



W.W. Grainger Inc. (GWW)

Updated August 1st, 2024, by Nikolaos Sismanis

Key Metrics

Current Price:	\$948	5 Year CAGR Estimate:	5.6%	Market Cap:	\$46.5 B
Fair Value Price:	\$814	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	08/12/24
% Fair Value:	117%	5 Year Valuation Multiple Estimate:	-3.0%	Dividend Payment Date:	09/01/24
Dividend Yield:	0.9%	5 Year Price Target	\$1,196	Years Of Dividend Growth:	52
Dividend Risk Score:	A	Retirement Suitability Score:	B	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 \$16.5 billion in 2023. Grainger trades with a market capitalization of \$46.5 billion and is a member of the Dividend Aristocrats Index and the Dividend Kings Index.

On July 31st, 2024, W.W. Grainger reported its Q2 results for the period ending June 30th, 2024. Revenues came in at \$4.3 billion, up 3.1% on a reported basis and up 5.1% 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 3.1% due to solid volume growth in all geographies. In the Endless Assortment segment, sales were up 3.3%. Growth was again driven by B2B customers across the segment as well as enterprise customer growth, partially offset by declining sales to non-core, consumer-like customers.

Net income equaled \$470 million, flat compared to Q2-2022. Net income was hampered by a 70 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 \$9.51, 2.5% higher year-over-year.

For fiscal 2024, the company revised its guidance, expecting to post \$17.0 billion to \$17.3 billion in sales (down from \$17.2 billion to \$17.7 billion). Further, it expects GAAP earnings-per-share to land between \$38.00 and \$39.50 (down from \$8.00 to \$40.50 previously). We have utilized the midpoint of Grainger's outlook, implying year-over-year growth of 7%.

Growth on a Per-Share Basis

Year	2013	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$11.52	\$11.94	\$11.58	\$11.46	\$16.70	\$17.29	\$16.18	\$19.84	\$30.06	\$36.23	\$38.75	\$56.94
DPS	\$3.59	\$4.59	\$4.83	\$5.06	\$5.36	\$5.68	\$5.94	\$6.39	\$6.78	\$7.30	\$8.20	\$12.05
Shares¹	68.8	62.0	58.8	56.3	55.9	53.7	53.7	52.2	51.1	50.1	49.0	47.0

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 \$0.9 to \$1.1 billion of its stock during 2024, or roughly 2% 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 \$38.75 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	24.5	21.0
Avg. Yld.	1.7%	2.0%	2.2%	2.5%	1.8%	1.9%	1.8%	1.5%	1.20%	1.10%	0.9%	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 21 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%

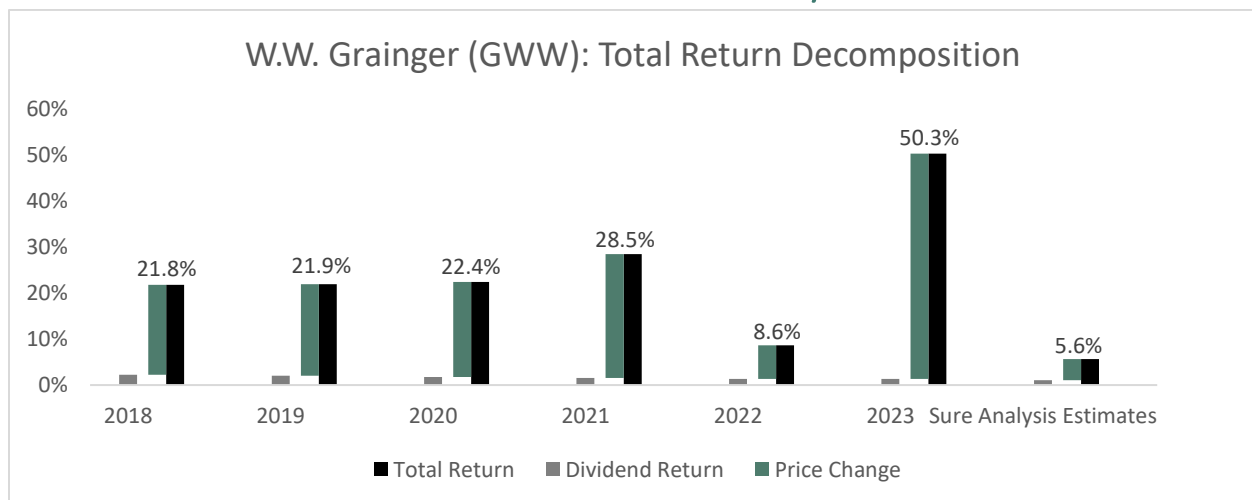
Grainger has an excellent dividend growth track record. Despite increasing its payout every year for over half a century, the company's dividend payout ratio has actually declined in recent years. The low dividend payout ratio and a very long dividend growth track record, coupled with a relatively stable 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, 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 5.6% per year, stemming from 8.0% growth and a 0.9% starting dividend yield, offset by the potential of a 3.0% 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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