



**GRAINGER**

# Q3 2017 Earnings Call

W.W. Grainger, Inc.

# Safe Harbor Statement and Non-GAAP Financial Measures

All statements in this communication, other than those relating to historical facts, are “forward-looking statements.” These forward-looking statements are not guarantees of future performance and are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such statements. These statements include, but are not limited to, statements about future strategic plans and future financial and operating results. Important factors that could cause actual results to differ materially from our expectations include, among others: higher product costs or other expenses; a major loss of customers; loss or disruption of source of supply; increased competitive pricing pressures; failure to develop or implement new technologies; the implementation, timing and success of our strategic pricing initiatives; the outcome of pending and future litigation or governmental or regulatory proceedings, including with respect to wage and hour, anti-bribery and corruption, environmental, advertising, privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; disruption of information technology or data security systems; general industry or market conditions; general global economic conditions; currency exchange rate fluctuations; market volatility; commodity price volatility; labor shortages; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; natural and other catastrophes; unanticipated weather conditions; loss of key members of management; our ability to operate, integrate and leverage acquired businesses; changes in credit ratings; changes in effective tax rates and other factors which can be found in our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q, which are available on our Investor Relations website. Forward-looking statements are given only as of the date of this communication and we disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

Additional information relating to certain non-GAAP financial measures referred to in this presentation, including adjusted operating earnings, adjusted segment operating earnings, adjusted net earnings and adjusted diluted earnings per share, is available in the appendix to this presentation and our most recent earnings release.



**GRAINGER**

# DG Macpherson

Chairman and Chief Executive Officer

# Q3 2017 Reported Results – Total Company

<i>(\$ in millions)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>% vs. PY</b>
Sales	\$ 2,636	\$ 2,596	2%
GP	1,017	1,040	-2%
Op Expense	736	717	3%
Op Earnings	\$ 281	\$ 323	-13%
<b>EPS</b>	<b>\$ 2.79</b>	<b>\$ 3.05</b>	<b>-9%</b>

<i>(% of sales)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>bps vs. PY</b>
GP Margin	38.6%	40.0%	(140)
Op Expense	27.9%	27.6%	30
Op Margin	10.7%	12.4%	(170)

- Reported results affected by:
  - U.S. restructuring, branch gains and other charges:
    - OE: -\$5M
    - EPS: -\$0.05
  - Canada restructuring:
    - OE: -\$5M
    - EPS: -\$0.06
- The remaining slides reference adjusted results, which exclude items outlined in our Q3 press release.

# Q3 2017 Adjusted Results – Total Company

<i>(\$ in millions)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>% vs. PY</b>
Sales	\$ 2,636	\$ 2,596	2%
GP	1,018	1,040	-2%
Op Expense	727	708	3%
Op Earnings	\$ 291	\$ 332	-13%
<b>EPS</b>	<b>\$ 2.90</b>	<b>\$ 3.06</b>	<b>-5%</b>

<i>(% of sales)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>bps vs. PY</b>
GP Margin	38.6%	40.1%	(150)
Op Expense	27.6%	27.3%	30
Expense/COGS	44.9%	45.5%	(60)
Op Margin	11.0%	12.8%	(180)

- Q3 2017 had one fewer selling day than Q3 2016
- Daily sales up 3% vs. prior year
  - Volume up 8%
  - Price down 4%
  - U.S specialty divestiture down 1%
  - Other: Hurricane and seasonal sales offset
- GP margin decline as expected, driven by U.S. pricing actions
- Operating expense leverage on higher volume (Expense/COGS)

# Q3 2017 Adjusted Results – Other Businesses

<i>(\$ in millions)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>% vs. PY</b>
Sales	\$ 537	\$ 482	11%
Op Earnings	\$ 27	\$ 25	7%

<i>(% of sales)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>bps vs. PY</b>
Op Margin	5.0%	5.2%	(20)

- Sales up 13% vs. prior year on a daily basis
  - Price and volume up 15%
  - FX down 2%
- Expanding margins for single channel businesses Zoro and MonotaRO
- Operating margin expanded excluding the investment in digital

# Q3 2017 Adjusted Results – Canada

<i>(\$ in millions)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>% vs. PY</b>
Sales	\$ 188	\$ 179	5%
Op Earnings	\$ -10	\$ -11	7%
<i>(% of sales)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>bps vs. PY</b>
Op Margin	-5.3%	-6.0%	70

- Sales up 7% vs. prior year on a daily basis, up 2% in local currency
- Operating expenses flat in local currency
- Working through turnaround, full update at Analyst Meeting

# Q3 2017 Adjusted Results – United States

<i>(\$ in millions)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>% vs. PY</b>
Sales	\$ 2,016	\$ 2,028	-1%
Op Earnings	\$ 303	348	-13%

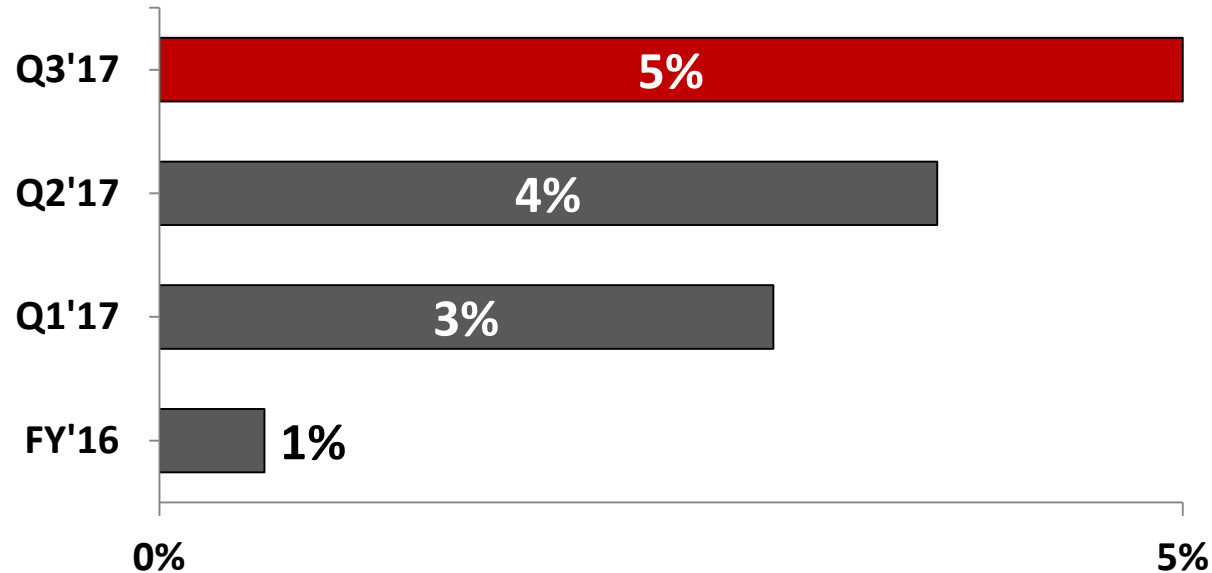
<i>(% of sales)</i>	<b>Q3 2017</b>	<b>Q3 2016</b>	<b>bps vs. PY</b>
Op Margin	15.0%	17.2%	(220)

- Daily sales up 1% vs. prior year
  - Volume up 7%
  - Price down 5%
  - Divestiture down 1%
  - Hurricane and intercompany sales offset by seasonal sales and holiday timing
- Operating expenses flat on 7% volume growth
- Operating margin in line with expectations



# U.S. Large: Pricing Actions Enabling Growth

Daily volume growth on \$6.1 billion of revenue

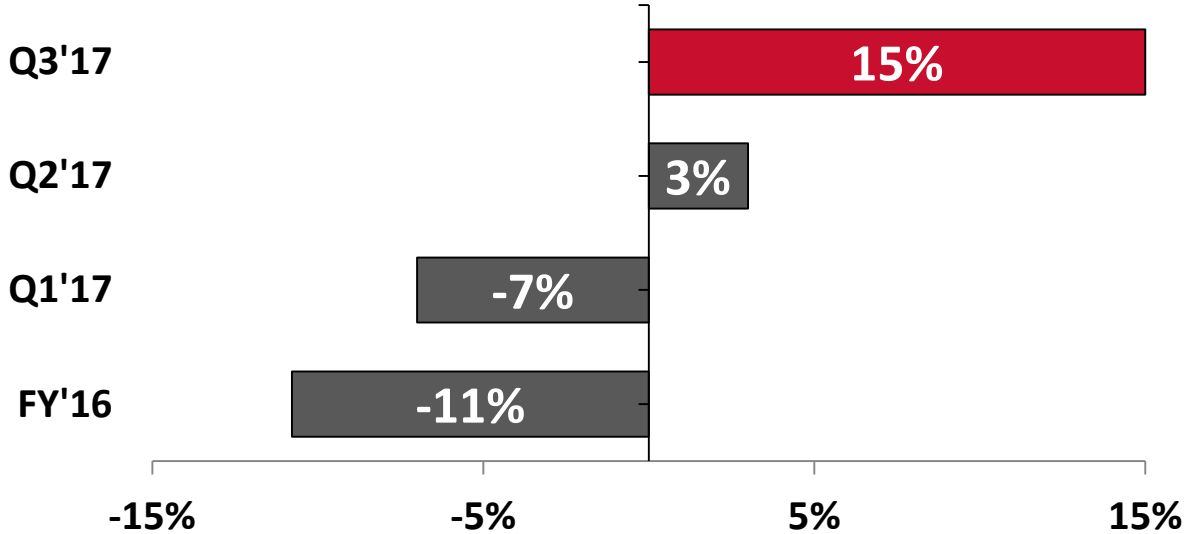


- Hurricane-related sales added 1% to volume, more than offset by declines from holiday timing and seasonal sales

- Spot buy and Large non-contract business volume growth turned positive in Q3
- Most Large contract business (market basket) was already competitively priced before the pricing initiative
- Majority of Large customer contract negotiations completed
- Benefit from Aug. 1 pricing rollout accelerated in September

# U.S. Medium: Strong Growth With Key Customer Group

Daily volume growth on \$0.9 billion of revenue



- All Medium volume on more competitive pricing by the end of the quarter
- Now acquiring new customers with the ability to digitally market web price
- Medium customers are accretive to U.S. business margin and growing

- Reported number net of hurricane-related sales and effects of declines from holiday timing and seasonal sales. Hurricane sales contributed mid-single digits to Medium business volume.

# 2017 Guidance: Narrowing Sales, EPS Midpoint Unchanged

	Low	Mid	High
<b>Sales</b> ( <i>\$ billions</i> )	<b>\$10.3</b>	<b>\$10.3</b>	<b>\$10.4</b>
% vs. prior year	1.5%	2.0%	2.5%
<b>Op. Margin</b>	<b>10.6%</b>	<b>10.7%</b>	<b>10.8%</b>
bps vs. prior year	(180)	(170)	(160)
<b>EPS</b>	<b>\$10.40</b>	<b>\$10.65</b>	<b>\$10.90</b>

# Closing Remarks

- Solid third quarter
  - Volume growth where expected; digital marketing resulting in new customer acquisition
  - Continued strong performance in the online model
  - Strong cost management
  - Continued work on the Canada turnaround
- U.S. pricing actions allow us to sell the value of the sales and service model
- Preview of key topics for the November Analyst Meeting
  - Additional data on volume response
  - Update on actions in Canada
  - More detail on cost takeout plans
  - Update on digital strategy

# Q&A

# Appendix

# Quarterly Daily Sales

## Q3 2017 Daily Sales vs. Q3 2016

	<b>Company</b>	<b>United States</b>	<b>Canada</b>	<b>Other Businesses</b>
Volume	8%	7%	2%	15%
Price	-4%	-5%	0%	
Seasonal	-1%	-1%	0%	
Holiday timing	0%	-1%	0%	
Intercompany sales	n/a	1%	0%	
Foreign exchange	0%	n/a	5%	-2%
Divestiture	-1%	-1%	0%	
Hurricanes	1%	1%	0%	
<b>Change vs. Prior</b>	<b>3%</b>	<b>1%</b>	<b>7%</b>	<b>13%</b>
% of Company Revenue	100%	73%	7%	20%

*Note: 63 selling days in 2017; 64 selling days in 2016*

## Q3 2017 Daily Sales by Month

	<b>Company</b>	<b>United States</b>	<b>Canada</b>	<b>Other Businesses</b>
July	2%	0%	6%	13%
August	1%	-1%	4%	12%
September	7%	5%	11%	15%
<b>Q3</b>	<b>3%</b>	<b>1%</b>	<b>7%</b>	<b>13%</b>

# Q3 2017 U.S. Sales By Customer End Market

- Natural Resources: up High Single Digits
- Reseller: up High Single Digits
- Retail: up Low Single Digits
- Heavy Manufacturing: up Low Single Digits
- Commercial: up Low Single Digits
- Government: up Low Single Digits
- Light Manufacturing: down Low Single Digits
- Contractor: down Mid-Single Digits



# Selling Days – 2017 vs. 2016

<u>Month</u>	<u>2017</u>	<u>2016</u>	<u>Difference</u>
January	21	20	1
February	20	21	-1
March	<u>23</u>	<u>23</u>	<u>0</u>
<b>1Q</b>	<b>64</b>	<b>64</b>	<b>0</b>
April	20	21	-1
May	22	21	1
June	<u>22</u>	<u>22</u>	<u>0</u>
<b>2Q</b>	<b>64</b>	<b>64</b>	<b>0</b>
July	20	20	0
August	23	23	0
September	<u>20</u>	<u>21</u>	<u>-1</u>
<b>3Q</b>	<b>63</b>	<b>64</b>	<b>-1</b>
October	22	21	1
November	21	21	0
December	<u>20</u>	<u>21</u>	<u>-1</u>
<b>4Q</b>	<b>63</b>	<b>63</b>	<b>0</b>
<b>Full Year</b>	<b>254</b>	<b>255</b>	<b>-1</b>

# Q3 2017 Branch Summary

## Third Quarter 2017 Branch Summary

	<u>Branches</u> <u>6/30/2017</u>	<u>Opened</u>	<u>Closed</u>	<u>Branches</u> <u>9/30/2017</u>	<u>Distribution</u> <u>Centers</u> <u>9/30/2017</u>
United States	286	0	0	286	18
Canada	149	0	40	109	5
Other Businesses					
Fabory	70	0	1	69	2
Mexico	18	0	0	18	2
Cromwell	62	0	0	62	1
Colombia	6	0	2	4	1
China	0	0	0	0	1
Puerto Rico	5	0	0	5	0
Dominican Republic	1	0	0	1	0
Japan	0	0	0	0	2
Brazil	0	0	0	0	1
Peru	1	0	0	1	0
Total Other Businesses	163	0	3	160	10
Total	<u>598</u>	<u>0</u>	<u>43</u>	<u>555</u>	<u>33</u>

# GAAP to Non-GAAP Reconciliations

	Three Months Ended September 30,		
	2017	2016	%
Operating earnings reported	\$ 281,170	\$ 322,587	(13 )%
Restructuring (United States)	13,151	6,600	
Branch gains (United States)	(5,207)	(1,163)	
Other charges (United States)	(3,023)	—	
Restructuring (Canada)	4,937	4,367	
Restructuring (Other Businesses)	(210)	—	
Subtotal	9,648	9,804	
Operating earnings adjusted	\$ 290,818	\$ 332,391	(13 )%

	Three Months Ended September 30,		
	2017	2016	%
Segment operating earnings adjusted			
United States	302,776	347,961	
Canada	(10,035)	(10,751)	
Other Businesses	26,682	24,835	
Unallocated expense	(28,605)	(29,654)	
Segment operating earnings adjusted	\$ 290,818	\$ 332,391	(13 )%

Company operating margin adjusted 11.0 % 12.8 %

	Three Months Ended September 30,		
	2017	2016	%
Net earnings reported	\$ 162,006	\$ 185,873	(13 )%
Restructuring (United States)	8,233	4,138	
Branch gains (United States)	(3,260)	(729)	
Other charges (United States)	(1,892)	—	
Restructuring (Canada)	3,648	3,210	
Restructuring (Other Businesses)	(210)	—	
Discrete tax item	—	(6,087)	
Subtotal	6,519	532	
Net earnings adjusted	\$ 168,525	\$ 186,405	(10 )%
Diluted earnings per share reported	\$ 2.79	\$ 3.05	(9 )%
Pretax adjustments:			
Restructuring (United States)	0.23	0.11	
Branch gains (United States)	(0.09)	(0.02)	
Other charges (United States)	(0.05)	—	
Restructuring (Canada)	0.08	0.07	
Restructuring (Other Businesses)	—	—	
Total pretax adjustments	0.17	0.16	
Tax effect (1)	(0.06)	(0.05)	
Discrete tax item	—	(0.10)	
Total, net of tax	0.11	0.01	
Diluted earnings per share adjusted	\$ 2.90	\$ 3.06	(5 )%



(1) The tax impact of adjustments is calculated based on the income tax rate in each applicable jurisdiction, subject to deductibility limitations and the company's ability to realize the associated tax benefits.

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