



# W.W. Grainger Inc. (GWW)

Updated November 2<sup>nd</sup>, 2024, by Nikolaos Sismanis

## Key Metrics

|                             |         |  |         |                                  |          |
|-----------------------------|---------|--|---------|----------------------------------|----------|
| <b>Current Price:</b>       | \$1,005 | <b>5 Year CAGR Estimate:</b>               | 5.5%    | <b>Market Cap:</b>               | \$53.8 B |
| <b>Fair Value Price:</b>    | \$856   | <b>5 Year Growth Estimate:</b>             | 8.0%    | <b>Ex-Dividend Date:</b>         | 11/08/24 |
| <b>% Fair Value:</b>        | 117%    | <b>5 Year Valuation Multiple Estimate:</b> | -3.1%   | <b>Dividend Payment Date:</b>    | 12/01/24 |
| <b>Dividend Yield:</b>      | 0.8%    | <b>5 Year Price Target</b>                 | \$1,261 | <b>Years Of Dividend Growth:</b> | 52       |
| <b>Dividend Risk Score:</b> | A       | <b>Retirement Suitability Score:</b>       | C       | <b>Rating</b>                    | Hold     |

## Overview & Current Events

W.W. Grainger, headquartered in Lake Forest, IL, is one of the world's largest business-to-business distributors of maintenance, repair, and operations ("MRO") supplies. The company was founded in 1927 and generated sales of \$16.5 billion in 2023. Grainger trades with a market capitalization of \$53.8 billion and is a member of the Dividend Aristocrats Index and the Dividend Kings Index.

On October 31<sup>st</sup>, 2024, W.W. Grainger reported its Q3 results for the period ending September 30<sup>th</sup>, 2024. Sales were \$4.39 billion, up 4.3% on a reported basis and up 4.0% on a daily, constant currency basis (adjusted) compared to last year. Results were driven by solid performance across the board. The High-Touch Solutions segment achieved sales growth of 3.3% due to solid volume growth in all geographies. In the Endless Assortment segment, sales were up 8.1%. Revenue growth for the segment was driven by core B2B customers at Zoro and strong performance across MonotaRO, most notably with Enterprise customers

Net income equaled \$486 million, up just 2.8% compared to Q3-2022. Net income was hampered by a 30 basis point compression in the operating margin. This was driven by increased investment activity.

However, a lower share count drove some growth on the per-share result due to Grainger's stock buybacks. Thus, earnings-per-share came in at \$9.87, 4.7% higher year-over-year.

For fiscal 2024, the company revised its guidance, expecting to post \$17.1 billion to \$17.3 billion in sales (up from \$17.0 billion to \$17.3 billion). Further, it expects GAAP earnings-per-share to land between \$38.65 and \$39.35 (up from \$38.00 to \$39.50 previously). We have utilized the midpoint of Grainger's outlook, implying year-over-year growth of 7.6%.

## Growth on a Per-Share Basis

| Year                      | 2013    | 2015    | 2016    | 2017    | 2018    | 2019    | 2020    | 2021    | 2022    | 2023    | 2024           | 2029           |
|---------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------------|----------------|
| <b>EPS</b>                | \$11.52 | \$11.94 | \$11.58 | \$11.46 | \$16.70 | \$17.29 | \$16.18 | \$19.84 | \$30.06 | \$36.23 | <b>\$39.00</b> | <b>\$57.30</b> |
| <b>DPS</b>                | \$3.59  | \$4.59  | \$4.83  | \$5.06  | \$5.36  | \$5.68  | \$5.94  | \$6.39  | \$6.78  | \$7.30  | <b>\$8.20</b>  | <b>\$12.05</b> |
| <b>Shares<sup>1</sup></b> | 68.8    | 62.0    | 58.8    | 56.3    | 55.9    | 53.7    | 53.7    | 52.2    | 51.1    | 50.1    | <b>48.9</b>    | <b>47.0</b>    |

Grainger had grown its earnings-per-share at a CAGR of 13.6% between 2014 and 2023. This result was driven by ~5.7% annual revenue growth, an expanding profit margin, and a share count that has been reduced by an average of -3.5% per year. Results stalled in 2019 and 2020 as the company came off a significantly lower tax rate for 2018 and dealt with the COVID-19 pandemic in 2020. Still, results have held up reasonably well in lesser times and surged notably in 2023.

Grainger's strategic shift of lowering its pricing, thereby creating higher demand, and growing its revenues, seems to have worked well. Over the intermediate period, profit growth will be driven not only by rising revenue but also by a reduction in the company's share count. The company plans to repurchase about \$1.1 to \$1.2 billion of its stock during 2024, or roughly 2% of its outstanding shares at its current market cap.

<sup>1</sup> In millions.

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Moreover, we are encouraged by recent performance, along with the company continuing its 52-year dividend growth streak and providing strong guidance. We are forecasting \$39.00 in earnings-per-share this year to go along with an 8.0% medium-term growth rate. We also forecast dividends per share to grow on average by 8% through 2029.

## Valuation Analysis

| Year      | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022  | 2023  | Now  | 2029 |
|-----------|------|------|------|------|------|------|------|------|-------|-------|------|------|
| Avg. P/E  | 20.3 | 19   | 19.1 | 17.7 | 17.9 | 17   | 20.4 | 22   | 18.7  | 18    | 25.8 | 22.0 |
| Avg. Yld. | 1.7% | 2.0% | 2.2% | 2.5% | 1.8% | 1.9% | 1.8% | 1.5% | 1.20% | 1.10% | 0.8% | 1.0% |

Over the past decade, shares of Grainger have traded hands with an average P/E ratio of 19 times earnings. We are using 22 times earnings as a fair value baseline, taking into consideration a slightly higher expected growth rate and improved margins. With shares presently trading above our fair multiple, we believe there is potential for a valuation headwind. The dividend yield is not especially compelling, but the dividend-per-share's propensity to grow over time is noteworthy.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year   | 2013 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 31%  | 38%  | 42%  | 44%  | 32%  | 33%  | 37%  | 32%  | 23%  | 20%  | 21%  | 21%  |

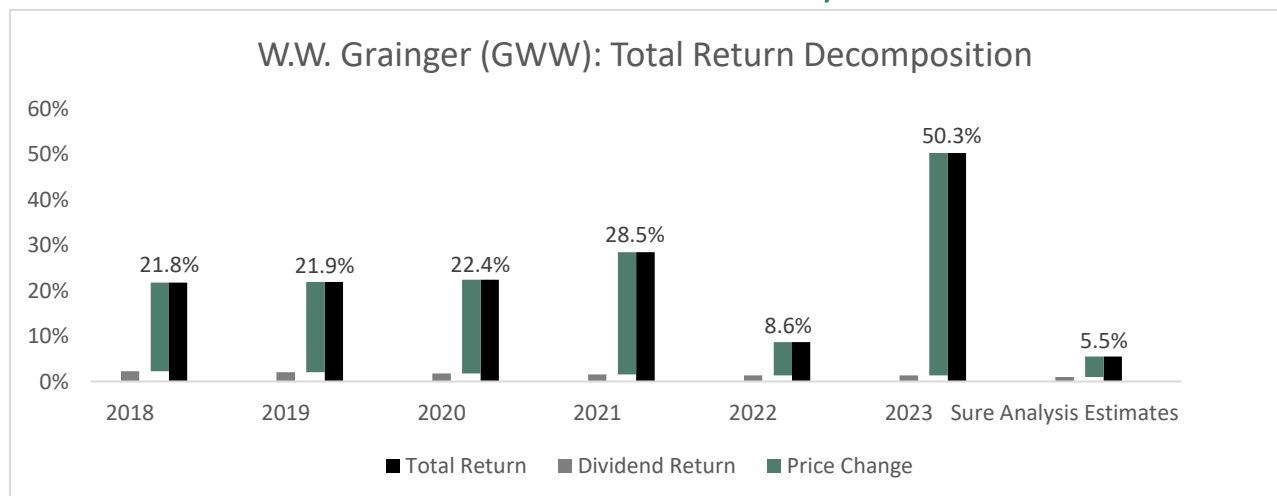
Grainger has an excellent dividend growth track record. Despite increasing its payout every year for over half a century, the company's dividend payout ratio has actually declined in recent years. The low dividend payout ratio and a very long dividend growth track record, coupled with a relatively stable recession performance, make us believe that Grainger's dividend is safe.

The services Grainger provides are essential for other businesses. This makes the business resilient to recessions and economic downturns. During the last recession Grainger posted earnings-per-share of \$6.09, \$5.25, and \$6.81 during the 2008 through 2010 stretch. In 2020-2021, during the COVID-19 pandemic, results proved to be similarly durable.

## Final Thoughts & Recommendation

Grainger is a good example of a company in an unspectacular industry that has achieved a strong earnings and dividend growth track record, nevertheless. Total return potential comes in at 5.5% per year, stemming from 8.0% growth and a 0.8% starting dividend yield, offset by the potential of a 3.1% annual valuation headwind. Even though the total return proposition does not appear overly compelling, the resilience of the company, its low payout ratio, and its impressive dividend growth streak are noteworthy. Shares earn a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year             | 2014  | 2015  | 2016   | 2017   | 2018   | 2019   | 2020   | 2021   | 2022   | 2023   |
|------------------|-------|-------|--------|--------|--------|--------|--------|--------|--------|--------|
| Revenue          | 9,965 | 9,973 | 10,137 | 10,425 | 11,221 | 11,486 | 11,800 | 13,020 | 15,230 | 16,480 |
| Gross Profit     | 4,314 | 4,231 | 4,115  | 4,098  | 4,348  | 4,397  | 4,238  | 4,720  | 5,849  | 6,496  |
| Gross Margin     | 43.3% | 42.4% | 40.6%  | 39.3%  | 38.7%  | 38.3%  | 35.9%  | 36.3%  | 38.4%  | 39.4%  |
| SG&A Expense     | 2,967 | 2,931 | 3,002  | 3,063  | 3,190  | 3,135  | 3,219  | 3,173  | 3,634  | 3,931  |
| D&A Expense      | 208   | 228   | 249    | 264    | 257    | 229    | 182    | 185    | 217    | 214    |
| Operating Profit | 1,347 | 1,300 | 1,113  | 1,035  | 1,158  | 1,262  | 1,019  | 1,547  | 2,215  | 2,565  |
| Operating Margin | 13.5% | 13.0% | 11.0%  | 9.9%   | 10.3%  | 11.0%  | 8.6%   | 11.9%  | 14.5%  | 15.6%  |
| Net Profit       | 802   | 769   | 606    | 586    | 782    | 849    | 695    | 1,043  | 1,547  | 1,829  |
| Net Margin       | 8.0%  | 7.7%  | 6.0%   | 5.6%   | 7.0%   | 7.4%   | 5.9%   | 8.0%   | 10.2%  | 11.1%  |
| Free Cash Flow   | 572   | 662   | 740    | 820    | 818    | 821    | 926    | 682    | 1,077  | 1,586  |
| Income Taxes     | 522   | 466   | 386    | 313    | 258    | 314    | 192    | 371    | 533    | 597    |

## Balance Sheet Metrics

| Year                 | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|----------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Total Assets         | 5,283 | 5,858 | 5,694 | 5,804 | 5,873 | 6,005 | 6,295 | 6,592 | 7,588 | 8,147 |
| Cash & Equivalents   | 227   | 290   | 274   | 327   | 538   | 360   | 585   | 241   | 325   | 660   |
| Accounts Receivable  | 1,173 | 1,210 | 1,223 | 1,325 | 1,385 | 1,425 | 1,474 | 1,754 | 2,133 | 2,192 |
| Inventories          | 1,356 | 1,414 | 1,406 | 1,429 | 1,541 | 1,655 | 1,733 | 1,870 | 2,253 | 2,266 |
| Goodwill & Int. Ass. | 771   | 1,230 | 1,113 | 1,113 | 884   | 733   | 619   | 622   | 603   | 604   |
| Total Liabilities    | 1,999 | 3,505 | 3,789 | 3,976 | 3,780 | 3,945 | 4,202 | 4,432 | 4,853 | 4,706 |
| Accounts Payable     | 554   | 583   | 650   | 731   | 678   | 719   | 779   | 816   | 1,047 | 954   |
| Long-Term Debt       | 484   | 1,989 | 2,247 | 2,343 | 2,220 | 2,215 | 2,397 | 2,362 | 2,319 | 2,300 |
| Shareholders' Equity | 3,210 | 2,267 | 1,798 | 1,690 | 1,921 | 1,855 | 1,828 | 2,160 | 2,440 | 3,115 |
| LTD/E Ratio          | 0.15  | 0.88  | 1.25  | 1.39  | 1.16  | 1.19  | 1.31  | 1.09  | 0.95  | 0.74  |

## Profitability & Per Share Metrics

| Year             | 2014  | 2015  | 2016   | 2017   | 2018  | 2019   | 2020   | 2021   | 2022   | 2023  |
|------------------|-------|-------|--------|--------|-------|--------|--------|--------|--------|-------|
| Return on Assets | 15.2% | 13.8% | 10.5%  | 10.2%  | 13.4% | 14.3%  | 11.3%  | 16.2%  | 21.8%  | 23.3% |
| Return on Equity | 24.8% | 28.1% | 29.8%  | 33.6%  | 43.3% | 45.0%  | 37.7%  | 52.3%  | 71.7%  | 59.2% |
| ROIC             | 21.0% | 19.0% | 14.3%  | 14.1%  | 18.4% | 19.8%  | 15.9%  | 23.2%  | 32.3%  | 33.9% |
| Shares Out.      | 67.4  | 62.0  | 58.8   | 56.3   | 55.9  | 53.7   | 53.7   | 52.2   | 51.1   | 50.1  |
| Revenue/Share    |       |       | 166.62 | 179.74 | 196.6 | 209.22 | 219.68 | 249.46 | 298.00 | 328.9 |
| FCF/Share        |       |       | 12.16  | 14.14  | 14.48 | 14.95  | 17.24  | 13.07  | 21.08  | 31.66 |

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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