



NYSE: GWW

Q2 2023 Earnings Call

July 27, 2023

Safe Harbor Statement and Non-GAAP Financial Measures

All statements in this communication, other than those relating to historical facts, are “forward-looking statements.” Forward-looking statements can generally be identified by their use of terms such as “anticipate,” “estimate,” “believe,” “expect,” “could,” “forecast,” “may,” “intend,” “plan,” “predict,” “project,” “will,” or “would,” and similar terms and phrases, including references to assumptions. The Company cannot guarantee that forward looking statements will be realized and achieved as they are subject to assumptions, risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such statements. Forward-looking 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 those presented or implied in the forward-looking statements include, without limitation: inflation, higher product costs or other expenses, including operational and administrative expenses; the impact of macroeconomic pressures and geopolitical trends, changes and events, including the impact of Russia’s invasion of Ukraine on the global economy, tensions across the Taiwan Straits and in overall relations with China, and the ramifications of these and other events; a major loss of customers; loss or disruption of sources of supply; changes in customer or product mix; increased competitive pricing pressures; changes in third party practices regarding digital advertising; failure to enter into or sustain contractual arrangements on a satisfactory basis with group purchasing organizations; failure to develop, manage or implement new technology initiatives or business strategies, including with respect to the Company’s eCommerce platforms; failure to adequately protect intellectual property or successfully defend against infringement claims; fluctuations or declines in the Company’s gross profit margin; the Company’s responses to market pressures; the outcome of pending and future litigation or governmental or regulatory proceedings, including with respect to wage and hour, anti-bribery and corruption, environmental, regulations related to advertising, marketing and the Internet, consumer protection, pricing (including disaster or emergency declaration pricing statutes), product liability, compliance or safety, trade and export compliance, general commercial disputes, or privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; failure to comply with laws, regulations and standards, including new or stricter environmental laws or regulations; government contract matters; disruption or breaches of information technology or data security systems involving the Company or third parties on which the Company depends; general industry, economic, market or political conditions; general global economic conditions including tariffs and trade issues and policies; currency exchange rate fluctuations; market volatility, including price and trading volume volatility or price declines of the Company’s common stock; commodity price volatility; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; outbreaks of pandemic disease or viral contagions such as the COVID-19 pandemic; natural or human induced disasters, extreme weather and other catastrophes or conditions; effects of climate change; failure to execute on our efforts and programs related to environmental, social and governance matters; competition for, or failure to attract, retain, train, motivate and develop executives and key employees; loss of key members of management or key employees; changes in effective tax rates; changes in credit ratings or outlook; the Company’s incurrence of indebtedness or failure to comply with restrictions and obligations under its debt agreements and instruments and other factors identified in the Company’s 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. The preceding list is not intended to be an exhaustive list of all of the factors that could impact the Company’s forward-looking statements. Given these risks and uncertainties, you are cautioned not to place undue reliance on the Company’s forward-looking statements and the Company undertakes no obligation to update or revise any of its forward-looking statements, 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 is available in the appendix to this presentation, including: adjusted return on invested capital; adjusted EBITDA; daily sales; daily, constant currency sales; constant currency sales in local days; net leverage ratio; and free cash flow. This communication also includes certain non-GAAP forward-looking information (including, but not limited to slide 14 & 22). The Company believes that a quantitative reconciliation of such forward-looking information to the most comparable financial measure calculated and presented in accordance with GAAP cannot be made available without unreasonable efforts. A reconciliation of these non-GAAP financial measures would require the Company to predict the timing and likelihood of future restructurings, asset impairments, and other charges. Neither these forward-looking measures, nor their probable significance, can be quantified with a reasonable degree of accuracy. Accordingly, the most directly comparable forward-looking GAAP measures are not provided. Forward-looking non-GAAP financial measures provided without the most directly comparable GAAP financial measures may vary materially from the corresponding GAAP financial measures.

Opening Remarks



D.G. Macpherson
Chairman and CEO



The Grainger Edge®

Our Purpose

We Keep the World Working®

Our Aspiration

We relentlessly expand our leadership position by being the go-to partner for people who build and run safe, sustainable, and productive operations



Highlights from the 2023 ESG Report

Progressing on our near-term ESG initiatives



Customer sustainability solutions

\$1B

Revenue from Environmentally Preferable Products in HTS – U.S.



Supplier diversity

> \$2B

Spent on products from underrepresented business ⁽¹⁾



Energy and emissions

> 26%

Reduction in total absolute global Scope 1 & 2 emissions since 2018



Diversity, equity and inclusion



Named by Great Place to Work® and Fortune magazine as one of the 2022 Best Workplaces for Women⁽²⁾

Helping our customers achieve their own ESG objectives

Grainger is the go-to partner for people who seek to build and run safe, sustainable, and productive operations



- ✓ Safety & Security Solutions
- ✓ Diversity Solutions
- ✓ Energy Management Programs
- ✓ Sustainability Services
- ✓ Environmentally Preferred Products

Q2 2023 Highlights

Focused execution driving continued strong results

- Sustained momentum with our HTS-N.A. growth engines and EA flywheel
- Announced addition of four new sites to expand U.S. supply chain capacity
- Delivered another strong quarter of results
 - Generated daily sales growth of 9.0% (10.1% in daily, constant currency), including ~525 bps of MRO market outgrowth in HTS-U.S.
 - Expanded operating margins by 190 bps versus prior year
 - Produced operating cash flow of \$450 million, up 80% versus prior year
- Returned \$265 million to shareholders through dividends and share repurchases⁽¹⁾
- Raising midpoint of full year 2023 revenue and EPS total company guidance

Sales

\$4.2B

+9.0%
(daily basis)

Operating
Margin

15.8%

+190bps

EPS
(diluted)

\$9.28

+29.1%

Adj. ROIC⁽²⁾

44.6%

+410bps

Q2 2023 Results



Dee Merriwether
SVP and CFO



Q2 2023 Results: *Total Company*

Summary Results

(\$ in millions)

(\$ in millions)	Q2 2023		Q2 2022		% vs. PY Fav/(Unfav)
Sales	\$	4,182	\$	3,837	9.0%
Daily Sales		65.3		60.0	9.0%
GP		1,644		1,441	14.0%
SG&A		983		907	(8.4)%
Op Earnings	\$	661	\$	534	23.5%
EPS (diluted)	\$	9.28	\$	7.19	29.1%

(% of sales)

(% of sales)	Q2 2023	Q2 2022	bps vs. PY Fav/(Unfav)
GP Margin	39.3 %	37.6 %	170
SG&A	23.5 %	23.7 %	20
Op Margin	15.8 %	13.9 %	190

Commentary vs. Prior Year

Sales increased 9.0% (reported and daily)

- 10.1% sales growth on a daily, constant currency basis
- Double-digit revenue growth in both segments when adjusting for FX headwinds

Gross profit margin up 170 bps

- Continued margin expansion in both segments

Operating margin expanded 190 bps

- Flow through of favorable gross margin
- Slight SG&A margin improvement as EA decline was offset by improved HTS-N.A. leverage

Diluted EPS of \$9.28, up 29.1% versus prior year

Q2 2023 Results: *High-Touch Solutions - N.A.*

Summary Results

(\$ in millions)

	Q2 2023		Q2 2022	% vs. PY Fav/(Unfav)
Sales	\$	3,355	\$ 3,053	9.9%
Daily Sales		52.4	47.7	9.9%
GP		1,398	1,211	15.5%
SG&A		798	736	(8.7)%
Op Earnings	\$	600	\$ 475	26.0%
(% of sales)				
	Q2 2023		Q2 2022	bps vs. PY Fav/(Unfav)
GP Margin		41.7 %	39.7 %	200
SG&A		23.8 %	24.1 %	30
Op Margin		17.9 %	15.6 %	230

Commentary vs. Prior Year

Sales increased 9.9% (reported and daily)

- 10.0% sales growth on a daily, constant currency basis
- Solid growth across all geographies
- Continued price realization

Gross profit margin up 200 bps, driven by:

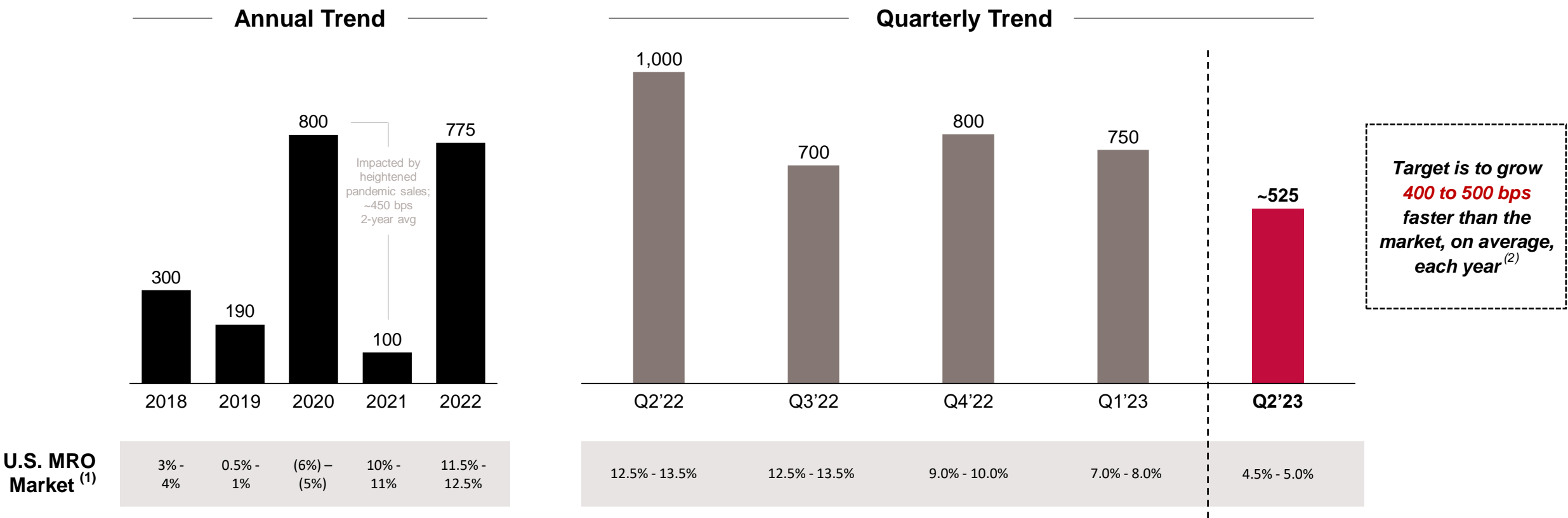
- Sustained freight and supply chain efficiencies
- Continued favorable product mix
- Price / cost spread negative when adjusting for non-recurring rebate benefit

Operating margin expanded 230 bps

- SG&A leverage of 30 bps as revenue growth more than offset headcount and marketing investments

Sales Outgrowth: *High-Touch Solutions - U.S.*

Continued traction with growth engines driving outgrowth of ~525 basis points in Q2'23



Q2 2023 Results: *Endless Assortment*

Summary Results

(\$ in millions)				% vs. PY Fav/(Unfav)	
	Q2 2023		Q2 2022		
Sales	\$	751	\$	719	4.5%
Daily Sales		11.7		11.2	4.5%
GP		224		209	6.6%
SG&A		159		147	(7.7)%
Op Earnings	\$	65	\$	62	3.8%
(% of sales)				bps vs. PY Fav/(Unfav)	
	Q2 2023		Q2 2022		
GP Margin		29.7 %		29.2 %	50
SG&A		21.1 %		20.5 %	(60)
Op Margin		8.6 %		8.7 %	(10)

Commentary vs. Prior Year

Sales increased 4.5% (reported and daily); up 10.1% in daily, constant currency

- Zoro growth of 2.8% on a daily basis
- MonotaRO reported growth impacted by depreciating Yen; 12.6% growth in local days, local currency

Gross profit margin up 50 bps

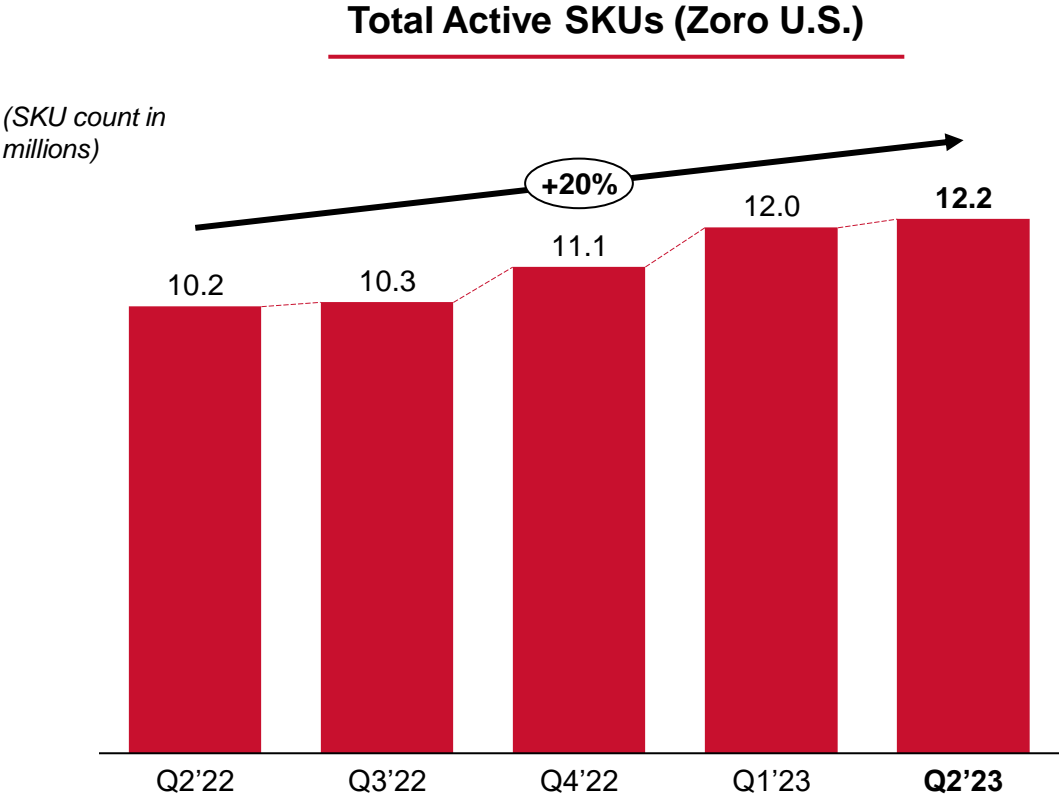
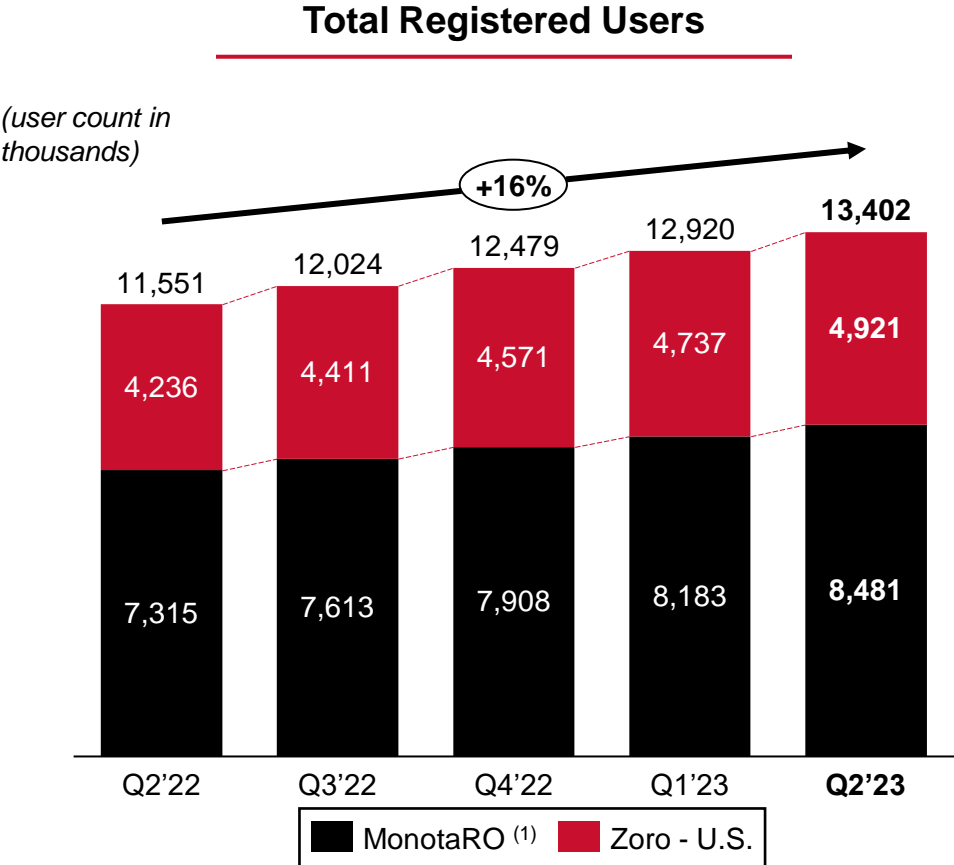
- Strong price realization and freight efficiencies at MonotaRO offsetting unfavorable Zoro product mix

Operating margin declined 10bps

- Zoro declined 200bps due to decline in GP margin and slower than expected top-line growth
- MonotaRO increased 70 bps as higher GP margin offset continued investment to support growth

Operating Metrics: *Endless Assortment*

Growth of registered users and SKU additions continue to provide strong foundation for sales growth across the segment



Looking Ahead



Dee Merriwether
SVP and CFO



2023 Full Year Guidance: *Total Company*

**Raising
midpoint of
revenue and
EPS outlook**

	2022A	2023 Guidance <small>(updated as of July 27, 2023)</small>	Y/Y change
Net Sales (\$ billions)	\$15.2	\$16.4 – \$16.8	8.0% to 10.6% <small>(8.5% to 11.0% daily sales)</small>
<small>Prior FY'23 Guidance</small>		\$16.2 - \$16.8	
Gross Profit Margin	38.4%	39.1% – 39.4%	70 to 100 bps
<small>Prior FY'23 Guidance</small>		Unchanged	
Operating Margin	14.4%	15.2% – 15.7%	80 to 130 bps
<small>Prior FY'23 Guidance</small>		Unchanged	
EPS (diluted)	\$29.66	\$35.00 – \$36.75	18.0% to 23.9%
<small>Prior FY'23 Guidance</small>		\$34.25 - \$36.75	

Closing Remarks



D.G. Macpherson
Chairman and CEO



Q&A



Appendix

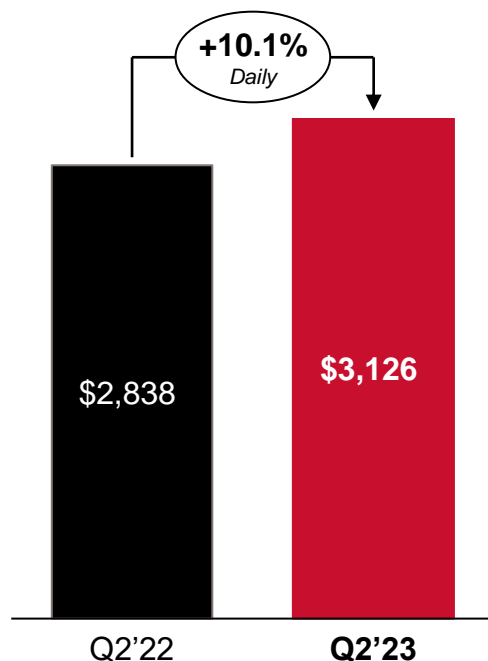


Q2 2023 Segment Highlights: *High-Touch Solutions - N.A.*

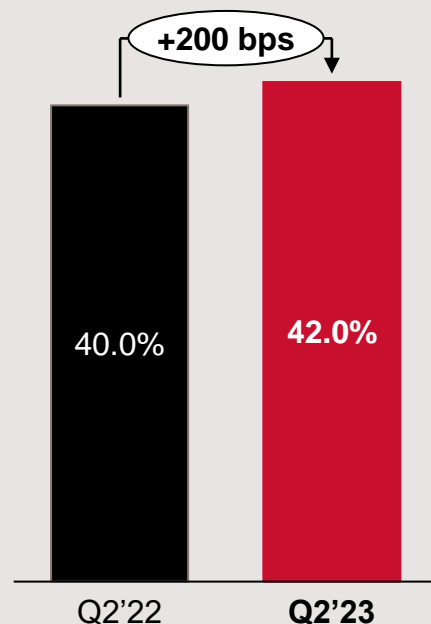
HTS - U.S.

(\$ millions)

Sales



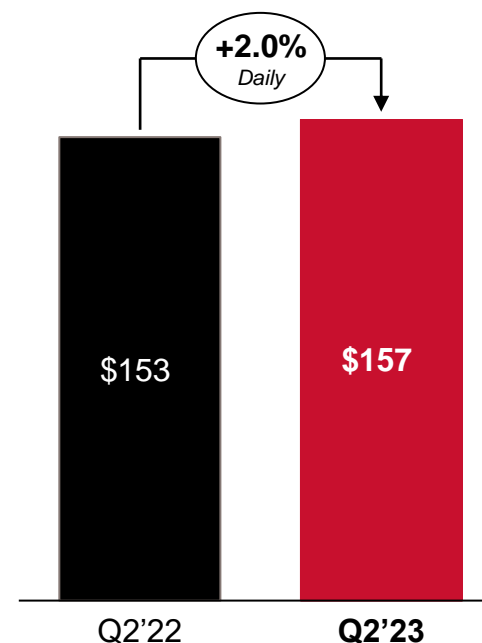
Gross Profit



HTS - Canada

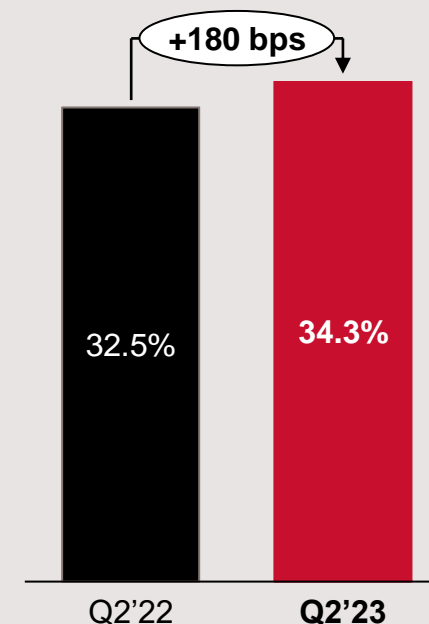
(\$ millions)

Sales



Local days and currency: +7.3%

Gross Profit

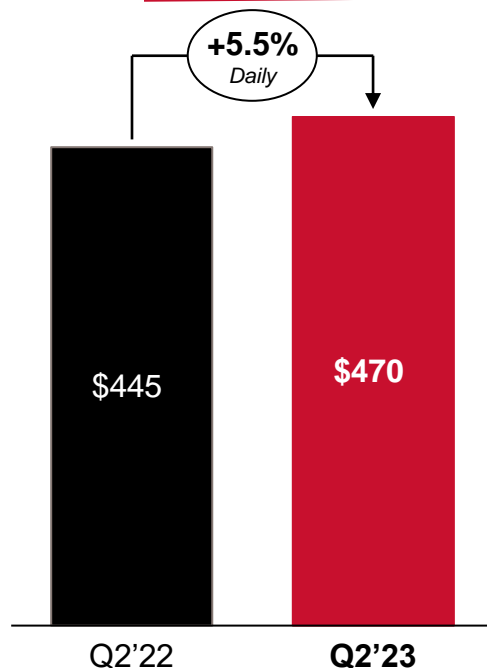


Q2 2023 Segment Highlights: *Endless Assortment*

MonotaRO ⁽¹⁾

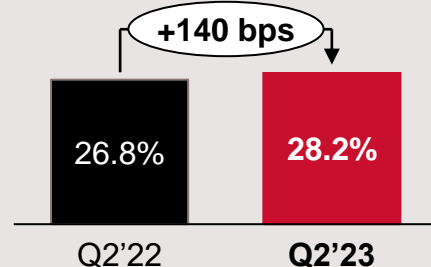
(\$ millions)

Sales

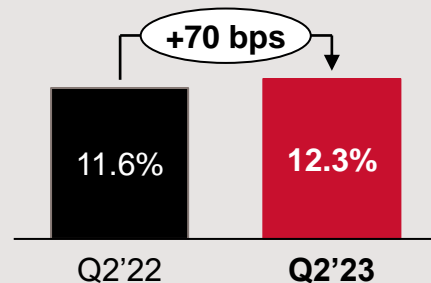


Local days and currency: +12.6%

Gross Profit



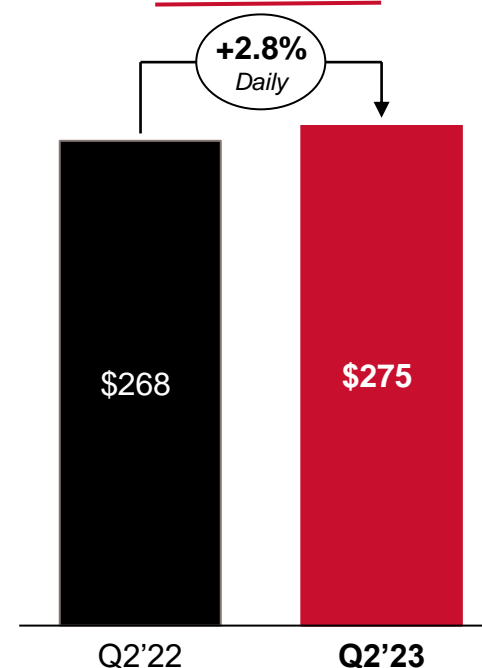
Op. Margin



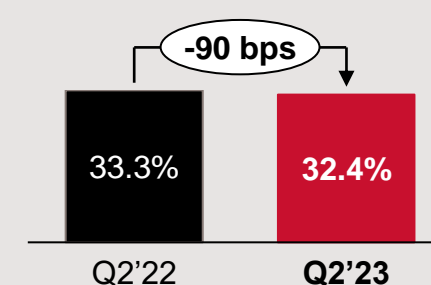
Zoro - U.S.

(\$ millions)

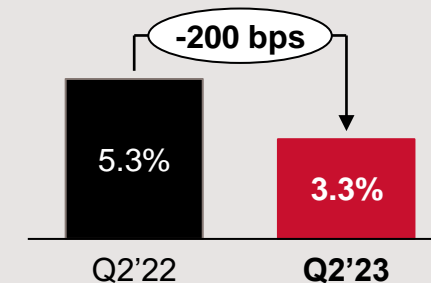
Sales



Gross Profit

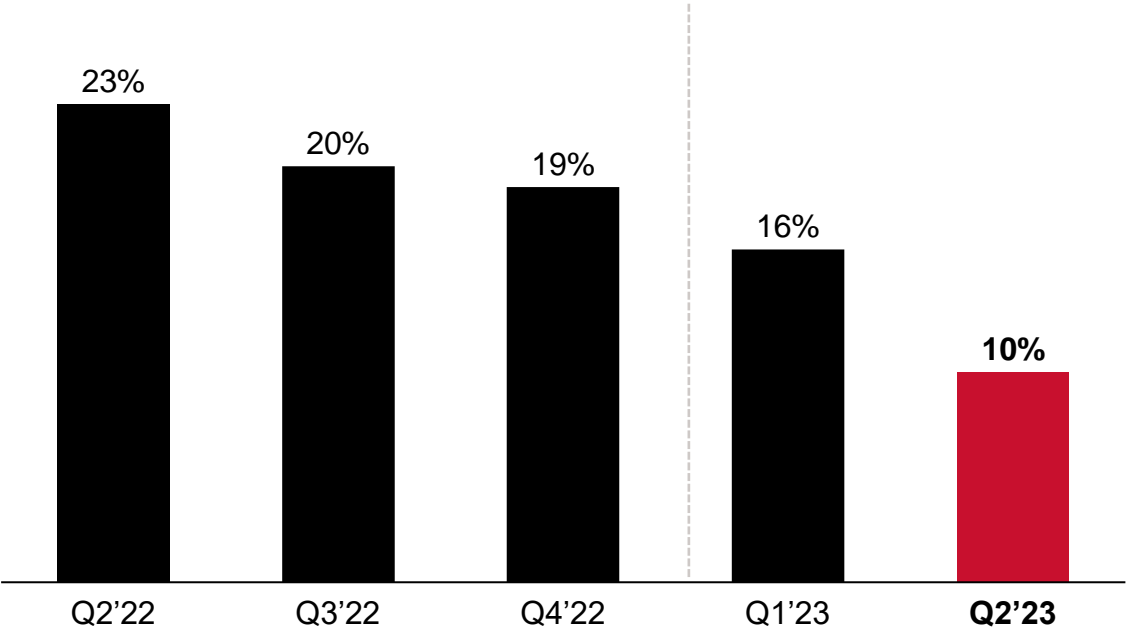


Op. Margin



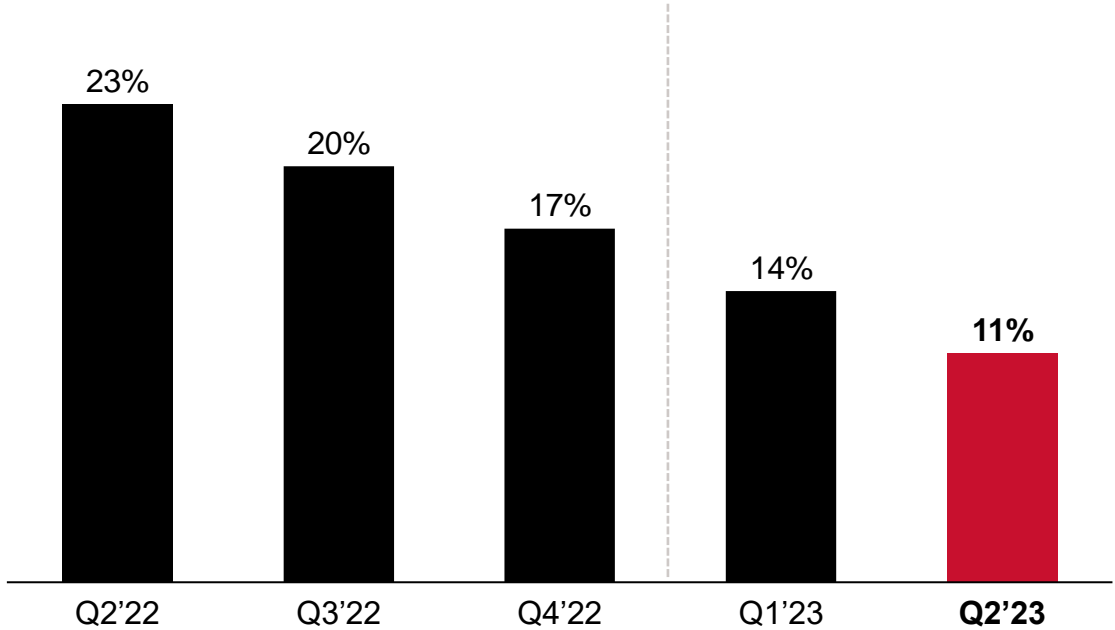
Q2 2023 Sales Performance: *High-Touch Solutions - U.S.*

Large Customers⁽¹⁾



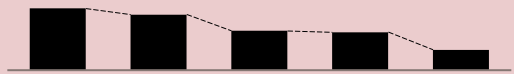



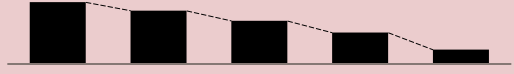






Note: FY'22 large customer daily sales growth was 20%

Mid-sized Customers⁽¹⁾



Note: FY'22 mid-size customer daily sales growth was 21%

Sales Growth By Customer End Market: *HTS – U.S.*

	Q2'23	5 Quarter Trend
Commercial Services	UP High-Single Digits	
Contractors	UP Low-Double Digits	
Government	UP Mid-Teens	
Healthcare	UP Low-Double Digits	
Manufacturing	UP High-Single Digits	
Retail	UP Low-Double Digits	
Transportation	UP Low-Double Digits	
Utilities	UP Mid-Single Digits	
Warehousing	Flat	
Wholesale	UP High-Single Digits	
Other ⁽¹⁾	UP High-Teens	

2023 Full Year Supplemental Guidance

Adj. Operating Margin: Maintaining HTS-N.A. operating margin outlook, while lowering EA on slower sales

	2020A	2021A	2022A	2023 Guidance (updated as of July 27, 2023)
High-Touch Solutions - N.A.	13.0%	13.1%	16.3%	17.3% – 17.8%
<i>Prior FY'23 Guidance</i>				<i>Unchanged</i>
Endless Assortment	8.0%	9.0%	8.0%	7.4% – 7.8%
<i>Prior FY'23 Guidance</i>				<i>7.9% - 8.3%</i>
Total Company	11.2%	11.9%	14.4%	15.2% – 15.7%
<i>Prior FY'23 Guidance</i>				<i>Unchanged</i>

Cash Flow: Increasing operating cash flow and share repurchase outlook on improved earnings and lower working capital

(\$ millions)	2020A	2021A	2022A	2023 Guidance (updated as of July 27, 2023)
Operating Cash Flow	\$1,123	\$937	\$1,333	\$1,700 – \$1,850
<i>Prior FY'23 Guidance</i>				<i>\$1,600 - \$1,800</i>
Capital Expenditures⁽¹⁾	\$197	\$255	\$256	\$450 – \$525
<i>Prior FY'23 Guidance</i>				<i>Unchanged</i>
Share Repurchases⁽²⁾	\$600	\$699	\$602	\$750 – \$850
<i>Prior FY'23 Guidance</i>				<i>\$650 - \$800</i>

Note: Guidance provided on an adjusted basis. Assumes corporate effective tax rate of ~24% and JPY / USD FX rate of 136. See appendix for a reconciliation of any non-GAAP financial measures. Numbers may not sum due to rounding. Prior FY'23 guidance as provided on April 27, 2023.

(1) CapEx as reflected in the cash flow statement.

(2) Includes only share repurchases related to Grainger common stock.

Definitions & Calculations

Basis of presentation:

The Company has a controlling ownership interest in MonotaRO, which is part of our Endless Assortment segment. MonotaRO's results are fully consolidated, reflected in U.S. GAAP, and reported one-month in arrears. Results will differ from MonotaRO's externally reported financials which follow Japanese GAAP.

Non-GAAP financial measures:

The Company believes these non-GAAP financial measures provide meaningful information to assist investors in understanding financial results and assessing prospects for future performance as they provide a better baseline for analyzing the ongoing performance of its business by excluding items that may not be indicative of core operating results.

"Adjusted gross profit", "adjusted SG&A", "adjusted operating earnings", "adjusted EBITDA", "adjusted net earnings", "adjusted EPS (diluted)"— exclude certain non-recurring items, like restructuring charges, asset impairments, business divestitures and other non-recurring, infrequent or unusual gains and losses (together referred to as "non-GAAP adjustments"), from the Company's most directly comparable reported U.S. GAAP figures (reported gross profit, SG&A, operating earnings, net earnings and EPS). The Company believes these non-GAAP adjustments provide meaningful information to assist investors in understanding financial results and assessing prospects for future performance as they provide a better baseline for analyzing the ongoing performance of its business by excluding items that may not be indicative of core operating results.

"Adjusted return on invested capital" (ROIC) — is calculated using the Company's annualized adjusted operating earnings (defined above) divided by average net working assets for the period. Average net working assets is calculated using a two-point average for Q1, a three-point average for Q2, a four-point average for Q3 and a five-point average for Q4. Net working assets are working assets minus working liabilities and defined as follows: working assets equal total assets less cash equivalents, deferred and prepaid income taxes and operating lease right-of-use assets plus any LIFO reserves. Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit-sharing plans and accrued expenses. The Company believes the presentation of adjusted ROIC provides useful information regarding how effectively the Company is using capital to generate financial returns.

"Free cash flow" (FCF) — is calculated using total cash provided by operating activities less capital expenditures. The Company believes the presentation of FCF allows investors to evaluate the capacity of the Company's operations to generate free cash flow.

"Net leverage ratio" — is calculated by dividing the Company's net debt (total debt outstanding less debt issuance costs less cash and cash equivalents) by adjusted EBITDA. Adjusted EBITDA is defined as EBITDA less the Company's non-GAAP adjustments for the last twelve months. The Company believes the presentation of its net debt to adjusted EBITDA ratio provides useful information regarding the Company's liquidity and leverage.

"Daily sales" — refers to net sales for the period divided by the number of U.S. selling days for the period.

"Daily, constant currency sales" — refers to the daily sales adjusted for changes in foreign exchange.

"Daily, constant currency sales in local days" — refers to the daily sales adjusted for changes in foreign exchange and local selling days for the business unit.

"Foreign exchange" — impact is calculated by dividing current period local currency daily sales by current period average exchange rate and subtracting the current period local currency daily sales divided by the prior period average exchange rate.

"U.S. market outgrowth" — a relative metric using HTS - U.S. daily sales growth less estimated U.S. MRO market growth. The U.S. MRO market growth is based on the Company's estimates using a compilation of external market data, including both volume and price.

U.S. selling days:

2022: Q1-64, Q2-64, Q3-64, Q4-63, FY-255

2023: Q1-64, Q2-64, Q3-63, Q4-63, FY-254

2024: Q1-64, Q2-64, Q3-64, Q4-64, FY-256

GAAP to Non-GAAP Reconciliations

Sales growth for the three months ended June 30, 2023

(percent change compared to the prior year period)

(unaudited)

Total Company - Monthly Detail

	April	May	June	Q2'23
Reported sales	4.4%	13.4%	9.2%	9.0%
Daily impact	5.2%	(5.2)%	—%	—%
Daily sales ⁽¹⁾	9.6%	8.2%	9.2%	9.0%
Foreign exchange ⁽²⁾	(2.0)%	(0.7)%	(0.6)%	(1.1)%
Daily, constant currency sales	11.6%	8.9%	9.8%	10.1%

Endless Assortment (EA) - Daily Sales

	EA	Zoro - U.S.	MonotaRO
	Q2'23	Q2'23	Q2'23
Reported sales	4.5%	2.8%	5.5%
Daily impact	—%	—%	—%
Daily sales ⁽¹⁾	4.5%	2.8%	5.5%
Foreign exchange ⁽²⁾	(5.6)%	—%	(8.9)%
Daily, constant currency sales	10.1%	2.8%	14.4%
Impact of local days	NA	—%	(1.8)%
Daily, constant currency in local days	NA	2.8%	12.6%

High-Touch Solutions - N.A. - Daily Sales

	HTS - N.A.	HTS - U.S.	HTS - Canada
	Q2'23	Q2'23	Q2'23
Reported sales	9.9%	10.1%	2.0%
Daily impact	—%	—%	—%
Daily sales ⁽¹⁾	9.9%	10.1%	2.0%
Foreign exchange ⁽²⁾	(0.1)%	—%	(5.3)%
Daily, constant currency sales	10.0%	10.1%	7.3%
Impact of local days	NA	—%	—%
Daily, constant currency in local days	NA	10.1%	7.3%

High-Touch Solutions - N.A. - Daily Sales Drivers

	HTS - N.A.	HTS - U.S.	HTS - Canada ⁽³⁾
	Q2'23	Q2'23	Q2'23
Volume/product mix	4.9%	5.0%	2.0%
Price/customer mix	5.1%	5.1%	5.3%
Foreign exchange ⁽²⁾	(0.1)%	—%	(5.3)%
Daily sales ⁽¹⁾	9.9%	10.1%	2.0%

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix *Definitions and Calculations*.

(1) Based on U.S. selling days, there were 64 selling days in Q2 2023 and Q2 2022.

(2) Foreign exchange impact is calculated by dividing current period local currency daily sales by current period average exchange rate and subtracting the current period local currency daily sales divided by the prior period average exchange rate.

(3) Starting in Q2 2023, the volume and price calculations and definitions for HTS - Canada have been updated to align with the HTS - U.S. methodology.

GAAP to Non-GAAP Reconciliations

Income statement adjustments for the three months ended June 30, 2023

(in millions, except for percentage data)

(unaudited)

Total Company results included adjusting items which impacted U.S. GAAP as follows:

	Q2'23			Reported	Adjusted
	Reported	Adj. items ⁽¹⁾	Adjusted	% of Net sales	
Net sales	\$ 4,182	\$ —	\$ 4,182	100.0 %	100.0 %
Cost of good sold	2,538	—	2,538	60.7	60.7
Gross profit	1,644	—	1,644	39.3	39.3
SG&A	983	—	983	23.5	23.5
Operating earnings	661	—	661	15.8	15.8
Other expense — net	16	—	16	0.4	0.4
Earnings before income taxes	645	—	645	15.4	15.4
Income tax provision ⁽²⁾	155	—	155	3.7	3.7
Net earnings	490	—	490	11.7	11.7
Noncontrolling interest ⁽³⁾	(20)	—	(20)	0.5	0.5
Net earnings attributable to W.W. Grainger, Inc.	\$ 470	\$ —	\$ 470	11.2 %	11.2 %
Diluted earnings per share:	\$ 9.28	\$ —	\$ 9.28	NA	NA

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix *Definitions and Calculations*.

(1) Results are consistent on a reported and adjusted basis for the quarter. Numbers may not sum due to rounding.

(2) The reported and adjusted effective tax rate was 24.0%.

(3) The Company has a controlling ownership interest in MonotaRO, with the residual representing noncontrolling interest.

GAAP to Non-GAAP Reconciliations

Income statement adjustments for the three months ended June 30, 2022

(in millions, except for percentage data)

(unaudited)

Total Company results included adjusting items which impacted U.S. GAAP as follows:

	Q2'22			Reported	Adjusted
	Reported	Adj. items ⁽¹⁾	Adjusted	% of Net sales	
Net sales	\$ 3,837	\$ —	\$ 3,837	100.0 %	100.0 %
Cost of good sold	2,396	—	2,396	62.4	62.4
Gross profit	1,441	—	1,441	37.6	37.6
SG&A	907	—	907	23.7	23.7
Operating earnings	534	—	534	13.9	13.9
Other expense — net	17	—	17	0.4	0.4
Earnings before income taxes	517	—	517	13.5	13.5
Income tax provision ⁽²⁾	128	—	128	3.4	3.4
Net earnings	389	—	389	10.1	10.1
Noncontrolling interest ⁽³⁾	(18)	—	(18)	0.4	0.4
Net earnings attributable to W.W. Grainger, Inc.	\$ 371	\$ —	\$ 371	9.7 %	9.7 %
Diluted earnings per share:	\$ 7.19	\$ —	\$ 7.19	NA	NA

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix *Definitions and Calculations*.

(1) Results are consistent on a reported and adjusted basis for the quarter. Numbers may not sum due to rounding.

(2) The reported and adjusted effective tax rate was 24.8%

(3) The Company has a controlling ownership interest in MonotaRO, with the residual representing noncontrolling interest.

GAAP to Non-GAAP Reconciliations

Operating margin adjustments for the twelve months ended December 31, 2022, 2021, and 2020

(in millions, except for percentage data)

(unaudited)

	2022			2021			2020		
	HTS-N.A.	EA	Total Company	HTS-N.A.	EA	Total Company	HTS-N.A.	EA	Total Company
Reported %	16.3 %	8.0 %	14.5 %	13.1 %	9.0 %	11.9 %	12.8 %	7.6 %	8.6 %
Business divestiture ⁽¹⁾	—	—	(0.10)%	—	—	—	—	—	0.9 %
Impairment charges ⁽²⁾	—	—	—	—	—	—	—	—	1.5 %
Restructuring ⁽³⁾	—	—	—	—	—	—	0.2 %	0.4 %	0.2 %
Adjusted %	16.3 %	8.0 %	14.4 %	13.1 %	9.0 %	11.9 %	13.0 %	8.0 %	11.2 %
Reported bps change (Y/Y)	320	(100)	265	30	135	325	(135)	105	(235)
Adjusted bps change (Y/Y)	320	(100)	255	10	95	65	(120)	145	(80)

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix Definitions and Calculations.

(1) Adjustments to reported values reflect the divestiture of Cromwell's enterprise software business (Q4 2022), Fabory (Q2 2020), and Grainger China (Q3 2020) recorded outside of the reportable segments (present in Total Company).

(2) Adjustments to reported values reflect impairment charges in the divested Fabory business (Q2 2020) recorded outside of the reportable segments (present in Total Company).

(3) Adjustments to reported values reflect restructuring charges in HTSNA and EA.

GAAP to Non-GAAP Reconciliations

Key metrics for the three months ended June 30, 2023

(in millions, except for percentage data)
(unaudited)

Net Leverage Ratio

	As of June 30, 2023
Total debt	\$ 2,308
Debt issuance costs — net of amortization	20
Cash and cash equivalents	(515)
Net debt	<u>\$ 1,813</u>

	LTM ⁽¹⁾ ended June 30, 2023
Net earnings	\$ 1,837
Other expense — net	69
Income tax provision	582
Depreciation and amortization	216
EBITDA	<u>\$ 2,704</u>
Business divestiture ⁽²⁾	(21)
Adjusted EBITDA	<u>\$ 2,683</u>
Net leverage ratio	<u>0.68x</u>

Free Cash Flow (FCF)

	Three months ended June 30, 2023
Cash flows provided by operating activities	\$ 450
Capital expenditures	(95)
Free cash flow	<u>\$ 355</u>

Adjusted Return on Invested Capital (ROIC)

	Three months ended June 30, 2023		
Adjusted operating earnings ⁽³⁾	\$	661	
	Q2'23	Q1'23	Q4'22
Total assets	\$ 8,031	\$ 7,825	\$ 7,588
Cash equivalents	(388)	(338)	(208)
Deferred and prepaid income taxes	(27)	(11)	(20)
Right-of-use assets	(428)	(386)	(367)
LIFO reserves	758	724	693
Working liabilities	(1,853)	(1,741)	(1,923)
Net working assets	<u>\$ 6,081</u>	<u>\$ 6,074</u>	<u>\$ 5,763</u>
Average net working assets	<u>\$ 5,969</u>		
Adjusted ROIC	<u>44.6 %</u>		

Note: For more information on the Company's use of non-GAAP measures in this presentation, please see the appendix *Definitions and Calculations*.

(1) Last twelve months.

(2) Reflects the divestiture of Cromwell's enterprise software business completed in the fourth quarter of 2022.

(3) Adjusted ROIC utilizes the Company's annualized adjusted operating earnings based on the daily adjusted operating earnings in the period multiplied by the number of U.S. selling days in the year.

IR Contacts

Kyle Bland

Vice President, Investor Relations

Andrew Ansay

Director, Investor Relations

Abby Schill

Sr. Manager, Investor Relations

InvestorRelations@grainger.com

