

Grainger, W.W., Inc. (GWW)

Preliminary View of 2Q13 Results

BAIRD

No change in outlook. GWW reported 2Q13 EPS slightly above expectations, as better-than-expected gross margin and SG&A leverage more than offset slightly softer sales growth. Management tweaked the low end of EPS guidance higher, similar to last quarter, although corresponding sales growth guidance was reduced 1% at the high end. While guidance continues to bracket Street expectations, July sales growth is trending slightly lower than June.

- **EPS.** EPS was \$3.03 vs. \$2.63 y/y, slightly above our \$2.95 estimate (\$2.96 consensus).
- **Sales.** Sales were \$2.38 billion vs. \$2.25 billion y/y (+6%), just below our \$2.40 billion estimate (also consensus). Daily sales were +6% y/y, comprised of volume +4%, price +2%, acquisitions +2%, and currency -1%.
- **2013 guidance tweaked.** Management just slightly tweaked 2013 EPS and sales guidance, with 2013 EPS now expected to be \$11.40-\$12.00 (previously \$11.30-\$12.00) vs. our prior \$11.86 estimate. Sales growth guidance is now +5-8% (previously +5-9%) vs. our prior +6.9% estimate.
- **June sales.** June daily sales were +5% -- slightly below our +6.1% estimate. Daily sales were comprised of volume +4%, price +1%, and acquisitions +1%, partially offset by a -1% headwind from currency.
- **July sales.** Sales growth in July is trending slightly below June (+5%), and below our prior +6.9% estimate.
- **Gross margin.** Gross margin of 44.0% (+50bps y/y) was above our 43.7% estimate, primarily reflecting higher gross margins outside of the U.S.
- **Operating expenses.** SG&A as a percent of sales of 29.3% was below our 29.5% estimate, as sales growth of +6% was leveraged vs. SG&A +5%. Excluding \$37 million in incremental growth spending, underlying SG&A was down slightly y/y.
- **EBIT margin.** Resulting EBIT margin of 14.7% was above our 14.2% estimate, with resulting contribution margin of 27% and pull-through margin (change in EBIT over change in gross profit) of 53%, both indicating very solid read-through on incremental sales.
- **Segments.** 2Q13 US daily sales were +7% (+9% April, +6% May, +6% June), Canada daily sales were +5% in local currency and Other Businesses were also +5%.

Valuation Synopsis

Our \$265 price target represents 10.5x EV/2014E EBITDA, in line with the 10.5x NTM average seen YTD, but a slight premium to the long-term 8.5x average, a warranted premium, in our view, given sustainably higher margins and returns.

Risk Synopsis

Macro-economic conditions, ability to expand margins, pricing power, benefits from product expansion, sales force additions, global sourcing.

W.W. Grainger is the North American leader in the distribution of maintenance, repair, and operating (MRO) supplies.

FLASH REPORT

1-Year Price Chart



Stock Data

Rating:	Neutral
Suitability:	Lower Risk
Price Target:	\$265
Price (7/17/13):	\$262.68
Market Cap (mil):	\$18,598
Shares Out (mil):	70.8
Average Daily Vol (mil):	0.33
Dividend Yield:	1.22%

Estimates

FY Dec	2012A	2013E	2014E
Q1	2.57 A	2.94 A	
Q2	2.63 A	2.95 E	
Q3	2.81 A	3.21 E	
Q4	2.52 A	2.76 E	
Fiscal EPS	10.43 A	11.86 E	13.60 E
Fiscal P/E	25.2x	22.1x	19.3x

Chart/Table Sources: Baird and Bloomberg

[PDF version of our most recent model](#)

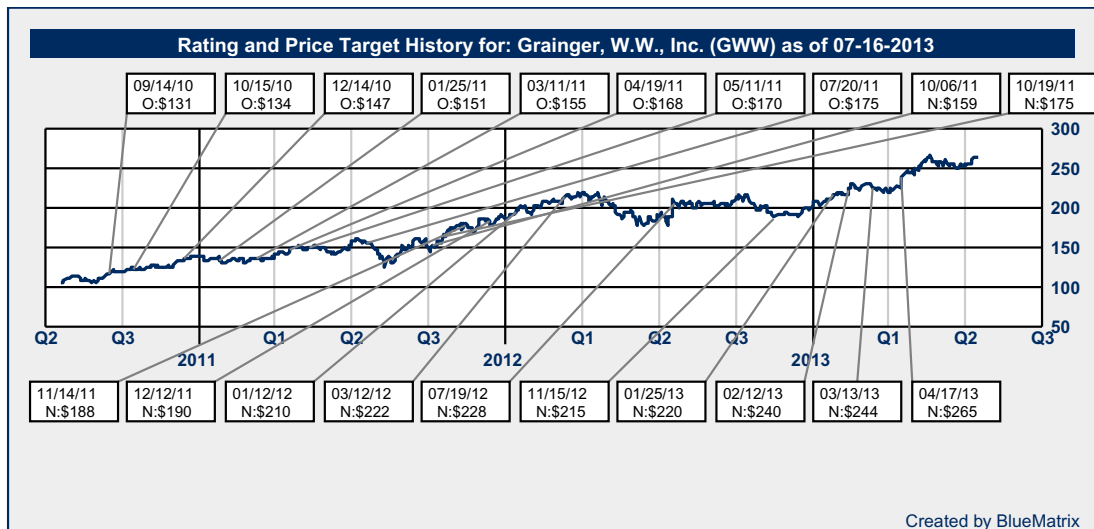
See recent research notes for more information.

Please refer to Appendix - Important Disclosures and Analyst Certification

W.W. Grainger (GWW - NYSE)								
Quarterly Results and Variance Sheet (In Millions)								
	Quarterly Results					Percent of Revenue		
	2Q13	2Q12	Change	Baird/	Variance	2Q13	2Q12	Baird/
Net Sales	\$ 2,381.6	\$ 2,249.3	6%	\$ 2,403.5	(1%)			
Cost of Sales	1,334.6	1,270.9	5%	1,352.5	(1%)			
Gross Profit	1,047.0	978.3	7%	1,051.0	(0%)	44.0%	43.5%	43.7%
SG&A	696.9	664.3	5%	708.6	(2%)	29.3%	29.5%	29.5%
Operating Income	350.1	314.0	11%	342.5	2%	14.7%	14.0%	14.2%
Other Exp (Inc)	2.6	3.3	(22%)	1.7	52%	0.1%	0.1%	0.1%
Pretax Income	347.5	310.7	12%	340.8	2%	14.6%	13.8%	14.2%
Taxes	126.8	117.6	8%	127.0	(0%)	36.5%	37.9%	37.3%
Net Income	\$ 214.6	\$ 187.3	15%	\$ 207.6	3%	9.0%	8.3%	8.6%
Diluted EPS	\$ 3.03	\$ 2.63		\$ 2.95				
Diluted Shares	70.8	71.3		70.4				

Source: Company reports, Robert W. Baird & Co. estimates

Appendix - Important Disclosures and Analyst Certification



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