



W.W. Grainger Inc. (GWW)

Updated August 4th, 2021, by Eli Inkrot

Key Metrics

| | | | | | |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| Current Price: | \$441 | 5 Year CAGR Estimate: | 2.2% | Market Cap: | \$23 B |
| Fair Value Price: | \$356 | 5 Year Growth Estimate: | 5.0% | Ex-Dividend Date: | 08/06/21 |
| % Fair Value: | 124% | 5 Year Valuation Multiple Estimate: | -4.2% | Dividend Payment Date: | 09/01/21 |
| Dividend Yield: | 1.5% | 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 \$23 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 July 30th, 2021, W.W. Grainger reported Q2 2021 results for the period ending June 30th, 2021. For the quarter revenue equaled \$3.207 billion, a 13.1% increase compared to Q2 2020. Sales growth was driven by both the High-Touch and Endless Assortment segments. Adjusted net income equaled \$225 million or \$4.27 per share compared to \$204 million or \$3.75 per share in the year ago period.

Grainger also reiterated its 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, both unchanged from last quarter.

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 reiterating 2021 guidance. We are forecasting \$19.75 in earnings-per-share this year, at the midpoint of management's guidance, to go along with a 5% intermediate term growth rate.

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 | 22.3 | 18.0 |
| Avg. Yld. | 1.7% | 1.5% | 1.4% | 1.7% | 2.0% | 2.2% | 2.5% | 1.8% | 1.9% | 1.8% | 1.5% | 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. With shares presently trading near 22 times estimated 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% |

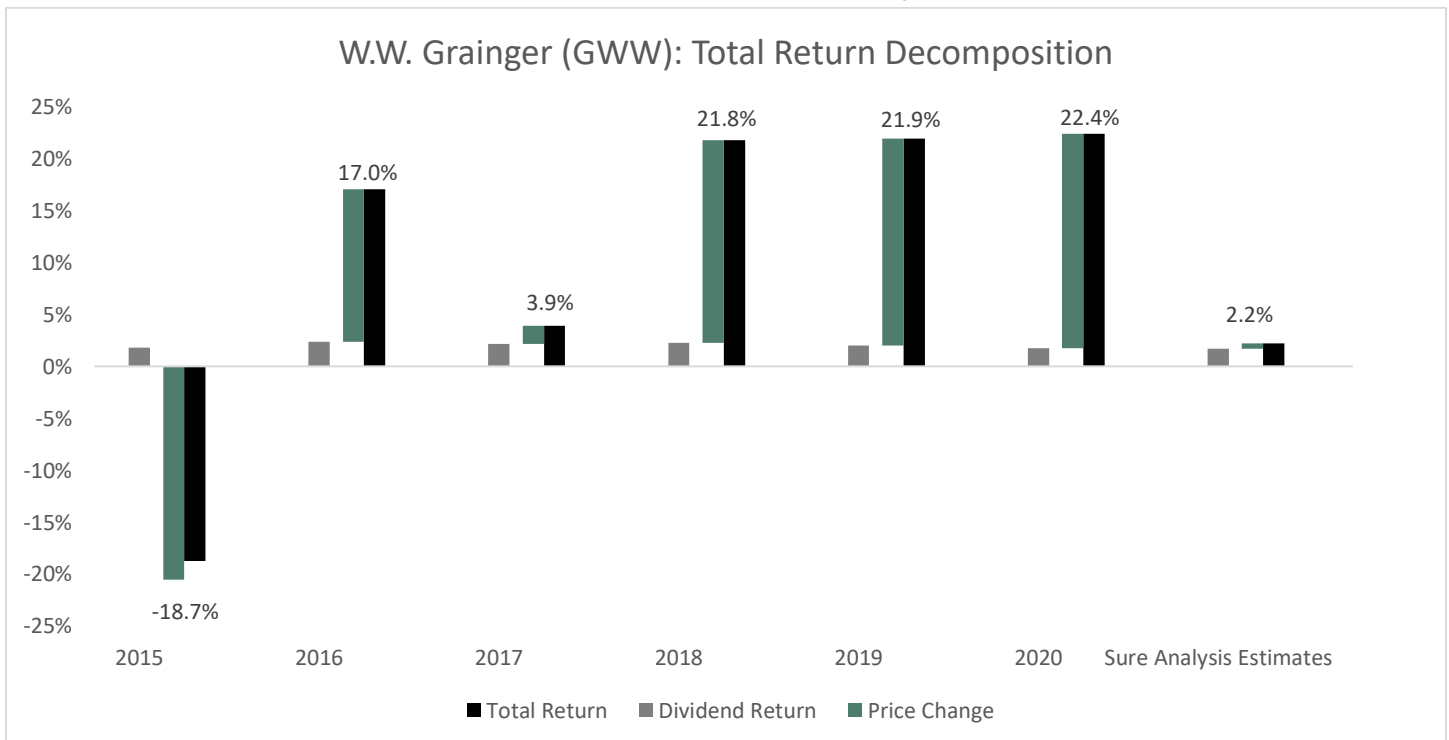
Grainger has an excellent dividend growth track record. Despite increasing its payout every year for half a century, the company's dividend payout ratio has not risen to a high level, as it remained below 50% throughout the last decade. The low dividend payout ratio and a very long dividend growth track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

After being up 26% in our last report, shares are down -4% in the last three months. 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 2.2% per year, stemming from 5% growth and a 1.5% starting dividend yield, offset by the potential for a valuation headwind. Even though the total return proposition does not appear overly compelling, 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 | 10,137 | 10,425 | 11,221 | 11,486 | 11,800 |
| Gross Profit | 3,511 | 3,916 | 4,136 | 4,314 | 4,231 | 4,115 | 4,098 | 4,348 | 4,397 | 4,238 |
| 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 | 3,219 |
| 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 | 1,019 |
| 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 | 6,295 |
| 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 | 1,474 |
| Inventories | 1,269 | 1,302 | 1,306 | 1,356 | 1,414 | 1,406 | 1,429 | 1,541 | 1,655 | 1,733 |
| 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 | 4,202 |
| 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 | 2,397 |
| Shareholders' Equity | 2,629 | 3,024 | 3,250 | 3,210 | 2,267 | 1,798 | 1,690 | 1,921 | 1,855 | 1,828 |
| 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. | 70.0 | 69.5 | 68.8 | 67.4 | 62.0 | 58.8 | 56.3 | 55.9 | 53.7 | 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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