

# **GRAINGER®**

**FOR THE ONES WHO GET IT DONE**

Presented By:

The Munger Games

May the market be ever in your favor

# History & Business Model

Tasha & Josh

# Background

- North America's leading distributor of maintenance, repair and operating (MRO) products and services
- Founded by William Wallace Grainger in the State of Illinois in 1928
- Headquartered in Lake Forest, Illinois
- In 1967 went public
- In 1996, first commerce enabled website,
  - Measured by revenue, they are currently the 15<sup>th</sup> largest ecommerce company in the U.S., with their subsidiary Zoro
- Acquired Acklands-Grainger (AGI) in 1998
- Used by businesses and institutions primarily in the United States and Canada, with presence also in Europe, Asia and South America.

# Business Model

- Single channel Online Model:
  - Started with MonotaRO in Japan 2000
  - Expanded to U.S. with Zoro in 2011, launched website in Canada in 2014
  - Customers with less complex needs
  - 70% of the B2B market in U.S.

# Business Model

- Multichannel Model:
  - The United States:
    - 19 distribution centers
    - 377 branches
    - 51 contact centers
  - Canada:
    - 181 branches
    - 6 distribution centers
  - Contact centers
  - Sales representatives
  - Direct marketing materials
  - Catalogs
  - Ecommerce
  - Can reach more than 95% of customers in North America via next day ground transportation due to its large distribution network.

## Customer size

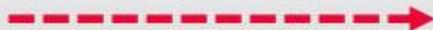
### Large

- U.S. market size: \$37B
- 270K business locations



### Medium

- U.S. market size: \$37B
- 1.5M business locations



### Small

- U.S. market size: \$48B
- 20M business locations

## Grainger model

### Multichannel

High service, high touch model with sales coverage to tailor offer to individual customer needs and constraints



### Single Channel Online

Low-touch, single price offer without significant investment in solutions, services or customization



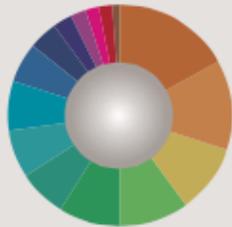
# U.S. Distribution Network

## 2014 Sales by Customer Category – United States

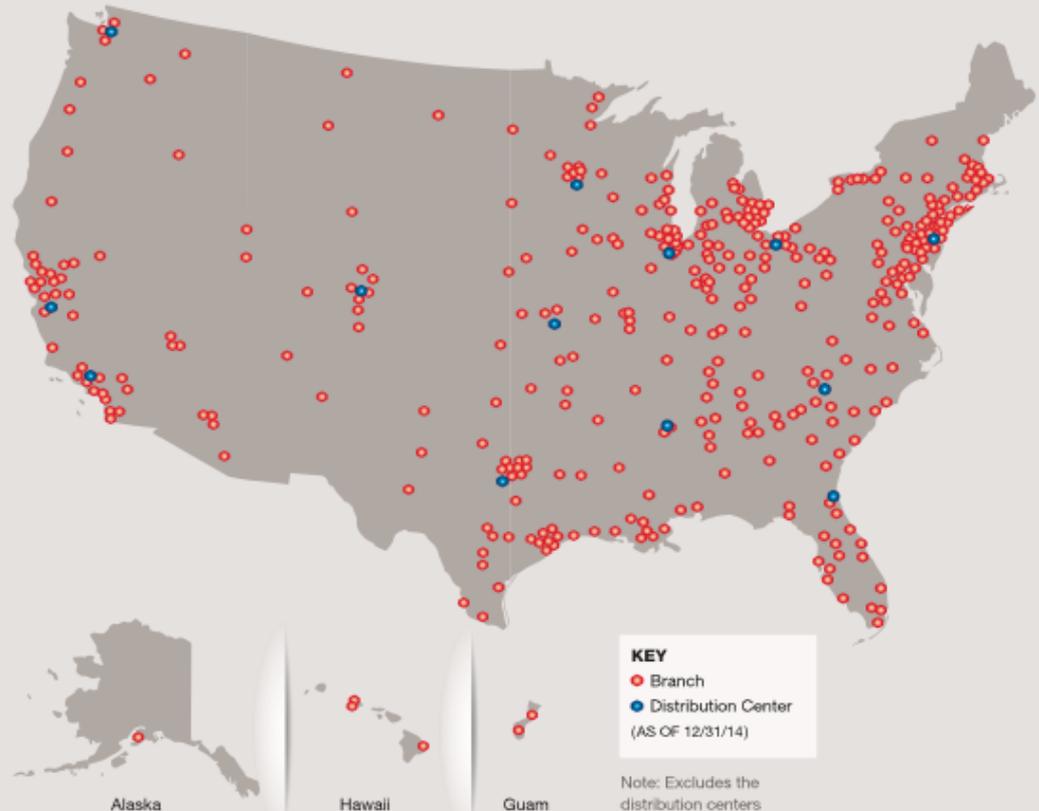


- 19% Heavy Manufacturing
- 16% Commercial
- 16% Government
- 12% Light Manufacturing
- 11% Contractor
- 6% Other
- 6% Retail
- 6% Transportation
- 4% Natural Resources
- 4% Reseller

## 2014 Sales by Product Category – United States



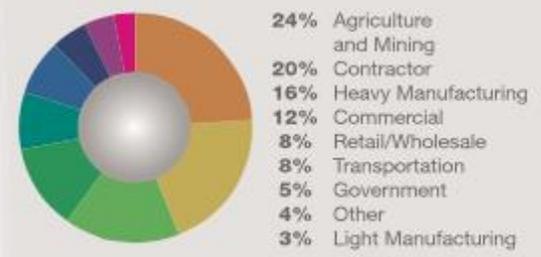
- 17% Safety and Security
- 13% Material Handling
- 10% Cleaning and Maintenance
- 10% Metalworking
- 9% Pumps, Plumbing and Test Equipment
- 7% Electrical
- 7% Hand Tools
- 7% HVAC
- 6% Lighting
- 4% Fluid Power
- 3% Power Tools
- 2% Motors
- 2% Power Transmission
- 2% Specialty Brands
- 1% Other



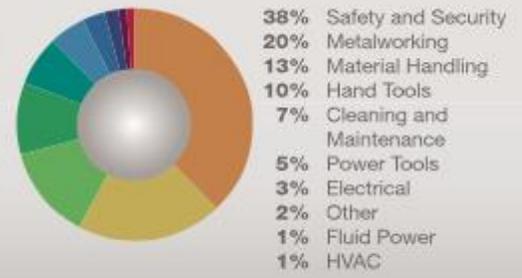
# Canada Distribution Network



**2014 Sales by Customer Category – Canada**



**2014 Sales by Product Category – Canada**



# European Distribution Network

## Europe at a Glance

More than  
**110,000**  
fastener SKUs and  
other MRO products

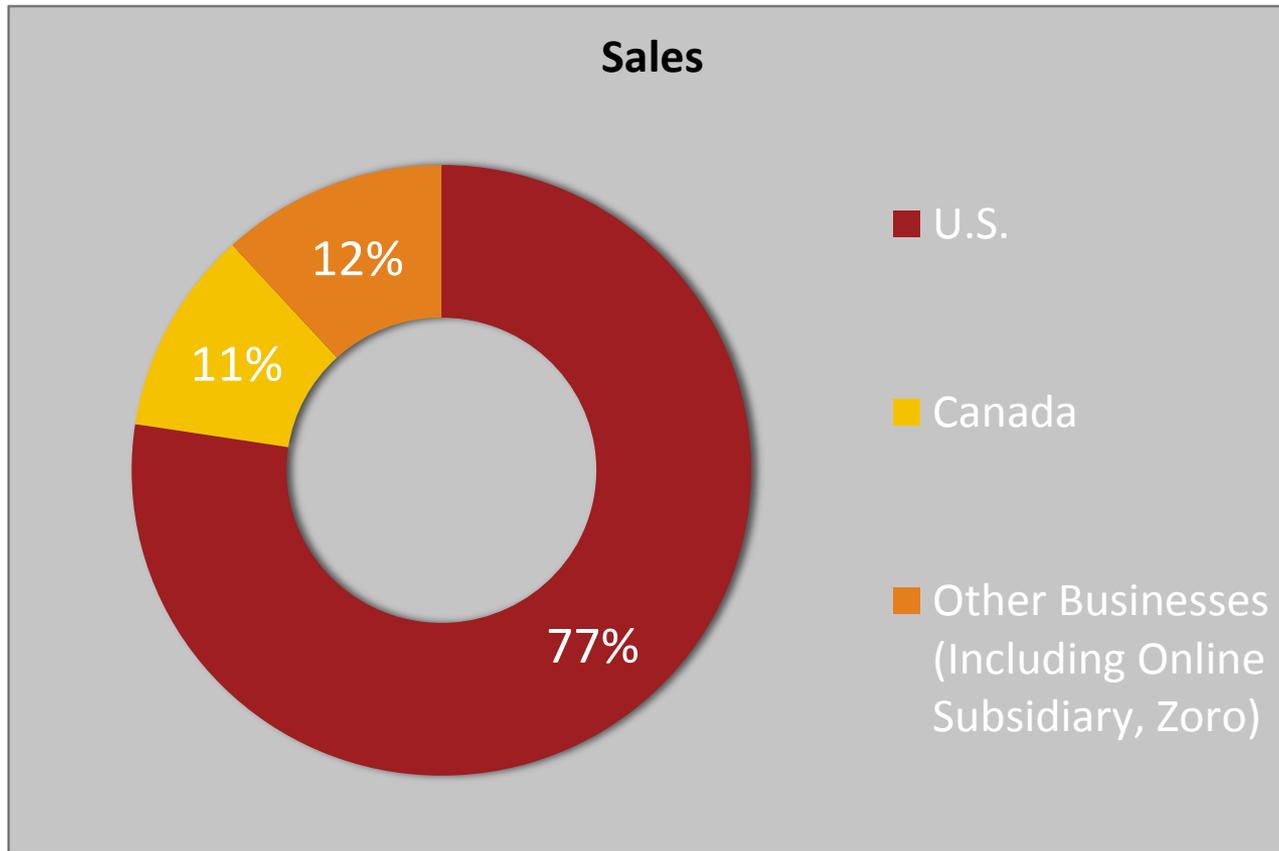
**89**  
shops in  
9 countries



**KEY**  
● Branch  
● Distribution Center  
(AS OF 12/31/14)



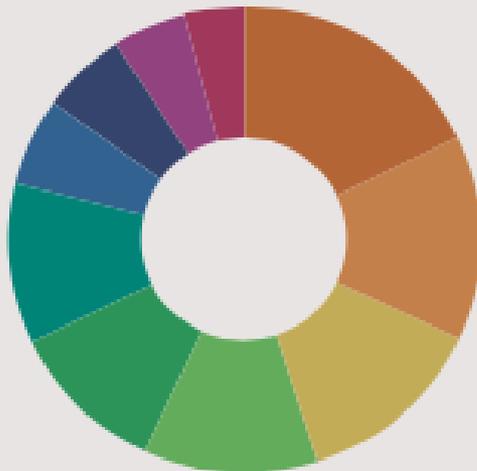
# Sales By Location



# Customers

- Customers range from small and medium-sized businesses to large corporations, government entities and other institutions.
- Grainger serves more than 2 million customers worldwide through a network of highly integrated branches, distribution centers and websites.

## 2014 Sales (Total Company)



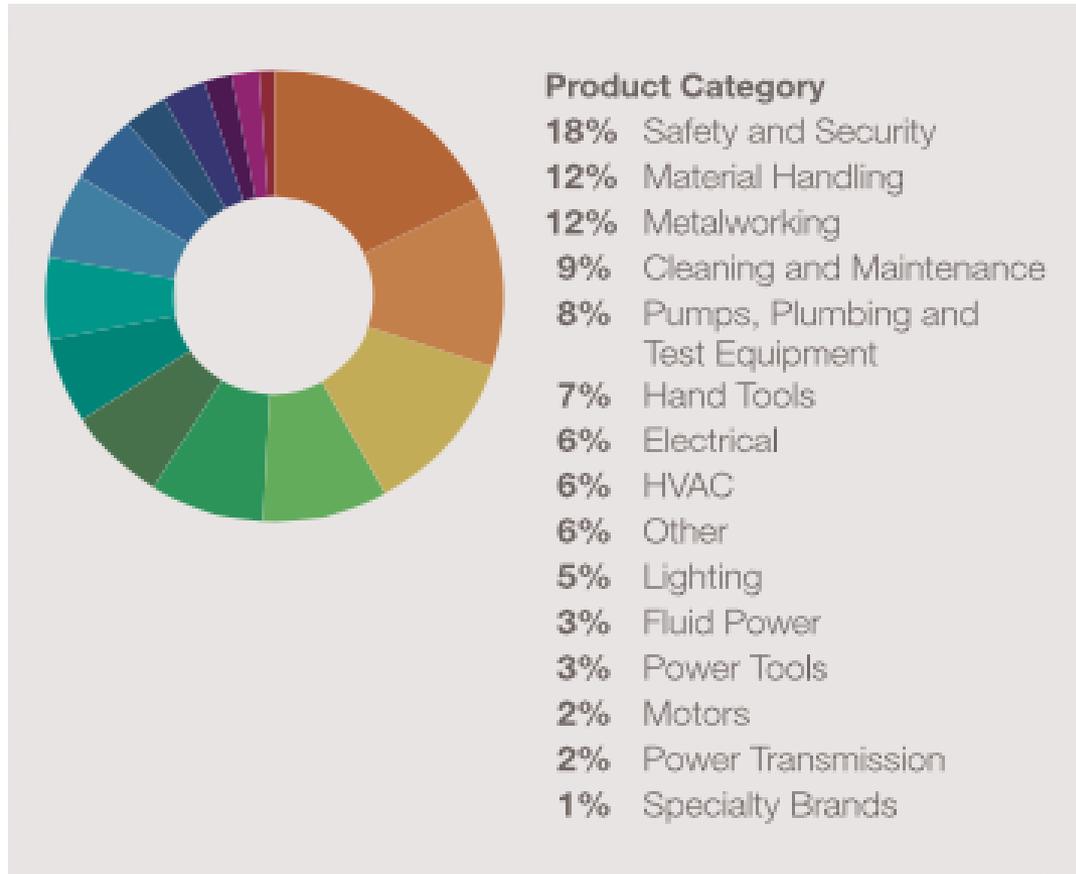
### Customer Category

18%	Heavy Manufacturing
14%	Commercial
13%	Government
12%	Other
11%	Contractor
11%	Light Manufacturing
6%	Retail/Wholesale
6%	Transportation
5%	Natural Resources
4%	Reseller

# Products

- 4,500 manufactures supply Grainger with 1.4 million products
- Exclusive Brands:
  - Dayton, Westward, LumaPro, Tough Guy
- The 2015 catalog:
  - over 32,000 new items
  - 590,000 facilities maintenance and other products
  - Products are regularly added to and deleted from Grainger's product lines on the basis of customer demand, market research, recommendations of suppliers, sales volumes and other factors.

# Sales By Product



# News

- April 2015 – Buyback plan \$3B stock plan to run for 3 years (17%)
- In 2014, Grainger also announced the decision to close the business in Brazil and operations will cease during 2015.
- Grainger's Canadian subsidiary, Acklands-Grainger, acquired WFS Enterprises, Inc. (WFS) in the third quarter of 2014 (33 million)

# Competitive Advantage

- Deals Business Worldwide
- Wide variety of well known brands
- KeepStock Program
  - Connecting 2,700 suppliers to 2 million customers
- High emphasis on online distribution
- Next day transportation due to large distribution network

# Risk Factors

- Certain services do better in certain seasons.
- Commodity prices on materials could increase the costs of manufacturing and transportation.
- Disruption of services could go against the same-day shipping and next-day delivery policy
- Fluctuation of currency exchange rates or economic activity in abroad jurisdictions
- Possible breach of Information Security System
- Geopolitical Risk

# Protective Moat

- Strong Customer Relationship
- Efficient distribution and branch network
- Economies of Scale
- Network Effect

# Qualitative Analysis

What type of business is this: commodity or sustained competitive advantage?	Sustained Competitive Advantage
Can you easily explain what the business does?	Yes
Is it heavily unionized?	No
Does it require heavy capital infusion?	No
Does it require lots of research and development?	No
Can inventory become obsolete?	No
Are there chronic “one time” write offs?	Yes
Is the company able to raise its prices to offset inflation?	Yes
Will the company be able to sell more in the future?	Yes
Billion Dollar competitor?	No

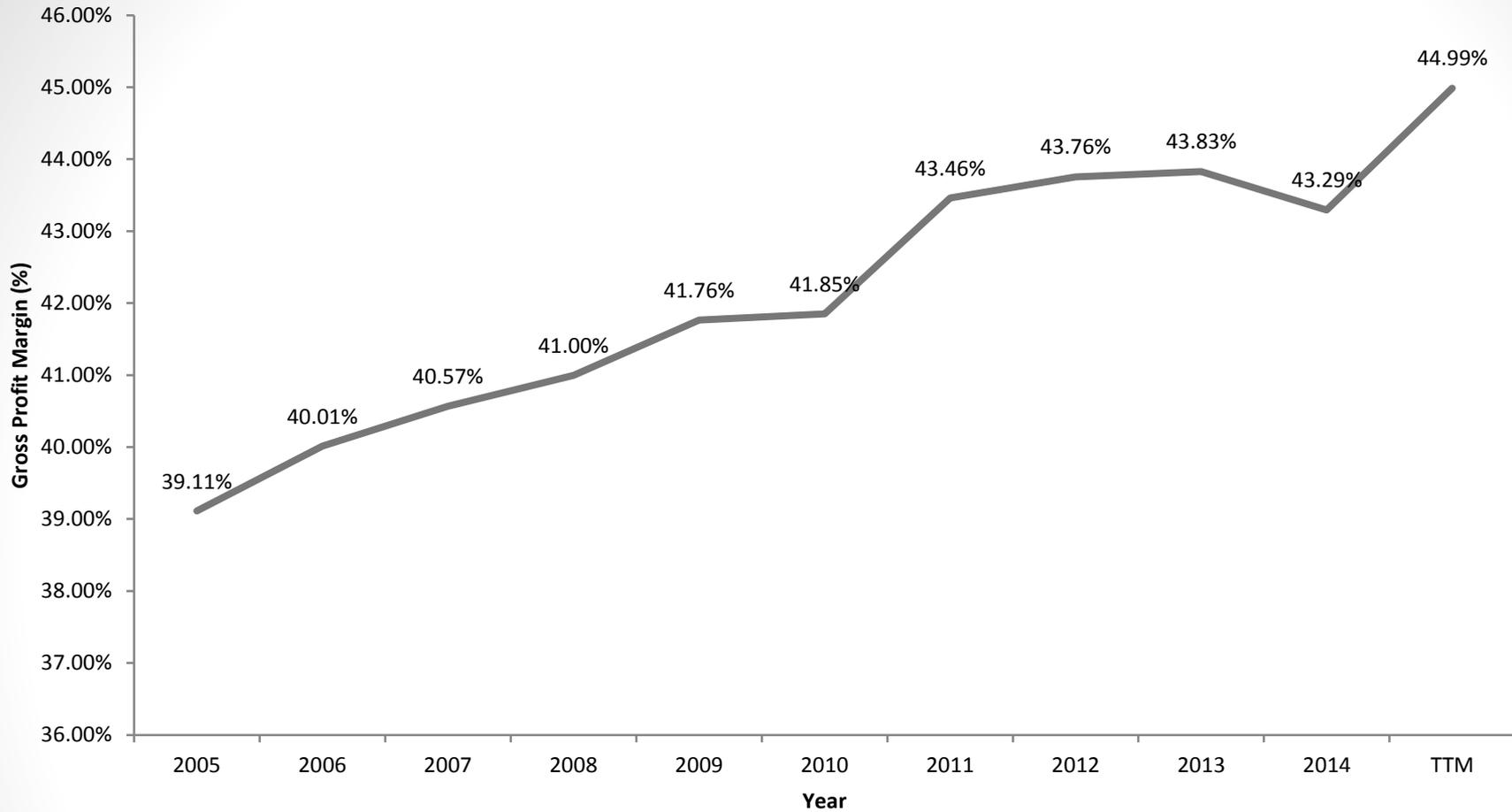
# Interpretation of Financial Statements

Amanda

# Interpretation of Financial Statements

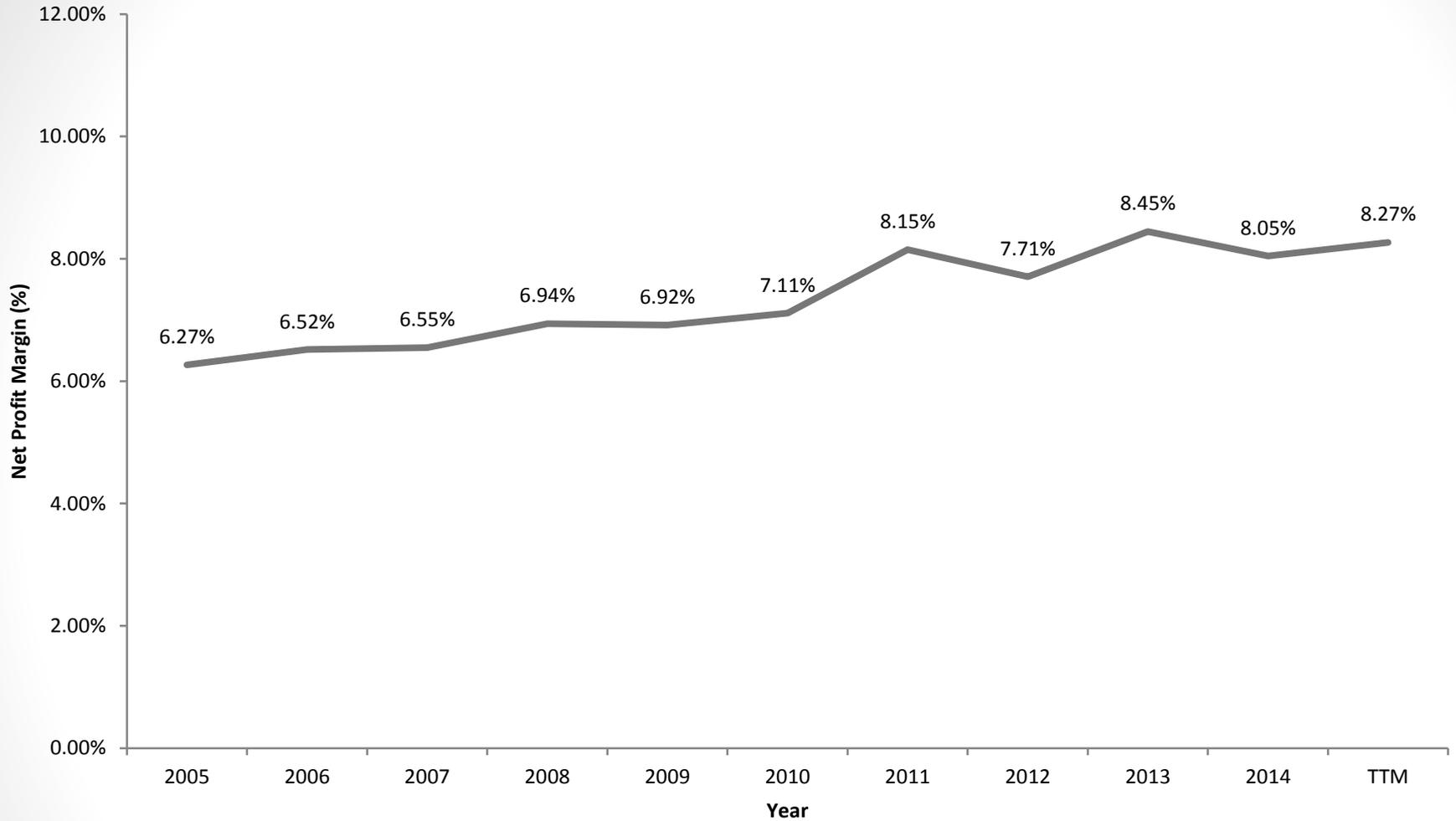
<u>TTM</u>	Value	Threshold	Pass?
Gross Profit Margin	44.99%	≥ 20%	Yes
% SGA	68.97%	≤ 80%	Yes
% R&D	0.00%	≤ 10%	Yes
% Depreciation	4.96%	≤ 10%	Yes
Interest % of OP	-0.66%	≤ 15%	Yes
Net Profit Margin	8.27%	≥ 10%	No
Current Ratio	2.27	≥ 1	Yes
Obligation Ratio	0.83	< 5 years	Yes
Adj. Debt to Shareholder Equity	-2.43	< 0.8	Yes
Return on Equity	24.80%	≥ 15%	Yes
Return on Capital	22.23%	≥ 15%	Yes
Dividend Payout Ratio	0.00%	≤ 60%	Yes
Preferred Stock	None	None	Yes
Capital Expenditures	-52.91%	≤ 25%	Yes
Net Earning Trend	Up	Up	Yes
Retained Earnings Trend	Up	Up	Yes

# Gross Profit Margin



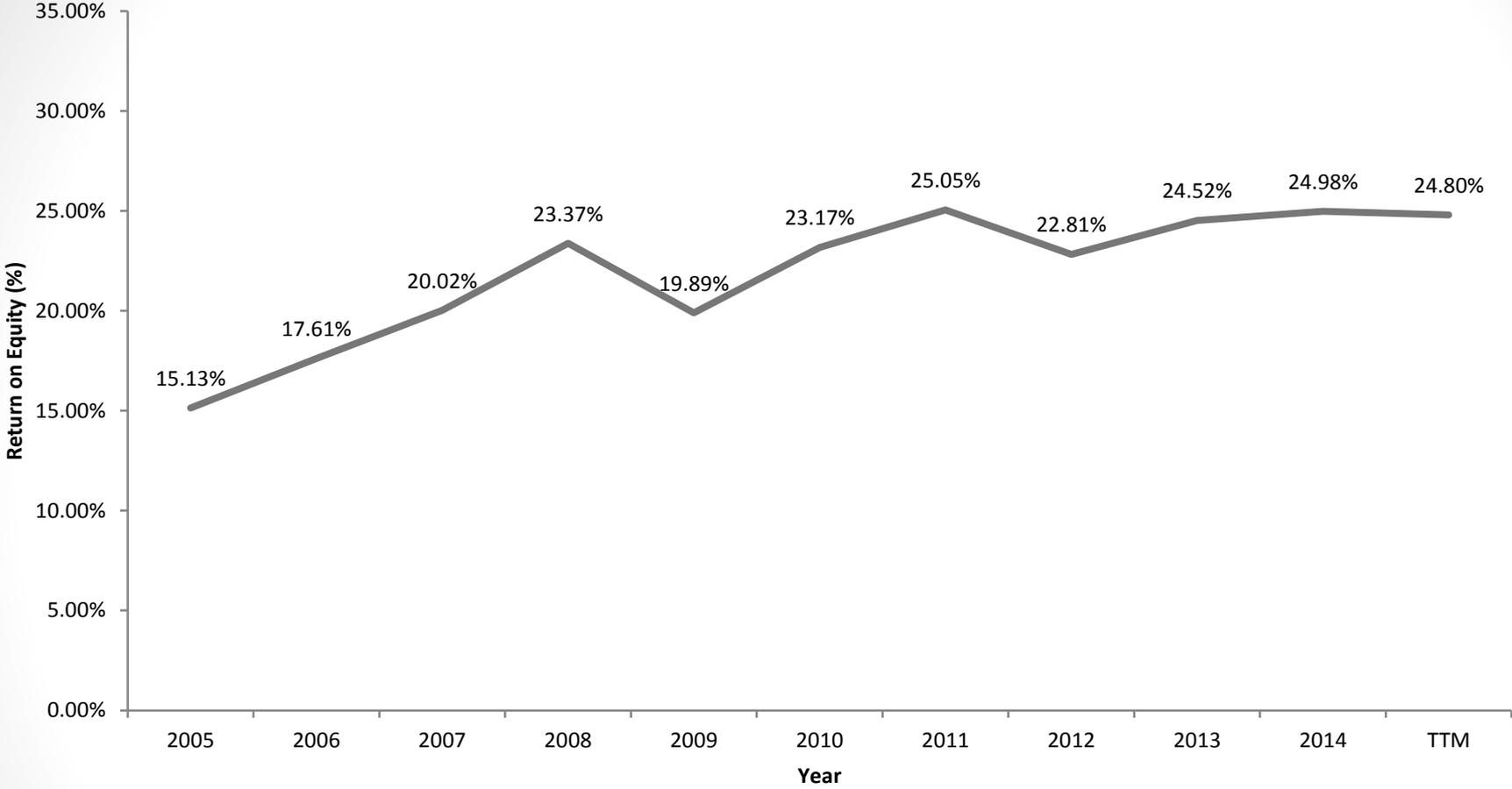
$$\text{Gross Profit Margin as \%} = \frac{\text{Gross Profit}(\$)}{\text{Revenue}(\$)}$$

# Net Profit Margin



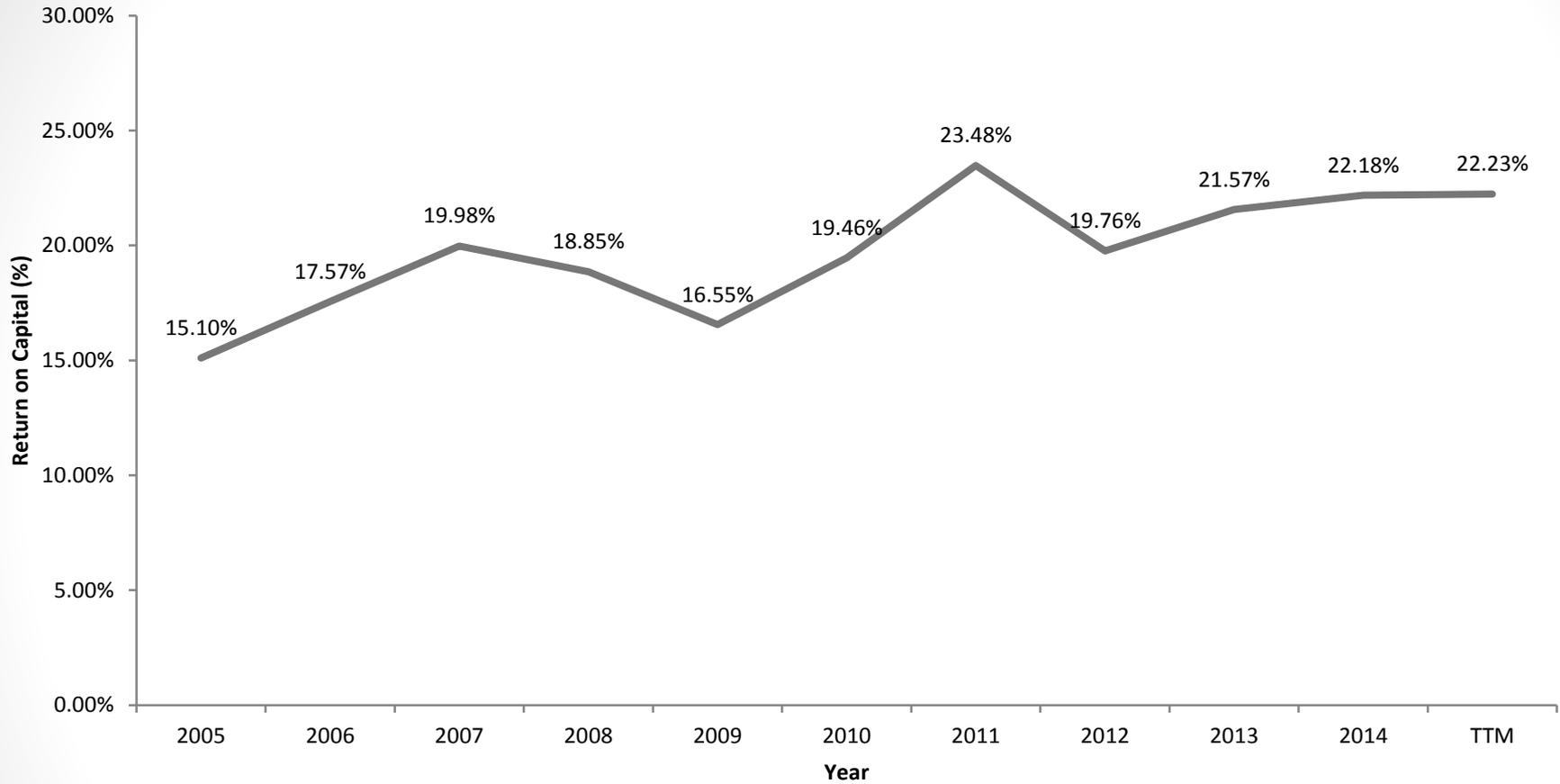
$$\text{Net Profit Margin as \%} = \frac{\text{Net Profit}(\$)}{\text{Revenue}(\$)}$$

# Return on Equity

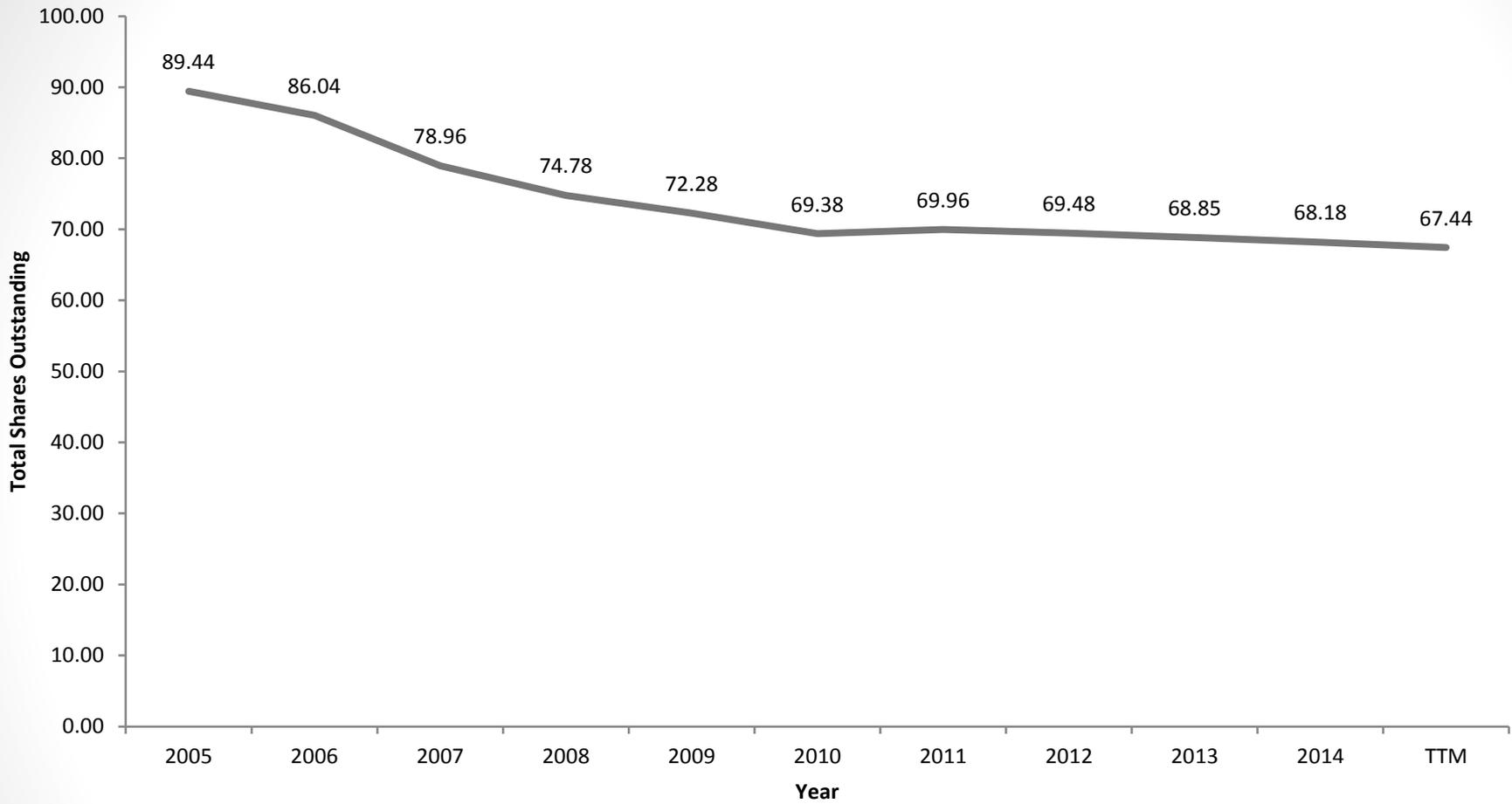


**Return on Equity as % =  $\frac{\text{Net Profit}(\$)}{\text{Total Equity}(\$)}$**

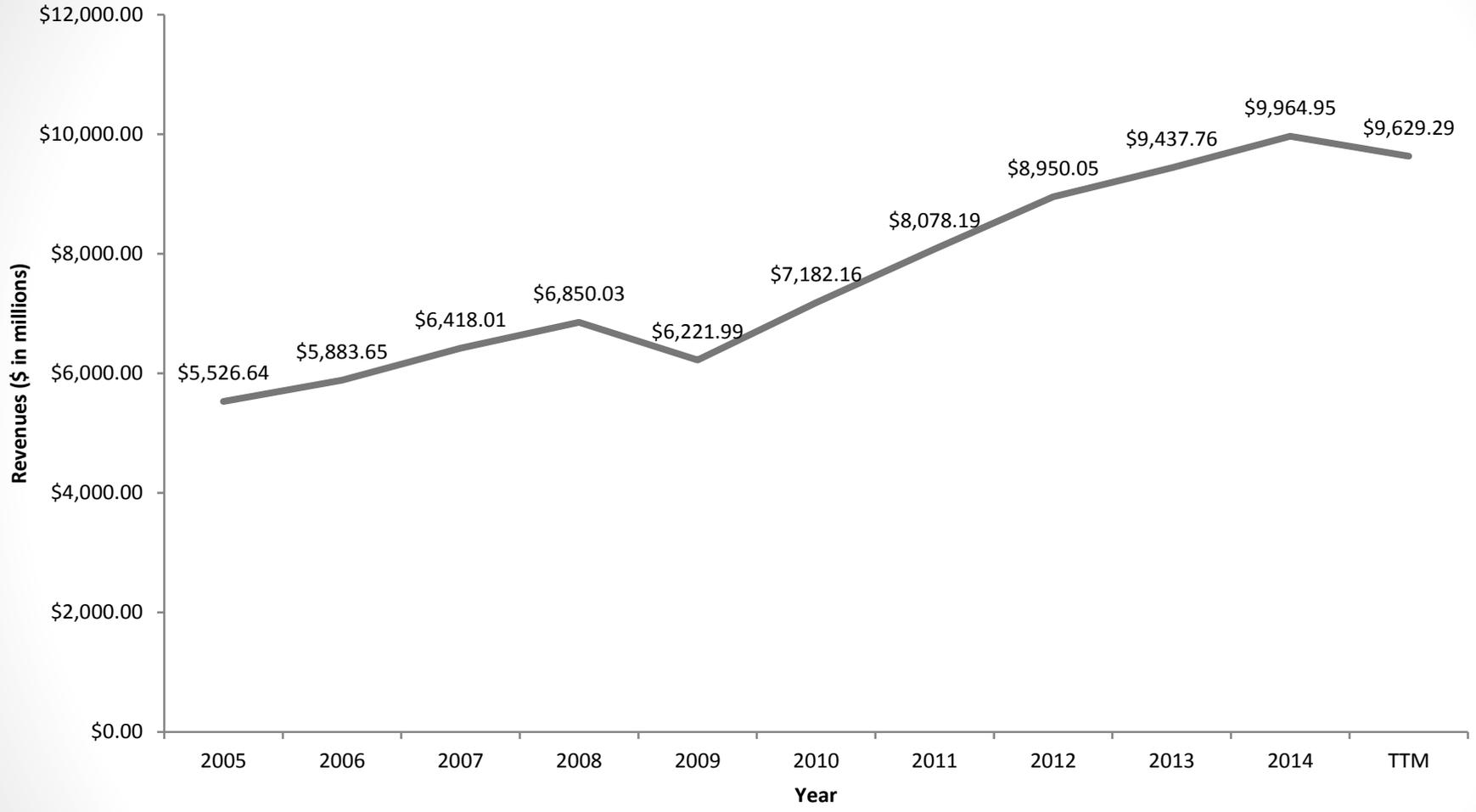
# Return on Capital



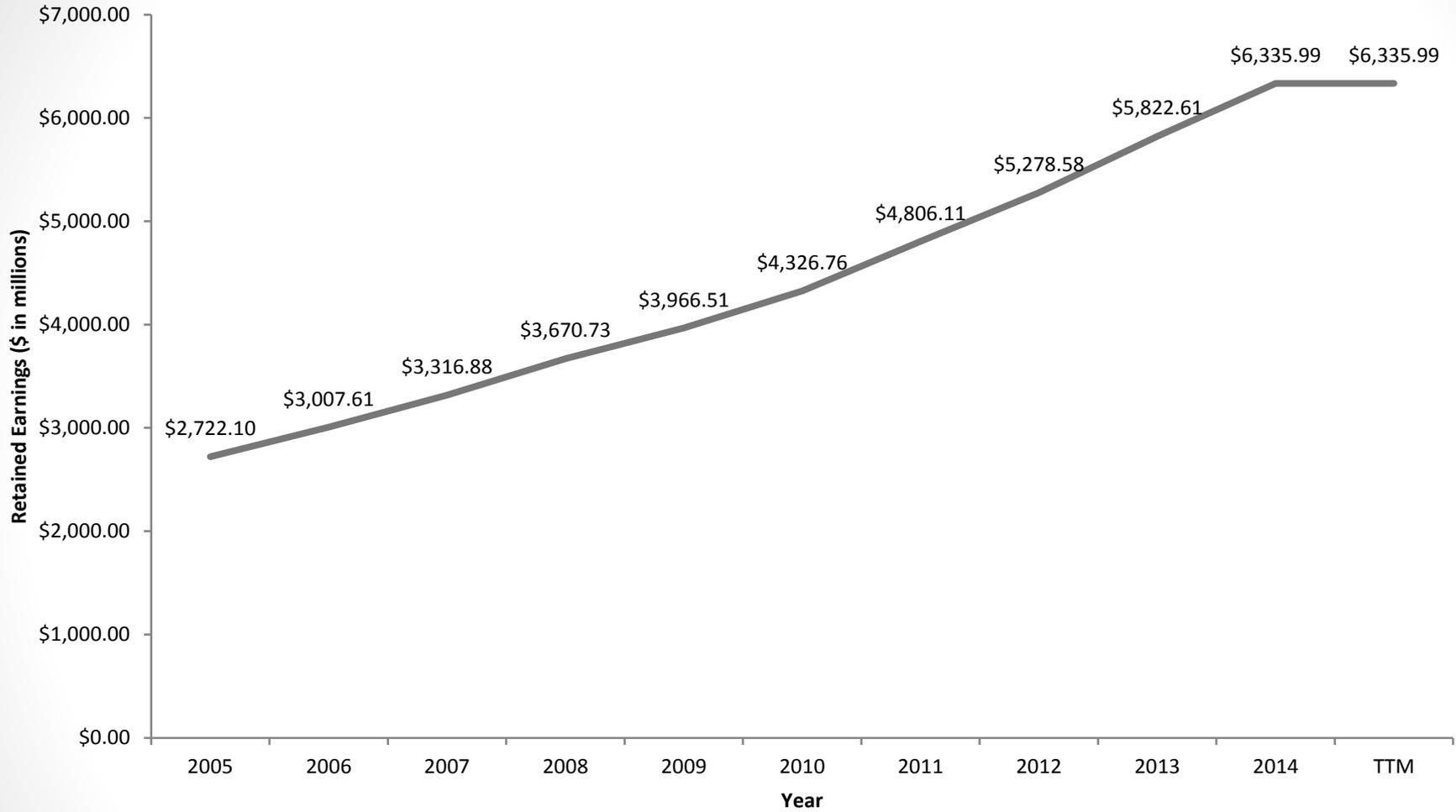
# Total Shares Outstanding



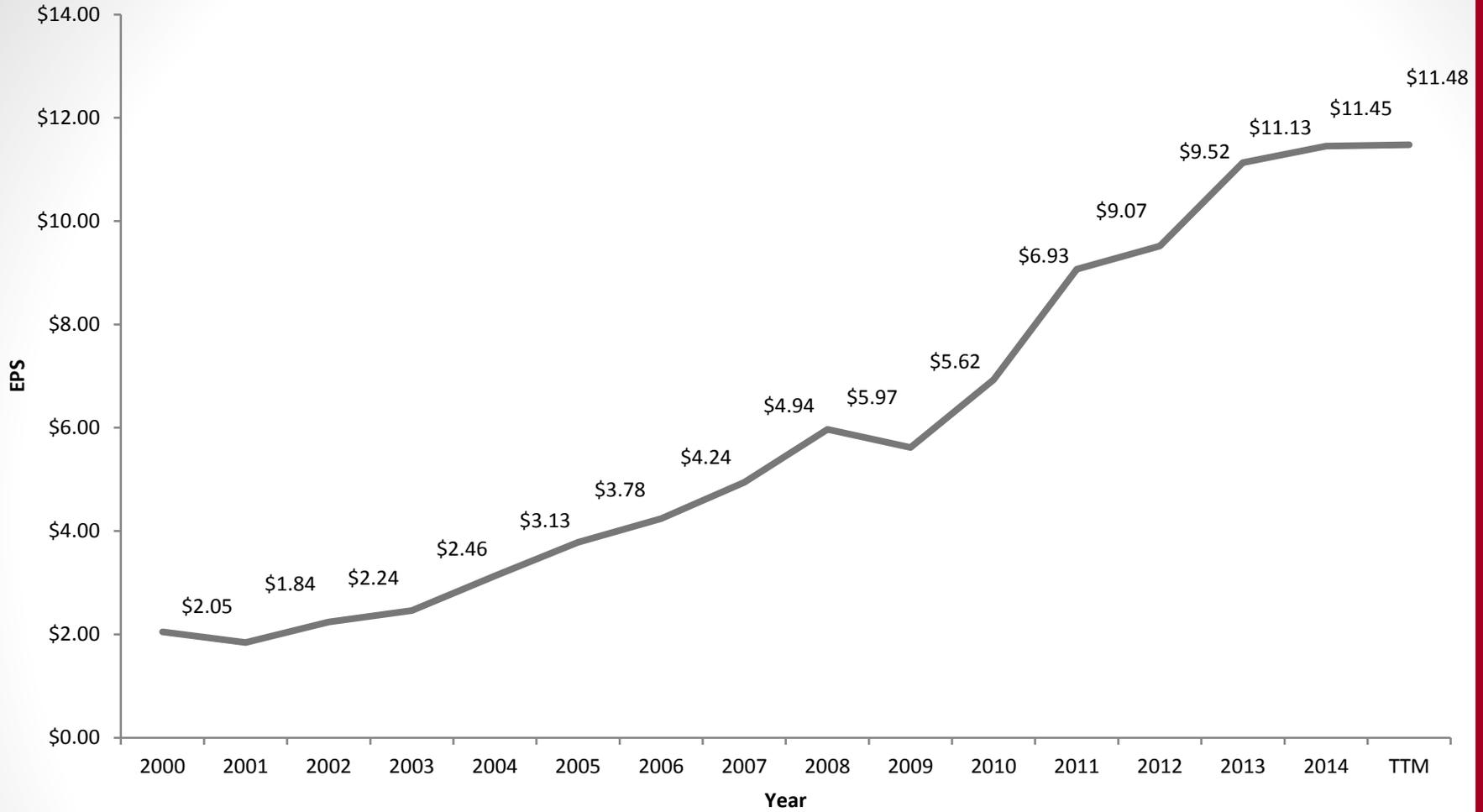
# Revenues (10 year)



# Retained Earnings



# Earnings Per Share



$$\text{Earnings Per Share} = \frac{\text{Net Profit}(\$) \text{ Total Shares}}{\text{Outstanding}}$$

# Quantitative Review

Audra

## Buffettology

Sales per Share	Increasing
Cashflows per Share	Increasing
Earnings per Share	Increasing
Dividends Declared per Share	Increasing
Capital Spending per Share	Increasing
Book Value per Share	Increasing
Revenues (Sales)	Increasing
Gross Profit Margin	Increasing
Operating Profit Margin	Increasing
Number of Branches in U.S. and Canada	558
Net Profit	Increasing
Net Profit Margin	Stable
Working Capital	Stable
Shareholder's Equity	Increasing
Return on Total Capital	Stable
Return on Shareholder's Equity	Stable
Common Shares Outstanding	Decreasing
Long-Term Debt	Yes
LT Debt Payable in 5 years	Yes
All Dividends to Net Profit under 60%	Yes

# DuPont analysis: Comparative

<b>Grainger</b>	<b>Total Asset Turnover</b> (Revenue/Total Assets)	<b>Net Profit Margin</b> (Net Income/Revenue)	<b>Financial Leverage Multiplier</b> (Total Assets/Total Equity)	<b>Return on Equity</b>
TTM	1.92	7.9%	1.62	24.23%
2014	1.89	8.0%	1.65	24.82%
2013	1.79	8.4%	1.62	25.41%
2012	1.78	7.7%	1.66	24.41%

# Competitors



**WOLSELEY**



# DuPont analysis: Competition

<b>Company</b>	<b>Total Asset Turnover</b> (Revenue/Total Assets)	<b>Net Profit Margin</b> (Net Income/Revenue)	<b>Financial Leverage Multiplier</b> (Total Assets/Total Equity)	<b>Return on Equity</b>
Grainger	1.92	7.9%	1.62	24.23%
Fastenal	1.57	13.4%	1.30	27.27%
Woseley PLC	2.12	1.7%	2.75	8.67%
Genuine Parts Co.	1.88	4.6%	2.59	21.14%
Nitto Denko Corporation	1.05	8.5%	1.44	12.54%

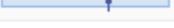
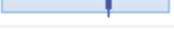
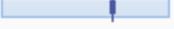
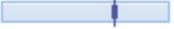
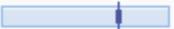
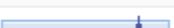
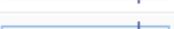
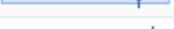
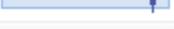
# Industry Breakdown

Company	WW Grainger Inc	Fastenal	Woseley PLC	Genuine Parts Co.	Nitto Denko Corporation
Market Cap (bil)	16.66	12.37	15.55	14.05	10.78
P/E (ttm)	21.50	24.20	21.20	20.20	18.30
P/S	1.7	3.2	.77	.90	1.60
EV/EBIT	12.21	14.83	15.49	13.20	10.96
ROE (%)	24.23%	27.27%	8.67%	21.14%	12.54%
Net Margin (%)	7.95%	13.38%	1.75%	4.63%	8.52%
Operating Margin (%)	13.41%	21.32%	3.99%	7.32%	11.97%
Dividend Yield (%)	1.80%	2.50%	2.20%	2.51%	1.46%
Inside Ownership	12%	9%	0%	1%	0%
Combined Weightings	0	0	0	.67	0
Guru Predictability Stars	5	4.5	1	3.5	Not Rated

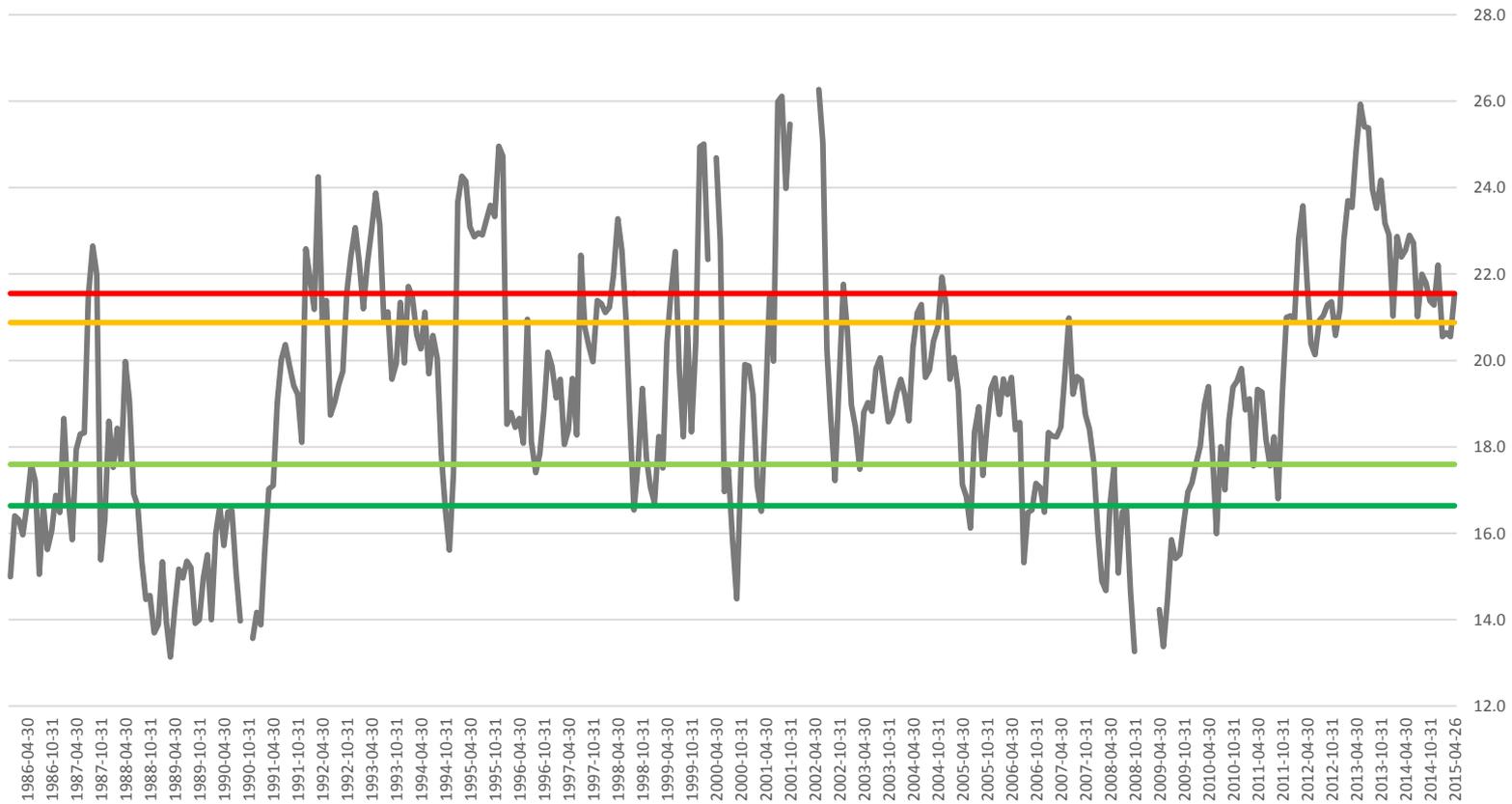
# Valuations

Tyler

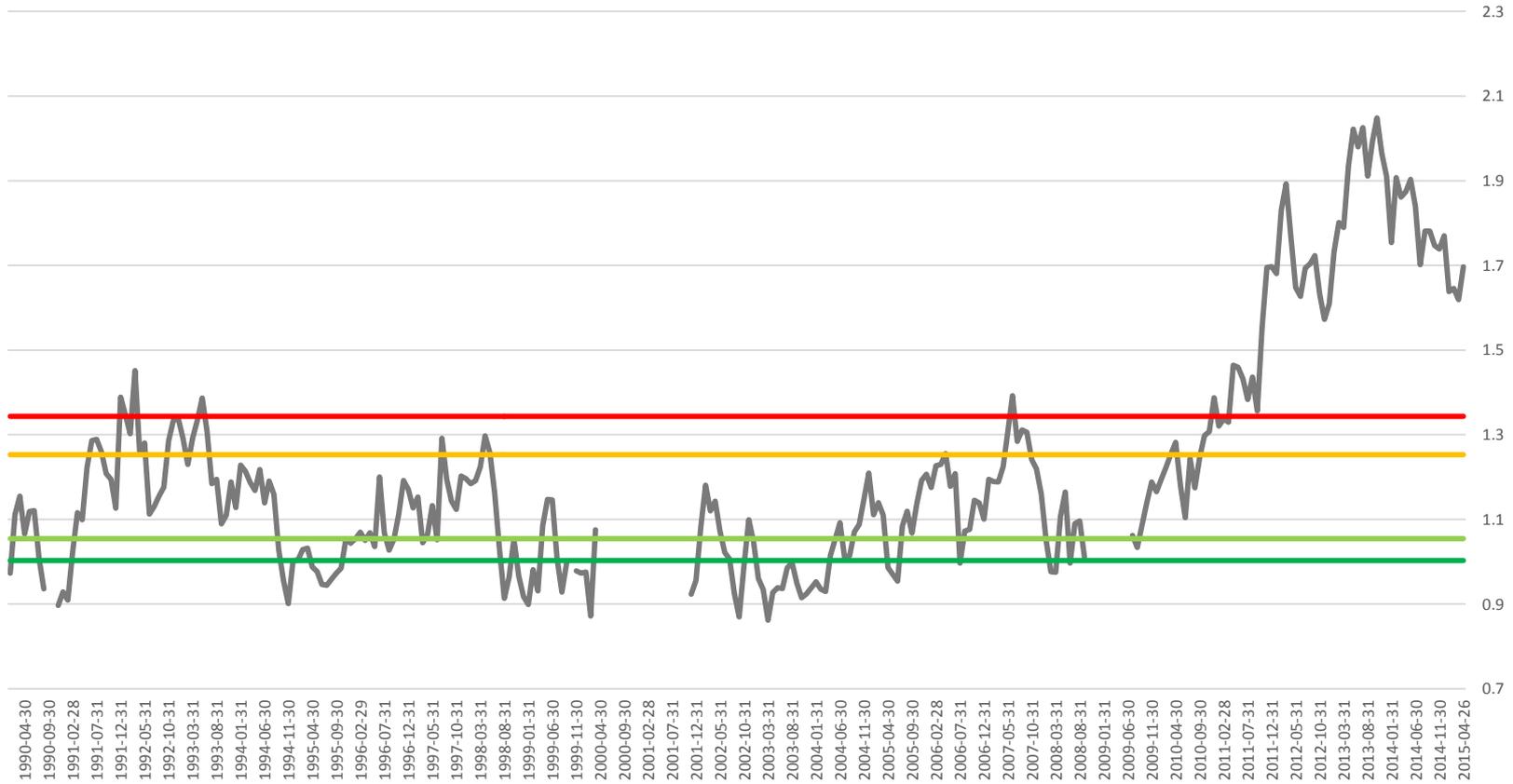
# 52 Price Range

	Ticker	▲ 52-wk Range
▷	<i>KO</i>	\$39.06  \$45.00
▷	<i>WMT</i>	\$72.61  \$90.97
▷	<i>IBM</i>	\$149.52  \$196.86
▷	<i>GWW</i>	\$223.92  \$269.69
▷	<i>AIG-WT</i>	\$20.17  \$27.14
▷	<i>PEP</i>	\$84.95  \$100.76
▷	<i>AAP</i>	\$118.51  \$165.00
▷	<i>ORCL</i>	\$35.82  \$46.71
▷	<i>CHRW</i>	\$55.76  \$77.49
▷	<i>BBBY</i>	\$54.96  \$79.64
▷	<i>WBA</i>	\$57.75  \$93.42
▷	<i>MSFT</i>	\$38.51  \$50.05
▷	<i>AIG</i>	\$48.56  \$58.73
▷	<i>NSRGY</i>	\$65.79  \$80.65
▷	<i>MDT</i>	\$57.81  \$79.50
▷	<i>LO</i>	\$53.48  \$71.50
▷	<i>PETM</i>	\$55.00  \$83.49

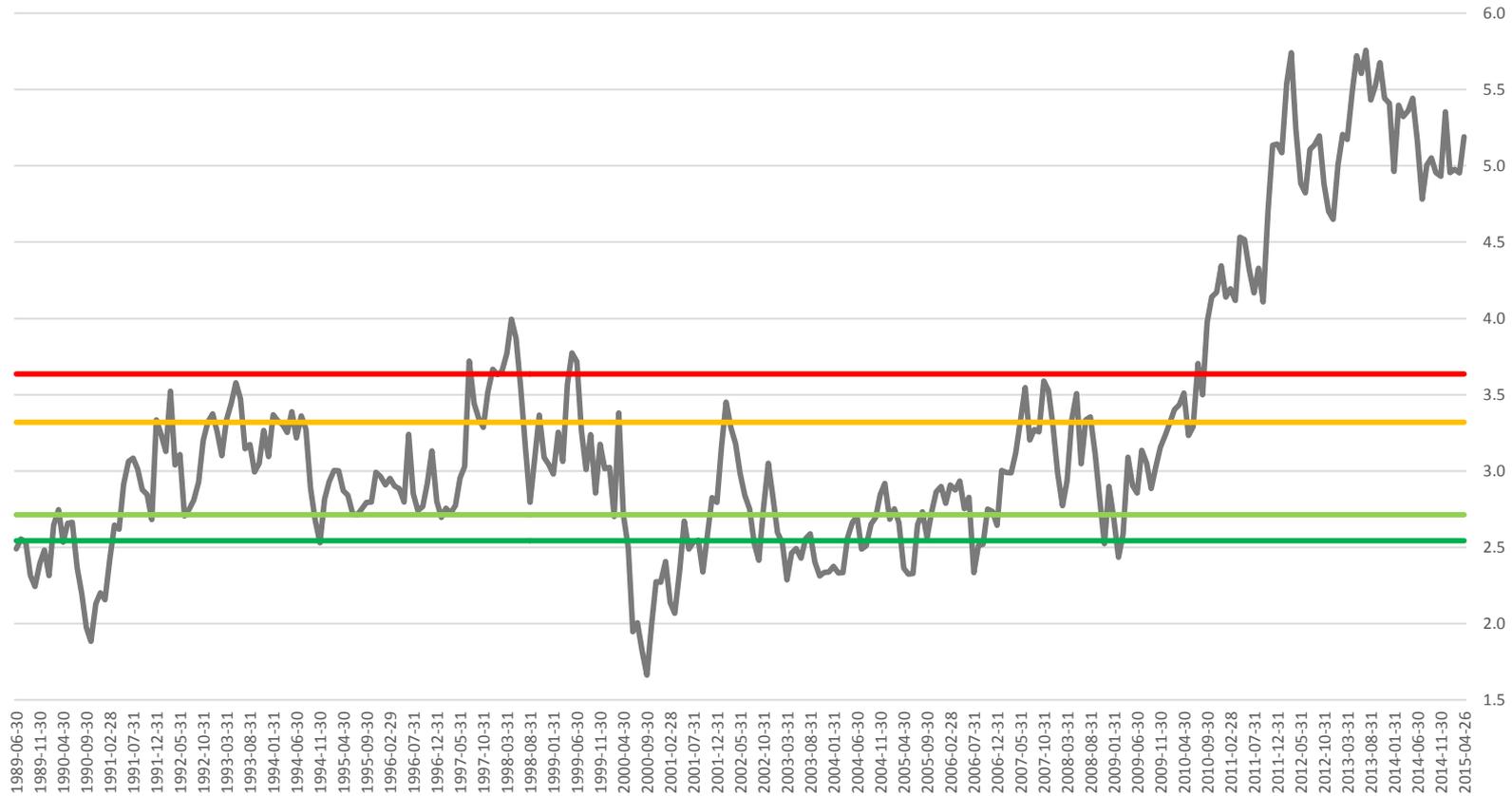
# Price to Earnings



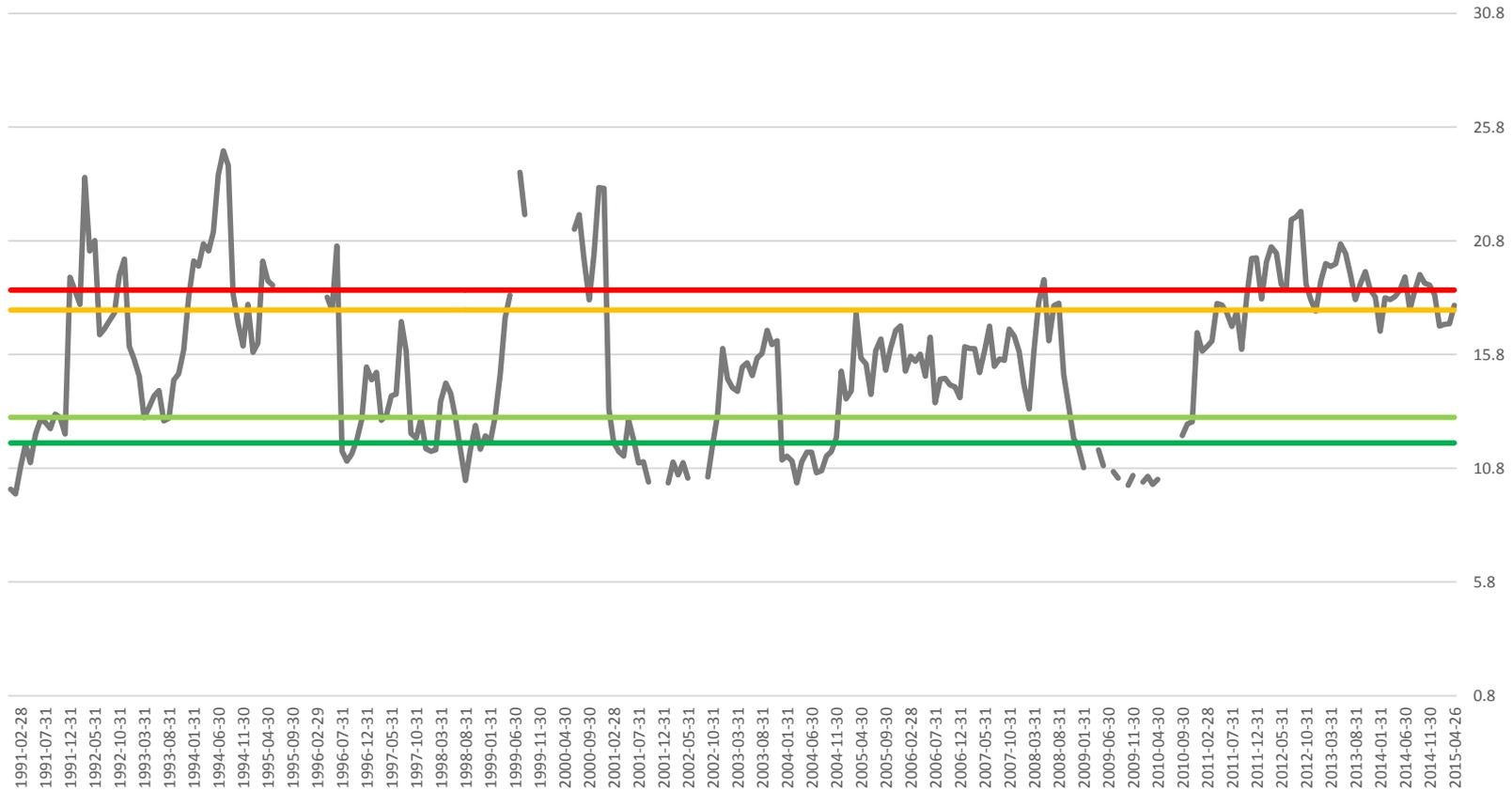
# Price to Sales



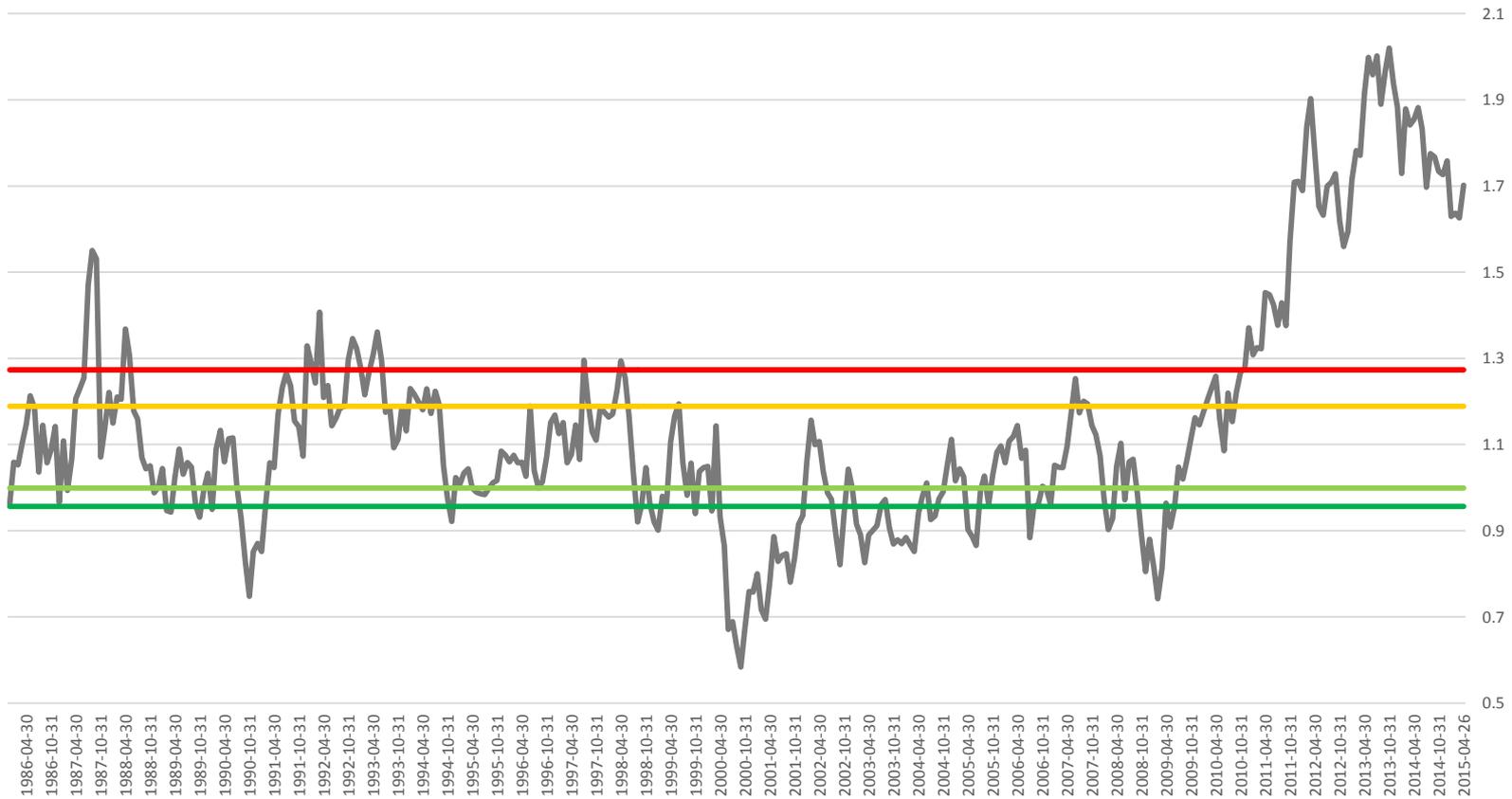
# Price to Book



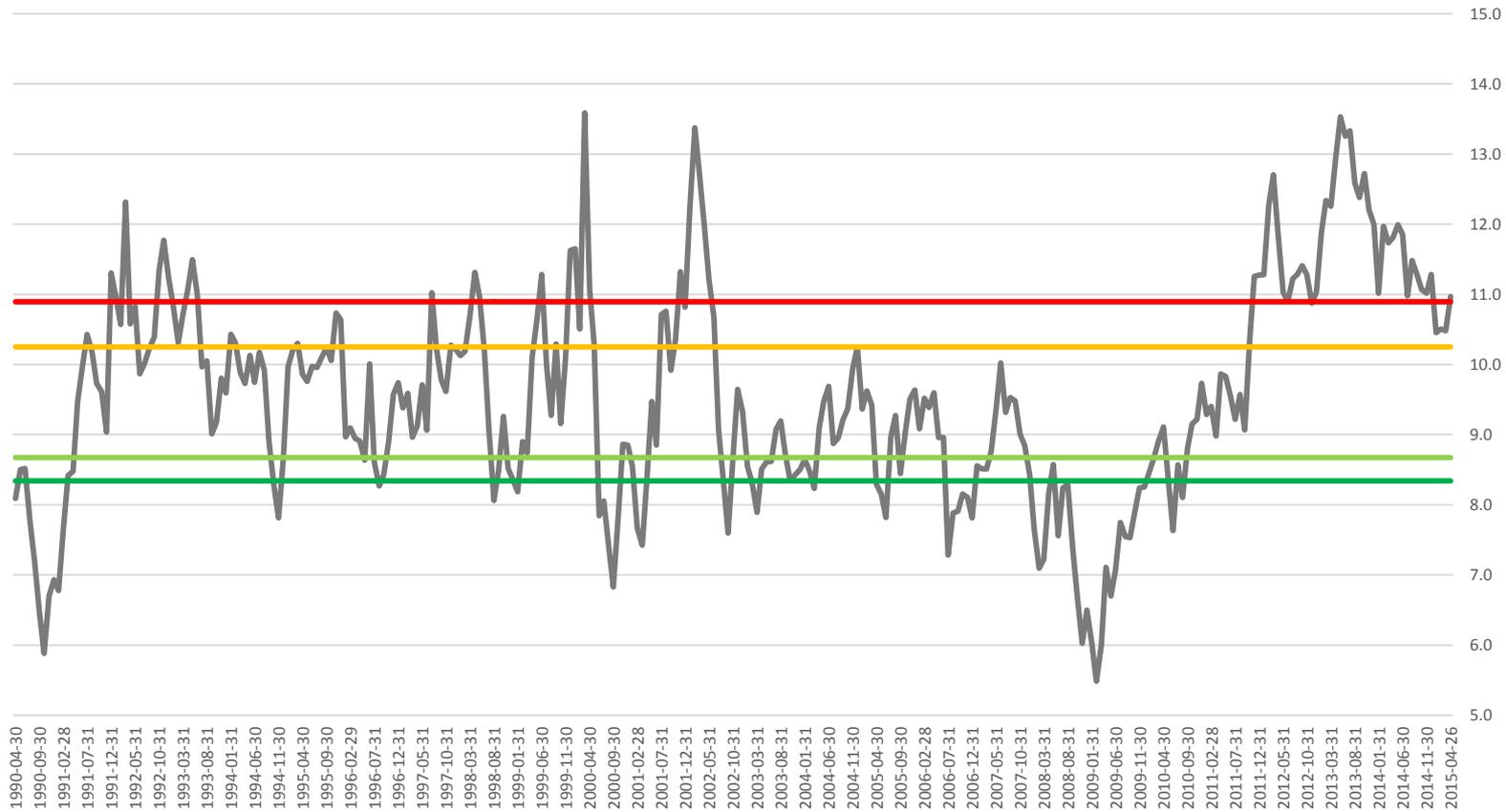
# Price to Cash Flow



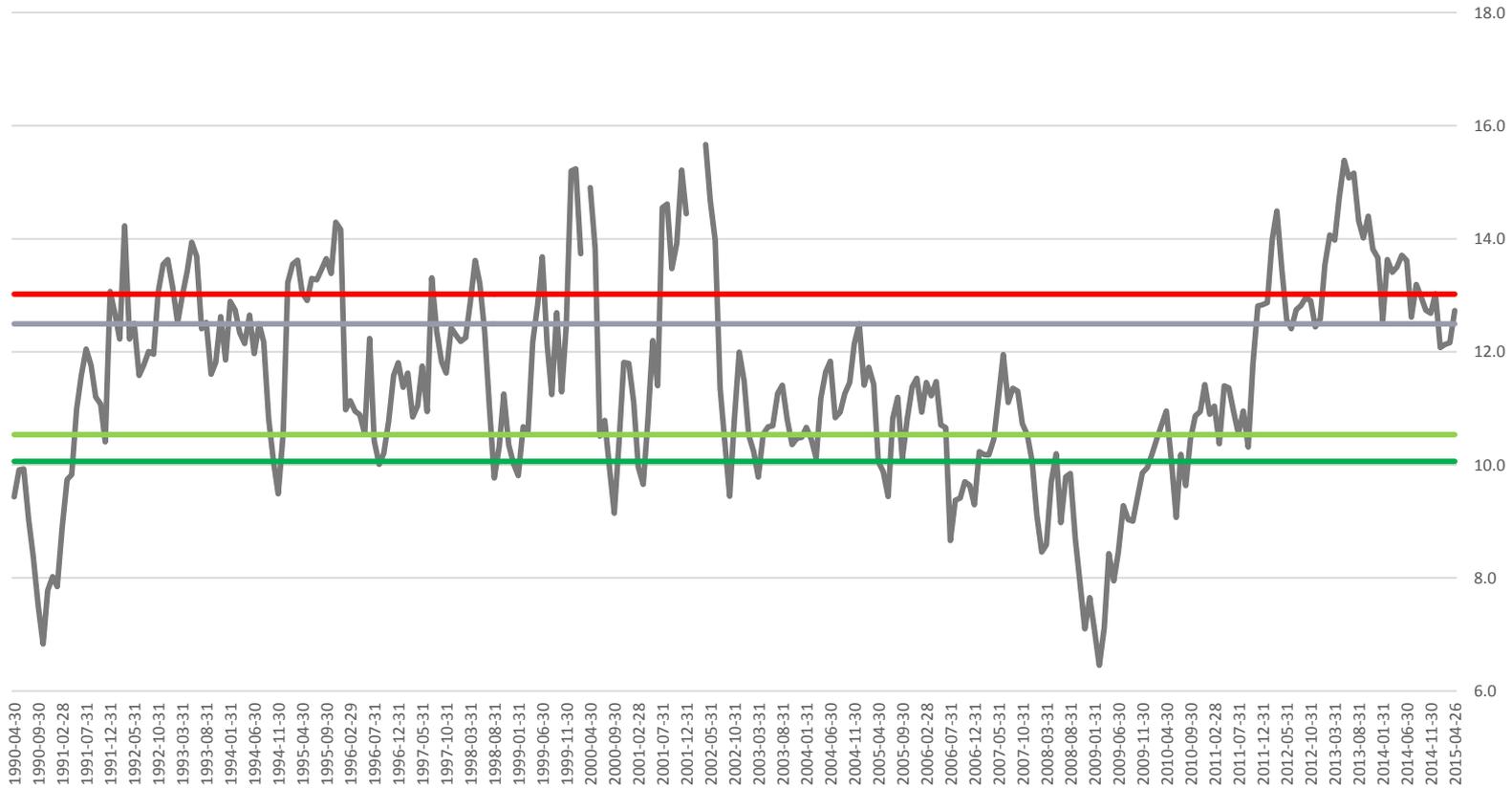
# EV to Revenue



# EV to EBITDA



# EV to EBIT



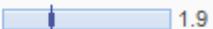
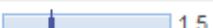
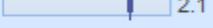
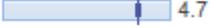
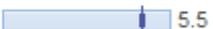
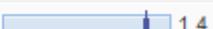
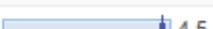
# Price to Earnings

Ticker	Price / Earnings
PETM	-
AIG-WT	-
AIG	10.9
IBM	11.0
BBBY	14.4
WMT	15.9
NSRGY	16.5
ORCL	18.2
MSFT	19.9
LO	21.4
<b>GWW</b>	<b>21.5</b>
AAP	21.5
PEP	22.0
CHRW	22.6
MDT	24.4
WBA	25.1
KO	25.6

Ticker	5-Year Price / Earnings Range
PETM	
AIG-WT	
NSRGY	
AIG	2.1 -
IBM	9.7 - 16.0
BBBY	11.8 - 20.9
ORCL	13.3 - 25.3
CHRW	14.9 - 36.1
WBA	10.0 - 65.7
<b>GWW</b>	<b>14.7 - 26.6</b>
WMT	11.0 - 19.0
AAP	11.5 - 25.8
PEP	15.1 - 23.4
KO	11.9 - 27.5
MDT	9.9 - 26.6
LO	10.9 - 22.1
MSFT	8.8 - 19.9

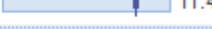
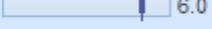
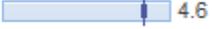
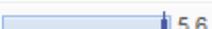
# Price to Sales

	Ticker	▲ P... Sales
▷	PETM	-
▷	AIG-WT	-
▷	WMT	0.5
▷	CHRW	0.8
▷	WBA	1.0
▷	AAP	1.1
▷	BBBY	1.2
▷	AIG	1.3
▷	GWW	1.7
▷	IBM	1.9
▷	PEP	2.2
▷	NSRGY	2.6
▷	LO	3.6
▷	KO	4.0
▷	MSFT	4.2
▷	MDT	4.4
▷	ORCL	5.1

	Ticker	▲ 5-Year Price / Sales Range
▷	PETM	
▷	AIG-WT	
▷	NSRGY	
▷	BBBY	1.0  1.9
▷	CHRW	0.6  1.5
▷	IBM	1.6  2.4
▷	KO	3.3  4.8
▷	AAP	0.7  1.4
▷	WMT	0.4  0.6
▷	GWW	1.1  2.1
▷	MSFT	2.9  4.7
▷	PEP	1.5  2.4
▷	ORCL	3.6  5.5
▷	WBA	0.4  1.4
▷	MDT	2.0  4.5
▷	LO	1.9  3.6
▷	AIG	0.0  1.3

# Price to Book

	Ticker	▲ P... Book
▷	LO	-
▷	AIG-WT	-
▷	PETM	-
▷	AIG	0.7
▷	WBA	3.0
▷	WMT	3.2
▷	NSRGY	3.4
▷	ORCL	3.9
▷	BBBY	4.2
▷	MSFT	4.3
▷	<b>GWW</b>	<b>5.2</b>
▷	AAP	5.4
▷	MDT	5.5
▷	KO	5.9
▷	PEP	8.9
▷	CHRW	9.9
▷	IBM	14.1

	Ticker	▲ 5-Year Price / Book Range
▷	PETM	
▷	AIG-WT	
▷	NSRGY	
▷	WBA	1.7  -
▷	AIG	0.4  2.0
▷	AAP	3.6  7.8
▷	MSFT	3.1  6.0
▷	ORCL	2.9  5.0
▷	WMT	2.5  3.7
▷	LO	-  -
▷	CHRW	5.9  11.4
▷	<b>GWW</b>	<b>3.1  6.0</b>
▷	BBBY	2.5  4.6
▷	KO	4.2  6.3
▷	PEP	4.0  9.4
▷	MDT	2.0  5.6
▷	IBM	7.1  14.2

# Conscious Investor, Discounted Cash Flow, Morningstar

Tasha

# Conscious Investor – 10Yr

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14
EPS (\$)	3.781	4.235	4.940	6.036	5.748	7.082	9.251	9.692	11.293	11.585
SPS (\$)	61.602	69.987	81.278	91.601	86.086	103.522	115.464	128.817	137.069	147.778

Years	HGROWTH	STAEGR <sup>®</sup>
10	14.10%	94.80%
10	10.03%	96.66%

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
<b>Default</b>	243.01	<b>\$11.585</b>	21.34	14.10%	32.6%	12.04%
<b>Safety</b>	243.01	<b>\$11.585</b>	17.27	8.11%	31.8%	5.57%

# Conscious Investor – 6Yr

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14
<b>EPS (\$)</b>	3.781	4.235	4.940	6.036	5.748	7.082	9.251	9.692	11.293	11.585
<b>SPS (\$)</b>	61.602	69.987	81.278	91.601	86.086	103.522	115.464	128.817	137.069	147.778

Years	HGROWTH	STAAGR <sup>®</sup>
6	15.32%	94.74%
6	10.90%	97.27%

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
<b>Default</b>	243.01	<b>\$11.585</b>	21.34	15.32%	32.6%	13.07%
<b>Safety</b>	243.01	<b>\$11.585</b>	17.27	8.84%	31.8%	6.11%

# Conscious Investor – 3Yr

	12/05	12/06	12/07	12/08	12/09	12/10	12/11	12/12	12/13	12/14
<b>EPS (\$)</b>	3.781	4.235	4.940	6.036	5.748	7.082	9.251	9.692	11.293	11.585
<b>SPS (\$)</b>	61.602	69.987	81.278	91.601	86.086	103.522	115.464	128.817	137.069	147.778

Years	HGROWTH	STAEGR <sup>®</sup>
3	9.33%	97.82%
3	7.11%	99.86%

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET <sup>®</sup>
<b>Default</b>	243.01	<b>\$11.585</b>	21.34	9.33%	32.6%	8.14%
<b>Safety</b>	243.01	<b>\$11.585</b>	17.27	5.54%	31.8%	3.74%

# Conscious Investor – Kill It

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET <sup>®</sup>
Default	243.01	\$11.585	21.34	14.10%	32.6%	12.04%
Safety	243.01	\$11.585	17.27	8.11%	31.8%	5.57%
 Saved	243.01	\$11.585	15.00	6.00%	20.0%	2.62%

Cut P/E by 29.7%  
Cut Growth by 57.45%

# Conscious Investor – Kill It Again

	Price	EPSttm	P/E Ratio	HGrowth	Payout	STRET®
Default	243.01	\$11.585	21.34	14.10%	32.6%	12.04%
Safety	243.01	\$11.585	17.27	8.11%	31.8%	5.57%
 Saved	243.01	\$11.585	13.00	4.00%	10.0%	-0.03%

Cut P/E by additional 9.3%; total of 39%

Cut Growth by additional 14.18%; total of 71.63%

# Discounted Cash Flow

Earnings Per Share : \$  ?

Growth Rate In the Next:  Years :  % ?

Business Predictability  ?

Terminal Growth Rate:  % ?

Years of Terminal Growth:  ?

Discount Rate:  % ?

➔

DCF Reverse DCF NEW

Tangible Book Value: \$   Add to Fair Value ?

Growth Value: \$ 130.25 ?

Terminal Value: \$ 97.32 ?

**= Fair Value: \$ 261.18** ?

Margin Of Safety: 4%

## Financial Data of W W Grainger Inc

Annual Rates (per share)	10 yrs	5 yrs	12 months
Revenue Growth (%)	10.40	11.30	7.70
EBITDA Growth (%)	14.40	14.10	6.90
EBIT Growth (%)	15.50	16.30	6.00
EPS without NRI Growth (%)	14.40	15.20	2.70
Free Cash Flow Growth (%)	13.60	4.60	-18.20
Book Value Growth (%)	8.10	10.80	-0.30

# Discounted Cash Flow – Breakeven

Earnings Per Share : \$	<input type="text" value="11.57"/>	?	
Growth Rate In the Next:	<input type="text" value="10"/> Years :	<input type="text" value="13.51"/> %	?
Business Predictability	 ?		
Terminal Growth Rate:	<input type="text" value="4"/> %	?	
Years of Terminal Growth:	<input type="text" value="10"/>	?	
Discount Rate:	<input type="text" value="12"/> %	?	

→

DCF	Reverse DCF <sup>NEW</sup>		
Tangible Book Value: \$	<input type="text" value="33.61"/>	<input checked="" type="checkbox"/> Add to Fair Value	?
Growth Value: \$	124.64	?	
Terminal Value: \$	90.01	?	
<b>= Fair Value:</b>	<b>\$ 248.25</b>	?	
Margin Of Safety:	0%		

# Recommendation

“It's far better to buy a wonderful company at a fair price than a fair company at a wonderful price.”

-Warren Buffett

Put \$250 Premium \$4.70 Exp May 15  
\$245.30 Effective Entry Price