



W.W. Grainger Inc. (GWW)

Updated May 5th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$460	5 Year CAGR Estimate:	1.4%	Market Cap:	\$24 B
Fair Value Price:	\$356	5 Year Growth Estimate:	5.0%	Ex-Dividend Date:	05/07/21
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-5.0%	Dividend Payment Date:	06/01/21
Dividend Yield:	1.4%	5 Year Price Target	\$454	Years Of Dividend Growth:	50
Dividend Risk Score:	A	Retirement Suitability Score:	B	Last Dividend Increase:	5.9%

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 nearly \$12 billion in 2020. Grainger trades with a market capitalization of \$24 billion and is a member of the Dividend Aristocrats Index.

On April 28th, 2021 W.W. Grainger increased its quarterly dividend to \$1.62, marking a 5.9% increase and the company's 50th consecutive year of increasing its dividend. In addition, the board authorized a 5 million share repurchase program.

On April 30th, 2021 W.W. Grainger reported Q1 2021 results for the period ending March 31st, 2021. For the quarter revenue equaled \$3.084 billion, representing a 2.8% increase compared to Q1 2020. Sales growth was driven by both the High-Touch and Endless Assortment segments. Adjusted net income equaled \$238 million or \$4.48 per share compared to \$230 million or \$4.24 per share in the year ago period.

Grainger also provided guidance for 2021. The company anticipates \$12.7 billion to \$13.0 billion in sales and \$19.00 to \$20.50 in earnings-per-share. We have updated our forecast accordingly.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$9.04	\$9.52	\$11.52	\$12.26	\$11.94	\$11.58	\$11.46	\$16.70	\$17.29	\$16.18	\$19.75	\$25.21
DPS	\$2.52	\$3.06	\$3.59	\$4.17	\$4.59	\$4.83	\$5.06	\$5.36	\$5.68	\$5.94	\$6.48	\$8.68
Shares¹	70.0	69.5	68.8	67.4	62.0	58.8	56.3	55.9	53.7	53.7	53.0	48.0

Grainger has grown its earnings-per-share at a 6.7% average annual compound rate between 2011 and 2020. This result was driven by 4.3% annual revenue growth, an expanding profit margin and a share count that was been reduced by an average of -2.9% per year. Since 2018 growth has been much more difficult 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. Grainger's strategic shift of lowering its pricing, thereby creating higher demand and growing its revenues, seems to have worked well.

Over the intermediate term profit growth will not only be driven by rising revenue, but also by a reduction in the company's share count. Moreover, we are encouraged by 2020's showing, along with the company continuing its 50-year dividend growth streak and initiating 2021 guidance. We are forecasting \$19.75 in earnings-per-share this year, at the midpoint of management's recent guidance, to go along with a 5% intermediate term growth rate coming off a higher base.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	16.8	21.1	21.5	20.3	19.0	19.1	17.7	17.9	17.0	20.4	23.3	18.0
Avg. Yld.	1.7%	1.5%	1.4%	1.7%	2.0%	2.2%	2.5%	1.8%	1.9%	1.8%	1.4%	1.9%

¹ In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Over the past decade shares of Grainger have traded hands with an average P/E ratio of 19 times earnings. We are using 18 times earnings as a fair value baseline, taking into consideration a slightly slower expected growth rate and short-term unknowns related to the pandemic. With shares presently trading near 23 times earnings, this implies the potential for a valuation headwind.

Meanwhile, the dividend yield is not especially compelling, but its propensity to grow over time is noteworthy.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	28%	32%	31%	34%	38%	42%	44%	32%	33%	37%	33%	34%

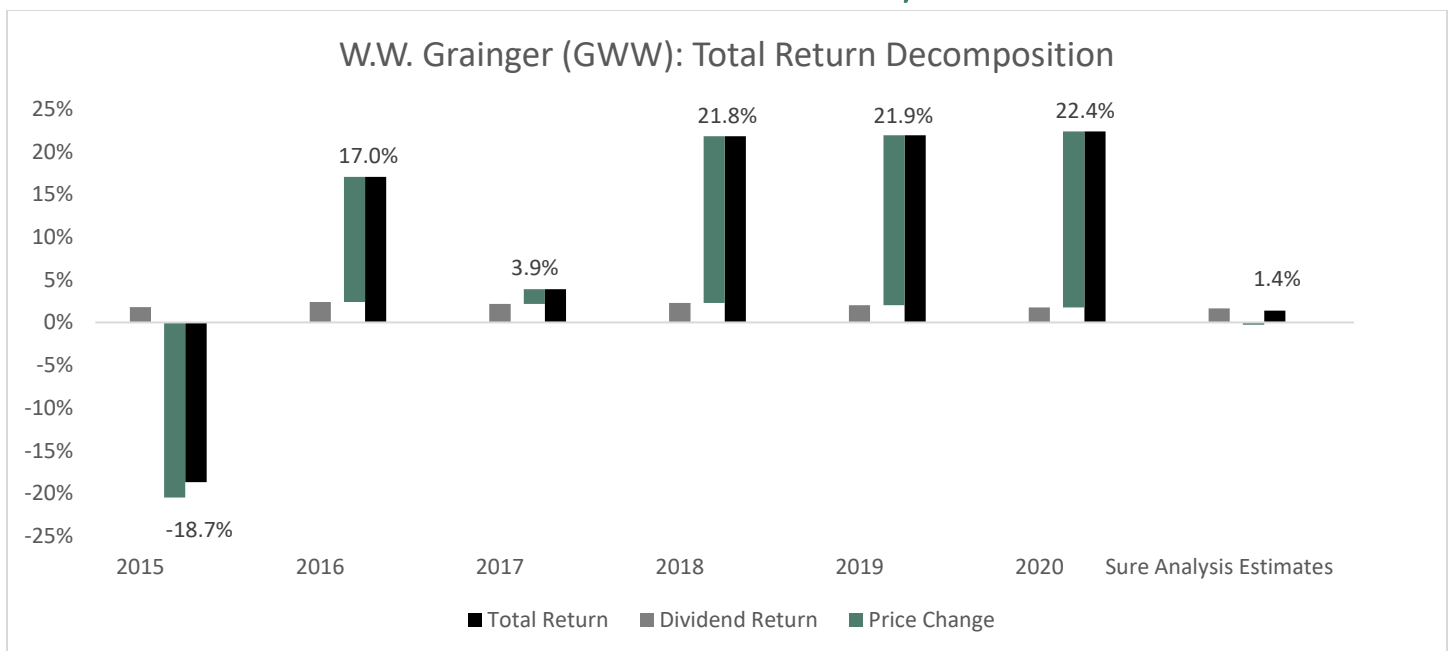
Grainger has an excellent dividend growth track record. Despite increasing its payout every year for nearly half a century, the company's dividend payout ratio has not risen to a high level, as it remained below 50% throughout the last decade. The low dividend payout ratio and a very long dividend growth 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, results proved to be similarly durable.

Final Thoughts & Recommendation

Shares are up 26% since our last report, while earnings expectations have improved as well. 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 1.4% per year, stemming from 5% growth and a 1.4% starting dividend yield, offset by the potential for a valuation headwind. Even though the total return proposition does not appear overly compelling due to the valuation, the resilience of the company, its low payout ratio and impressive dividend growth streak are notable. Shares earn a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	8,078	8,950	9,438	9,965	9,973	10137	10425	11221	11486	11800
Gross Profit	3,511	3,916	4,136	4,314	4,231	4,115	4,098	4,348	4,397	4238
Gross Margin	43.5%	43.8%	43.8%	43.3%	42.4%	40.6%	39.3%	38.7%	38.3%	35.9%
SG&A Expense	2,458	2,785	2,840	2,967	2,931	3,002	3,063	3,190	3,135	3219
D&A Expense	149	159	181	208	228	249	264	257	229	182
Operating Profit	1,052	1,131	1,297	1,347	1,300	1,113	1,035	1,158	1,262	1019
Operating Margin	13.0%	12.6%	13.7%	13.5%	13.0%	11.0%	9.9%	10.3%	11.0%	8.6%
Net Profit	658	690	797	802	769	606	586	782	849	695
Net Margin	8.2%	7.7%	8.4%	8.0%	7.7%	6.0%	5.6%	7.0%	7.4%	5.9%
Free Cash Flow	549	566	714	572	662	740	820	818	821	926
Income Taxes	385	419	480	522	466	386	313	258	314	192

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	4,716	5,015	5,266	5,283	5,858	5,694	5,804	5,873	6,005	6295
Cash & Equivalents	335	452	431	227	290	274	327	538	360	585
Accounts Receivable	889	940	1,102	1,173	1,210	1,223	1,325	1,385	1,425	1474
Inventories	1,269	1,302	1,306	1,356	1,414	1,406	1,429	1,541	1,655	1733
Goodwill & Int. Ass.	757	786	829	771	1,230	1,113	1,113	884	733	619
Total Liabilities	1,992	1,897	1,939	1,999	3,505	3,789	3,976	3,780	3,945	4202
Accounts Payable	478	429	511	554	583	650	731	678	719	779
Long-Term Debt	517	565	543	484	1,989	2,247	2,343	2,220	2,215	2397
Shareholders' Equity	2,629	3,024	3,250	3,210	2,267	1,798	1,690	1,921	1,855	1828
D/E Ratio	0.20	0.19	0.17	0.15	0.88	1.25	1.39	1.16	1.19	1.31

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	15.3%	14.2%	15.5%	15.2%	13.8%	10.5%	10.2%	13.4%	14.3%	11.3%
Return on Equity	27.2%	24.4%	25.4%	24.8%	28.1%	29.8%	33.6%	43.3%	45.0%	37.7%
ROIC	21.9%	19.9%	21.1%	21.0%	19.0%	14.3%	14.1%	18.4%	19.8%	15.9%
Shares Out.						60.8	58	56.5	54.9	53.7
Revenue/Share						166.62	179.74	196.6	209.22	219.68
FCF/Share						12.16	14.14	14.48	14.95	17.24

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

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