NYSE: GWW

Q2 2022 Earnings Call

July 29, 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 remote working 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 remote working 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; the impact of Russia’s invasion of Ukraine on the global economy; 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 or breaches of information technology or data security systems involving the company or third parties on which the company depends; general industry, economic, market or political conditions; general global economic conditions including tariffs and trade issues and policies; currency exchange rate fluctuations; market volatility, including price and trading volume volatility or price declines of the company’s common stock; commodity price volatility; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; geopolitical events, including war or acts of terrorism; 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 the Company undertakes no obligation to update or revise any of its forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

Additional information relating to certain non-GAAP financial measures referred to in this presentation, including daily sales, daily sales in constant currency, free cash flow, adjusted return on invested capital, EBITDA, and net debt to EBITDA is available in the appendix to this presentation. This communication also includes certain non-GAAP forward-looking information (including, but not limited to slides 14 and 18). 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

The Grainger Edge

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

<u>High-Touch Solutions North America (N.A.)</u>

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

<u>Endless Assortment</u>

- Expansive product assortment
- Innovative customer acquisition and retention capabilities

Our Principles

Our Grainger Edge framework fuels ESG focus

Environmental, Social & Governance at Grainger

Ethics & Governance

60% women named executive officers

25% of Board members are racially & ethnically diverse

Sustainability & Stewardship

$875M revenue from environmentally preferrable products

92% recycling rate across our DCs

People & Purpose

>$96M cash and product donations to nonprofit orgs

1.2 U.S. total recordable incident rate (TRIR)

Supply Chain

680+ under-represented supplier partners[(1)]

>$1.6B Spent in 2021 with small business suppliers

See www.GraingerESG.com for more information

Near-term ESG priorities

Diversity, Equity and Inclusion

Customer Sustainability Solutions

Energy & Emissions

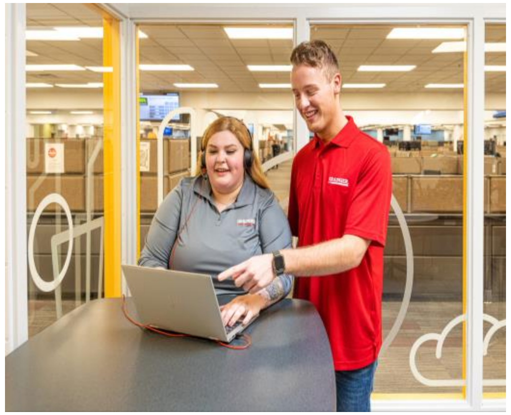
Supplier Diversity

(1) Under-represented supplier partners represent minority, women, veteran, disabled-person and LGBT-owned businesses.

Q2 2022 Financial Summary

Solid execution of strategic growth initiatives drives continued strong results

- Achieved second quarter **sales growth of 19.6%, or 22.0% on a daily, constant currency basis**
  - Strong revenue growth in both High-Touch Solutions N.A. and Endless Assortment segments, including market outgrowth of ~1,000 basis points in the U.S.
- **Expanded GP margin by 255 basis points** versus prior year, primarily benefitting from comparison to prior-year inventory adjustment in U.S.
- Delivered **strong operating margin of 13.9%,** up 350 basis points versus prior year
- Produced **attractive adjusted ROIC of 40.5%** *(Total Company)*
- **Returned $219 million to shareholders** through dividends and share repurchases
- **Raising full year 2022 guidance** on continued revenue and profitability momentum



Note: See appendix for non-GAAP reconciliations.

Q2 2022 Results

Dee Merriwether

SVP & CFO

Q2 2022 Results: *Total Company*

Summary Results

($ in millions)	Q2 2022	Q2 2021	% vs. PY Fav/(Unfav)
Sales	$ 3,837	$ 3,207	19.6%
Daily Sales	*60.0*	*50.1*	*19.6%*
GP	1,441	1,124	28.3%
SG&A	907	790	(14.9)%
Op Earnings	$ 534	$ 334	60.0%
EPS	**$ 7.19**	**$ 4.27**	**68.4%**

(% of sales)	Q2 2022	Q2 2021	bps vs. PY Fav/(Unfav)
GP Margin	37.6 %	35.0 %	255
SG&A	23.7 %	24.6 %	95
Op Margin	13.9 %	10.4 %	350

Commentary vs. Prior Year

Sales increased 19.6% on a reported and daily basis

- Double-digit revenue growth in both segments
- 22.0% sales growth on a daily, constant currency basis

Gross profit margin expanded 255 bps

- Expanded margins in both segments
- Lap of prior year inventory adjustment in HTS – US

SG&A leverage of 95 bps

- Strong top-line performance offset continued investments to support growth

Expanded operating margin 350 bps

EPS of $7.19, up 68% versus prior year

Note: Adjusted results are consistent with reported results for presented periods. See appendix for 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.

Q2 2022 Results: *High-Touch Solutions N.A.*

Summary Results

($ in millions)	Q2 2022	Q2 2021	% vs. PY Fav/(Unfav)
Sales	$ 3,053	$ 2,498	22.2%
Daily Sales	*47.7*	*39.0*	*22.2%*
GP	1,211	922	31.4%
SG&A	736	640	(15.0)%
Op Earnings	$ 475	$ 282	68.3%

(% of sales)	Q2 2022	Q2 2021	bps vs. PY Fav/(Unfav)
GP Margin	39.7 %	36.9 %	275
SG&A	24.1 %	25.6 %	150
Op Margin	15.6 %	11.3 %	425

Commentary vs. Prior Year

Sales increased 22.2% on a reported and daily basis

- 22.4% sales growth on a daily, constant currency basis
- Double-digit sales growth across all geographies
- Strong realization from recent pricing increases

Gross profit margin up 275 bps, driven by:

- Lap of prior year pandemic inventory adjustment
- Favorable product mix
- Price / cost spread largely neutral
- Partially offset by heightened freight inflation

Operating margin up 425 bps

- SG&A leverage of 150 bps as revenue growth outpaced higher variable compensation and investments in marketing, payroll and benefits

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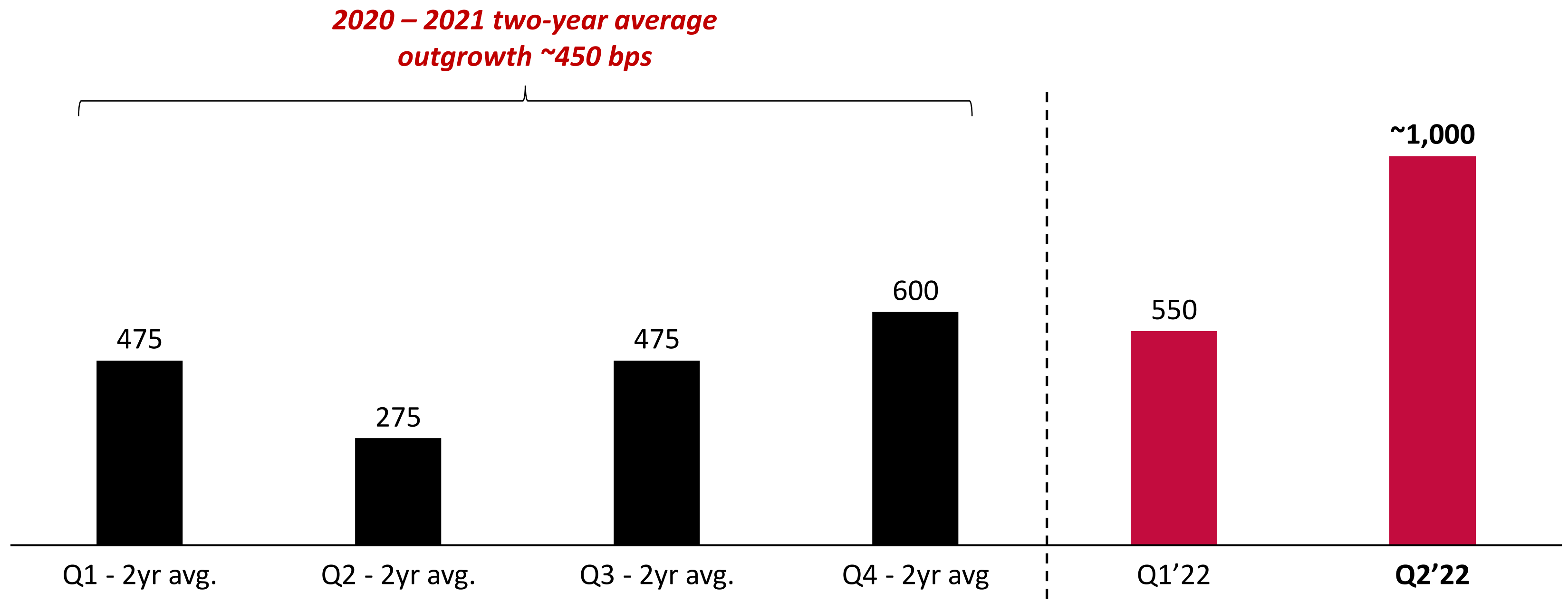
Note: Adjusted results are consistent with reported results for presented periods. See appendix for non-GAAP reconciliations.
Numbers may not sum due to rounding.

Q2 2022 Sales Performance: *High-Touch Solutions - U.S.*

Continued traction with strategic initiatives fueling market outgrowth of ~1,000 basis points



Goal is to grow 300 to 400 basis points faster than the market, on average, each year

Trending higher in 2022

	Q1 - 2yr avg.	Q2 - 2yr avg.	Q3 - 2yr avg.	Q4 - 2yr avg	Q1’22	Q2’22
U.S. MRO Market (1)	0%	2% - 3%	2% - 3%	4% - 5%	12.5% - 13.5%	12.5% - 13.5%

(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.

Q2 2022 Results: *Endless Assortment*

Summary Results

($ in millions)	Q2 2022	Q2 2021	% vs. PY Fav/(Unfav)
Sales	$ 719	$ 645	11.4%
Daily Sales	*11.2*	*10.1*	*11.4%*
GP	209	182	15.4%
SG&A	147	124	(18.9)%
Op Earnings	$ 62	$ 58	8.0%

(% of sales)	Q2 2022	Q2 2021	bps vs. PY Fav/(Unfav)
GP Margin	29.2 %	28.1 %	100
SG&A	20.5 %	19.2 %	(125)
Op Margin	8.7 %	8.9 %	(25)

Commentary vs. Prior Year

Sales increased 11.4% on a reported and daily basis; up 21.1% in constant currency

- Zoro growth of 23.2% on a daily basis
- MonotaRO growth impacted by depreciating Yen; 21.9% growth in local days, local currency

Gross profit margin expanded 100 bps, largely driven by freight efficiencies due to increased order values

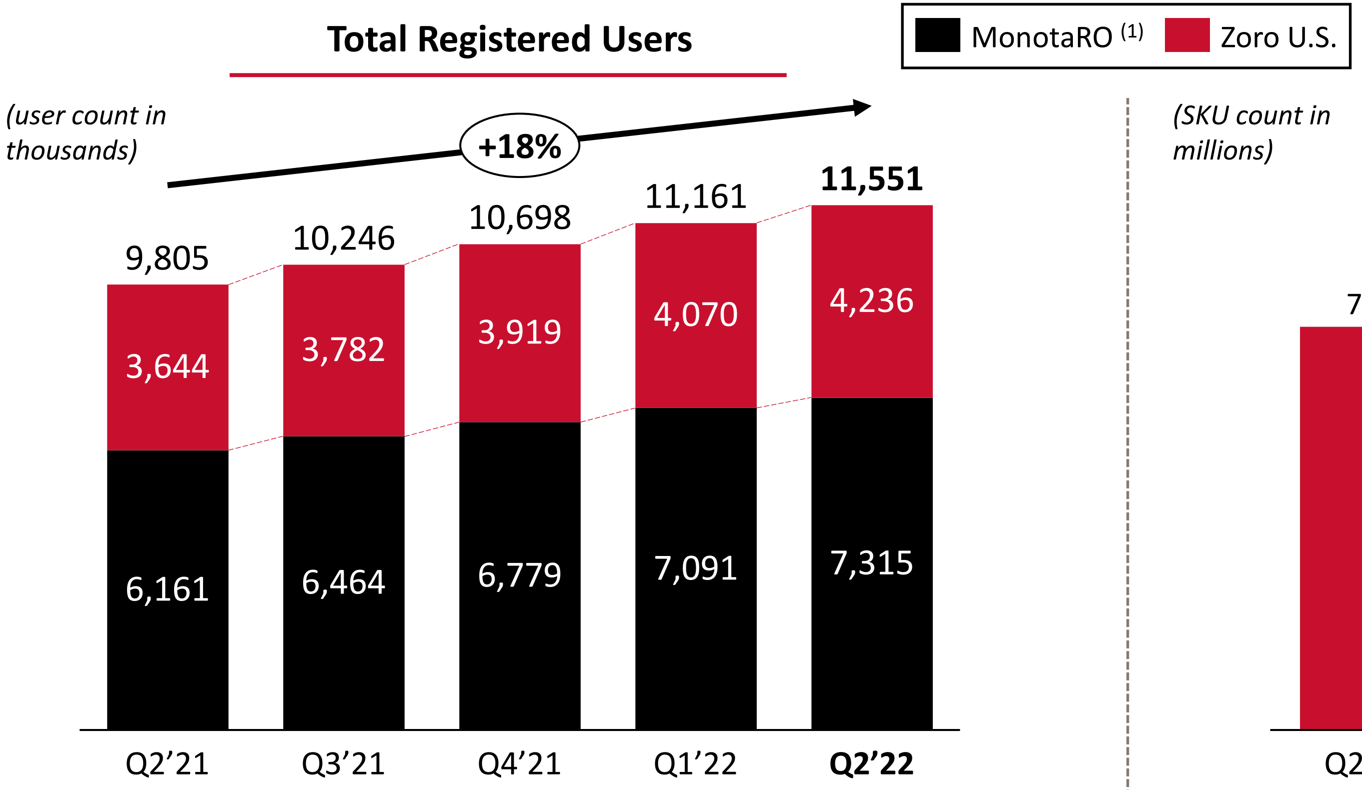
Operating margin declined 25 bps, as planned

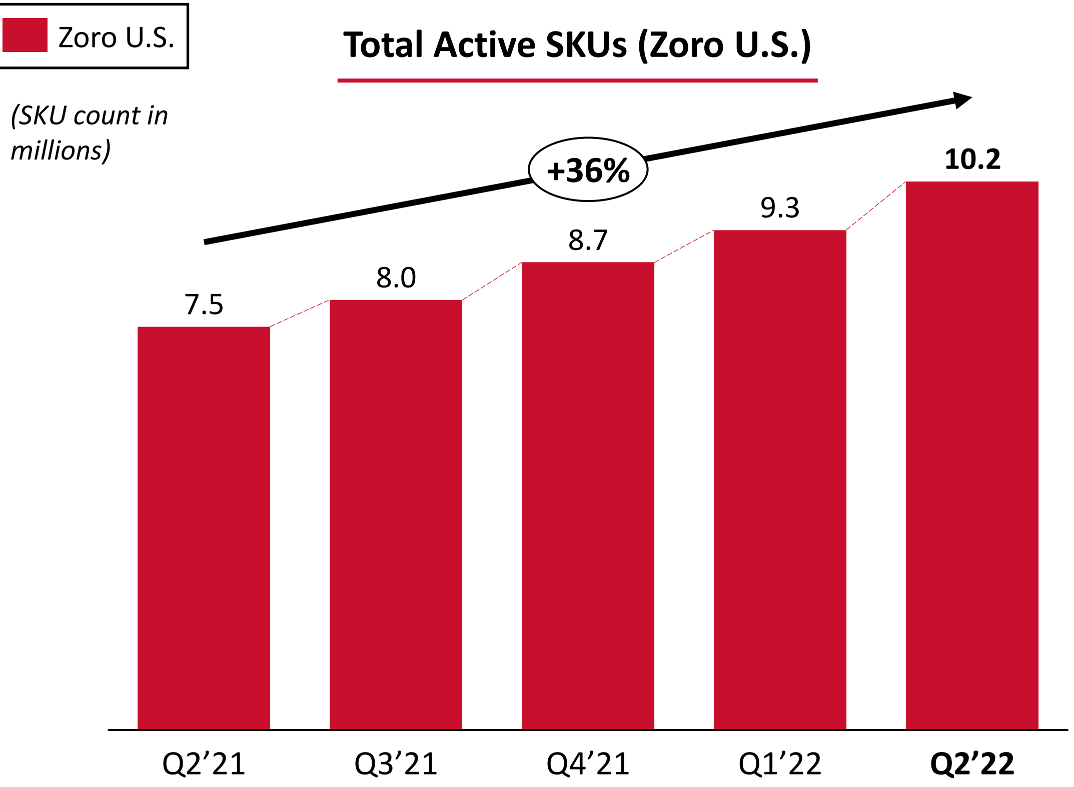
- Zoro expanded 85 bps as improved GP margin offset continued investments
- MonotaRO declined 40 bps due to increased occupancy expense for the new DC

Note: Adjusted results are consistent with reported results for presented periods. See appendix for 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.

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. Registered user count excludes historical non-strategic accounts and channels.
(1) MonotaRO's results are reported one-month in arrears.

Looking Forward

Dee Merriwether
SVP & CFO

2022 Full Year Guidance – *Total Company*

Raising full year 2022 guidance reflecting strong growth and profitability

	2019A	2020A	2021A	Previous Guidance *(provided April 28, 2022)*	Updated Guidance *(As of July 29, 2022)*
Sales *($ billions)*	**$11.5**	**$11.8**	**$13.0**	**$14.5 – $14.9**	**$15.0 – $15.2**
Daily growth	*2.5%*	*2.3%*	*11.3%*	*11.0% - 14.0%*	*14.5% - 16.5%*
Organic daily growth		*3.6%*	*12.7%*		
Gross Profit Margin	**38.3%**	**35.9%**	**36.2%**	**36.8% – 37.3%**	**37.2% – 37.5%**
bps vs. prior year	*(50)*	*(235)*	*30*	*50 - 100*	*100 - 130*
Operating Margin	**12.1%**	**11.2%**	**11.9%**	**13.0% – 13.6%**	**13.6% – 14.0%**
bps vs. prior year	*10*	*(80)*	*65*	*105 - 165*	*170 - 210*
Tax Rate	**24.8%**	**25.3%**	**25.0%**	**~25.0%**	**~25.0%**
EPS	**$17.29**	**$16.18**	**$19.84**	**$25.00 – $27.00**	**$27.25 – $28.75**
% vs. prior year	*3.5%*	*(6.4)%*	*22.6%*	*26.0% - 36.1%*	*37.3% - 44.9%*

Note: Guidance on an adjusted basis as of July 29, 2022. Assumes full year FX rate of JPY / USD = 127.

Closing Remarks

DG Macpherson

Chairman & CEO

Q&A

Appendix

2022 Full Year Guidance (cont.)

Increasing operating margin expectations for High-Touch Solutions; narrowing range for Endless Assortment

	2019A	2020A	2021A	2022 Guidance (As of July 29, 2022)
High-Touch Solutions N.A.	14.2%	13.0%	13.1%	15.4% – 15.8%
Endless Assortment	6.6%	8.0%	9.0%	7.7% – 8.2%
Total Company	12.1%	11.2%	11.9%	13.6% – 14.0%

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

Narrowing cash flow, CapEx and share repurchase outlook

($ millions)	2019A	2020A	2021A	2022 Guidance (As of July 29, 2022)
Operating Cash Flow	$1,042	$1,123	$937	$1,250 – $1,350
CapEx[(1)]	$221	$197	$255	$300 – $325
Share Repurchases	$700	$601	$695	$600 – $700

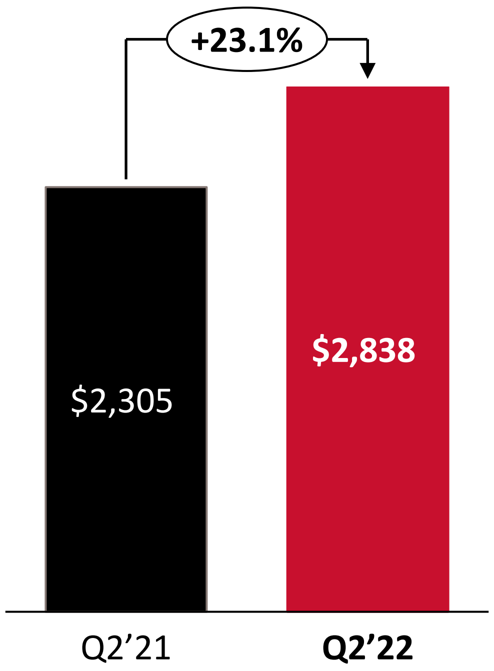
Note: Guidance on an adjusted basis as of July 29, 2022.
(1) CapEx as reflected in the cash flow statement.

Q2 2022 Segment Highlights: *High-Touch Solutions N.A.*

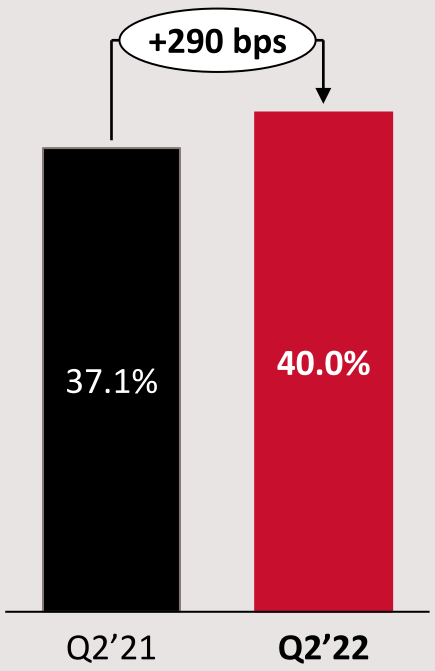
U.S.

($ millions)

Daily Sales



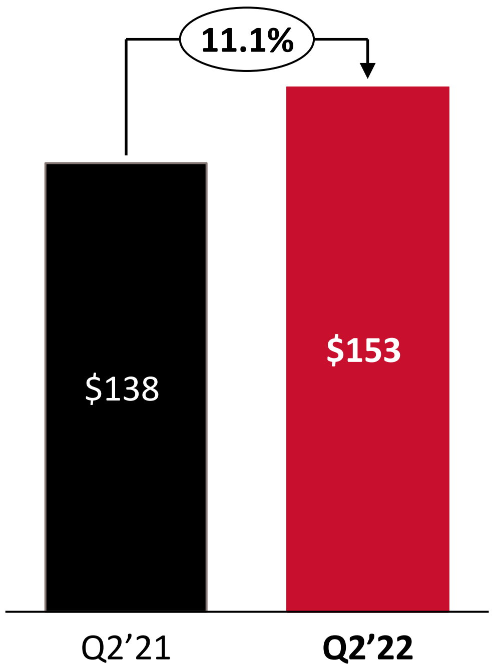
Gross Profit



Canada

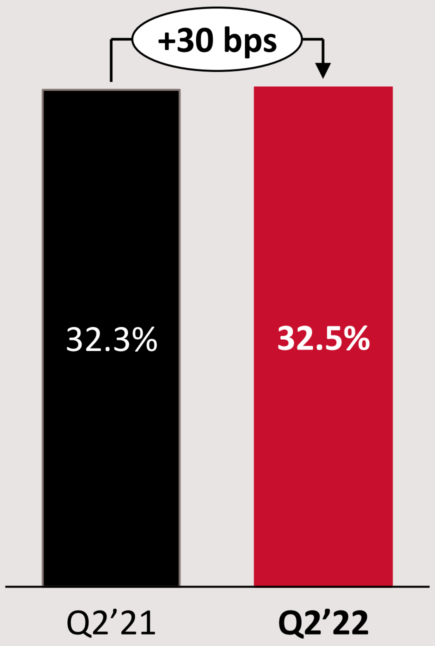
($ millions)

Daily Sales



Local days and currency: 15.5%

Gross Profit



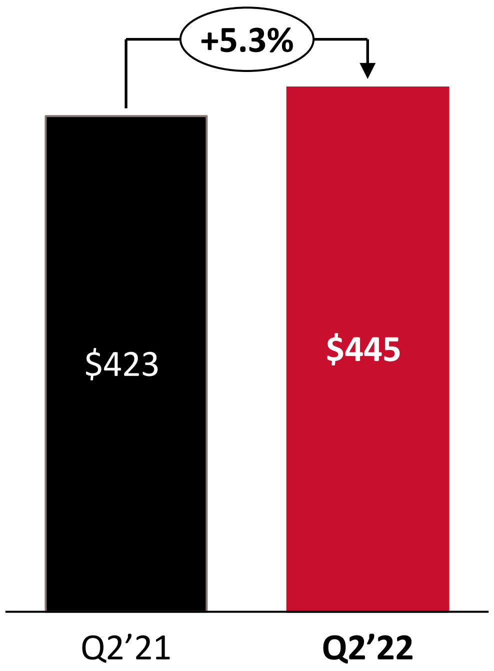
Note: Adjusted results are consistent with reported results for presented periods. See the appendix for any non-GAAP reconciliations. Numbers may not sum due to rounding.

Q2 2022 Segment Highlights: *Endless Assortment*

MonotaRO [1]

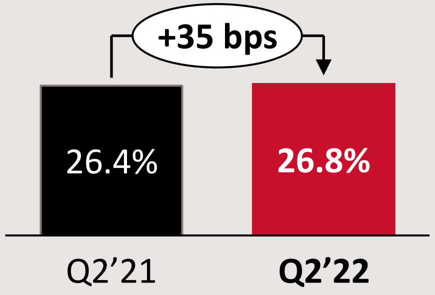
($ millions)

Daily Sales

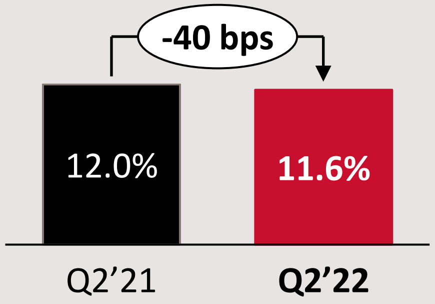


Local days and currency: 21.9%

Gross Profit



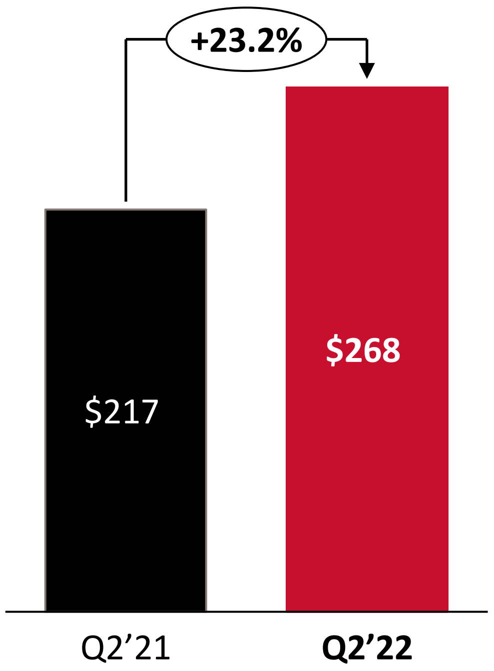
Op. Margin



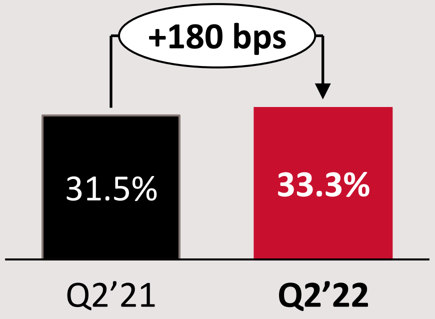
Zoro U.S.

($ millions)

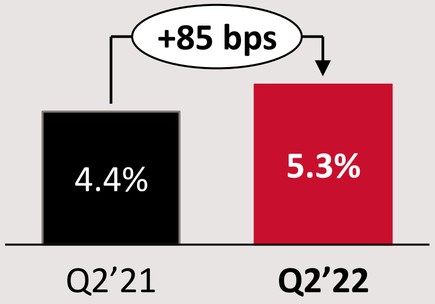
Daily Sales



Gross Profit



Op. Margin



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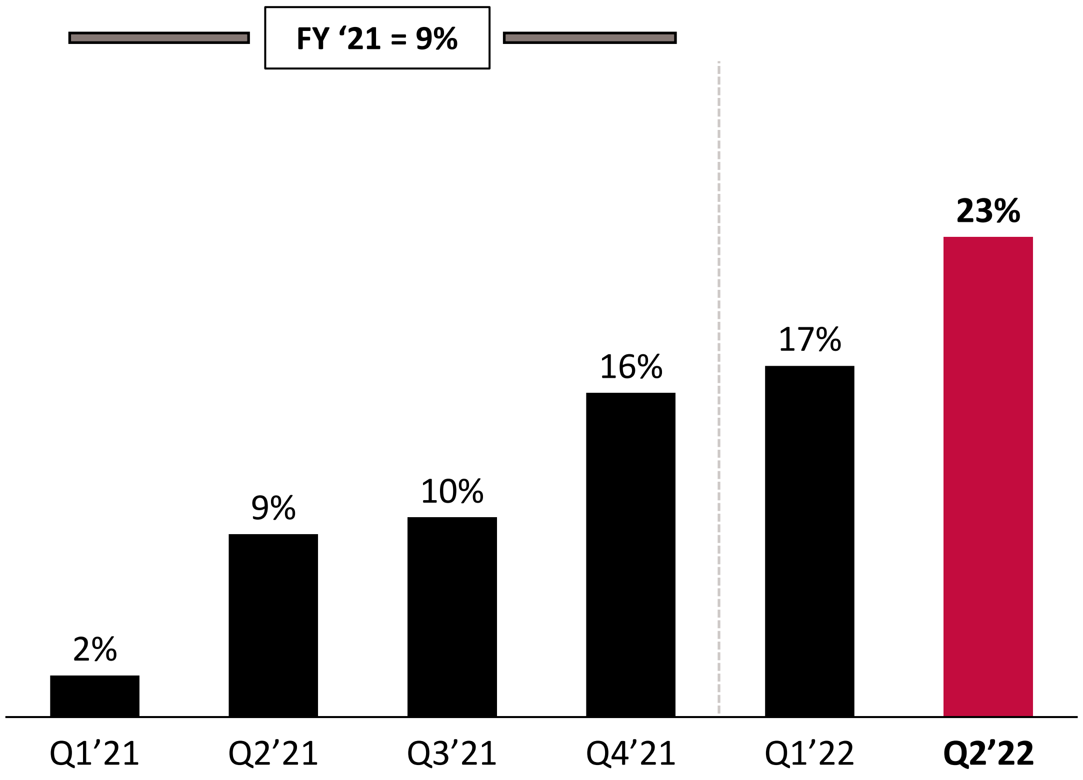
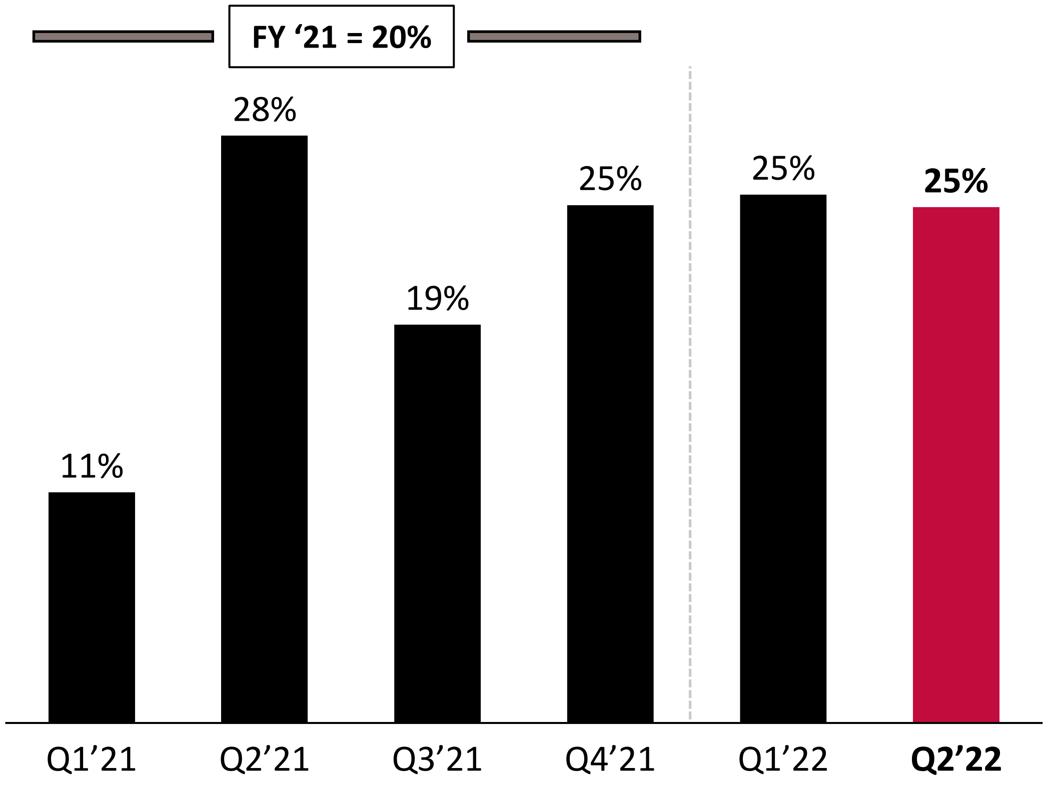
Q2 2022 Sales Performance: *High-Touch Solutions - U.S.*

Large Customers [1]



Mid-sized Customers [1]



(1) Large customer revenue of $8.7 billion and mid-sized customer revenue of $1.5 billion for the last twelve-month period ending June 30, 2022. These numbers exclude specialty brands and revenue recognition adjustments which are included in the High-Touch Solutions - U.S. business.

Q2 2022 U.S. Business Sales By Customer End Market

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

Note: All comparisons are to Q2 2021

Q2 2022 Quarterly Daily Sales Growth

Q2 2022 Daily Sales (Total Company)[1]

Month	Reported Sales (U.S. Selling Days) Q2 2021	Reported Sales (U.S. Selling Days) Q2 2022	FX Impact[2]	Constant Currency
April	17.8%	21.0%	1.7%	22.7%
May	10.6%	20.0%	2.8%	22.8%
June	11.0%	17.9%	2.5%	20.4%
Q2 Daily Sales	**13.1%**	**19.6%**	**2.4%**	**22.0%**

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**

Q2 2022 Daily Sales vs. Q2 2021[1]

Drivers	HTS-NA	HTS - U.S.	HTS - Canada
Volume/product mix	11.8%	12.2%	5.5%
Price/customer mix	10.6	10.9	10.0
Foreign Exchange[2]	(0.2)	—	(4.4)
Daily Sales	**22.2%**	**23.1%**	**11.1%**
Foreign Exchange[2]	0.2	—	4.4
Constant Currency	**22.4%**	**23.1%**	**15.5%**
Impact of Canadian Local Days			—%
Constant Currency in Local Days			**15.5%**

(1) Based on U.S. Selling Days
(2) Foreign exchange is calculated by the difference of local currency sales at the current year average rate and at the prior year average rate for the period.

Q2 2022 GAAP to Non-GAAP Reconciliations (1 of 2)

(in millions of dollars)

		June 30, 2022
Condensed Consolidated Balance Sheet		
Current maturities of long-term debt	$	17
Long-term debt		2,309
Add: Debt issuance costs and discounts, net of amortization		22
Less: Cash and cash equivalents		(262)
Net Debt	$	2,086
		LTM ending June 30, 2022
Condensed Consolidated Statement of Earnings		
Net earnings	$	1,390
Income taxes		467
Other expense, net		66
Condensed Consolidated Statement of Cash Flows		
Depreciation and amortization		200
EBITDA	$	2,123
Net Debt to EBITDA		**1.0x**

Note: Management believes the presentation of Net Debt to 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 EBITDA.

(in millions of dollars)

		Three Months Ended June 30, 2022
Operating Cash Flow	$	250
Less: Additions to property, buildings, equipment and intangibles		106
Free Cash Flow	$	144

Q2 2022 GAAP to Non-GAAP Reconciliations (2 of 2)

(in millions of dollars)	Three Months Ended June 30, 2022	Three Months Ended June 30, 2021	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
Sales				
HTS-NA	$ 3,053	$ 2,498	$ 5,931	$ 4,895
EA	719	645	1,416	$ 1,267
Other	65	64	137	129
Net sales	$ 3,837	$ 3,207	$ 7,484	$ 6,291

	Three Months 2022	Op. Margin	Three Months 2021	Op. Margin	Six Months 2022	Op. Margin	Six Months 2021	Op. Margin
Operating earnings(1)								
HTS-NA	$ 475	15.6 %	$ 282	11.3 %	$ 956	16.1 %	$ 588	12.0 %
EA	62	8.7 %	58	8.9 %	117	8.3 %	113	8.9 %
Other	(3)	(5.2)%	(6)	(10.1)%	(5)	(4.0)%	(9)	(7.3)%
Operating earnings	$ 534	13.9 %	$ 334	10.4 %	$1,068	14.3 %	$ 692	11.0 %

	Six Months Ended June 30, 2022	Six Months Ended June 30, 2021
ROIC* for Total Company	40.5 %	29.2 %
ROIC* for HTS-NA	42.9 %	29.2 %
ROIC* for EA	36.7 %	35.4 %

*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 $165.2 million), prepaid and deferred taxes, operating lease right-of-use assets and investments in unconsolidated entities, plus the LIFO reserve (3-point average of $554.3 million). Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit sharing plans, and accrued expenses.

	Total Company Three Months Ended June 30, 2022	HTS-NA Three Months Ended June 30, 2022	EA Three Months Ended June 30, 2022
Reported sales	19.6%	22.2%	11.4%
Daily impact	—	—	—
Daily sales	19.6%	22.2%	11.4%
Foreign exchange(2)	2.4	0.2	9.7
Constant currency sales	**22.0%**	**22.4%**	**21.1%**

Local Selling Day Impact		**Canada**	**MonotaRO**
Reported sales		11.1%	5.3%
Local day impact		—	1.7
Local daily sales		11.1%	7.0%
Foreign exchange(2)		4.4	14.9
Constant Currency in Local days		**15.5%**	**21.9%**

(1) Neither Q2 2022, nor Q2 2021 results contained any adjusting items, therefore adjusted results are consistent with reported results for presented periods.
(2) Foreign exchange is calculated by the difference of local currency sales at the current year average rate and at the prior year average rate for the period.

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