



NYSE: GWW

Q1 2023 Earnings Call

April 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. 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. 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 including: daily sales; daily sales in constant currency; daily sales in constant currency and local days; free cash flow; adjusted return on invested capital; adjusted EBITDA; and net leverage ratio, is available in the appendix to this presentation. This communication also includes certain non-GAAP forward-looking information (including, but not limited to slide 13 & 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



Q1 2023 Highlights

Strong, focused execution across the business

- Continued momentum with our HTS-N.A. growth engines and EA flywheel
- Improved supply chain service levels to near pre-pandemic levels
- Delivered another strong quarter of results
 - Delivered daily sales growth of 12.2% (14.5% in daily, constant currency), including ~750 bps of MRO market outgrowth in HTS-U.S.
 - Expanded operating margins by 200 bps versus prior year
 - Generated operating cash flow of \$454 million
- Returned \$229 million to shareholders through dividends and share repurchases⁽¹⁾
- Raising full year 2023 total company guidance

Sales

\$4.1B

+12.2%
(daily basis)

Operating
Margin

16.6%

+200bps

EPS

\$9.61

+36.0%

Adj. ROIC⁽²⁾

45.6%

+460bps

Q1 2023 Results



Dee Merriwether
SVP and CFO



Q1 2023 Results: *Total Company*

Summary Results

(\$ in millions)	Q1 2023		Q1 2022		% vs. PY Fav/(Unfav)
Sales	\$	4,091	\$	3,647	12.2%
Daily Sales		63.9		57.0	12.2%
GP		1,634		1,383	18.1%
SG&A		954		849	(12.3)%
Op Earnings	\$	680	\$	534	27.4%
EPS (diluted)	\$	9.61	\$	7.07	36.0%
(% of sales)	Q1 2023		Q1 2022		bps vs. PY Fav/(Unfav)
GP Margin		39.9 %		37.9 %	200
SG&A		23.3 %		23.3 %	-
Op Margin		16.6 %		14.6 %	200

Commentary vs. Prior Year

Sales increased 12.2% (reported and daily)

- 14.5% sales growth on a daily, constant currency basis
- Double-digit revenue growth in both segments when adjusting for FX headwinds

Gross profit margin up 200 bps

- Continued margin expansion in both segments

Operating margin expanded 200 bps

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

Diluted EPS of \$9.61, up 36.0% versus prior year

Q1 2023 Results: *High-Touch Solutions - N.A.*

Summary Results

(\$ in millions)

	Q1 2023		Q1 2022		% vs. PY Fav/(Unfav)
Sales	\$	3,294	\$	2,878	14.5%
Daily Sales		51.5		45.0	14.5%
GP		1,397		1,164	20.0%
SG&A		775		683	(13.5)%
Op Earnings	\$	621	\$	481	29.3%
(% of sales)					
	Q1 2023		Q1 2022		bps vs. PY Fav/(Unfav)
GP Margin		42.4 %		40.4 %	195
SG&A		23.5 %		23.7 %	20
Op Margin		18.9 %		16.7 %	215

Commentary vs. Prior Year

Sales increased 14.5% (reported and daily)

- 14.7% sales growth on a daily, constant currency basis
- Double-digit sales growth in the U.S. and Canada in local days, local currency
- Continued strong price realization

Gross profit margin up 195 bps, driven by:

- Freight and supply chain efficiencies
- Continued favorable product mix
- Price / cost spread roughly neutral

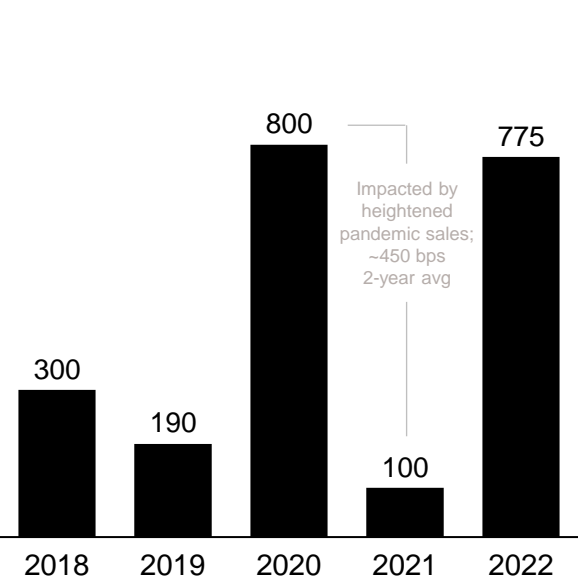
Operating margin expanded 215 bps

- SG&A leverage of 20 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 ~750 basis points in Q1'23

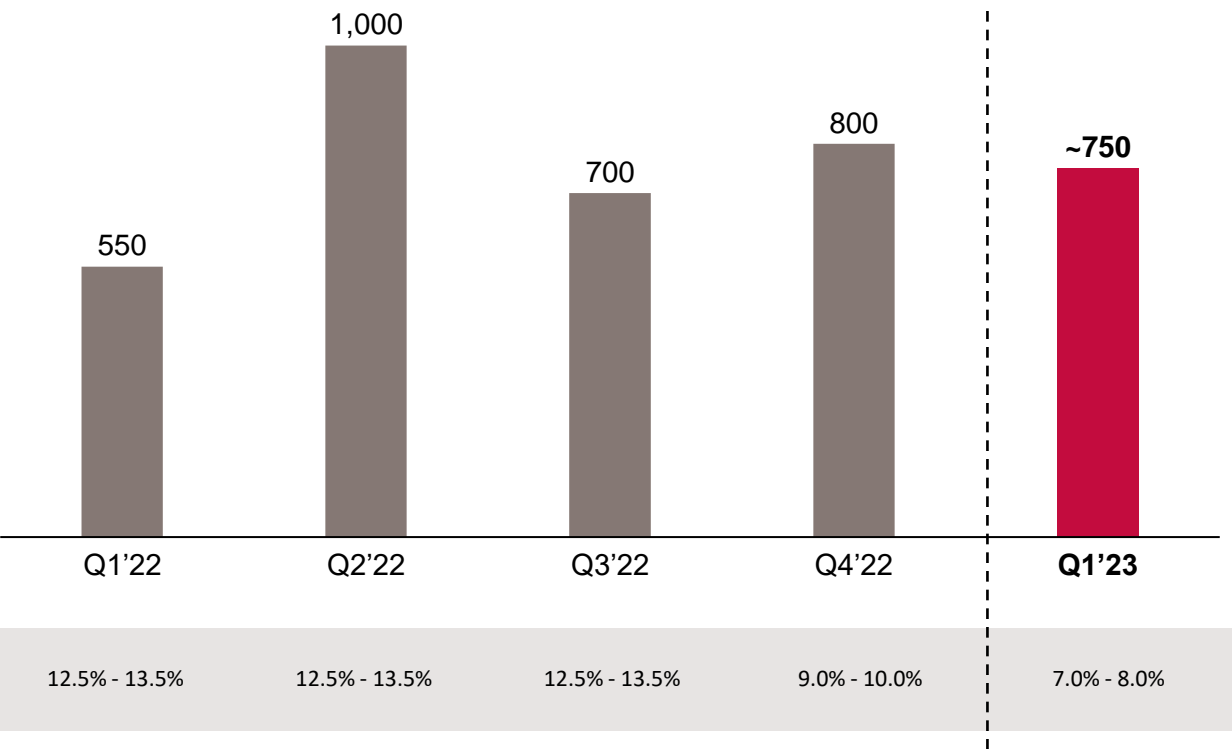
Full Year Trend



U.S. MRO Market ⁽¹⁾

3% - 4%	0.5% - 1%	(6%) - (5%)	10% - 11%	11.5% - 12.5%
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Quarterly Trend



Target is to grow **400 to 500 bps** faster than the market, on average, each year ⁽²⁾

(1) Company estimates using compilation of external market data, including volume and price. Outgrowth measured as High-Touch Solutions - U.S. daily sales growth less estimated U.S. MRO market growth.
(2) Updated target communicated at Company Investor Day on September 21, 2022.

Q1 2023 Results: *Endless Assortment*

Summary Results

(\$ in millions)		Q1 2023	Q1 2022	% vs. PY Fav/(Unfav)
Sales	\$	724	\$ 697	3.8%
Daily Sales		11.3	10.9	3.8%
GP		214	197	9.0%
SG&A		156	142	(10.2)%
Op Earnings	\$	58	\$ 55	6.0%
(% of sales)		Q1 2023	Q1 2022	bps vs. PY Fav/(Unfav)
GP Margin		29.6 %	28.2 %	140
SG&A		21.5 %	20.3 %	(125)
Op Margin		8.1 %	7.9 %	15

Commentary vs. Prior Year

Sales increased 3.8% (reported and daily); up 14.0% in daily, constant currency

- Zero growth of 13.5% on a daily basis
- MonotaRO growth impacted by depreciating Yen; 12.0% growth in local days, local currency

Gross profit margin up 140 bps

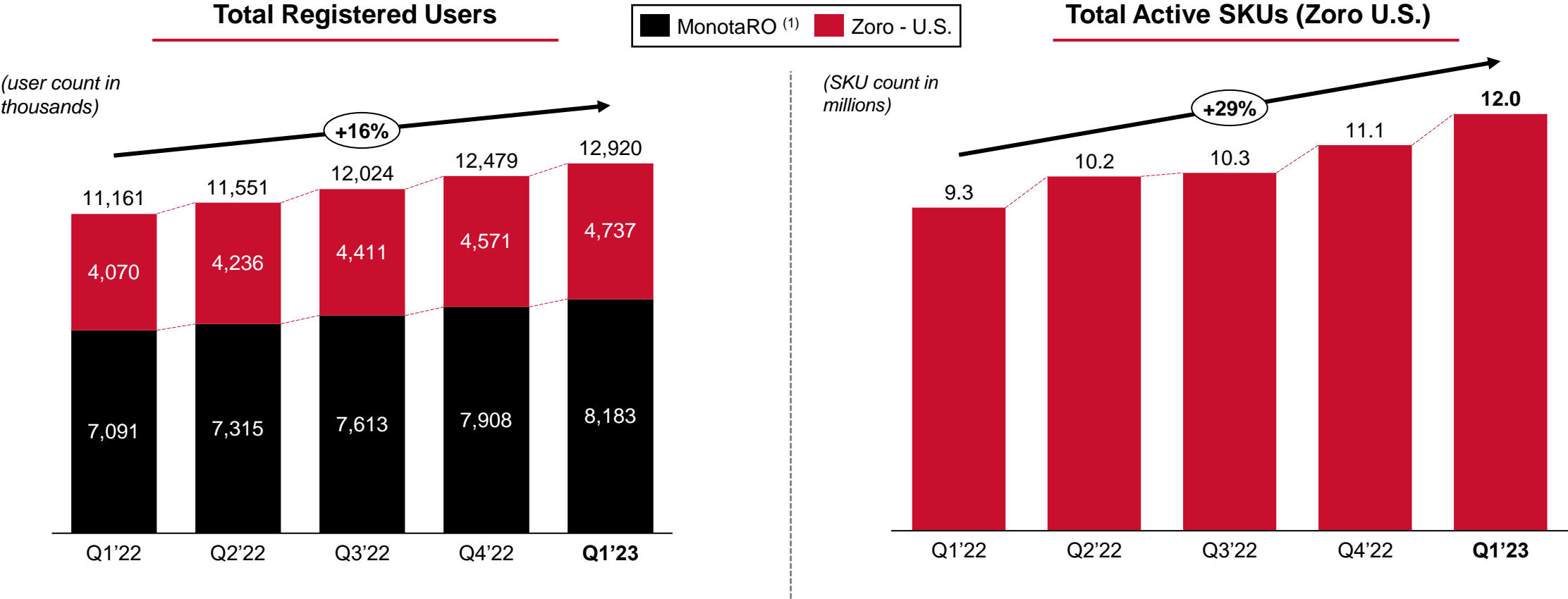
- Strong price realization and continued freight efficiencies
- Favorable business unit mix

Operating margin expanded 15 bps

- Zoro declined 65 bps as SG&A investments more than offset improved GP margin
- MonotaRO increased 80 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 full
year 2023
earnings
outlook

	2022A	2023 Guidance <i>(Updated)</i>	Y/Y change
Net Sales (\$ billions)	\$15.2	\$16.2 – \$16.8	6.6% to 10.6% (7% to 11% daily sales)
<i>Prior FY'23 Guidance</i>		<i>Unchanged</i>	
Gross Profit Margin	38.4%	39.1% – 39.4%	70 to 100 bps
<i>Prior FY'23 Guidance</i>		38.1% - 38.3%	
Operating Margin	14.4%	15.2% – 15.7%	80 to 130 bps
<i>Prior FY'23 Guidance</i>		14.4% - 14.9%	
EPS (diluted)	\$29.66	\$34.25 – \$36.75	15.5% to 23.9%
<i>Prior FY'23 Guidance</i>		\$32.00 - \$34.50	

Closing Remarks



D.G. Macpherson
Chairman and CEO



Q&A



Appendix

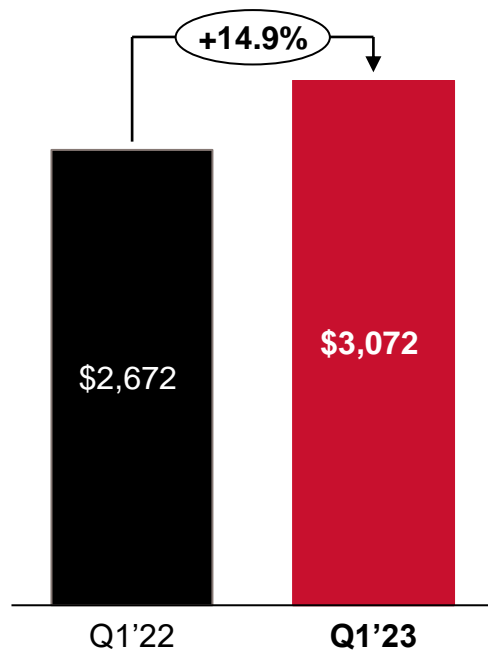


Q1 2023 Segment Highlights: *High-Touch Solutions - N.A.*

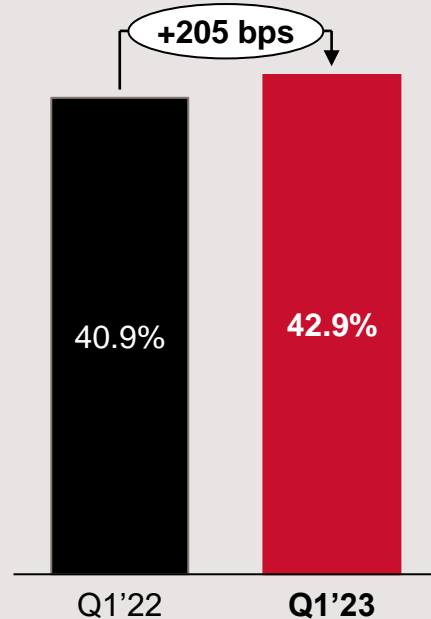
HTS - U.S.

(\$ millions)

Sales



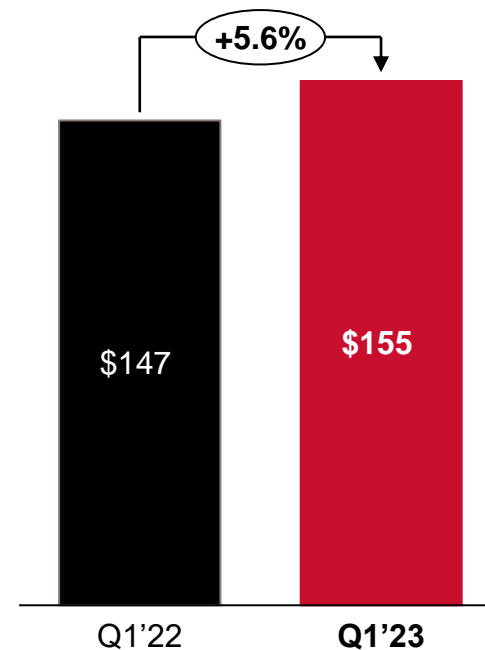
Gross Profit



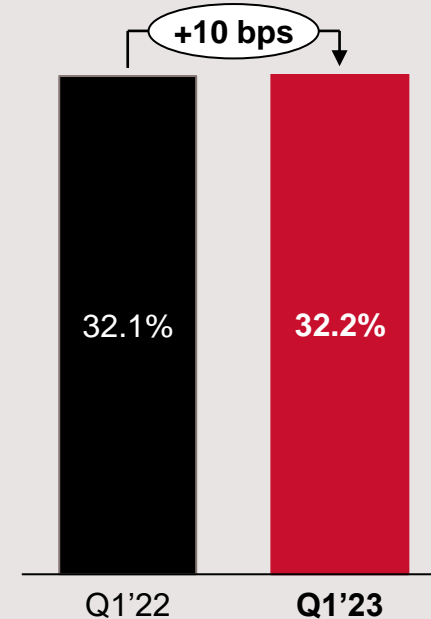
HTS - Canada

(\$ millions)

Sales



Gross Profit



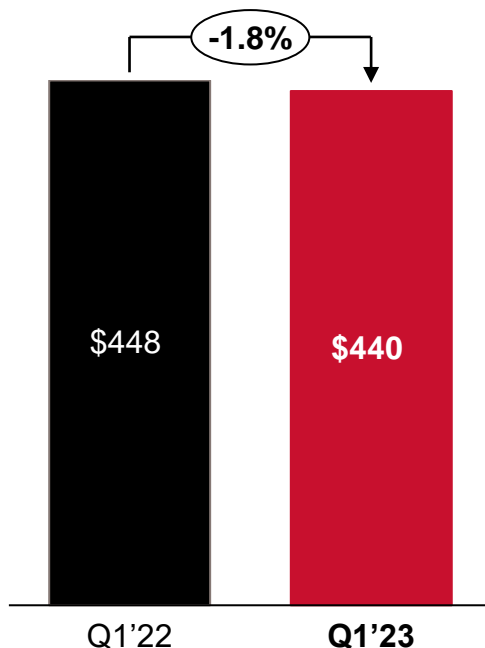
Local days and currency: +11.0%

Q1 2023 Segment Highlights: *Endless Assortment*

MonotaRO ⁽¹⁾

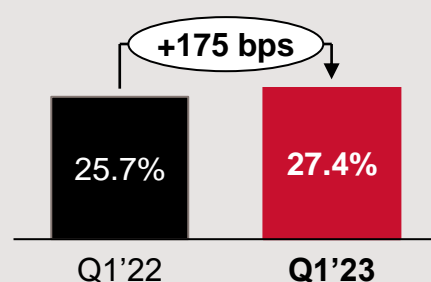
(\$ millions)

Sales

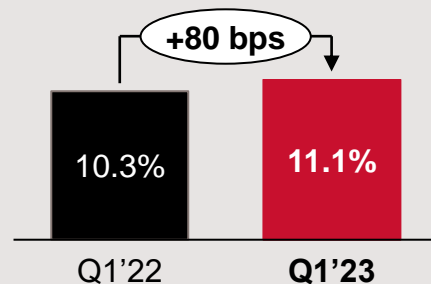


Local days and currency: +12.0%

Gross Profit



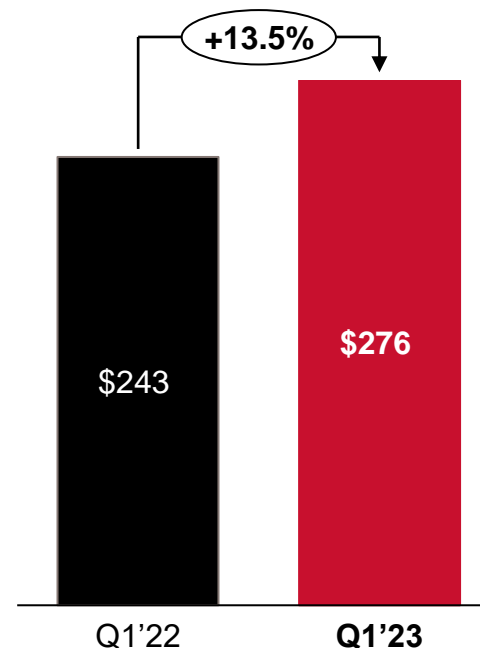
Op. Margin



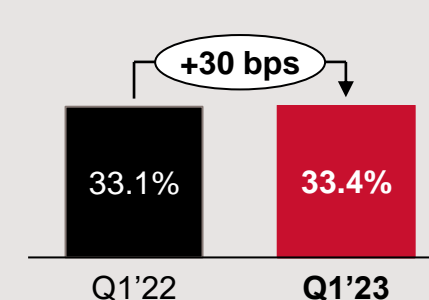
Zoro - U.S.

(\$ millions)

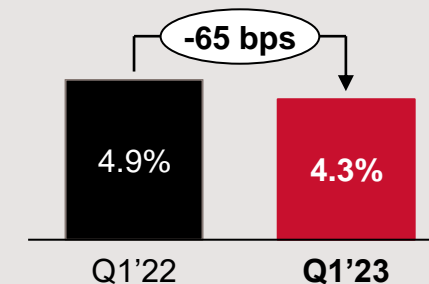
Sales



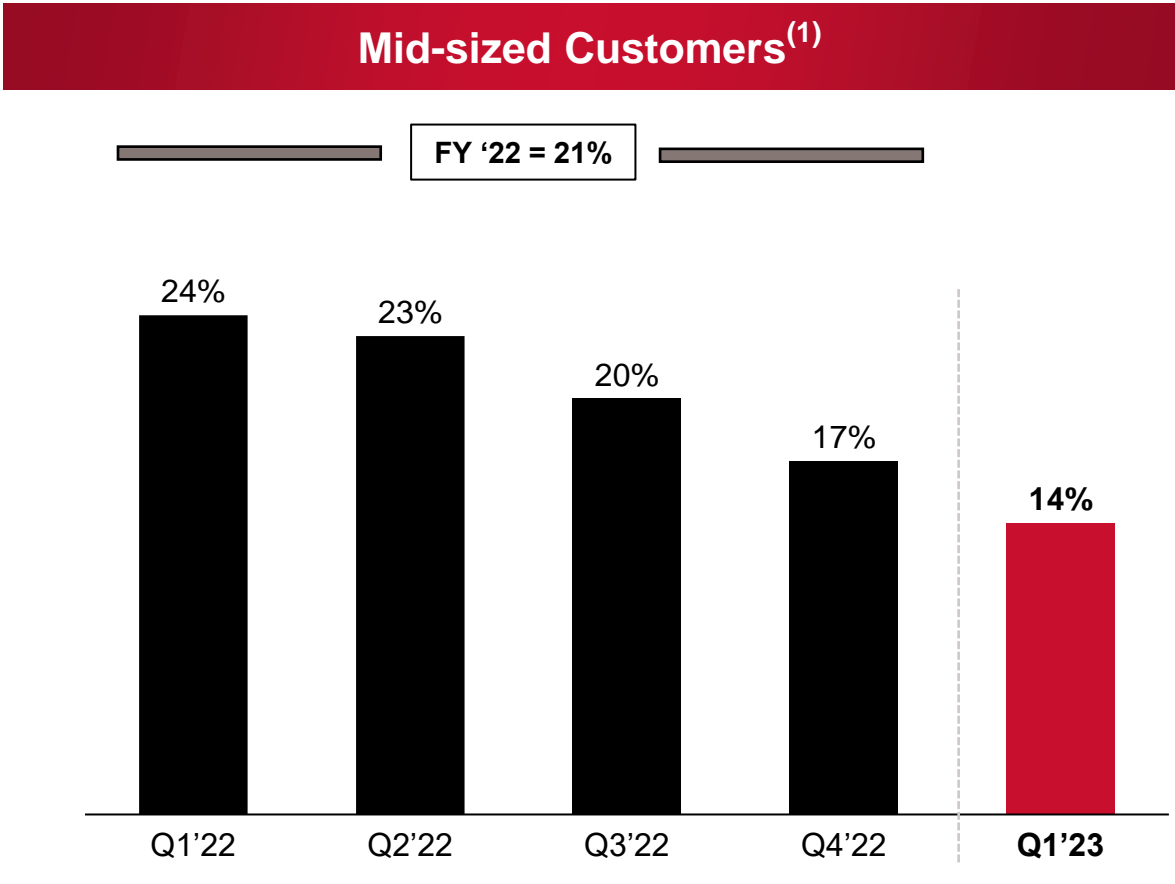
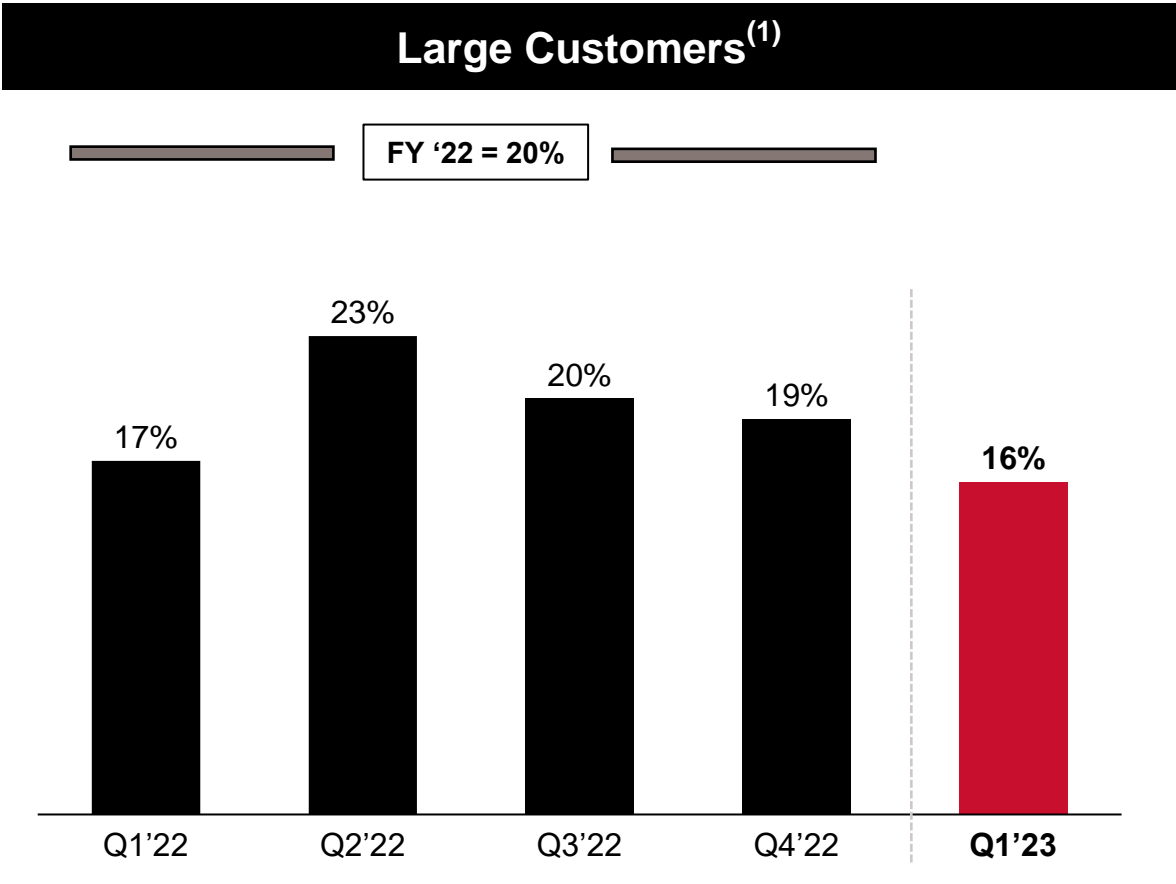
Gross Profit



Op. Margin



Q1 2023 Sales Performance: *High-Touch Solutions - U.S.*



Note: Given the on-going advancements the Company is making as it builds a proprietary customer information management system (CIM), the Company has recast large and mid-sized customer sales, and related growth rates, to reflect the movement of customers between large and mid-sized as we incorporate more accurate insights on the customer's MRO spend potential. This resulted in a net move of ~\$53 million in sales (LTM Q1'23) from mid-sized to large. As CIM continues to advance, it is likely that the Company will migrate additional customers between large and mid-sized.

Sales Mix By Customer End Market: *Total Company*

Note: Starting in 2023, a revised customer end market classification system is being implemented which primarily follows the North American Industry Classification System (NAICS). Key updates include splitting apart Retail/Wholesale and creating a breakout for Warehousing and Utilities. We are providing a recast of full year 2022 numbers for your reference. Going forward, on a quarterly basis, a breakdown of sales mix by end market will be provided using the updated definition in the 10-Q/K. This change has no impact on business structure or strategy.

Prior Classification

FY 2022

	HTS – N.A.	EA	Total
Commercial ⁽¹⁾	9%	15%	10%
Contractors ⁽²⁾	9%	15%	10%
Government	17%	3%	14%
Healthcare	7%	2%	6%
Manufacturing	31%	30%	31%
Retail/Wholesale ⁽³⁾	9%	15%	10%
Transportation ⁽⁴⁾	6%	3%	5%
Other ⁽⁵⁾	12%	17%	14%
Total	100%	100%	100%

(1) Includes commercial services, hospitality and restaurants.

(2) Includes utilities.

(3) Includes e-commerce distribution facilities.

(4) Includes warehousing.

(5) Includes industries that are not material individually, including agriculture, mining, natural resources and resellers not aligned to a major industry segment.

Updated Classification

FY 2022 (Recast)

	HTS – N.A.	EA	Total
Commercial Services	7%	13%	8%
Contractors	5%	12%	6%
Government	18%	3%	15%
Healthcare	7%	2%	6%
Manufacturing	31%	30%	30%
Retail	4%	4%	4%
Transportation	4%	2%	4%
Utilities	3%	2%	3%
Warehousing ⁽¹⁾	5%	-	4%
Wholesale	7%	16%	9%
Other ⁽²⁾	9%	16%	11%
Total	100%	100%	100%

(1) Includes e-commerce distribution facilities.

(2) Includes industries that are not material individually, including hospitality, restaurants, property management and natural resources.

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

	2022				2023
	Q1	Q2	Q3	Q4	Q1
Commercial Services	UP Mid-Twenties	UP Mid-Twenties	UP Low-Twenties	UP Mid-Teens	UP Mid-Teens
Contractors	UP High-Teens	UP Low-Twenties	UP High-Teens	UP High-Teens	UP High-Teens
Government	UP Low-Single Digits	UP High-Teens	UP Mid-Teens	UP High-Teens	UP Mid-Teens
Healthcare	UP High-Single Digits	UP Low-Double Digits	UP High-Single Digits	UP Mid-Single Digits	UP High-Single Digits
Manufacturing	UP Mid-Twenties	UP Low-Thirties	UP Mid-Twenties	UP Low-Twenties	UP Mid-Teens
Retail	UP Mid-Twenties	UP Mid-Twenties	UP Mid-Teens	UP Low-Double Digits	UP High-Single Digits
Transportation	UP Mid-Thirties	UP Low-Thirties	UP Mid-Twenties	UP Low-Twenties	UP Low-Double Digits
Utilities	UP Mid-Twenties	UP Low-Thirties	UP High-Twenties	UP Mid-Twenties	UP High-Teens
Warehousing	UP Low-Double Digits	UP Low-Single Digits	UP Mid-Single Digits	UP Mid-Single Digits	UP High-Single Digits
Wholesale	UP Mid-Twenties	UP High-Twenties	UP Mid-Twenties	UP Low-Twenties	UP Mid-Teens
Other ⁽¹⁾	UP Low-Thirties	UP Low-Thirties	UP Low-Thirties	UP High-Twenties	UP High-Twenties

Note: Historical customer end market results have been recast to reflect the Company's current end market classification system implemented January 1, 2023. The new customer end market definitions primarily follows the North American Industry Classification System (NAICS) and will be used on a go forward basis.

2023 Full Year Supplemental Guidance

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

	2020A	2021A	2022A	2023 Guidance (as of April 27, 2023)
High-Touch Solutions - N.A.	13.0%	13.1%	16.3%	17.3% – 17.8%
<i>Prior FY'23 Guidance</i>				16.3% - 16.8%
Endless Assortment	8.0%	9.0%	8.0%	7.9% – 8.3%
<i>Prior FY'23 Guidance</i>				8.6% - 9.0%
Total Company	11.2%	11.9%	14.4%	15.2% – 15.7%
<i>Prior FY'23 Guidance</i>				14.4% - 14.9%

Cash Flow: Increasing operating cash flow and share repurchase expectations based on improved earnings outlook

(\$ millions)	2020A	2021A	2022A	2023 Guidance (as of April 27, 2023)
Operating Cash Flow	\$1,123	\$937	\$1,333	\$1,600 – \$1,800
<i>Prior FY'23 Guidance</i>				\$1,450 - \$1,650
Capital Expenditures⁽¹⁾	\$197	\$255	\$256	\$450 – \$525
<i>Prior FY'23 Guidance</i>				Unchanged
Share Repurchases	\$601	\$695	\$603	\$650 – \$800
<i>Prior FY'23 Guidance</i>				\$550 - \$700

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"— 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 March 31, 2023

(percent change compared to the prior year period)

(unaudited)

Total Company - Monthly Detail

	January	February	March	Q1'23
Reported sales	15.5%	11.1%	10.2%	12.2%
Daily impact	—%	—%	—%	—%
Daily sales ⁽¹⁾	15.5%	11.1%	10.2%	12.2%
Foreign exchange ⁽²⁾	(2.9)%	(2.0)%	(2.1)%	(2.3)%
Daily, constant currency sales	18.4%	13.1%	12.3%	14.5%

Endless Assortment (EA) - Daily Sales

	EA	Zoro - U.S.	MonotaRO
	Q1'23	Q1'23	Q1'23
Reported sales	3.8%	13.5%	(1.8)%
Daily impact	—%	—%	—%
Daily sales ⁽¹⁾	3.8%	13.5%	(1.8)%
Foreign exchange ⁽²⁾	(10.2)%	—%	(15.7)%
Daily, constant currency sales	14.0%	13.5%	13.9%
Impact of local days	NA	—%	(1.9)%
Daily, constant currency in local days	NA	13.5%	12.0%

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

	HTS - N.A.	HTS - U.S.	HTS - Canada
	Q1'23	Q1'23	Q1'23
Reported sales	14.5%	14.9%	5.6%
Daily impact	—%	—%	—%
Daily sales ⁽¹⁾	14.5%	14.9%	5.6%
Foreign exchange ⁽²⁾	(0.2)%	—%	(7.1)%
Daily, constant currency sales	14.7%	14.9%	12.7%
Impact of local days	NA	—%	(1.7)%
Daily, constant currency in local days	NA	14.9%	11.0%

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

	HTS - N.A.	HTS - U.S.	HTS - Canada
	Q1'23	Q1'23	Q1'23
Volume/product mix	6.6%	6.7%	1.9%
Price/customer mix	8.1%	8.2%	10.8%
Foreign exchange ⁽²⁾	(0.2)%	—%	(7.1)%
Daily sales ⁽¹⁾	14.5%	14.9%	5.6%

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 both Q1 2023 and Q1 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.

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GAAP to Non-GAAP Reconciliations

Income statement adjustments for the three months ended March 31, 2023

(in millions, except for percentage data)

(unaudited)

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

	Q1'23			Reported	Adjusted
	Reported	Adj. items ⁽¹⁾	Adjusted	% of Net sales	
Net sales	\$ 4,091	\$ —	\$ 4,091	100.0 %	100.0 %
Cost of good sold	2,457	—	2,457	60.1	60.1
Gross profit	1,634	—	1,634	39.9	39.9
SG&A	954	—	954	23.3	23.3
Operating earnings	680	—	680	16.6	16.6
Other expense — net	18	—	18	0.4	0.4
Earnings before income taxes	662	—	662	16.2	16.2
Income tax provision	154	—	154	3.8	3.8
Net earnings	508	—	508	12.4	12.4
Noncontrolling interest ⁽²⁾	(20)	—	(20)	0.5	0.5
Net earnings attributable to W.W. Grainger, Inc.	<u>\$ 488</u>	<u>\$ —</u>	<u>\$ 488</u>	<u>11.9 %</u>	<u>11.9 %</u>
Diluted earnings per share:	<u>\$ 9.61</u>	<u>\$ —</u>	<u>\$ 9.61</u>	<u>NA</u>	<u>NA</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) 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 23.3%.

(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 March 31, 2022

(in millions, except for percentage data)

(unaudited)

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

	Q1'22			Reported	Adjusted
	Reported	Adj. items ⁽¹⁾	Adjusted	% of Net sales	
Net sales	\$ 3,647	\$ —	\$ 3,647	100.0 %	100.0 %
Cost of good sold	2,264	—	2,264	62.1	62.1
Gross profit	1,383	—	1,383	37.9	37.9
SG&A	849	—	849	23.3	23.3
Operating earnings	534	—	534	14.6	14.6
Other expense — net	17	—	17	0.5	0.5
Earnings before income taxes	517	—	517	14.1	14.1
Income tax provision	132	—	132	3.5	3.5
Net earnings	385	—	385	10.6	10.6
Noncontrolling interest ⁽²⁾	(19)	—	(19)	0.6	0.6
Net earnings attributable to W.W. Grainger, Inc.	<u>\$ 366</u>	<u>\$ —</u>	<u>\$ 366</u>	<u>10.0 %</u>	<u>10.0 %</u>
Diluted earnings per share:	<u>\$ 7.07</u>	<u>\$ —</u>	<u>\$ 7.07</u>	<u>NA</u>	<u>NA</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) 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 25.5%.

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

GAAP to Non-GAAP Reconciliations

Key metrics for the three months ended March 31, 2023

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

Net Leverage Ratio

	As of March 31, 2023
Total debt	\$ 2,315
Debt issuance costs — net of amortization	19
Cash and cash equivalents	(461)
Net debt	\$ 1,873
	LTM ⁽¹⁾ ended March 31, 2023
Net earnings	\$ 1,736
Other expense — net	70
Income tax provision	555
Depreciation and amortization	216
EBITDA	\$ 2,577
Business divestiture ⁽²⁾	(21)
Adjusted EBITDA	\$ 2,556
Net leverage ratio	0.73x

Free Cash Flow (FCF)

	Three months ended March 31, 2023
Cash flows from operating activities	\$ 454
Capital expenditures	(98)
Free cash flow	\$ 356

Adjusted Return on Invested Capital (ROIC)

	Three months ended March 31, 2023	
Adjusted operating earnings ⁽³⁾	\$	680
	Q1'23	Q4'22
Total assets	\$ 7,825	\$ 7,588
Cash equivalents	(338)	(208)
Deferred and prepaid income taxes	(11)	(20)
Right-of-use assets	(386)	(367)
LIFO reserves	724	693
Working liabilities	(1,741)	(1,923)
Net working assets	<u>\$ 6,074</u>	<u>\$ 5,763</u>
Average net working assets	<u>\$ 5,918</u>	
Adjusted ROIC	45.6 %	

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.

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