

GRAINGER W W INC
Form 10-Q
April 22, 2019

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019
OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 1-5684

W.W. Grainger, Inc.
(Exact name of registrant as specified in its charter)

Illinois 36-1150280
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

100 Grainger Parkway, Lake Forest, Illinois 60045-5201
(Address of principal executive offices) (Zip Code)
(847) 535-1000
(Registrant's telephone number including area code)

Not Applicable
(Former name, former address and former fiscal year; if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated

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filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes [] No [X]

There were 55,443,591 shares of the Company's Common Stock, par value \$0.50, outstanding as of March 31, 2019.

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PART I – FINANCIAL INFORMATION

Item 1: Financial Statements

W.W. Grainger, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In millions of dollars, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net sales	\$2,799	\$2,766
Cost of goods sold	1,704	1,674
Gross profit	1,095	1,092
Selling, general and administrative expenses	732	757
Operating earnings	363	335
Other income (expense):		
Interest income	2	—
Interest expense	(21)	(25)
Losses from equity method investment	—	(11)
Other, net	7	8
Total other expense, net	(12)	(28)
Earnings before income taxes	351	307
Income taxes	89	66
Net earnings	262	241
Less: Net earnings attributable to noncontrolling interest	9	9
Net earnings attributable to W.W. Grainger, Inc.	\$253	\$232
Earnings per share:		
Basic	\$4.50	\$4.09
Diluted	\$4.48	\$4.07
Weighted average number of shares outstanding:		
Basic	55.6	56.1
Diluted	55.9	56.4
Cash dividends paid per share	\$1.36	\$1.28

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In millions of dollars)

(Unaudited)

	Three Months Ended March 31,	
	2019	2018
Net earnings	\$262	\$241
Other comprehensive (losses) earnings:		
Foreign currency translation adjustments, net of reclassification	4	23
Postretirement benefit plan reclassification, net of tax benefit of \$1 and \$1, respectively	(3)	(2)
Total other comprehensive earnings	1	21
Comprehensive earnings, net of tax	263	262
Less: Comprehensive earnings (losses) attributable to noncontrolling interest		
Net earnings	9	9
Foreign currency translation adjustments	(2)	9
Comprehensive earnings attributable to noncontrolling interest	7	18
Comprehensive earnings attributable to W.W. Grainger, Inc.	\$256	\$244

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED BALANCE SHEETS
 (In millions of dollars, except for share and per share amounts)

	As of (Unaudited)	
	March 31, 2019	Dec 31, 2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$392	\$538
Accounts receivable (less allowances for doubtful accounts of \$26 and \$25, respectively)	1,485	1,385
Inventories	1,523	1,541
Prepaid expenses and other assets	102	83
Prepaid income taxes	6	10
Total current assets	3,508	3,557
PROPERTY, BUILDINGS AND EQUIPMENT, NET	1,358	1,352
DEFERRED INCOME TAXES	14	12
GOODWILL	425	424
INTANGIBLES, NET	446	460
OTHER ASSETS	263	68
TOTAL ASSETS	\$6,014	\$5,873
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Short-term debt	\$52	\$49
Current maturities of long-term debt	82	81
Trade accounts payable	741	678
Accrued compensation and benefits	146	262
Accrued contributions to employees' profit sharing plans	27	133
Accrued expenses	324	269
Income taxes payable	90	29
Total current liabilities	1,462	1,501
LONG-TERM DEBT (less current maturities)	2,077	2,090
DEFERRED INCOME TAXES AND TAX UNCERTAINTIES	101	103
OTHER NON-CURRENT LIABILITIES	222	86
SHAREHOLDERS' EQUITY		
Cumulative preferred stock – \$5 par value – 12,000,000 shares authorized; none issued nor outstanding		—
Common stock – \$0.50 par value – 300,000,000 shares authorized; 109,659,219 shares issued	55	55
Additional contributed capital	1,137	1,134
Retained earnings	8,045	7,869
Accumulated other comprehensive losses	(168)	(171)
Treasury stock, at cost – 54,215,628 and 53,796,859 shares, respectively	(7,098)	(6,966)
Total W.W. Grainger, Inc. shareholders' equity	1,971	1,921
Noncontrolling interest	181	172
Total shareholders' equity	2,152	2,093
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$6,014	\$5,873

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (In millions of dollars)
 (Unaudited)

	Three Months Ended March 31, 2019 2018	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net earnings	\$262	\$241
Provision for losses on accounts receivable	4	4
Deferred income taxes and tax uncertainties	(4)	(2)
Depreciation and amortization	57	64
Net gains from sales of assets, net of write-offs	(2)	(6)
Stock-based compensation	5	12
Losses from equity method investment	—	11
Change in operating assets and liabilities:		
Accounts receivable	(102)	(94)
Inventories	20	3
Prepaid expenses and other assets	(30)	(33)
Trade accounts payable	64	13
Other current liabilities	(207)	(103)
Income taxes payable, net	64	44
Accrued employment-related benefits cost	(4)	(7)
Net cash provided by operating activities	127	147
CASH FLOWS FROM INVESTING ACTIVITIES:		
Additions to property, buildings and equipment and intangibles	(60)	(49)
Proceeds from sales of assets	6	26
Equity method investment	2	(8)
Net cash used in investing activities	(52)	(31)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in commercial paper	—	90
Borrowings under lines of credit	10	10
Payments against lines of credit	(7)	(20)
Payments of long-term debt	(14)	(25)
Proceeds from stock options exercised	3	59
Payments for employee taxes withheld from stock awards	(3)	(15)
Purchase of treasury stock	(135)	(173)
Cash dividends paid	(76)	(72)
Other, net	1	—
Net cash used in financing activities	(221)	(146)
Exchange rate effect on cash and cash equivalents	—	5
NET CHANGE IN CASH AND CASH EQUIVALENTS	(146)	(25)
Cash and cash equivalents at beginning of year	538	327
Cash and cash equivalents at end of period	\$392	\$302

The accompanying notes are an integral part of these financial statements.

W.W. Grainger, Inc. and Subsidiaries

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(In millions of dollars, except for per share amounts)

(Unaudited)

	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Losses)	Treasury Stock	Noncontrolling Interest	Total
Balance at January 1, 2018	\$ 55	\$ 1,041	\$ 7,405	\$ (135)	\$(6,676)	\$ 138	\$ 1,828
Stock based compensation	—	24	—	—	44	—	68
Purchase of treasury stock	—	—	—	—	(160)	—	(160)
Net earnings	—	—	232	—	—	9	241
Other comprehensive earnings	—	—	—	12	—	9	21
Cash dividends paid (\$1.28 per share)	—	—	(73)	—	—	—	(73)
Balance at March 31, 2018	\$ 55	\$ 1,065	\$ 7,564	\$ (123)	\$(6,792)	\$ 156	\$ 1,925

	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Losses)	Treasury Stock	Noncontrolling Interest	Total
Balance at January 1, 2019	\$ 55	\$ 1,134	\$ 7,869	\$ (171)	\$(6,966)	\$ 172	\$ 2,093
Stock based compensation	—	3	—	—	3	—	6
Purchase of treasury stock	—	—	—	—	(135)	—	(135)
Net earnings	—	—	253	—	—	9	262
Other comprehensive (losses) earnings	—	—	&#				