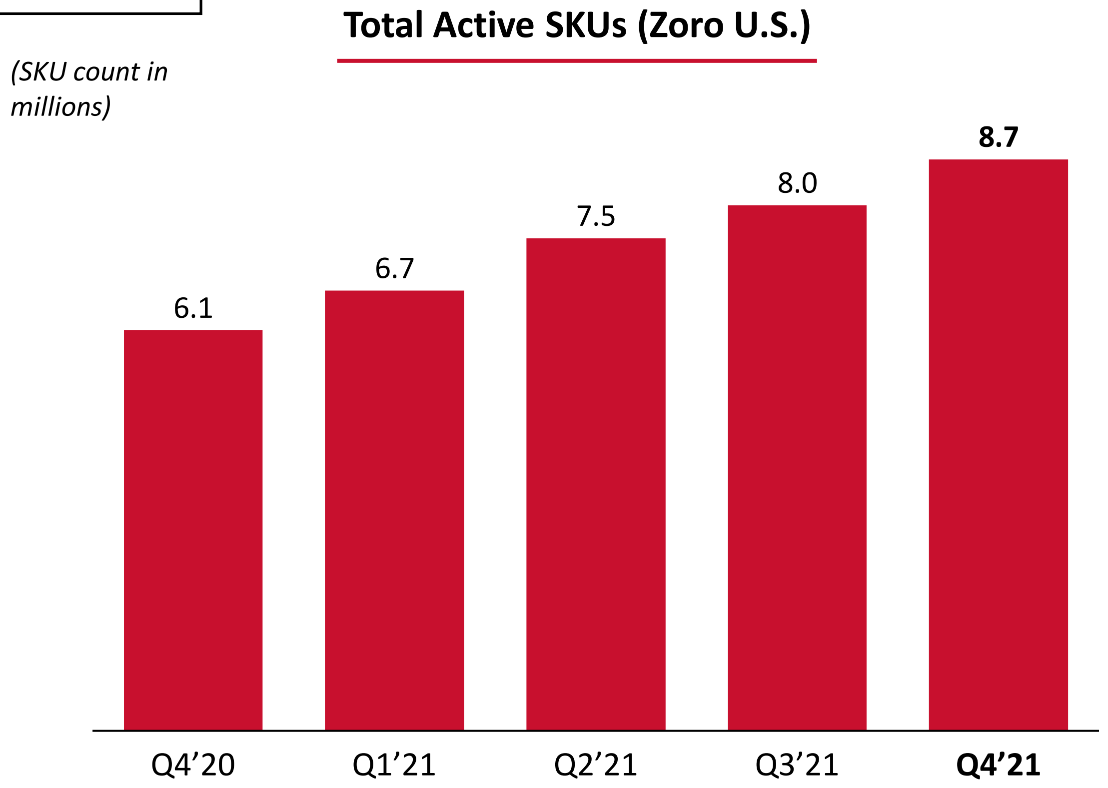
Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding. The Company has a controlling ownership interest in MonotaRO, which is part of our Endless Assortment segment.. MonotaRO's results are fully consolidated, reflected in U.S. GAAP, and reported one-month in arrears. Results will differ from MonotaRO's externally reported financials which follow Japanese GAAP.

1. Change in sales and change in daily sales

Operating Metrics: *Endless Assortment*

Growth of registered users and active SKUs continues to provide strong foundation for sales growth across the segment





Note: 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.

Looking Forward

Dee Merriwether

SVP & CFO

2022 Full Year Guidance – *Total Company*

Expect momentum to continue into 2022 on strong demand environment

	2019A	2020A	2021A	2022 Guidance (As of February 3, 2022)
Sales *($ billions)*	**$11.5**	**$11.8**	**$13.0**	**$14.1 – $14.5**
Daily growth	*2.5%*	*2.3%*	*11.3%*	*7.5% - 10.5%*
Organic daily growth		*3.6%*	*12.7%*	
Gross Profit Margin	**38.3%**	**35.9%**	**36.2%**	**36.8% – 37.3%**
bps vs. prior year	*(50)*	*(235)*	*30*	*50– 100*
Operating Margin	**12.1%**	**11.2%**	**11.9%**	**12.5% – 13.1%**
bps vs. prior year	*10*	*(80)*	*65*	*65 - 125*
Tax Rate	**24.8%**	**25.3%**	**25.0%**	**24.0% - 25.0%**
EPS	**$17.29**	**$16.18**	**$19.84**	**$23.50 - $25.50**
% vs. prior year	*3.5%*	*(6.4)%*	*22.6%*	*18.5% - 28.5%*

Sales Expectations

- HTS-NA revenue growth ~6.5-9.5%
  - Assumes HTS - U.S. revenue growth of 7-10% on market growth of 4-7%
- Endless Assortment revenue growth ~14% (18.5% in local currency [1] and local days)
  - Both Zoro and MonotaRO growth expected in high-teens in local currency

Profitability Expectations

- Gross profit margin expansion
- Modest SG&A leverage in HTS-NA offset by continued DC investment at MonotaRO
- Strong earnings and continued pace of share repurchases drives EPS growth

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Note: Guidance as of February 3, 2022
1. Assumes FX rate of USD / JPY = 115

2022 Full Year Guidance

Expect total company operating margin expansion while continuing to invest in the business

	2019A	2020A	2021A	2022 Guidance
High-Touch Solutions N.A.	14.2%	13.0%	13.1%	14.4% - 15.0%
Endless Assortment	6.6%	8.0%	9.0%	7.5% - 8.2%
Total Company	12.1%	11.2%	11.9%	12.5% – 13.1%

EA operating margin reflects increased investment in distribution center capacity at MonotaRO and modest Zoro OM expansion, contributing to higher long-term ROIC

Expect operating cash flow to fund balanced capital allocation strategy

($ millions)	2019A	2020A	2021A	2022 Guidance
Operating Cash Flow	$1,042	$1,123	$937	$1,100 – $1,300
CapEx(1)	$221	$197	$255	$275 - $325
Share Repurchases	$700	$601	$695	$600 – $800

Note: Guidance as of February 3, 2022
(1) CapEx as reflected in the cash flow statement.

Closing Remarks

DG Macpherson
Chairman & CEO

Q&A

Appendix

FY 2021 Adjusted Results: *Total Company*

Summary Results

($ in millions)	FY 2021	FY 2020	% vs. PY Fav/(Unfav)
Sales	$ 13,022	$ 11,797	10.4% / 11.3% (1)
GP	4,720	4,238	11.4%
SG&A	3,173	2,911	(9.0)%
Op Earnings	$ 1,547	$ 1,327	16.6%
EPS	**$ 19.84**	**$ 16.18**	**22.6%**

(% of sales)	FY 2021	FY 2020	bps vs. PY Fav/(Unfav)
GP Margin	36.2 %	35.9%	30
SG&A Margin	24.4 %	24.7%	35
Op Margin	11.9 %	11.2%	65

Commentary

Organic daily sales up 12.7%, 12.4% in constant currency

- Double-digit revenue growth in both segments on robust customer demand

GP margin expanded 30 bps

- Continued expansion in both segments and at Cromwell

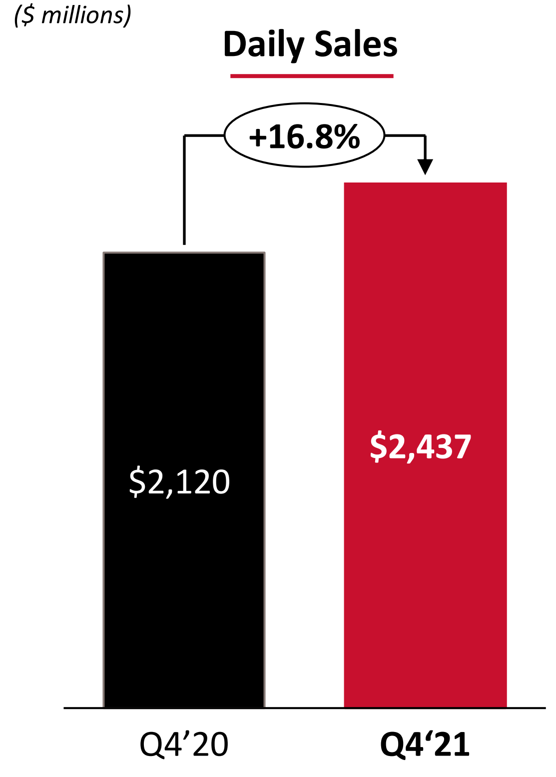
Expanded operating margin 65 bps year over year

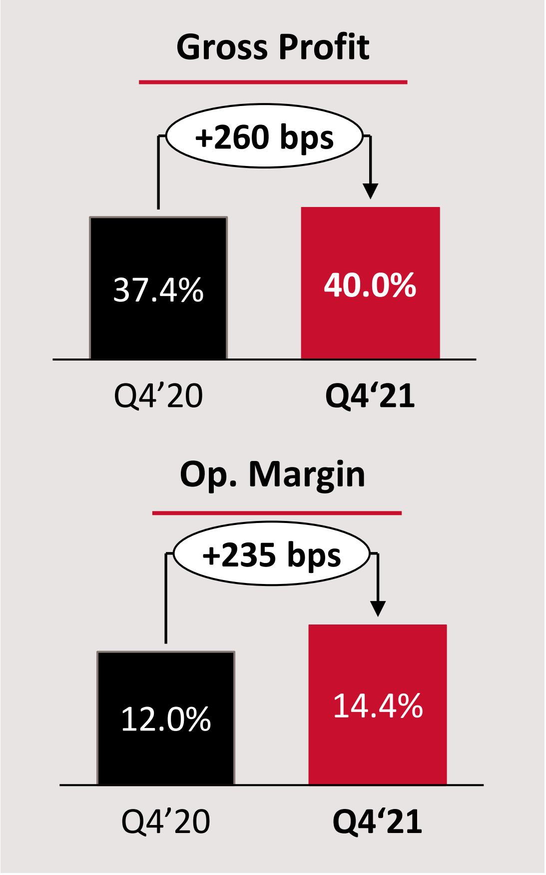
EPS for the year at $19.84, 22.6% over prior year, while achieving all full year guidance expectations

Note: All numbers on an adjusted basis. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.
(1) Change in sales and change in daily sales.

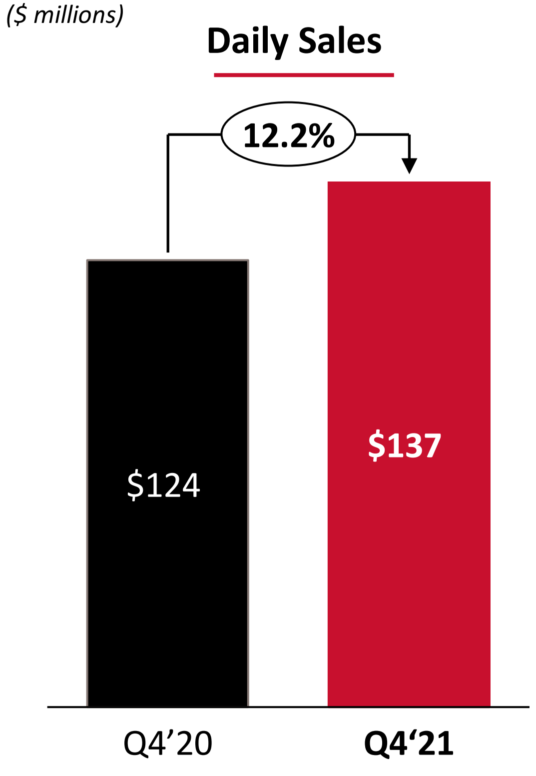
Q4 2021 Segment Highlights: *High-Touch Solutions N.A.*

U.S.

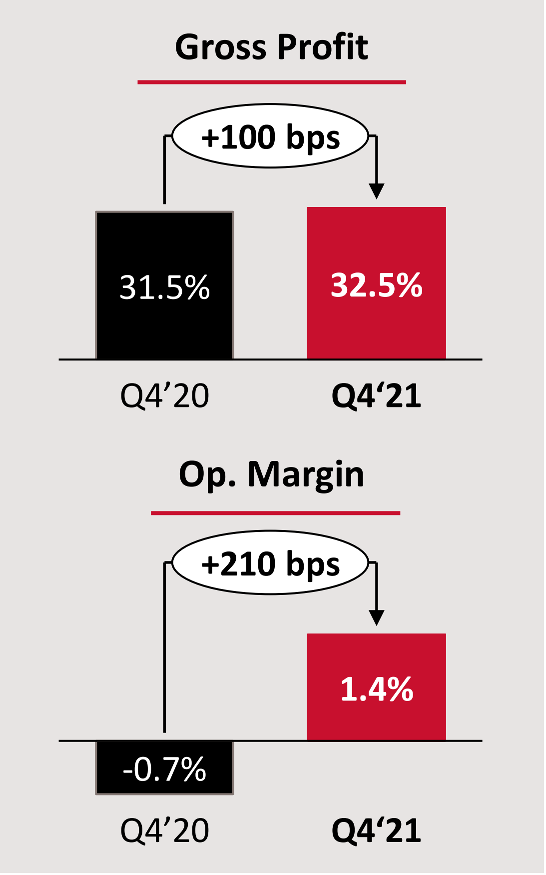




Canada



Local days and currency: 6.8%



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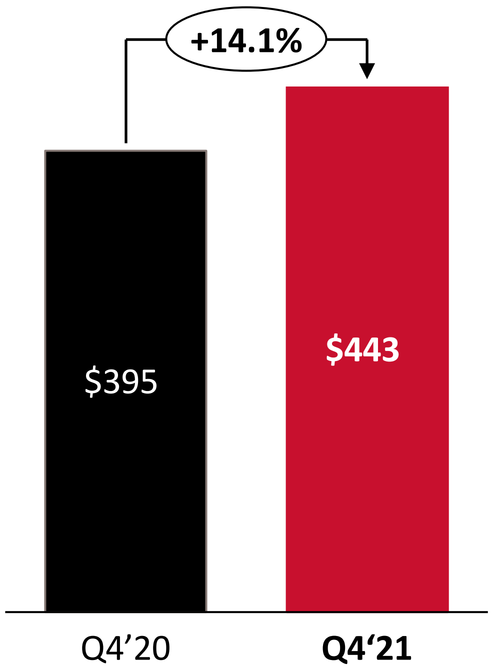
Note: Effective Q1 2022, this slide will no longer be provided and all BU-related results will be discussed in context of High-Touch Solutions N.A.

Q4 2021 Segment Highlights: *Endless Assortment*

MonotaRO (1)

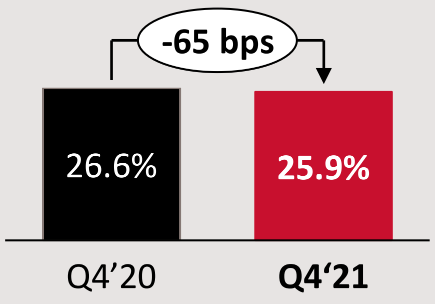
($ millions)

Daily Sales

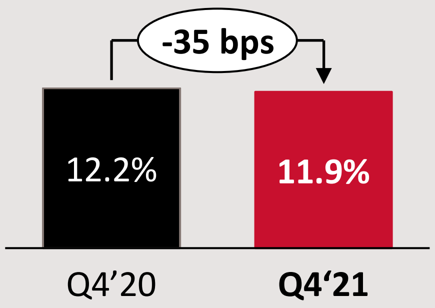


Local days and currency: 20.2%

Gross Profit



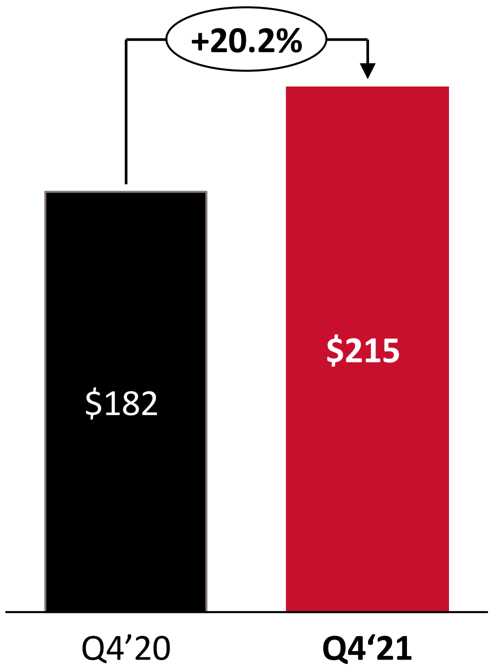
Op. Margin



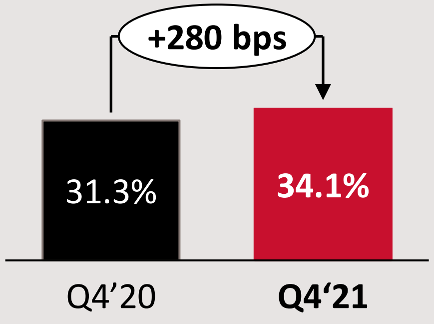
Zoro U.S.

($ millions)

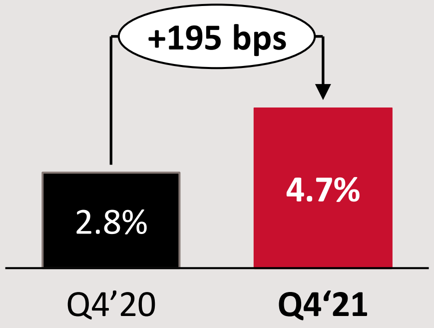
Daily Sales



Gross Profit



Op. Margin



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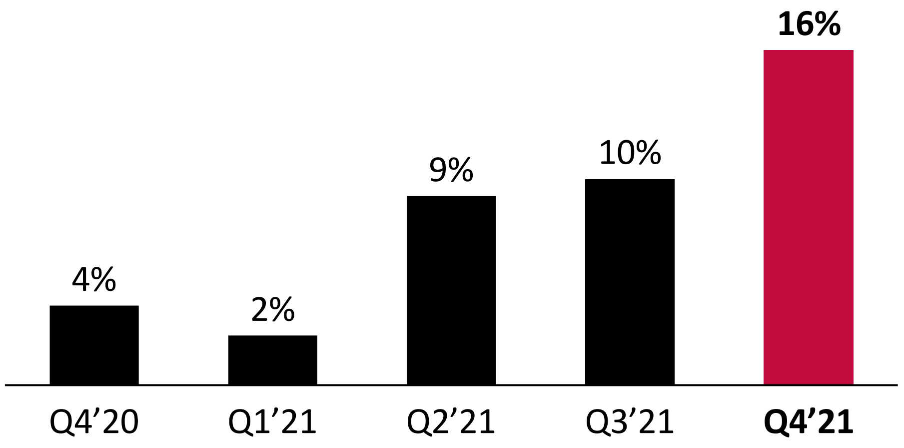
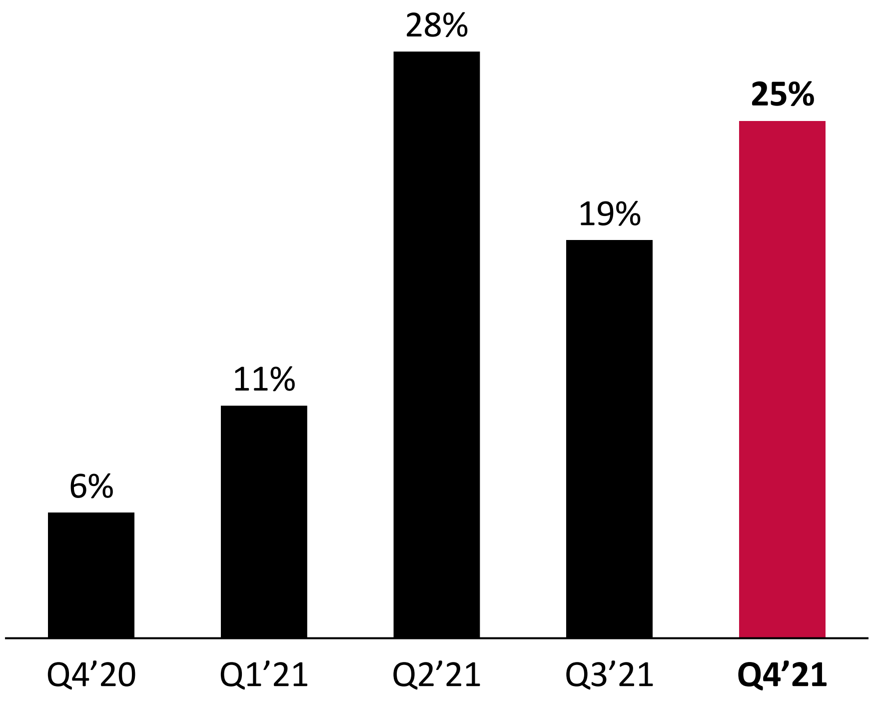
Q4 2021 Sales Performance: *High-Touch Solutions - U.S.*

Large Customers (1)



Mid-sized Customers (1)



(1) Large customer revenue of $7.9 billion and Midsize customer revenue of $1.4 billion for the last twelve-month period ending December 31, 2021. These numbers exclude specialty brands and revenue recognition adjustments which are included in the High-Touch Solutions - U.S. business.

Q4 2021 U.S. Business Sales By Customer End Market

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

Q4 2021 Quarterly Daily Sales Growth

Q4 2021 Daily Sales (Total Company) (1)

Month	Reported Sales (U.S. Selling Days) Q4 2020	Reported Sales (U.S. Selling Days) Q4 2021	FX Impact	Constant Currency
October	2.6%	14.8%	0.1%	14.9%
November	3.6%	13.1%	0.9%	14.0%
December	4.3%	20.2%	1.5%	21.7%
Q4 Daily Sales	**3.3%**	**16.0%**	**0.9%**	**16.9%**

U.S. Selling Days

	2022	2021	2020
1Q	64	63	64
2Q	64	64	64
3Q	64	64	64
4Q	63	63	64
Full Year	**255**	**254**	**256**

Q4 2021 Daily Sales vs. Q4 2020

Drivers	HTS-NA	HTS - U.S.	HTS - Canada
Volume/product mix	11.4%	12.0%	3.4%
Price/customer mix	4.9%	4.8%	5.1%
Foreign Exchange	0.2%	—%	3.7%
Daily Sales	16.5%	16.8%	12.2%
Foreign Exchange	(0.2)%	—%	(3.7)%
Constant Currency	16.3%	16.8%	8.5%
Impact of Canadian Local Days			(1.7)%
Constant Currency in Local Days			6.8%

(1) Based on U.S. Selling Days

FY 2021 Year-over-Year Daily Sales V%

FY 2021 Daily Sales vs. FY 2020 (1)

Drivers	Company	HTS-NA	HTS - U.S.	HTS - Canada
Volume/product mix	10.1%	7.8%	8.2%	3.3%
Price/customer mix	2.3%	3.0%	2.9%	2.9%
Foreign Exchange	0.3%	0.5%	—%	7.4%
Organic Daily Sales	**12.7%**	**11.3%**	**11.1%**	**13.6%**
Business divestitures	(1.4)%	—%	—%	—%
Daily Sales	11.3%	11.3%	11.1%	13.6%
Foreign Exchange	(0.3%)	(0.5)%	—%	(7.4)%
Constant Currency	**11.0%**	**10.8%**	**11.1%**	**6.2%**
Organic Constant Currency	**12.4%**	**10.8%**	**11.1%**	**6.2%**

(1) Based on U.S. selling days

Q4 2021 GAAP to Non-GAAP Reconciliations (1 of 6)

(in millions of dollars)

	Three Months Ended December 31,			
	2021	Gross Profit %	2020	Gross Profit %
Gross profit reported	$ 1,253	37.3 %	$ 1,027	34.9 %
Gross profit adjusted	$ 1,253	37.3 %	$ 1,027	34.9 %

(in millions of dollars)

	Twelve Months Ended December 31,			
	2021	Gross Profit %	2020	Gross Profit %
Gross profit reported	$ 4,720	36.2 %	$ 4,238	35.9 %
Gross profit adjusted	$ 4,720	36.2 %	$ 4,238	35.9 %

(in millions of dollars)

	Three Months Ended December 31,		%
	2021	2020	
Total company operating earnings reported	$ 417	$ 275	52 %
Restructuring, net (HTS-NA)	—	11	
Restructuring, net (EA)	—	9	
Subtotal - total company	$ —	$ 20	
Operating earnings adjusted	$ 417	$ 295	41 %

(in millions of dollars)

	Twelve Months Ended December 31,		%
	2021	2020	
Total company operating earnings reported	$ 1,547	$ 1,019	52 %
Restructuring, net (HTS-NA)	—	18	
Restructuring, net (EA)	—	9	
Other:			
Impairment charges	—	177	
Fabory divestiture	—	109	
Grainger China divestiture	—	(5)	
Subtotal - other	—	281	
Subtotal - total company	—	308	
Total company operating earnings adjusted	$ 1,547	$ 1,327	17 %

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.

Q4 2021 GAAP to Non-GAAP Reconciliations (2 of 6)

(in millions of dollars)

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	%
HTS - U.S. operating earnings reported	$ 351	$ 255	38 %
Restructuring, net (HTS - U.S.)	—	—	
Subtotal – HTS - U.S.	—	—	
HTS - U.S. operating earnings adjusted	$ 351	$ 255	38 %

(in millions of dollars)

	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020	%
HTS - U.S. operating earnings reported	$ 1,301	$ 1,175	11 %
Restructuring, net (HTS - U.S.)	—	6	
Subtotal – HTS - U.S.	—	6	
HTS - U.S. operating earnings adjusted	$ 1,301	$ 1,181	10 %

(in millions of dollars)

	Three Months Ended December 31, 2021	Three Months Ended December 31, 2020	%
HTS - Canada operating earnings reported	$ 2	$ (12)	115 %
Restructuring, net (HTS - Canada)	—	11	
Subtotal – HTS - Canada	—	11	
HTS - Canada operating earnings adjusted	$ 2	$ (1)	302 %

(in millions of dollars)

	Twelve Months Ended December 31, 2021	Twelve Months Ended December 31, 2020	%
HTS - Canada operating earnings reported	$ 3	$ (16)	119 %
Restructuring, net (HTS - Canada)	—	12	
Subtotal – HTS - Canada	—	12	
HTS - Canada operating earnings adjusted	$ 3	$ (4)	176 %

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.

Q4 2021 GAAP to Non-GAAP Reconciliations (3 of 6)

(in millions of dollars)	Three Months Ended December 31, 2021	2020	%
Net earnings reported	$ 283	$ 168	68 %
Restructuring, net (HTS-NA)	—	9	
Restructuring, net (EA)	—	9	
Other:			
Impairment charges	—	5	
Tax benefit	—	(3)	
Fabory divestiture	—	9	
Grainger China divestiture	—	—	
Subtotal - other	—	11	
Subtotal - total company	—	29	
Net earnings adjusted	$ 283	$ 197	43 %

(in millions of dollars)	Twelve Months Ended December 31, 2021	2020	%
Net earnings reported	$ 1,043	$ 695	50 %
Restructuring, net (HTS-NA)	—	14	
Restructuring, net (EA)	—	9	
Other:			
Impairment charges	—	151	
Tax benefit	—	(97)	
Fabory divestiture	—	109	
Grainger China divestiture	—	(4)	
Subtotal - other	—	159	
Subtotal - total company	—	182	
Net earnings adjusted	$ 1,043	$ 877	19 %

(in dollars per share)	Three Months Ended December 31, 2021	2020	%
Diluted earnings per share reported	$ 5.44	$ 3.12	74 %
Restructuring, net (HTS-NA)	—	0.21	
Restructuring, net (EA)	—	0.16	
Total pretax adjustments	—	0.37	
Tax effect	—	0.17	
Total, net of tax	—	0.54	
Diluted earnings per share adjusted	$ 5.44	$ 3.66	49 %

(in dollars per share)	Twelve Months Ended December 31, 2021	2020	%
Diluted earnings per share reported	$ 19.84	$ 12.82	55 %
Restructuring, net (HTS-NA)	—	0.33	
Restructuring, net (EA)	—	0.16	
Other:			
Impairment charges (Other)	—	3.26	
Fabory divestiture (Other)	—	2.02	
Grainger China Divestiture (Other)	—	(0.09)	
Subtotal - other	—	5.19	
Total pretax adjustments	—	5.68	
Tax effect(1)	—	(2.32)	
Total, net of tax	—	3.36	
Diluted earnings per share adjusted	$ 19.84	$ 16.18	23 %

(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).

Q4 2021 GAAP to Non-GAAP Reconciliations (4 of 6)

(in millions of dollars)	Three Months Ended December 31, 2021		Three Months Ended December 31, 2020		Twelve Months Ended December 31, 2021		Twelve Months Ended December 31, 2020	
Sales								
HTS-NA	$ 2,628		$ 2,292		10,186		$ 9,221	
EA	663		585		2,576		2,178	
Other	68		64		260		398	
Net sales to external customers	$ 3,359		$ 2,941		$ 13,022		$ 11,797	
	2021	**Op. Margin %**	**2020**	**Op. Margin %**	**2021**	**Op. Margin %**	**2020**	**Op. Margin %**
Operating earnings reported								
HTS-NA	$ 359	13.7 %	$ 249	10.8 %	1,334	13.1 %	$ 1,182	12.8 %
EA	60	9.1 %	41	7.2 %	232	9.0 %	166	7.6 %
Other	(2)	(3.0)%	(15)	(23.3)%	(19)	(7.3)%	(329)	(82.7)%
Operating earnings reported	$ 417	12.4 %	$ 275	9.4 %	$ 1,547	11.9 %	$ 1,019	8.6 %
ROIC* for Company					31.9 %		21.6 %	
ROIC* for HTS-NA					32.5 %		29.2 %	
ROIC* for EA					36.0 %		30.5 %	

(in millions of dollars)	Three Months Ended December 31, 2021	Op. Margin %	2020	Op. Margin %
Segment operating earnings adjusted				
HTS-NA	$ 359	13.7 %	$ 260	11.3 %
EA	60	9.1 %	50	8.6 %
Other	(2)	(3.0)%	(15)	(23.3)%
Segment operating earnings adjusted	$ 417	12.4 %	$ 295	10.0 %

(in millions of dollars)	Twelve Months Ended December 31, 2021	Op. Margin %	2020	Op. Margin %
Segment operating earnings adjusted				
HTS-NA	$ 1,334	13.1 %	$ 1,200	13.0 %
EA	232	9.0 %	175	8.0 %
Other	(19)	(7.3)%	(48)	(11.9)%
Segment operating earnings adjusted	$ 1,547	11.9 %	$ 1,327	11.2 %
ROIC* for Company	31.9 %		28.2 %	
ROIC* for HTS-NA	32.5 %		29.6 %	
ROIC* for EA	36.0 %		32.1 %	

**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 5-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 (5-point average of $268.4 million), deferred taxes, and investments in unconsolidated entities, plus the LIFO reserve (5-point average of $461.9 million). Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to team members' retirement savings plan, and accrued expenses.

Q4 2021 GAAP to Non-GAAP Reconciliations (5 of 6)

(in millions of dollars)

		December 31, 2021
Condensed Consolidated Balance Sheet		
Short-term debt	$	—
Current maturities of long-term debt		—
Long-term debt		2,362
Less: Cash and cash equivalents		341
Net Debt	$	2,121

		LTM ending December 31, 2021
Condensed Consolidated Statement of Earnings		
Net earnings	$	1,114
Income taxes		371
Other expense, net		62
Condensed Consolidated Statement of Cash Flows		
Depreciation and amortization		185
EBITDA	$	1,732
Restructuring, net, impairment charges, and business divestitures		—
Adjusted EBITDA	$	1,732
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 December 31, 2021
Operating Cash Flow	$	213
Less: Additions to property, buildings, equipment and intangibles		58
Free Cash Flow	**$**	**155**

Q4 2021 GAAP to Non-GAAP Reconciliations (6 of 6)

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Bps impact	2021	2020	Bps impact
Effective tax rate reported	24.8%	28.3%	350	25.0%	20.3%	(470)
Fabory Tax Impact, non-operating	–	(5.5)		–	4.0	
Tax impact of other restructuring	–	0.2		–	1.0	
Effective tax rate adjusted	24.8%	23.0%	(180)	25.0%	25.3%	30

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		HTS-NA		EA	
	Three Months Ended December 31,		Three Months Ended December 31,		Three Months Ended December 31,	
	2021	2020	2021	2020	2021	2020
Reported Sales	14.2%	3.3%	14.7 %	3.5%	13.4 %	20.2%
Daily impact	1.8	—	1.8	—	1.8	—
Daily sales	16.0 %	3.3%	16.5 %	3.5%	15.2 %	20.2%
Business divestitures [1]	—	2.7	—	—	—	—
Organic daily sales	**16.0%**	**6.0%**	**16.5 %**	**3.5%**	**15.2 %**	**20.2%**
Foreign exchange	0.9	(0.4)	(0.2)%	0.9	5.4 %	(6.0)
Constant currency sales	**16.9 %**	**5.6%**	**16.3 %**	**4.4%**	**20.6 %**	**14.2%**

Local Selling Day Impact	HTS - Canada		MonotaRO	
Reported sales	10.5%	(3.1)%	12.3%	22.0%
Local day impact	—%	—%	—%	(2.0)%
Local daily sales	10.5%	(3.1)%	12.3%	20.0%
Foreign exchange	(3.7)%	(1.2)%	7.9%	(3.5)%
Local days and currency	**6.8%**	**(4.3)%**	**20.2%**	**16.5%**

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