



W.W. Grainger Inc. (GWW)

Updated October 27th, 2023, by Nikolaos Sismanis

Key Metrics

Current Price:	\$703	5 Year CAGR Estimate:	6.0%	Market Cap:	\$35.1 B
Fair Value Price:	\$653	5 Year Growth Estimate:	6.5%	Ex-Dividend Date:	11/09/23
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.4%	Dividend Payment Date:	12/01/23
Dividend Yield:	1.1%	5 Year Price Target	\$895	Years Of Dividend Growth:	52
Dividend Risk Score:	A	Retirement Suitability Score:	C	Rating	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 \$15.2 billion in 2022. Grainger trades with a market capitalization of \$35.1 billion and is a member of the Dividend Aristocrats Index and the Dividend Kings Index.

On October 26th, 2023, W.W. Grainger reported its Q3 results for the period ending September 30th, 2023. Revenues came in at \$4.2 billion, up 6.7% on a reported basis and up 8.7% 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 daily sales growth of 8.7% due to solid volume growth in all geographies. In the Endless Assortment segment, daily sales were up 6.0%. This was due to new customer acquisition across the segment as well as enterprise customer growth, partially offset by declining sales to non-core, consumer-like customers and slower overall market demand.

Net income equaled \$476 million, an 11.9% increase compared to Q3-2022. Net income was boosted by an 80 and a 60 basis point expansion in gross and operating margin, respectively. This was primarily due to sustained freight and supply chain efficiencies and a continued favorable product mix. A lower share count further boosted the per-share result amid Grainger's stock buybacks. Earnings-per-share came in at \$9.43, 14.1% higher year-over-year.

For fiscal 2023, the company now expects to post \$16.4 billion to \$166.8 billion in sales (unchanged). They also raised their profitability outlook, expecting earnings-per-share to land between \$36.00 and \$36.60 (up from \$35.00 and \$36.75 previously). We have utilized the midpoint of the updated range in our forecast, implying year-over-year growth of 21.8%.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$11.52	\$12.26	\$11.94	\$11.58	\$11.46	\$16.70	\$17.29	\$16.18	\$19.84	\$30.06	\$36.30	\$49.73
DPS	\$3.59	\$4.17	\$4.59	\$4.83	\$5.06	\$5.36	\$5.68	\$5.94	\$6.39	\$6.78	\$7.44	\$9.97
Shares¹	68.8	67.4	62	58.8	56.3	55.9	53.7	53.7	52.2	51.1	50.1	48.0

Grainger had grown its earnings-per-share at an 11.2% average annual compound rate between 2013 and 2022. This result was driven by ~5.5% annual revenue growth, an expanding profit margin, and a share count that has been reduced by an average of -3.3% 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 2022. 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 \$800 to \$875 million of its stock during 2023, or roughly 2.5% of its outstanding shares at its current market cap.

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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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 \$36.60 in earnings-per-share this year (the midpoint of management's guidance) to go along with a 6.5% medium-term growth rate. We also forecast dividends per share to grow on average by 6% through 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	21.5	20.3	19.0	19.1	17.7	17.9	17	20.4	22.0	18.7	19.4	18.0
Avg. Yld.	1.4%	1.7%	2.0%	2.2%	2.5%	1.8%	1.9%	1.8%	1.5%	1.2%	1.1%	1.1%

Over the past decade, shares of Grainger have traded hands with an average P/E ratio of 19.1 times earnings. We are using 18 times earnings as a fair value baseline, taking into consideration a slightly slower expected growth rate and a rising interest rates environment. With shares presently trading above our fair multiple, we believe there is potential for a soft valuation headwind. Meanwhile, 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	34%	38%	42%	44%	32%	33%	37%	32%	23%	20%	20%

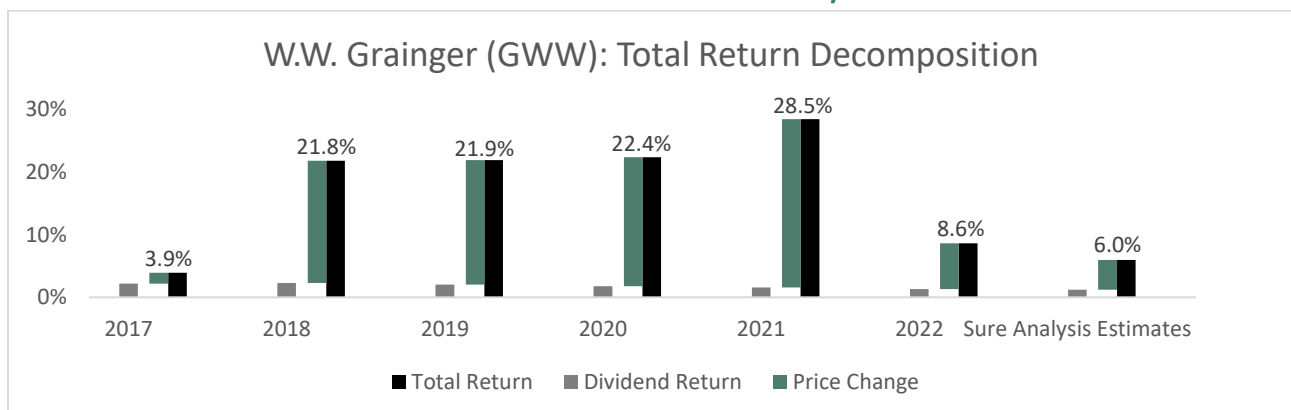
Grainger has an excellent dividend growth track record. Despite increasing its payout every year for over half a century, the company's dividend payout ratio has not risen to a high level, as it remained below 50% throughout the last decade. The low dividend payout ratio and a very long dividend growth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

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 6.0% per year, stemming from 6.5% growth and a 1.1% starting dividend yield, offset by the potential of a 1.4% annual valuation headwind. Even though the total return proposition does not appear 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	9,438	9,965	9,973	10137	10425	11221	11486	11,800	13,020	15,230
Gross Profit	4,136	4,314	4,231	4,115	4,098	4,348	4,397	4,238	4,720	5,849
Gross Margin	43.8%	43.3%	42.4%	40.6%	39.3%	38.7%	38.3%	35.9%	36.3%	38.4%
SG&A Expense	2,840	2,967	2,931	3,002	3,063	3,190	3,135	3,219	3,173	3,634
D&A Expense	181	208	228	249	264	257	229	182	185	217
Operating Profit	1,297	1,347	1,300	1,113	1,035	1,158	1,262	1,019	1,547	2,215
Operating Margin	13.7%	13.5%	13.0%	11.0%	9.9%	10.3%	11.0%	8.6%	11.9%	14.5%
Net Profit	797	802	769	606	586	782	849	695	1,043	1,547
Net Margin	8.4%	8.0%	7.7%	6.0%	5.6%	7.0%	7.4%	5.9%	8.0%	10.2%
Free Cash Flow	714	572	662	740	820	818	821	926	682	1,077
Income Taxes	480	522	466	386	313	258	314	192	371	533

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	5,266	5,283	5,858	5,694	5,804	5,873	6,005	6,295	6,592	7,588
Cash & Equivalents	431	227	290	274	327	538	360	585	241	325
Accounts Receivable	1,102	1,173	1,210	1,223	1,325	1,385	1,425	1,474	1,754	2,133
Inventories	1,306	1,356	1,414	1,406	1,429	1,541	1,655	1,733	1,870	2,253
Goodwill & Int. Ass.	829	771	1,230	1,113	1,113	884	733	619	622	603
Total Liabilities	1,939	1,999	3,505	3,789	3,976	3,780	3,945	4,202	4,432	4,853
Accounts Payable	511	554	583	650	731	678	719	779	816	1,047
Long-Term Debt	543	484	1,989	2,247	2,343	2,220	2,215	2,397	2,362	2,319
Shareholders' Equity	3,250	3,210	2,267	1,798	1,690	1,921	1,855	1,828	2,160	2,440
LTD/E Ratio	0.17	0.15	0.88	1.25	1.39	1.16	1.19	1.31	1.09	0.95

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	15.5%	15.2%	13.8%	10.5%	10.2%	13.4%	14.3%	11.3%	16.2%	21.8%
Return on Equity	25.4%	24.8%	28.1%	29.8%	33.6%	43.3%	45.0%	37.7%	52.3%	71.7%
ROIC	21.1%	21.0%	19.0%	14.3%	14.1%	18.4%	19.8%	15.9%	23.2%	32.3%
Shares Out.	68.8	67.4	62.0	58.8	56.3	55.9	53.7	53.7	52.2	51.1
Revenue/Share				166.62	179.74	196.6	209.22	219.68	249.46	298.00
FCF/Share				12.16	14.14	14.48	14.95	17.24	13.07	21.08

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

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