W.W. Grainger, Inc. (GWW)

$301.48 (As of 06/23/20)

Price Target (6-12 Months): **$319.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 04/24/19) Prior Recommendation: Outperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5) Zacks Style Scores: Value: B | Growth: A | Momentum: A	**3-Hold** VGM:A

Summary

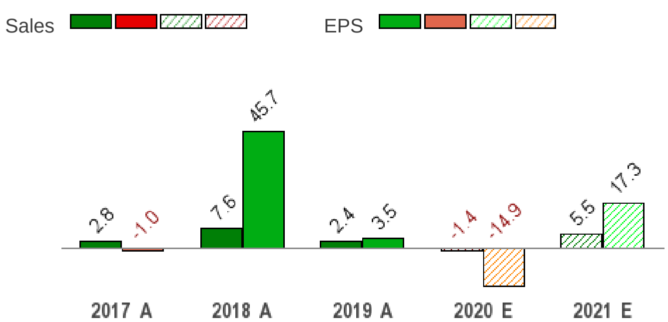
Grainger has suspended guidance for 2020 citing the uncertainty related to the coronavirus pandemic impact. The company continues to benefit from efforts to strengthen relationships with customers in the United States. Its revenues will grow on the back of increased demand for certain products and higher e-commerce sales triggered by the coronavirus pandemic. However, these products generally carry lower-margins, which remains a concern. This along with higher operating costs due to the pandemic may dent margins. While the Canada segment is expected to deliver growth aided by focus on reducing costs, low oil prices remain a headwind. The estimates for the current year have undergone negative revisions lately owing to these concerns. The company has a negative record of earnings surprise in the trailing four quarters.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$346.60 - $200.61
20 Day Average Volume (sh)	341,227
Market Cap	$16.1 B
YTD Price Change	-10.9%
Beta	0.99
Dividend / Div Yld	$5.76 / 1.9%
Industry	Industrial Services
Zacks Industry Rank	Bottom 44% (142 out of 253)
Last EPS Surprise	-4.1%
Last Sales Surprise	4.2%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	07/23/2020
Earnings ESP	6.0%
P/E TTM	17.7
P/E F1	20.5
PEG F1	1.8
P/S TTM	1.4

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	3,041 E	2,857 E	3,000 E	2,982 E	11,945 E
2020	3,001 A	2,665 E	2,817 E	2,821 E	11,324 E
2019	2,799 A	2,893 A	2,947 A	2,847 A	11,486 A

EPS Estimates

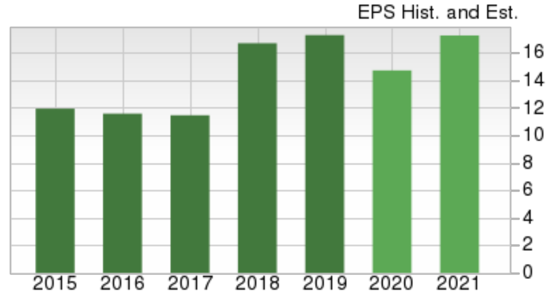
	Q1	Q2	Q3	Q4	Annual*
2021	$4.54 E	$4.27 E	$4.22 E	$4.17 E	$17.26 E
2020	$4.24 A	$3.17 E	$3.59 E	$3.59 E	$14.72 E
2019	$4.51 A	$4.64 A	$4.26 A	$3.88 A	$17.29 A

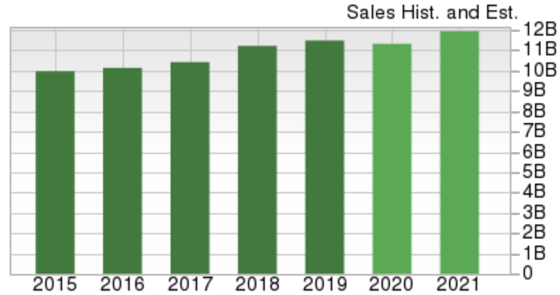
*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 06/23/2020. The reports text is as of 06/24/2020.

Overview

Incorporated in 1928, IL-based W.W. Grainger Inc. is a broad line, business-to-business distributor of maintenance, repair and operating (MRO) products and services. Its operations are primarily in North America, Europe and Japan. The global MRO market is approximately $608 billion, and the Grainger's estimated market size is $284 billion. Its customers represent a wide array of industries including government, manufacturing, transportation, commercial and contractors.





Its products include material-handling equipment, safety and security supplies, lighting and electrical products, power and hand tools, pumps and plumbing supplies, cleaning and maintenance supplies, and metalworking tools.

The company reports revenues under two business segments — the **United States**, which contributes around 74% to revenues, and **Canada**, which generates around 5%. The **Other Businesses** accounts for nearly 21% of revenues.

The U.S. business offers a broad selection of MRO products and services through its e-commerce platform, catalogs, branches and sales and service representatives. A combination of product breadth, local availability, speed of delivery, detailed product information and competitively priced products and services is provided by this business. Customers range from small and mid-sized businesses to large corporations, government entities and other institutions within various industries.

Acklands – Grainger and its subsidiaries (the Canada business) provide a combination of product breadth, local availability, speed of delivery, detailed product information and competitively priced products and services. The Canada business serves customers through branches, DCs and sales and service representatives.

The businesses from the operating units in Japan, Mexico, India, Puerto Rico, China, Panama and Columbia and Fabory Group are all combined and included in Other Businesses.

Reasons To Buy:

Grainger will gain from momentum in the United States, turnaround in the Canadian business and ongoing strong demand for certain products and e-commerce sales on account of the coronavirus pandemic.

- The company accomplished the goal of remerchandising a record $1.2 billion of products in the United States in 2019and is on track to complete another $1.6 billion in 2020. Grainger outgrew the U.S MRO market by 150-200 basis points in 2019. The U.S. MRO market declined between 1% and 1.5% in first-quarter 2020.Grainger outgrew the U.S MRO market by around 700 basis points. Even after excluding the contribution of pandemic related sales, the outgrowth was within the company's targeted range of 300-400 basis points annual outgrowth, highlighting consistent traction of its growth initiatives. Grainger will continue its efforts to strengthen relationships with both large and mid-sized customers to improve sales force effectiveness. Grainger continues to re-engage lapsed customers and acquire new ones.

- During first-quarter 2020, Grainger returned $178 million to shareholders through dividends and share repurchases. As of the end of the quarter, the company had $1.7 billion of available liquidity, which includes $1.5 billion in cash. It had cash balance of $360 million at the end of 2019. The company drew down $1 billion from its $1.25 billion credit facility as proactive measure to enhance its cash position and preserve financial flexibility in light of current uncertainty in the global markets owing to the COVID-19 pandemic. Grainger has also suspended share buybacks to preserve cash. Further, Grainger has no debt maturities or material financial obligations due within the next five years. As of Mar 31, 2020, the company's total debt to total capital ratio was at 0.62. Further, its times interest earned ratio is a healthy 13.3.

- Grainger experienced a surge of COVID-19 pandemic related product sales such as personal protective equipment (PPE) and safety products due to higher customer demand in response to the global outbreak. The incremental demand came primarily from customers in the front-lines of the pandemic, including hospitals, healthcare providers, governments, first responders and critical manufactures. The company expects increased levels of safety and cleaning product sales to large healthcare, government and critical manufacturing customers in the near term. Further, the pandemic has provided a boost to Grainger's e-commerce sales. The company is focused on improving the end-to-end customer experience by making investments in its e-commerce and digital capabilities, and executing improvement initiatives within its supply chain.

- Grainger's Canada business is an attractive market and is expected to deliver double-digit operating margin growth over the next five years. The company has been focused on reducing its cost structure in the Canada operations to drive profitable growth. Grainger has been managing inventory effectively to drive profitability, and is focused on making incremental investments in marketing and merchandising. Grainger expects to return to growth in the business in the back half of 2020 and anticipates the business to be sustainable and profitable in the future.

- In the wake of the ongoing uncertainty related to the COVID-19, the company has undertaken several cost control measures, which include limiting discretionary spending, temporarily furloughing employees or minimizing work hours, reducing short-term executive pay, delaying salary increases, scaling back advertising spend, eliminating non-essential travel, delaying or reducing hiring activities and deferring certain discretionary capital expenditures.

Reasons To Sell:

- The COVID-19 pandemic may cause disruption to Grainger's businesses and operations as well as the operations of its customers and suppliers going forward. Grainger has lately experienced some disruption, including supply shortages of PPE and temporary facility shutdowns. Further, the COVID-19 pandemic las led to a shift in demand toward lower-margin products. Further, higher operating costs in response to the COVID-19 pandemic and related activities are also likely to impact operating margins in the upcoming quarters. Given the uncertainty related to the impact and duration of this pandemic, Grainger has suspended guidance for 2020.

Grainger's results will bear the brunt of shift in demand toward lower-margin products and higher operating costs due to the pandemic. Its Canada business will be hurt by low oil prices.

- Weakness in heavy manufacturing will continue impact Grainger's sales as it contributes around 18% of the company's sales. Grainger's Canada business has a heavy exposure to natural resource customer base. Notably, these customers contributed 32% to the segment's revenues in 2019 and 29% in first-quarter 2020. The low oil prices might impact the segment's results.

- Given the success of the Zoro business, the company has decided to invest in Zoro to accelerate its product expansion efforts. The company is also leveraging its knowledge of MonotaRO to improve marketing and analytics capability in the Zoro U.S. operation. These changes call for some incremental investment, which in turn will lower margins in the Zoro business in the near term. Grainger's operating expenses will be higher as the company invests in digital marketing capabilities. Its results will also bear the brunt of foreign exchange headwind.

- The implementation of tariffs has led to input cost inflation. The company is working with suppliers to minimize the cost impact, including identifying alternative supply and evaluating pricing actions. Moreover, the company is also facing higher freight costs.

Last Earnings Report

Grainger Misses on Q1 Earnings, Suspends '20 Outlook

Quarter Ending	03/2020
Report Date	**Apr 23, 2020**
Sales Surprise	**4.15%**
EPS Surprise	**-4.07%**
Quarterly EPS	**4.24**
Annual EPS (TTM)	**17.02**

Grainger reported first-quarter 2020 adjusted earnings per share of $4.24, which missed the Zacks Consensus Estimate of $4.42, resulting in a negative surprise of 4%. The bottom line also declined 6% year over year primarily on account of lower operating earnings that were partially offset by lower average shares outstanding in the current year period.

Including one-time items, such as restructuring and other charges, earnings came in at $3.19 in the reported quarter. The figure plunged 29% from the year-ago quarter's $4.48.

Grainger's revenues improved 7% to $3 billion from the prior-year quarter figure of $2.8 billion. Daily sales for the quarter increased 5.5%. Volumes were up 7% while price and mix headwinds were at around 2%. Foreign exchange had an unfavorable impact of 0.2%. Further, the top line surpassed the Zacks Consensus Estimate of $2.9 billion.

Operational Update

Adjusted cost of sales increased 10% year over year to $1,880 million. Gross profit was up 2% year over year to $1,121 million. Gross margin contracted to 37.4% in the quarter from 39.2% in the year-ago quarter. Higher growth in the lower margin carrying endless assortment businesses, headwinds in the U.S. segment related to customer and product mix stemming from the COVID-19 pandemic primarily led to the drop in gross margins.

Grainger's adjusted operating income in the first quarter declined 6% to $343 million from the $365 million in the prior-year quarter. Adjusted operating margin contracted 160 bps year over year to 11.4% in the quarter, mainly due to lower gross margins.

Financial Position

The company had cash and cash equivalents of $1,492 million at the end of first-quarter 2020, significantly up from $360 million at 2019 end. Cash provided by operating activities increased to $244 million in the first quarter from the year-ago quarter figure of $127 million, driven by favorable working capital in first-quarter 2020.

Long-term debt was $3,303 million as of Mar 31, 2020, compared with $1,914 million as of Dec 31, 2019. The company returned $178 million to shareholders through $78 million in dividends and $100 million in share repurchases. Grainger announced that it is pausing share repurchases in the wake of the coronavirus pandemic.

Suspends 2020 Guidance

The company has suspended guidance for 2020 citing the uncertainty stemming from the coronavirus pandemic and its impact on the overall economy.

Recent News

Grainger to Divest European MRO Product Supplier Fabory - Jun 2, 2020

Grainger has entered into an agreement to divest Fabory Group to Torqx Capital Partners, a Dutch private equity company. The transaction is likely to close in the upcoming months. Fabory is a leading European distributor of fasteners and related maintenance, repair and operating (MRO) products. In 2011, Grainger acquired the company to expand its presence in the MRO market. Notably, Grainger will continue to offer broad line MRO products to Western Europe customers through Cromwell and Zoro.

Valuation

Grainger's shares are down 11.7% in the year-to-date period and up 10.3% over the trailing 12-month period. Stocks in the Zacks Industrial Services industry and the Zacks Industrial Products sector are down 8.1% and 12.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 1.7% and 8.4%, respectively.

The S&P 500 index is down 2.7% in the year-to-date period and up 6.3% in the past year.

The stock is currently trading at 18.91X forward 12-month earnings, which compares to 16.68X for the Zacks sub-industry, 21.58X for the Zacks sector and 22.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.33X and as low as 11.27X, with a 5-year median of 17.54X.

Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $319 price target reflects 20.01X Forward 12-month earnings.

The table below shows summary valuation data for GWW:

Valuation Multiples - GWW

		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	18.91	16.68	21.58	22.47
	5-Year High	25.33	18.68	21.58	22.47
	5-Year Low	11.27	11.94	12.55	15.23
	5-Year Median	17.54	15.44	16.66	17.49
P/S F12M	Current	1.39	1.08	2.73	3.51
	5-Year High	1.77	1.44	2.73	3.51
	5-Year Low	0.84	0.86	1.52	2.53
	5-Year Median	1.34	1.16	2	3.02
EV/EBITDA TTM	Current	12.95	10.3	16.03	11.61
	5-Year High	15.31	47.36	17.45	12.85
	5-Year Low	7.9	7.24	10.72	8.25
	5-Year Median	10.78	11.11	14.83	10.83

As of 06/23/2020

Industry Analysis **Zacks Industry Rank:** Bottom 44% (142 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
ANDRITZ AG **(ADRZY)**	Outperform	2
Ardagh Group S.A. **(ARD)**	Neutral	4
Aggreko PLC **(ARGKF)**	Neutral	3
HD Supply Holdings, Inc. **(HDS)**	Neutral	3
KION GROUP AG **(KIGRY)**	Neutral	4
MSC Industrial Direct Company, Inc. **(MSM)**	Neutral	2
Ashtead Group PLC **(ASHTY)**	Underperform	3
ScanSource, Inc. **(SCSC)**	Underperform	4

Industry Comparison Industry: Industrial Services

	GWW	X Industry	S&P 500	ADRZY	ARD	KIGRY
				Industry Peers		
Zacks Recommendation (Long Term)	Neutral	-	-	Outperform	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	2	4	4
VGM Score	A	-	-	B	C	B
Market Cap	16.12 B	2.02 B	21.86 B	3.80 B	247.06 M	6.71 B
# of Analysts	11	2	14	1	2	1
Dividend Yield	1.91%	0.00%	1.92%	0.00%	0.00%	0.05%
Value Score	B	-	-	B	A	A
Cash/Price	0.09	0.07	0.07	0.42	3.92	0.04
EV/EBITDA	11.82	8.99	12.65	6.12	4.99	4.49
PEG Ratio	1.76	2.97	2.90	NA	NA	NA
Price/Book (P/B)	7.94	3.25	2.99	2.87	NA	1.78
Price/Cash Flow (P/CF)	13.68	8.03	11.61	7.93	0.23	4.38
P/E (F1)	20.06	20.48	21.08	15.21	9.19	24.49
Price/Sales (P/S)	1.38	1.11	2.25	0.51	0.03	0.68
Earnings Yield	4.88%	4.82%	4.42%	6.58%	10.88%	4.08%
Debt/Equity	1.63	0.58	0.77	1.19	-38.59	0.59
Cash Flow ($/share)	22.04	3.44	7.01	0.92	58.12	3.52
Growth Score	A	-	-	C	F	C
Hist. EPS Growth (3-5 yrs)	10.63%	14.40%	10.84%	-20.53%	NA	20.14%
Proj. EPS Growth (F1/F0)	-14.85%	-22.40%	-10.80%	71.43%	-20.88%	-41.67%
Curr. Cash Flow Growth	-1.82%	1.94%	5.46%	1.75%	8.41%	27.81%
Hist. Cash Flow Growth (3-5 yrs)	2.17%	8.25%	8.55%	NA	NA	NA
Current Ratio	3.28	1.76	1.29	1.20	1.39	0.78
Debt/Capital	61.94%	40.55%	45.14%	54.33%	NA	37.27%
Net Margin	6.56%	5.08%	10.53%	1.88%	19.47%	5.16%
Return on Equity	45.00%	9.90%	16.06%	10.58%	-47.16%	13.42%
Sales/Assets	1.86	1.27	0.55	0.92	0.80	0.65
Proj. Sales Growth (F1/F0)	-1.41%	-4.18%	-2.66%	-6.25%	-24.35%	-14.24%
Momentum Score	A	-	-	B	B	C
Daily Price Chg	-0.56%	0.26%	0.04%	0.00%	0.76%	0.26%
1 Week Price Chg	-0.24%	1.55%	0.92%	0.00%	1.78%	2.88%
4 Week Price Chg	-1.40%	9.12%	2.71%	9.12%	11.54%	18.10%
12 Week Price Chg	21.32%	32.77%	19.78%	11.28%	11.64%	44.64%
52 Week Price Chg	12.68%	-7.15%	-6.05%	0.69%	-20.15%	0.59%
20 Day Average Volume	341,227	153,148	2,819,961	75	104,451	27,217
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	1.06%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-15.89%	-13.71%	-12.72%	20.00%	-8.28%	-17.11%
(Q1) EPS Est Mthly Chg	6.23%	3.12%	0.00%	NA	0.00%	NA

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	B
Growth Score	A
Momentum Score	A
VGM Score	A

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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