

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 September 30, 2021
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

(State or other jurisdiction of incorporation or organization)

100 Grainger Parkway, Lake Forest, Illinois
(Address of principal executive offices)

(847) 535-1000

(Registrant's telephone number including area code)

Not Applicable

(Former name or former address, if changed since last report)

36-1150280

(I.R.S. Employer Identification No.)

60045-5201
(Zip Code)

Securities registered pursuant to Section 12(b) of the Act:

| <u>Title of Each Class</u> | <u>Trading Symbol</u> | <u>Name of Each Exchange on Which Registered</u> |
|----------------------------|-----------------------|--|
| Common Stock | GWW | New York Stock Exchange |

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 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

There were 51,520,047 shares of the Company's Common Stock, par value \$0.50, outstanding as of September 30, 2021.

TABLE OF CONTENTS

| | | Page |
|---------------------------------------|--|---------------------------|
| PART I - FINANCIAL INFORMATION | | |
| Item 1: | Financial Statements (Unaudited) | |
| | Condensed Consolidated Statements of Earnings for the Three and Nine Months Ended September 30, 2021 and 2020 | <u>3</u> |
| | Condensed Consolidated Statements of Comprehensive Earnings for the Three and Nine Months Ended September 30, 2021 and 2020 | <u>4</u> |
| | Condensed Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020 | <u>5</u> |
| | Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2021 and 2020 | <u>6</u> |
| | Condensed Consolidated Statements of Shareholders' Equity for the Three and Nine Months Ended September 30, 2021 and 2020 | <u>7</u> |
| | Notes to Condensed Consolidated Financial Statements | <u>9</u> |
| Item 2: | Management's Discussion and Analysis of Financial Condition and Results of Operations | <u>18</u> |
| Item 3: | Quantitative and Qualitative Disclosures About Market Risk | <u>30</u> |
| Item 4: | Controls and Procedures | <u>30</u> |
| PART II - OTHER INFORMATION | | |
| Item 1: | Legal Proceedings | <u>31</u> |
| Item 1A: | Risk Factors | <u>31</u> |
| Item 2: | Unregistered Sales of Equity Securities and Use of Proceeds | <u>34</u> |
| Item 6: | Exhibits | <u>34</u> |
| Signatures | | <u>35</u> |

PART I – FINANCIAL INFORMATION

Item 1: Financial Statements

W.W. Grainger, Inc. and Subsidiaries
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In millions of dollars and shares, except for per share amounts)
(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|----------|------------------------------------|----------|
| | 2021 | 2020 | 2021 | 2020 |
| Net sales | \$ 3,372 | \$ 3,018 | \$ 9,663 | \$ 8,856 |
| Cost of goods sold | 2,122 | 1,944 | 6,196 | 5,645 |
| Gross profit | 1,250 | 1,074 | 3,467 | 3,211 |
| Selling, general and administrative expenses | 812 | 694 | 2,337 | 2,467 |
| Operating earnings | 438 | 380 | 1,130 | 744 |
| Other (income) expense: | | | | |
| Interest expense - net | 22 | 23 | 65 | 72 |
| Other - net | (6) | (5) | (19) | (16) |
| Total other expense - net | 16 | 18 | 46 | 56 |
| Earnings before income taxes | 422 | 362 | 1,084 | 688 |
| Income tax provision | 107 | 106 | 271 | 118 |
| Net earnings | 315 | 256 | 813 | 570 |
| Less: Net earnings attributable to noncontrolling interest | 18 | 16 | 53 | 43 |
| Net earnings attributable to W.W. Grainger, Inc. | \$ 297 | \$ 240 | \$ 760 | \$ 527 |
| Earnings per share: | | | | |
| Basic | \$ 5.68 | \$ 4.43 | \$ 14.48 | \$ 9.74 |
| Diluted | \$ 5.65 | \$ 4.41 | \$ 14.40 | \$ 9.70 |
| Weighted average number of shares outstanding: | | | | |
| Basic | 51.8 | 53.6 | 52.1 | 53.6 |
| Diluted | 52.1 | 53.9 | 52.4 | 53.8 |
| Cash dividends paid per share | \$ 1.62 | \$ 1.53 | \$ 4.77 | \$ 4.41 |

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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|---------------|------------------------------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| Net earnings | \$ 315 | \$ 256 | \$ 813 | \$ 570 |
| Other comprehensive earnings (losses): | | | | |
| Foreign currency translation adjustments, net of reclassification to earnings | (17) | 24 | (43) | 30 |
| Postretirement benefit plan losses, net of tax benefit of \$1, \$1, \$3, and \$3, respectively | (4) | (2) | (10) | (8) |
| Other | — | — | 1 | 4 |
| Total other comprehensive earnings (losses) | (21) | 22 | (52) | 26 |
| Comprehensive earnings - net of tax | 294 | 278 | 761 | 596 |
| Less: Comprehensive earnings (losses) attributable to noncontrolling interest | | | | |
| Net earnings | 18 | 16 | 53 | 43 |
| Foreign currency translation adjustments | (1) | 5 | (19) | 6 |
| Total comprehensive earnings (losses) attributable to noncontrolling interest | 17 | 21 | 34 | 49 |
| Comprehensive earnings attributable to W.W. Grainger, Inc. | <u>\$ 277</u> | <u>\$ 257</u> | <u>\$ 727</u> | <u>\$ 547</u> |

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)

| <u>Assets</u> | As of | |
|--|-----------------------------------|-------------------|
| | (Unaudited) September 30, 2021 | December 31, 2020 |
| Current assets | | |
| Cash and cash equivalents | \$ 328 | \$ 585 |
| Accounts receivable (less allowances for credit losses of \$29 and \$27, respectively) | 1,742 | 1,474 |
| Inventories - net | 1,786 | 1,733 |
| Prepaid expenses and other current assets | 149 | 127 |
| Total current assets | 4,005 | 3,919 |
| Property, buildings and equipment - net | 1,429 | 1,395 |
| Goodwill | 387 | 391 |
| Intangibles - net | 233 | 228 |
| Other assets | 336 | 362 |
| Total assets | \$ 6,390 | \$ 6,295 |
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Current maturities of long-term debt | \$ — | \$ 8 |
| Trade accounts payable | 933 | 779 |
| Accrued compensation and benefits | 259 | 307 |
| Accrued expenses | 336 | 305 |
| Income taxes payable | 22 | 42 |
| Total current liabilities | 1,550 | 1,441 |
| Long-term debt (less current maturities) | 2,372 | 2,389 |
| Deferred income taxes and tax uncertainties | 88 | 110 |
| Other non-current liabilities | 263 | 262 |
| 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; issued 109,659,219 shares | 55 | 55 |
| Additional contributed capital | 1,255 | 1,239 |
| Retained earnings | 9,301 | 8,779 |
| Accumulated other comprehensive losses | (94) | (61) |
| Treasury stock, at cost – 58,139,172 and 57,134,828 shares, respectively | (8,690) | (8,184) |
| Total W.W. Grainger, Inc. shareholders' equity | 1,827 | 1,828 |
| Noncontrolling interest | 290 | 265 |
| Total shareholders' equity | 2,117 | 2,093 |
| Total liabilities and shareholders' equity | \$ 6,390 | \$ 6,295 |

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)

| | Nine Months Ended September 30, | |
|--|------------------------------------|---------|
| | 2021 | 2020 |
| Cash flows from operating activities: | | |
| Net earnings | \$ 813 | \$ 570 |
| Provision for credit losses | 12 | 18 |
| Deferred income taxes and tax uncertainties | (7) | 9 |
| Depreciation and amortization | 137 | 137 |
| Impairment of goodwill, intangible and long-lived assets | — | 177 |
| Net (gains) losses from sale or redemption of assets and business divestitures | (3) | 104 |
| Stock-based compensation | 33 | 36 |
| Subtotal | 172 | 481 |
| Change in operating assets and liabilities: | | |
| Accounts receivable | (298) | (145) |
| Inventories | (64) | (222) |
| Prepaid expenses and other assets | (1) | (29) |
| Trade accounts payable | 167 | 145 |
| Accrued liabilities | (13) | (13) |
| Income taxes - net | (42) | (19) |
| Other non-current liabilities | (10) | 19 |
| Subtotal | (261) | (264) |
| Net cash provided by operating activities | 724 | 787 |
| Cash flows from investing activities: | | |
| Additions to property, buildings, equipment and intangibles | (197) | (152) |
| Proceeds from sale or redemption of assets and business divestitures | 17 | 22 |
| Other - net | — | (2) |
| Net cash used in investing activities | (180) | (132) |
| Cash flows from financing activities: | | |
| Borrowings under lines of credit | — | 12 |
| Payments against lines of credit | — | (65) |
| Proceeds from long-term debt | — | 1,583 |
| Payments of long-term debt | (8) | (1,361) |
| Proceeds from stock options exercised | 31 | 47 |
| Payments for employee taxes withheld from stock awards | (29) | (16) |
| Purchases of treasury stock | (525) | (101) |
| Cash dividends paid | (261) | (246) |
| Other - net | 2 | — |
| Net cash used in financing activities | (790) | (147) |
| Exchange rate effect on cash and cash equivalents | (11) | (9) |
| Net change in cash and cash equivalents | (257) | 499 |
| Cash and cash equivalents at beginning of year | 585 | 360 |
| Cash and cash equivalents at end of period | \$ 328 | \$ 859 |

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, 2020 | \$ 55 | \$ 1,182 | \$ 8,405 | \$ (154) | \$ (7,633) | \$ 205 | \$ 2,060 |
| Stock-based compensation | — | 10 | — | — | 13 | — | 23 |
| Purchases of treasury stock | — | — | — | — | (100) | — | (100) |
| Net earnings | — | — | 173 | — | — | 12 | 185 |
| Other comprehensive earnings (losses) | — | — | — | (63) | — | 3 | (60) |
| Cash dividends paid (\$1.44 per share) | — | — | (78) | — | — | — | (78) |
| Balance at March 31, 2020 | \$ 55 | \$ 1,192 | \$ 8,500 | \$ (217) | \$ (7,720) | \$ 220 | \$ 2,030 |
| Stock-based compensation | — | 6 | — | — | 11 | — | 17 |
| Purchases of treasury stock | — | — | — | — | — | (1) | (1) |
| Net earnings | — | — | 114 | — | — | 15 | 129 |
| Other comprehensive earnings (losses) | — | — | — | 66 | — | (2) | 64 |
| Cash dividends paid (\$1.44 per share) | — | — | (78) | — | — | (9) | (87) |
| Balance at June 30, 2020 | \$ 55 | \$ 1,198 | \$ 8,536 | \$ (151) | \$ (7,709) | \$ 223 | \$ 2,152 |
| Stock-based compensation | — | 16 | — | — | 11 | — | 27 |
| Net earnings | — | — | 240 | — | — | 16 | 256 |
| Other comprehensive earnings (losses) | — | — | — | 17 | — | 5 | 22 |
| Cash dividends paid (\$1.53 per share) | — | — | (82) | — | — | — | (82) |
| Balance at September 30, 2020 | \$ 55 | \$ 1,214 | \$ 8,694 | \$ (134) | \$ (7,698) | \$ 244 | \$ 2,375 |

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, 2021 | \$ 55 | \$ 1,239 | \$ 8,779 | \$ (61) | \$ (8,184) | \$ 265 | \$ 2,093 |
| Stock-based compensation | — | 9 | — | — | 5 | — | 14 |
| Purchases of treasury stock | — | — | — | — | (175) | — | (175) |
| Net earnings | — | — | 238 | — | — | 17 | 255 |
| Other comprehensive earnings (losses) | — | — | — | (20) | — | (18) | (38) |
| Reclassification due to the adoption of ASU 2019-12 | — | — | 12 | — | — | — | 12 |
| Cash dividends paid (\$1.53 per share) | — | — | (81) | — | — | — | (81) |
| Balance at March 31, 2021 | \$ 55 | \$ 1,248 | \$ 8,948 | \$ (81) | \$ (8,354) | \$ 264 | \$ 2,080 |
| Stock-based compensation | — | (1) | — | — | 12 | 1 | 12 |
| Purchases of treasury stock | — | — | — | — | (107) | (1) | (108) |
| Net earnings | — | — | 225 | — | — | 18 | 243 |
| Other comprehensive earnings (losses) | — | — | — | 7 | — | — | 7 |
| Capital contribution | — | — | — | — | — | 2 | 2 |
| Cash dividends paid (\$1.62 per share) | — | — | (84) | — | — | (11) | (95) |
| Balance at June 30, 2021 | \$ 55 | \$ 1,247 | \$ 9,089 | \$ (74) | \$ (8,449) | \$ 273 | \$ 2,141 |
| Stock-based compensation | — | 8 | — | — | 1 | — | 9 |
| Purchases of treasury stock | — | — | — | — | (242) | — | (242) |
| Net earnings | — | — | 297 | — | — | 18 | 315 |
| Other comprehensive earnings (losses) | — | — | — | (20) | — | (1) | (21) |
| Cash dividends paid (\$1.62 per share) | — | — | (85) | — | — | — | (85) |
| Balance at September 30, 2021 | \$ 55 | \$ 1,255 | \$ 9,301 | \$ (94) | \$ (8,690) | \$ 290 | \$ 2,117 |

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

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE 1 - BACKGROUND AND BASIS OF PRESENTATION

W.W. Grainger, Inc. is a broad line, business-to-business distributor of maintenance, repair and operating (MRO) products and services with operations primarily in North America (N.A.), Japan and the United Kingdom (U.K.). In this report, the words “Company” or “Grainger” mean W.W. Grainger, Inc. and its subsidiaries, except where the context makes it clear that the reference is only to W.W. Grainger, Inc. itself and not its subsidiaries.

The Company's Condensed Consolidated Financial Statements (Financial Statements) and the related notes are unaudited and should be read in conjunction with the consolidated financial statements and associated notes for the year ended December 31, 2020 included in the Company's Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) on February 24, 2021 (2020 Form 10-K). The Condensed Consolidated Balance Sheet as of December 31, 2020 has been derived from the audited consolidated financial statements at that date but does not include all of the disclosures required by accounting principles generally accepted in the United States of America (U.S.) for complete financial statements.

The unaudited financial information reflects all adjustments (primarily consisting of normal recurring adjustments) which, in the opinion of management, are necessary for a fair presentation of the statements contained in this report.

Changes to Reportable Segments

Effective January 1, 2021, Grainger's two reportable segments are High-Touch Solutions N.A. and Endless Assortment. On March 8, 2021, the Company provided investors with segment summary historical financial information and segment historical data that is consistent with its new reportable segment structure and reflective of the intersegment accounting policies described in Note 10 - Segment Information.

The Company's High-Touch Solutions N.A. segment provides value-added MRO solutions that are rooted in deep product knowledge and customer expertise. This segment includes the Grainger-branded businesses in the U.S., Canada, Mexico and Puerto Rico. The Company's Endless Assortment segment provides a simple, transparent and streamlined experience for customers to shop millions of products online. This segment includes the Company's Zoro Tools, Inc. (Zoro) businesses in the U.S. and U.K. and MonotaRO Co., Ltd. (MonotaRO), which operates predominately in Japan. The remaining international High-Touch Solutions businesses, operating primarily in the U.K., are classified as “Other” to reconcile to consolidated results. These businesses individually do not meet the criteria of a reportable segment.

NOTE 2 - NEW ACCOUNTING STANDARDS

Accounting Pronouncements Recently Adopted

In December 2019, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. This ASU clarifies and simplifies accounting for income taxes by eliminating certain exceptions for intra-period tax allocation principles, the methodology for calculating income tax rates in an interim period, and recognition of deferred taxes for outside basis differences in an investment, among other updates. The effective date of this ASU was for fiscal years and interim periods beginning after December 15, 2020. The Company adopted this ASU effective January 1, 2021 and it did not have a material impact on the Financial Statements.

In January 2020, the FASB issued ASU 2020-01, *Investments - Equity Securities (Topic 321), Investments - Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), Clarifying the Interactions between Topic 321, Topic 323 and Topic 815*. This ASU simplifies the understanding and application of the codification topics by eliminating inconsistencies and providing clarifications. The effective date of this ASU was for fiscal years and interim periods beginning after December 15, 2020. The Company adopted this ASU effective January 1, 2021 and it did not have a material impact on the Financial Statements.

In October 2020, the FASB issued ASU 2020-10, *Codification Improvements*. These amendments improve consistency by amending the codification to include all disclosure guidance in the appropriate disclosure sections and clarifies application of various provisions in the codification by amending and adding new headings, cross referencing to other guidance and refining or correcting terminology. The effective date of this ASU was for fiscal

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

years and interim periods beginning after December 15, 2020. The Company adopted this ASU effective January 1, 2021 and it did not have a material impact on the Financial Statements.

Accounting Pronouncements Recently Issued

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform* on Financial Reporting as modified by subsequently issued ASU 2021-01. This update provides optional expedients and exceptions for applying generally accepted accounting principles to certain contract modifications and hedging relationships that reference London Inter-bank Offered Rate (LIBOR) or another reference rate expected to be discontinued. The guidance is effective upon issuance and generally can be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The Company is evaluating the impact of this ASU and does not expect a material impact on the Financial Statements.

NOTE 3 - REVENUE

Company revenue is primarily comprised of MRO product sales and related activities, such as freight and services. Total service revenue is not material and accounted for approximately 1% of the Company's revenue for the three and nine months ended September 30, 2021 and 2020, respectively.

Grainger serves a large number of customers in diverse industries, which are subject to different economic and market-specific factors. The Company's presentation of revenue by segment and industry most reasonably depicts how the nature, amount, timing and uncertainty of Company revenue and cash flows are affected by economic and market-specific factors. In addition, the segments have unique underlying risks associated with customer purchasing behaviors. In the High-Touch Solutions N.A. segment, more than two-thirds of revenue is derived from customer contracts whereas in the Endless Assortment segment, a majority of revenue is derived from customer spot buys. The following table presents the Company's percentage of revenue by reportable segment and by major customer industry:

| | Three Months Ended September 30, | | | | | |
|----------------------------------|----------------------------------|-----------------------|------------------------------|------------------------------|-----------------------|------------------------------|
| | 2021 | | | 2020 | | |
| | High-Touch Solutions N.A. | Endless Assortment | Total Company ⁽²⁾ | High-Touch Solutions N.A. | Endless Assortment | Total Company ⁽²⁾ |
| Contractors | 9 % | 15 % | 10 % | 8 % | 15 % | 10 % |
| Commercial | 9 % | 15 % | 10 % | 9 % | 15 % | 10 % |
| Government | 18 % | 3 % | 15 % | 22 % | 3 % | 18 % |
| Healthcare | 7 % | 2 % | 6 % | 8 % | 2 % | 6 % |
| Manufacturing | 29 % | 30 % | 29 % | 27 % | 27 % | 28 % |
| Retail/Wholesale | 9 % | 10 % | 10 % | 9 % | 10 % | 9 % |
| Transportation | 5 % | 3 % | 5 % | 5 % | 3 % | 5 % |
| Others ⁽¹⁾ | 14 % | 22 % | 15 % | 12 % | 25 % | 14 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % | 100 % |
| Percent of Total Company Revenue | 79 % | 19 % | 100 % | 79 % | 19 % | 100 % |

⁽¹⁾ Others primarily includes revenue from industries and customers that are not material individually, including agriculture, mining, natural resources and resellers not aligned to a major industry segment.

⁽²⁾ Total Company includes other businesses, which includes the Cromwell business in the U.K., as well as the China business in the period prior to its divestiture in the third quarter of 2020. Other businesses account for approximately 2% of revenue for the three months ended September 30, 2021 and September 30, 2020.

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

Nine Months Ended September 30,

| | 2021 | | | 2020 | | |
|----------------------------------|---------------------------|--------------------|------------------------------|---------------------------|--------------------|------------------------------|
| | High-Touch Solutions N.A. | Endless Assortment | Total Company ⁽²⁾ | High-Touch Solutions N.A. | Endless Assortment | Total Company ⁽²⁾ |
| Contractors | 9 % | 15 % | 10 % | 9 % | 15 % | 10 % |
| Commercial | 9 % | 15 % | 10 % | 9 % | 15 % | 9 % |
| Government | 19 % | 3 % | 15 % | 20 % | 3 % | 16 % |
| Healthcare | 7 % | 2 % | 6 % | 9 % | 2 % | 7 % |
| Manufacturing | 30 % | 29 % | 29 % | 28 % | 29 % | 29 % |
| Retail/Wholesale | 9 % | 10 % | 10 % | 9 % | 10 % | 9 % |
| Transportation | 5 % | 3 % | 5 % | 5 % | 3 % | 5 % |
| Others ⁽¹⁾ | 12 % | 23 % | 15 % | 11 % | 23 % | 15 % |
| Total | 100 % | 100 % | 100 % | 100 % | 100 % | 100 % |
| Percent of Total Company Revenue | 78 % | 20 % | 100 % | 78 % | 18 % | 100 % |

⁽¹⁾ Others primarily includes revenue from industries and customers that are not material individually, including agriculture, mining, natural resources and resellers not aligned to a major industry segment.

⁽²⁾ Total Company includes other businesses, which includes the Cromwell business in the U.K., as well as the Fabory and China businesses in the period prior to their divestitures in the second and third quarter of 2020, respectively. Other businesses account for approximately 2% and 4% of revenue for the nine months ended September 30, 2021 and September 30, 2020.

Total accrued sales returns were approximately \$41 million and \$31 million as of September 30, 2021 and December 31, 2020, respectively and are reported as a reduction of Accounts receivable, net. Total accrued sales incentives were approximately \$65 million and \$58 million as of September 30, 2021 and December 31, 2020 and are reported as part of Accrued expenses. The Company had no material unsatisfied performance obligations, contract assets or liabilities as of September 30, 2021 and December 31, 2020.

NOTE 4 - PROPERTY, BUILDINGS AND EQUIPMENT

Property, buildings and equipment consisted of the following (in millions of dollars):

| | As of | |
|---|--------------------|-------------------|
| | September 30, 2021 | December 31, 2020 |
| Land | \$ 329 | \$ 329 |
| Building, structures and improvements | 1,445 | 1,330 |
| Furniture, fixtures, machinery and equipment | 1,566 | 1,878 |
| Property, buildings and equipment | \$ 3,340 | \$ 3,537 |
| Less: Accumulated depreciation and amortization | 1,911 | 2,142 |
| Property, buildings and equipment - net | \$ 1,429 | \$ 1,395 |

NOTE 5 - GOODWILL AND OTHER INTANGIBLE ASSETS

Grainger tests reporting units' goodwill and intangible assets for impairment annually during the fourth quarter and more frequently if impairment indicators exist. Accordingly, Grainger performs quarterly qualitative assessments of significant events and circumstances such as reporting units' historical and current results, assumptions regarding future performance, strategic initiatives and overall economic factors, including the current global outbreak of the Coronavirus (COVID-19 pandemic) and macro-economic developments, to determine the existence of potential indicators of impairment and assess if it is more likely than not that the fair value of reporting units' goodwill or intangible assets is less than their carrying value. If indicators of impairment are identified, a quantitative impairment test is performed. The Company did not identify any significant events or changes in circumstances that indicated

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

the existence of impairment indicators during the three and nine months ended September 30, 2021. As such, quantitative assessments were not required.

The balances and changes in the carrying amount of Goodwill (net of cumulative goodwill impairments) by segment are as follows (in millions of dollars):

| | High-Touch Solutions N.A | Endless Assortment | Other | Total |
|-------------------------------|-----------------------------|--------------------|-------------|---------------|
| Balance at January 1, 2020 | \$ 318 | \$ 52 | \$ 59 | \$ 429 |
| Acquisition | — | 15 | — | 15 |
| Impairment | — | — | (58) | (58) |
| Translation | 3 | 3 | (1) | 5 |
| Balance at December 31, 2020 | 321 | 70 | — | 391 |
| Translation | — | (4) | — | (4) |
| Balance at September 30, 2021 | <u>\$ 321</u> | <u>\$ 66</u> | <u>\$ —</u> | <u>\$ 387</u> |

The cumulative goodwill impairments as of September 30, 2021, were \$137 million and consisted of \$32 million within High-Touch Solutions N.A. and \$105 million in Other. During the first quarter of 2020, the Company recorded \$58 million of impairment charges in Selling, general and administrative expenses (SG&A) in connection with the impairment of Fabory's goodwill. The impairment is presented in Other in the table above. The Company divested the Fabory business during the second quarter of 2020. Grainger's current business portfolio had no impairments to goodwill for the three and nine months ended September 30, 2021 and 2020.

The balances in Intangible assets, net are as follows (in millions of dollars):

| | Weighted average life | September 30, 2021 | | | December 31, 2020 | | |
|-------------------------------------|--------------------------|-----------------------------|-----------------------------|------------------------|-----------------------------|-----------------------------|------------------------|
| | | Gross carrying amount | Accumulated amortization | Net carrying amount | Gross carrying amount | Accumulated amortization | Net carrying amount |
| Customer lists and relationships | 11.8 years | \$ 221 | \$ 175 | \$ 46 | \$ 223 | \$ 171 | \$ 52 |
| Trademarks, trade names and other | 14.1 years | 36 | 24 | 12 | 36 | 22 | 14 |
| Non-amortized trade names and other | Indefinite | 26 | — | 26 | 28 | — | 28 |
| Capitalized software | 4.2 years | 510 | 361 | 149 | 461 | 327 | 134 |
| Total intangible assets | <u>6.9 years</u> | <u>\$ 793</u> | <u>\$ 560</u> | <u>\$ 233</u> | <u>\$ 748</u> | <u>\$ 520</u> | <u>\$ 228</u> |

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 6 - DEBT

There was no short-term debt as of September 30, 2021 and December 31, 2020.

Long-term debt, including current maturities and debt issuance costs and discounts, net, consisted of the following (in millions of dollars):

| | As of September 30, 2021 | | As of December 31, 2020 | |
|--|--------------------------|---------------------------|-------------------------|---------------------------|
| | Carrying Value | Fair Value ⁽⁴⁾ | Carrying Value | Fair Value ⁽⁴⁾ |
| 4.60% senior notes due 2045 ⁽¹⁾ | \$ 1,000 | \$ 1,298 | \$ 1,000 | \$ 1,343 |
| 3.75% senior notes due 2046 ⁽¹⁾ | 400 | 463 | 400 | 479 |
| 4.20% senior notes due 2047 ⁽¹⁾ | 400 | 497 | 400 | 514 |
| 1.85% senior notes due 2025 ⁽²⁾ | 500 | 515 | 500 | 526 |
| Japanese Yen term loan ⁽³⁾ | 81 | 81 | 87 | 87 |
| Other | 14 | 14 | 34 | 34 |
| Subtotal | 2,395 | 2,868 | 2,421 | 2,983 |
| Less: Current maturities | — | — | (8) | (8) |
| Debt issuance costs and discounts, net of amortization | (23) | (23) | (24) | (24) |
| Long-term debt (less current maturities) | \$ 2,372 | \$ 2,845 | \$ 2,389 | \$ 2,951 |

⁽¹⁾ In the years 2015-2017, Grainger issued \$1.8 billion in long-term debt (Senior Notes). Debt was issued as follows:

- In May 2017, \$400 million payable in 30 years and carries a 4.20% interest rate, payable semi-annually.
- In May 2016, \$400 million payable in 30 years and carries a 3.75% interest rate, payable semi-annually.
- In June 2015, \$1 billion payable in 30 years and carries a 4.60% interest rate, payable semi-annually.

The Company may redeem the Senior Notes in whole at any time or in part from time to time at a “make-whole” redemption price prior to their respective maturity dates. The redemption price is calculated by reference to the then-current yield on a U.S. treasury security with a maturity comparable to the remaining term of the Senior Notes plus 20-25 basis points, together with accrued and unpaid interest, if any, at the redemption date. Additionally, if the Company experiences specific kinds of changes in control, it will be required to make an offer to purchase the Senior Notes at 101% of their principal amount plus accrued and unpaid interest, if any, at the date of purchase. Within one year of the maturity date, the Company may redeem the Senior Notes in whole at any time or in part at 100% of their principal amount, together with accrued and unpaid interest, if any, to the redemption date. At the time of issuance, costs and discounts of approximately \$24 million, representing underwriting fees and other expenses, were recorded as a contra-liability within Long-term debt and are being amortized to interest expense over the term of the Senior Notes.

⁽²⁾ In February 2020, the Company issued \$500 million of unsecured 1.85% Senior Notes (1.85% Notes) and used the proceeds to repay the British pound term loan, Euro term loan and the Canadian dollar revolving credit facility, and to fund general working capital needs. The 1.85% Notes mature in February 2025 and they require no principal payments until the maturity date and interest is payable semi-annually on February 15 and August 15, beginning in August 2020. Prior to January 2025, the Company may redeem the 1.85% Notes in whole at any time or in part from time to time at a “make-whole” redemption price. This redemption price is calculated by reference to the then-current yield on a U.S. treasury security with a maturity comparable to the remaining term of the 1.85% Notes plus 10 basis points, together with accrued and unpaid interest, if any, at the redemption date. Additionally, if the Company experiences specific kinds of changes in control, it will be required to make an offer to purchase the 1.85% Notes at 101% of their principal amount plus accrued and unpaid interest, if any, at the date of purchase. On or after January 15, 2025, the Company may redeem the 1.85% Notes in whole at any time or in part from time to time at 100% of their principal amount, together with accrued and unpaid interest, if any, to the redemption date. At the time of issuance, costs and discounts of approximately \$5 million, representing underwriting fees and other expenses, were recorded as a contra-liability within Long-term debt and are being amortized to interest expense, net over the term of the 1.85% Notes. In connection with the

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

1.85% Notes, in February 2020, the Company entered into derivative instrument agreements to manage its risks associated with interest rates on the 1.85% Notes and foreign currency fluctuations related to the financing of international operations. See Note 7 to the Financial Statements for further discussion of these derivative instruments and the Company's hedge accounting policies.

⁽³⁾ In August 2020, MonotaRO Co. Ltd., entered into a ¥9 billion term loan agreement to fund technology investments and the expansion of its distribution center network. The Japanese Yen term loan matures in 2024, payable over four equal semi-annual principal installments in 2023 and 2024, and bears average interest at 0.05%.

⁽⁴⁾ The estimated fair value of the Company's Senior Notes was based on available external pricing data and current market rates for similar debt instruments, among other factors, which are classified as Level 2 within the fair value hierarchy. The carrying value of other long-term debt approximates fair value due to their variable interest rates.

NOTE 7 - DERIVATIVE INSTRUMENTS

The Company maintains various agreements with bank counterparties that permit the Company to enter into "over-the-counter" derivative instrument agreements to manage its risk associated with interest rates and foreign currency fluctuations. In February 2020, the Company entered into certain derivative instrument agreements to manage its risk associated with interest rates on its 1.85% Notes and foreign currency fluctuations in connection with its foreign currency-denominated intercompany financing arrangements. The Company did not enter into these agreements for trading or speculative purposes.

Fair value hedges

The Company uses fair value hedges primarily to hedge a portion of its fixed-rate long-term debt via interest rate swaps. Changes in the fair value of the interest rate swap, along with the gain or loss on the hedged item, is recorded in earnings under the same line item, interest expense, net. The notional amount of the Company's outstanding fair value hedges as of September 30, 2021 and December 31, 2020 was \$500 million.

Cash flow hedges

The Company uses cash flow hedges primarily to hedge the exposure to variability in forecasted cash flows from foreign currency-denominated intercompany borrowings via cross-currency swaps. Gains or losses on the cross-currency swaps are reported as a component of Accumulated other comprehensive earnings (losses) (AOCE) and reclassified into earnings in the same period during which the hedged transaction affects earnings. The notional amount of the Company's outstanding cash flow hedges as of September 30, 2021 and December 31, 2020 was approximately \$34 million.

The effect of the Company's fair value and cash flow hedges on the Company's Condensed Consolidated Statement of Earnings for the three and nine months ended September 30, 2021 and 2020 is as follows (in millions of dollars):

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|--|----------------------------------|---------------|--------------------------|---------------|---------------------------------|---------------|--------------------------|---------------|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| | Interest expense, net | Other, net | Interest expense, net | Other, net | Interest expense, net | Other, Net | Interest expense, net | Other, Net |
| Gain or (loss) recognized in earnings | | | | | | | | |
| Fair value hedge: | | | | | | | | |
| Hedged item | \$ 3 | \$ — | \$ — | \$ — | \$ 12 | \$ — | \$ (22) | \$ — |
| Interest rate swap designated as hedging instrument | \$ (3) | \$ — | \$ — | \$ — | \$ (12) | \$ — | \$ 22 | \$ — |
| Cash flow hedge: | | | | | | | | |
| Hedged item | \$ — | \$ (1) | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |
| Cross-currency swap designated as hedging instrument | \$ — | \$ 1 | \$ — | \$ — | \$ — | \$ — | \$ — | \$ — |

The effect of the Company's fair value and cash flow hedges on AOCE for the three and nine months ended September 30, 2021 and 2020 was not material.

The fair value and carrying amounts of outstanding derivative instruments in the Condensed Consolidated Balance Sheets as of September 30, 2021 and December 31, 2020 were as follows (in millions of dollars):

| | Balance Sheet Classification | As of September 30, 2021 | As of December 31, 2020 |
|---------------------|-------------------------------|---------------------------------|---------------------------------|
| | | Fair Value and Carrying Amounts | Fair Value and Carrying Amounts |
| Cross-currency swap | Other non-current liabilities | \$ 2 | \$ 2 |
| Interest rate swap | Other assets | \$ 9 | \$ 21 |

The carrying amount of the liability hedged by the interest rate swap (long-term debt), including the cumulative amount of fair value hedging adjustments, as of September 30, 2021 and December 31, 2020 amounted to \$509 million and \$521 million, respectively.

The estimated fair values of the Company's derivative instruments were based on quoted market forward rates, which are classified as Level 2 within the fair value hierarchy and reflect the present value of the amount that the Company would pay for contracts involving the same notional amounts and maturity dates. No adjustments were required during the current period to reflect the counterparty's credit risk and/or the Company's own nonperformance risk.

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 8 - INCOME TAXES

The reconciliations of income tax expense with federal income taxes at the statutory rate are as follows (in millions of dollars):

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|---------------|---------------------------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| Federal income tax | \$ 89 | \$ 89 | \$ 228 | \$ 171 |
| States income taxes, net of federal income tax benefit | 12 | 12 | 29 | 23 |
| Foreign rate difference | 7 | 10 | 19 | 17 |
| Net tax benefit related to foreign subsidiaries | — | (4) | — | (92) |
| Other - net | (1) | (1) | (5) | (1) |
| Income tax provision | <u>\$ 107</u> | <u>\$ 106</u> | <u>\$ 271</u> | <u>\$ 118</u> |
| Effective tax rate | <u>25.5 %</u> | <u>29.3 %</u> | <u>25.0 %</u> | <u>17.3 %</u> |

The changes to the Company's effective tax rate for the three and nine months ended September 30, 2021 were primarily driven by the absence of the tax impacts and the prior year net tax benefit from the Company's investment in Fabory. The Company divested the Fabory business during the second quarter of 2020.

NOTE 9 - DIVIDEND

On October 27, 2021, the Company's Board of Directors declared a quarterly dividend of \$1.62 per share, payable December 1, 2021, to shareholders of record on November 8, 2021.

NOTE 10 - SEGMENT INFORMATION

Following is a summary of segment results (in millions of dollars):

| | Three Months Ended September 30, | | | | Nine Months Ended September 30, | | | |
|---------------------------|----------------------------------|--------------------|-----------------|--------------------|---------------------------------|--------------------|-----------------|--------------------|
| | 2021 | | 2020 | | 2021 | | 2020 | |
| | Net sales | Operating earnings | Net sales | Operating earnings | Net sales | Operating earnings | Net sales | Operating earnings |
| High-Touch Solutions N.A. | \$ 2,663 | \$ 387 | \$ 2,377 | \$ 334 | \$ 7,558 | \$ 975 | \$ 6,929 | \$ 933 |
| Endless Assortment | 646 | 59 | 572 | 48 | 1,913 | 172 | 1,593 | 125 |
| Other | 63 | (8) | 69 | (2) | 192 | (17) | 334 | (314) |
| Total Company | <u>\$ 3,372</u> | <u>\$ 438</u> | <u>\$ 3,018</u> | <u>\$ 380</u> | <u>\$ 9,663</u> | <u>\$ 1,130</u> | <u>\$ 8,856</u> | <u>\$ 744</u> |

The Company is a broad line distributor of MRO products and services. Products are regularly added and removed from the Company's inventory. Accordingly, it would be impractical to provide sales information by product category due to the way the business is managed, and the dynamic nature of the inventory offered, including the evolving list of products stocked and additional products available online but not stocked.

Intersegment sales transactions, which are sales between Grainger businesses in separate reportable segments, are eliminated within the segment to present only the impact of third-party sales. Service fees for intersegment sales from the High-Touch Solutions N.A. segment to the Endless Assortment segment are included in SG&A.

Corporate costs are substantially allocated to each reportable segment based on benefits received. Assets for reportable segments are not disclosed as such information is not regularly reviewed by the Company's Chief Operating Decision Maker.

W.W. Grainger, Inc. and Subsidiaries
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

NOTE 11 - CONTINGENCIES, LEGAL MATTERS, COMMITMENTS AND OTHER CONTRACTUAL OBLIGATIONS

Contingencies and Legal Matters

From time to time the Company is involved in various legal and administrative proceedings, including claims related to product liability, safety or compliance; privacy and cybersecurity matters; negligence; contract disputes; environmental issues; unclaimed property; wage and hour laws; intellectual property; advertising and marketing; consumer protection; pricing (including disaster or emergency declaration pricing statutes); employment practices; regulatory compliance, including as to trade and export matters; anti-bribery and corruption; and other matters and actions brought by employees, consumers, competitors, suppliers, customers, governmental entities and other third parties.

As previously disclosed, beginning in the fourth quarter of 2019, Grainger, KMCO, LLC (KMCO) and other defendants have been named in several product liability-related lawsuits in the Harris County, Texas District Court relating to an explosion at a KMCO chemical refinery located in Crosby, Harris County, Texas on April 2, 2019. The complaints in which Grainger has been named, which to date encompass 16 lawsuits and approximately 186 plaintiffs, seek recovery of compensatory and other damages and relief in relation to personal injury, including one death and various other alleged injuries. On May 8, 2020, KMCO filed a voluntary petition in the United States Bankruptcy Court for the Southern District of Texas for relief under Chapter 7 of Title 11 of the United States Bankruptcy Court in the case KMCO, LLC, No. 20-60028. As a result of the Chapter 7 proceedings, the claims against KMCO in the Harris County lawsuits were stayed. Effective January 1, 2021, the Bankruptcy Court lifted the stay with respect to KMCO.

On December 16, 2020, KMCO, the trustee of its estate and ORG Chemical Holdings, LLC, KMCO's parent company ("ORG"), filed a property damage lawsuit relating to the KMCO chemical refinery incident against Grainger and another defendant in the Harris County, Texas District Court, which seeks unspecified damages (the "KMCO Case"). On April 1, 2021, 24 individual plaintiffs filed a petition in intervention seeking to be added as plaintiffs in the KMCO Case and seeking unspecified damages. On March 24, 2021, Indian Harbor Insurance Company, together with other insurance companies and underwriters, filed a property damage lawsuit relating to the KMCO chemical refinery incident against Grainger and another defendant in the Harris County, Texas District Court, seeking reimbursement of insurance payments made to or on behalf of KMCO and ORG, the insured parties under their respective policies, and other damages.

Grainger is investigating each of the various claims against the Company relating to the KMCO chemical refinery incident, which are at an early stage, and intends to contest these matters vigorously.

Also, as a government contractor selling to federal, state and local governmental entities, the Company may be subject to governmental or regulatory inquiries or audits or other proceedings, including those related to contract administration, pricing and product compliance.

From time to time, the Company has also been named, along with numerous other nonaffiliated companies, as a defendant in litigation in various states involving asbestos and/or silica. These lawsuits typically assert claims of personal injury arising from alleged exposure to asbestos and/or silica as a consequence of products manufactured by third parties purportedly distributed by the Company. While several lawsuits have been dismissed in the past based on the lack of product identification, if a specific product distributed by the Company is identified in any pending or future lawsuits, the Company will seek to exercise indemnification remedies against the product manufacturer to the extent available. In addition, the Company believes that a substantial number of these claims are covered by insurance. The Company has entered into agreements with its major insurance carriers relating to the scope, coverage and the costs of defense, of lawsuits involving claims of exposure to asbestos. The Company believes it has strong legal and factual defenses and intends to continue defending itself vigorously in these lawsuits.

While the Company is unable to predict the outcome of any of these proceedings and other matters, it believes that their ultimate resolution will not have, either individually or in the aggregate, a material adverse effect on the Company's consolidated financial condition or results of operations.

Commitments and Other Contractual Obligations

There were no material changes to the Company's commitments and other contractual obligations from those disclosed in Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2020 Form 10-K.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations

General

W.W. Grainger, Inc. (Grainger or Company) is a broad line, business-to-business distributor of maintenance, repair and operating (MRO) products and services with operations primarily in North America (N.A.), Japan and the United Kingdom (U.K.). Grainger uses a combination of its high-touch solutions and endless assortment businesses to serve its customers worldwide, which rely on Grainger for MRO products and services that enable them to run safe, sustainable and productive operations.

Effective January 1, 2021, Grainger's two reportable segments are High-Touch Solutions N.A. and Endless Assortment. These reportable segments align with Grainger's go-to-market strategies and bifurcated business models (high-touch solutions and endless assortment). The High-Touch Solutions N.A. segment includes the Grainger-branded businesses in the United States of America (U.S.), Canada, Mexico and Puerto Rico. The Endless Assortment segment includes the Company's Zoro Tools, Inc. (Zoro) and MonotaRO Co., Ltd. (MonotaRO) online channels which operate predominately in the U.S., U.K. and Japan.

Strategic Priorities and Impact of the COVID-19 Pandemic

The Company's longstanding strategic priorities are to "Keep the World Working" and relentlessly expand Grainger's leadership position in the MRO space by being the go-to-partner for people who build and run safe, sustainable and productive operations. However, the Company's business and plans to achieve these strategic priorities continue to be impacted by the Coronavirus (COVID-19 pandemic). In response, Grainger instituted and has continued to enforce safety precautions to protect the health and well-being of all of its employees, with a particular focus on those serving customers and operating its distribution centers and branches.

The COVID-19 pandemic continues to cause significant disruptions in the U.S. and global markets, and the full extent of the impacts will depend on a number of developments, including any continued spread of the virus and its variants, the availability and effectiveness of treatments and vaccines, the imposition of protective public safety measures, and the potential impact of governmental measures to combat the spread of the virus, such as vaccine mandates for certain federal contractors and anticipated Occupational Health and Safety Administration safety directives. The Company continues to leverage a dedicated cross-functional task force to understand and implement guidance from government agencies and health officials to meet requirements from federal, state and local authorities and may take further actions in the best interests of its employees, customers, suppliers and shareholders.

The ongoing recovery from the COVID-19 pandemic has been accompanied by increased demand as industries have begun to return to regular operations. However, the pandemic continues to disrupt supply chains, transportation efficiency, raw materials and labor availability. Grainger's businesses and its major facilities have remained operational as customers rely on Grainger's products and services to keep their businesses up and running. The Company continues to monitor and refine its product assortment and actions to support customers' return to regular operations.

The Company cannot reasonably estimate the full extent to which the COVID-19 pandemic will continue to impact its business and financial results. As the pandemic continues to impact global markets and the needs of employees, customers, suppliers and other stakeholders continue to change, the Company's efforts and business plans will evolve accordingly. Grainger is focused on servicing customers and communities in addressing the pandemic and providing products to assist in the ongoing recovery, supporting the needs and safety of employees and ensuring the Company continues to operate with a strong financial position.

Further discussion of the risks and uncertainties posed by the COVID-19 pandemic is disclosed in *Risk Factors* under Part II, Item 1A of this report.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Matters Affecting Comparability

There were 64 sales days in both the three months ended September 30, 2021 and September 30, 2020. There were 191 and 192 sales days in the nine months ended September 30, 2021 and September 30, 2020.

Consistent with the Company's strategic focus on broad line MRO distribution in key markets, in June 2020, Grainger divested the Fabory high-touch solutions business, in August 2020, divested the China high-touch solutions business (China) and in November 2020, commenced the liquidation of Zoro Tools Europe (ZTE) in Germany. Accordingly, the Company's operating results include Fabory, China and ZTE results through the respective dates of divestiture or liquidation.

In addition, beginning in mid-February 2020, the Company experienced elevated levels of COVID-19 pandemic-related product sales (e.g., personal protective equipment (PPE) and safety products) due to higher customer demand in response to the COVID-19 pandemic, while non-pandemic sales decreased. Conversely, as the COVID-19 pandemic progressed throughout 2020 and into 2021, the Company has seen pandemic-related sales soften and non-pandemic sales grow, as mix returns to more normalized levels. This shift between pandemic and core, non-pandemic product mix impacted gross margin as pandemic-related product sales are generally lower-margin.

Results of Operations – Three Months Ended September 30, 2021

The following table is included as an aid to understand the changes in Grainger's Condensed Consolidated Statements of Earnings (in millions of dollars):

| | Three Months Ended September 30, | | | | | |
|---|----------------------------------|---------------|-----------------------------|---|---------|---------|
| | | | As a Percent of Net Sales | | | |
| | 2021 | 2020 | Percent Increase/(Decrease) | | 2021 | 2020 |
| Net sales | \$ 3,372 | \$ 3,018 | 11.7 | % | 100.0 % | 100.0 % |
| Cost of goods sold | 2,122 | 1,944 | 9.2 | % | 62.9 % | 64.4 % |
| Gross profit | 1,250 | 1,074 | 16.3 | % | 37.1 % | 35.6 % |
| Selling, general and administrative expenses (SG&A) | 812 | 694 | 16.7 | % | 24.1 % | 23.0 % |
| Operating earnings | 438 | 380 | 15.6 | % | 13.0 % | 12.6 % |
| Other expense - net | 16 | 18 | (8.2) | % | 0.5 % | 0.6 % |
| Income tax provision | 107 | 106 | 1.4 | % | 3.2 % | 3.5 % |
| Net earnings | 315 | 256 | 23.0 | % | 9.3 % | 8.5 % |
| Noncontrolling interest | 18 | 16 | 13.3 | % | 0.5 % | 0.5 % |
| Net earnings attributable to W.W. Grainger, Inc. | <u>\$ 297</u> | <u>\$ 240</u> | 23.7 | % | 8.8 % | 8.0 % |

Grainger's net sales of \$3,372 million for the third quarter of 2021 increased \$354 million, or 11.7%, compared to the same quarter in 2020. The increase in net sales was primarily driven by volume increases in the High-Touch Solutions N.A. and Endless Assortment segments. Also, core, non-pandemic product sales grew significantly as the economy improved, while demand for pandemic-related products continued to taper off with mix reverting to near pre-pandemic levels. See Note 3 to the Financial Statements for information related to disaggregated revenue. See the *Segment Analysis* below for further details related to segment revenue.

Gross profit of \$1,250 million for the third quarter of 2021 increased \$176 million, or 16%, compared to the same quarter in 2020. The gross profit margin of 37.1% during the third quarter of 2021 increased 1.5 percentage points when compared to the same quarter in 2020. This increase was primarily driven by the result of price realization and higher sales volume for core, non-pandemic products as mix continued to revert to more normalized levels. See *Segment Analysis* below for further details related to segment gross profit.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

SG&A of \$812 million for the third quarter of 2021 increased \$118 million, or 17%, compared to the third quarter of 2020. This increase was primarily driven by higher wages, variable compensation, healthcare costs and marketing expenses.

The following tables (in millions of dollars, except percentages) reconcile reported SG&A, operating earnings and net earnings attributable to W.W. Grainger, Inc. determined in accordance with U.S. generally accepted accounting principles (GAAP) to non-GAAP measures including SG&A adjusted, operating earnings adjusted and net earnings attributable to W.W. Grainger, Inc. adjusted. The Company believes that these non-GAAP 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 businesses by excluding items that may not be indicative of core operating results. Because non-GAAP financial measures are not standardized, it may not be possible to compare these measures with other companies' non-GAAP measures having the same or similar names.

| | Three Months Ended September 30, | | % |
|--|-------------------------------------|---------------|------|
| | 2021 | 2020 | |
| SG&A reported | \$ 812 | \$ 694 | 17 % |
| Restructuring - net (High-Touch Solutions N.A.) | — | (1) | |
| Grainger China divestiture (Other) | — | (5) | |
| Total restructuring - net and business divestiture | — | (6) | |
| SG&A adjusted | <u>\$ 812</u> | <u>\$ 700</u> | 16 % |
| | 2021 | 2020 | % |
| Operating earnings reported | \$ 438 | \$ 380 | 16 % |
| Total restructuring - net and business divestiture | — | (6) | |
| Operating earnings adjusted | <u>\$ 438</u> | <u>\$ 374</u> | 17 % |
| | 2021 | 2020 | % |
| Net earnings attributable to W.W. Grainger, Inc. reported | \$ 297 | \$ 240 | 24 % |
| Total restructuring - net, business divestiture and tax ¹ | — | 6 | |
| Net earnings attributable to W.W. Grainger, Inc. adjusted | <u>\$ 297</u> | <u>\$ 246</u> | 21 % |

¹ The tax impact of adjustments and non-cash impairments are calculated based on the income tax rate in each applicable jurisdiction, subject to deductibility and the Company's ability to realize the associated tax benefits.

Excluding restructuring, net and business divestiture in the third quarter of 2020, SG&A increased \$112 million, or 16%. This increase is primarily due to higher wages, variable compensation, healthcare costs and marketing expenses.

Operating earnings of \$438 million for the third quarter of 2021 increased \$58 million, or 16%, compared to the third quarter of 2020. Excluding restructuring, net and business divestiture in the third quarter of 2020 as noted in the table above, operating earnings increased \$64 million, or 17%, driven primarily by higher gross profit dollars partially offset by higher SG&A expenses.

Other expense, net was \$16 million for the third quarter of 2021, a decrease of \$2 million, or 8%, compared to the third quarter of 2020. The decrease was primarily related to higher interest expense in the third quarter of 2020 due to the draw down on the Company's revolving credit facility of \$1 billion in March 2020 as a proactive measure to preserve financial flexibility during pandemic uncertainty.

Income taxes of \$107 million for the third quarter of 2021 increased \$1 million, or 1%, compared to \$106 million in the third quarter of 2020. Grainger's effective tax rates were 25.5% and 29.3% for the three months ended September 30, 2021 and 2020, respectively. Excluding the tax benefit related to Fabory, as well as the restructuring, net and business divestiture in the third quarter of 2020 as noted in the table above, the effective tax rates were 25.5% and 26.5% for the three months ended September 30, 2021 and 2020, respectively.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Net earnings attributable to W.W. Grainger, Inc. of \$297 million for the third quarter of 2021 increased \$57 million, or 24%, compared to the third quarter of 2020. Excluding restructuring, net, business divestiture and tax in the third quarter of 2020 per the table above, net earnings increased \$51 million or 21%.

Segment Analysis

See Note 10 to the Financial Statements for further detail on segment information.

High-Touch Solutions N.A.

Net sales were \$2,663 million for the third quarter of 2021, an increase of \$286 million, or 12.0% compared to the same period in 2020 and consisted of the following:

| | Percent Increase |
|--------------------------------|------------------|
| Volume (including product mix) | 8.6% |
| Price and customer mix | 3.0 |
| Foreign exchange | 0.4 |
| Total | 12.0% |

Overall, revenue increases for the high-touch solutions businesses were primarily driven by volume and product mix. During the third quarter of 2021, the U.S. business continued to experience elevated sales volume of non-pandemic products from manufacturing businesses with overall sales up for nearly all customer segments as industries continued to improve and re-open. See Note 3 to the Financial Statements for information related to disaggregated revenue. From a product perspective, mix continued to revert to more normalized levels with higher demand for core, non-pandemic products as the economy recovered, despite a slight increase in demand for pandemic-related product in connection with renewed PPE guidelines.

Gross profit margin for the third quarter of 2021 increased 1.4 percentage points compared to the same period in 2020. The increase was primarily the result of price realization and higher sales volume for core, non-pandemic products as mix continued to revert to more normalized levels.

SG&A of \$661 million for the third quarter of 2021 increased \$94 million, or 17%, when compared to the third quarter of 2020, which was primarily driven by higher wages, variable compensation, healthcare costs and marketing expenses.

Operating earnings of \$387 million for the third quarter of 2021 increased \$53 million, or 16%, from \$334 million for the third quarter of 2020. This increase was driven by higher gross profit dollars, partially offset by higher SG&A expenses.

Endless Assortment

Net sales were \$646 million for the third quarter of 2021, an increase of \$74 million, or 12.7%, compared to the same period in 2020 and consisted of the following:

| | Percent Increase/ (Decrease) |
|------------------|---------------------------------|
| Volume/price/mix | 14.9% |
| Foreign exchange | (2.2) |
| Total | 12.7% |

The increase in net sales was driven by continued strong customer acquisition at both Zoro and MonotaRO.

Gross profit margin increased 1.2 percentage points in the third quarter of 2021 compared to the third quarter of 2020. The increase was driven primarily by pricing actions and freight efficiency at Zoro.

SG&A of \$124 million for the third quarter of 2021 increased \$16 million or 15% when compared to the third quarter of 2020. SG&A leverage improved 0.3 percentage point compared with the same period in 2020 due to sales revenue outpacing SG&A expenses.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Operating earnings of \$59 million for the third quarter of 2021 increased \$11 million, or 24% from \$48 million for the third quarter of 2020. The increase was primarily driven by higher sales volume due to continued strong customer acquisitions, partially offset by higher SG&A expenses.

Other

Net sales were \$63 million for the third quarter of 2021, a decrease of \$6 million, or 6.1%, when compared to the same quarter in 2020 and consisted of the following:

| | Percent (Decrease)/Increase |
|----------------------|-----------------------------|
| Business divestiture | (11.9)% |
| Foreign exchange | 5.8 |
| Total | (6.1)% |

The decrease in net sales was driven by the net impact of the China business divestiture, partially offset by favorable foreign exchange for the Cromwell business in the U.K.

Gross profit margin increased 3.8 percentage points in the third quarter of 2021 compared to the third quarter of 2020 primarily due to improved customer and product mix at the Cromwell business in the U.K.

SG&A increased \$8 million, or 32%, in the third quarter of 2021 from \$19 million for the third quarter of 2020. This increase is primarily due to higher wages and marketing expenses.

Operating losses of \$8 million for the third quarter of 2021 increased \$6 million compared to operating losses of \$2 million for the third quarter of 2020. The increase is primarily due to higher SG&A expenses, partially offset by higher gross profit dollars.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Results of Operations – Nine Months Ended September 30, 2021

The following table is included as an aid to understanding the changes in Grainger's Condensed Consolidated Statements of Earnings (in millions of dollars):

| | Nine Months Ended September 30, | | | | | |
|---|---------------------------------|---------------|---------------------|---|---------------------------|---------|
| | | | Percent | | As a Percent of Net Sales | |
| | 2021 | 2020 | Increase/(Decrease) | | 2021 | 2020 |
| Net sales | \$ 9,663 | \$ 8,856 | 9.1 | % | 100.0 % | 100.0 % |
| Cost of goods sold | 6,196 | 5,645 | 9.8 | % | 64.1 % | 63.7 % |
| Gross profit | 3,467 | 3,211 | 8.0 | % | 35.9 % | 36.3 % |
| Selling, general and administrative expenses (SG&A) | 2,337 | 2,467 | (5.3) | % | 24.2 % | 27.9 % |
| Operating earnings | 1,130 | 744 | 52.0 | % | 11.7 % | 8.4 % |
| Other expense - net | 46 | 56 | (17.3) | % | 0.5 % | 0.6 % |
| Income tax provision | 271 | 118 | 129.5 | % | 2.8 % | 1.3 % |
| Net earnings | 813 | 570 | 42.7 | % | 8.4 % | 6.4 % |
| Noncontrolling interest | 53 | 43 | 23.4 | % | 0.5 % | 0.5 % |
| Net earnings attributable to W.W. Grainger, Inc. | <u>\$ 760</u> | <u>\$ 527</u> | 44.3 | % | 7.9 % | 6.0 % |

Grainger's net sales of \$9,663 million for the nine months ended September 30, 2021 increased \$807 million, or 9.1%, compared to the same period in 2020. On a daily basis, net sales increased 9.7%. The increase in net sales was primarily driven by volume and product mix, partially offset by the impact of the business divestitures in the prior year. Also, core, non-pandemic related product sales volume continued to improve as product mix continued to revert to more normalized levels, while demand for pandemic-related products continued to taper throughout 2021. See Note 3 to the Financial Statements for information related to disaggregated revenue. See *Segment Analysis* below for further details related to segment revenue.

Gross profit of \$3,467 million for the nine months ended September 30, 2021 increased \$256 million, or 8%, compared to the same period in 2020. The gross profit margin of 35.9% decreased 0.4 percentage point when compared to the same period in 2020. This decrease was primarily driven by certain pandemic-related inventory adjustments in the first half of the year in the U.S. business (part of High-Touch Solutions N.A.) partially offset by price realization during the third quarter of 2021. See *Segment Analysis* below for further details related to segment gross profit.

SG&A of \$2,337 million for the nine months ended September 30, 2021 decreased \$130 million, or 5%, compared to the same period in 2020. This decrease is primarily a result of the impairment charges and losses for the divested Fabory business (part of Other) in the first and second quarter of 2020, respectively.

The following tables (in millions of dollars, except percentages) reconciles reported SG&A, operating earnings and net earnings attributable to W.W. Grainger, Inc. determined in accordance with U.S. GAAP to non-GAAP measures including SG&A adjusted, operating earnings adjusted and net earnings attributable to W.W. Grainger, Inc. adjusted. The Company believes that these non-GAAP measures provide meaningful information to assist shareholders in understanding financial results and assessing prospects for future performance as they provide a better baseline for analyzing the ongoing performance of its businesses by excluding items that may not be indicative of core operating results. Because non-GAAP financial measures are not standardized, it may not be possible to compare these measures with other companies' non-GAAP measures having the same or similar names.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

| | Nine Months Ended September 30, | | % |
|--|------------------------------------|-----------------|------|
| | 2021 | 2020 | |
| SG&A reported | \$ 2,337 | \$ 2,467 | (5)% |
| Restructuring - net (High-Touch Solutions N.A.) | — | 7 | |
| Fabory impairment charges (Other) | — | 177 | |
| Fabory divestiture (Other) | — | 109 | |
| Grainger China divestiture (Other) | — | (5) | |
| Total restructuring - net, impairment charges and business divestiture | — | 288 | |
| SG&A adjusted | <u>\$ 2,337</u> | <u>\$ 2,179</u> | 7 % |
| | 2021 | 2020 | % |
| Operating earnings reported | \$ 1,130 | \$ 744 | 52 % |
| Total restructuring - net, impairment charges and business divestiture | — | 288 | |
| Operating earnings adjusted | <u>\$ 1,130</u> | <u>\$ 1,032</u> | 10 % |
| | 2021 | 2020 | % |
| Net earnings attributable to W.W. Grainger, Inc. reported | \$ 760 | \$ 527 | 44 % |
| Total restructuring - net, impairment charges, business divestiture and tax ¹ | — | 153 | |
| Net earnings attributable to W.W. Grainger, Inc. adjusted | <u>\$ 760</u> | <u>\$ 680</u> | 12 % |

¹ The tax impact of adjustments and non-cash impairments are calculated based on the income tax rate in each applicable jurisdiction, subject to deductibility and the Company's ability to realize the associated tax benefits.

As noted in the table above, a large portion of the Company's SG&A decrease for the nine months ended September 30, 2021 is due to the \$177 million Fabory impairment and \$109 million loss on the divestiture of the Fabory business in the first and second quarter of 2020, respectively. Excluding restructuring, net, impairment charges and business divestiture in the nine months ended September 30, 2020, as noted in the table above, SG&A increased \$158 million, or 7%, primarily due to higher wages, variable compensation, healthcare costs and marketing expenses.

Operating earnings for the nine months ended September 30, 2021 were \$1,130 million, an increase of \$386 million, or 52%, compared to the same period in 2020. Excluding restructuring, net, impairment charges and business divestiture in the nine months ended September 30, 2020 as noted in the table above, operating earnings increased \$98 million, or 10%, driven by higher gross profit dollars partially offset by higher SG&A expenses.

Other expense, net was \$46 million for the nine months ended September 30, 2021, a decrease of \$10 million, or 17%, compared to the nine months ended September 30, 2020. The decrease was primarily related to higher prior year interest expense on the draw down on the Company's revolving credit facility of \$1 billion in March 2020 as a proactive measure to preserve financial flexibility during pandemic uncertainty.

Income taxes of \$271 million for the nine months ended September 30, 2021 increased \$153 million, or 130%, compared with \$118 million for the comparable 2020 period. This change was primarily driven by lower taxable operating earnings for the nine months ended September 30, 2020, and the absence of the prior year tax impact from the Company's divestiture of its investment in Fabory. Grainger's effective tax rates were 25.0% and 17.3% for the nine months ended September 30, 2021 and 2020, respectively. Excluding the tax benefit related to Fabory, as well as the restructuring, net and business divestiture in the nine months ended September 30, 2020, as noted in the table above, the effective tax rates were 25.0% and 26.0% for the nine months ended September 30, 2021 and 2020, respectively.

Net earnings attributable to W.W. Grainger, Inc. for the nine months ended September 30, 2021 increased \$233 million or 44% to \$760 million from \$527 million for the nine months ended September 30, 2020. Excluding restructuring, net, impairment charges, business divestiture and tax in the nine months ended September 30, 2020,

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

as noted in the table above, net earnings increased \$80 million, or 12%. The increase in net earnings primarily resulted from higher gross profit dollars partially offset by higher SG&A expenses.

Segment Analysis

See Note 10 to the Financial Statements for further detail on segment information.

High-Touch Solutions N.A.

Net sales were \$7,558 million for the nine months ended September 30, 2021, an increase of \$629 million, or 9.1%, compared to the same period in 2020. On a daily basis, net sales increased 9.6% and consisted of the following:

| | Percent Increase |
|--------------------------------|------------------|
| Volume (including product mix) | 6.7% |
| Price and customer mix | 2.3 |
| Foreign exchange | 0.6 |
| Total | 9.6% |

Overall, revenue increases for the high-touch solutions businesses were primarily driven by volume and product mix. See Note 3 to the Financial Statements for information related to disaggregated revenue. From a product perspective, the high-touch solutions businesses experienced higher demand for core, non-pandemic product as mix continued to revert to more normalized levels, while demand for pandemic-related products continued to taper.

Gross profit margin decreased 0.7 percentage point compared to the same period in 2020. The decrease was primarily the result of U.S. business inventory adjustments on certain pandemic-related products in the first half of 2021 partially offset by price realization and product mix during the third quarter of 2021.

SG&A for the nine months ended September 30, 2021 increased \$150 million compared to the same period in 2020, which is primarily driven by higher wages, variable compensation, healthcare costs and marketing expenses.

Operating earnings of \$975 million for the nine months ended September 30, 2021 increased \$42 million, or 5%, from \$933 million for the nine months ended September 30, 2020. This increase was driven by higher gross profit dollars partially offset by higher SG&A expenses.

Endless Assortment

Net sales were \$1,913 million for the nine months ended September 30, 2021, an increase of \$320 million, or 20.0%, compared to the same period in 2020. On a daily basis, net sales increased 20.7% and consisted of the following:

| | Percent Increase |
|------------------|------------------|
| Volume/price/mix | 20.5% |
| Foreign exchange | 0.2 |
| Total | 20.7% |

The increase in net sales was driven by continued strong customer acquisition at both Zoro and MonotaRO.

Gross profit margin increased 0.8 percentage point in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. The increase was primarily driven by pricing actions and freight efficiency at Zoro.

SG&A increased \$55 million, or 18%, in the nine months ended September 30, 2021 compared to the nine months ended September 30, 2020. SG&A leverage improved 0.4 percentage point compared to the same period in 2020 due to sales revenue outpacing SG&A expenses.

Operating earnings of \$172 million for the nine months ended September 30, 2021 increased \$47 million, or 38%, from \$125 million for the nine months ended September 30, 2020. The increase was primarily driven by higher sales due to continued strong customer acquisitions, partially offset by higher SG&A expenses.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Other

Net sales for other businesses were \$192 million for the nine months ended September 30, 2021 a decrease of \$142 million, or 42.0%, compared to the same period in 2020. On a daily basis, net sales decreased 42.0% and consisted of the following:

| | Percent (Decrease)/Increase |
|----------------------|--------------------------------|
| Business divestiture | (47.6)% |
| Foreign exchange | 4.8 |
| Volume/price/mix | 0.8 |
| Total | (42.0)% |

The decrease in net sales was driven by the net impact of the Fabory and China business divestitures, partially offset by volume increases and favorable foreign exchange at the Cromwell business in the U.K.

Gross profit margin increased 2.0 percentage points for the nine months ended September 30, 2021 compared to the same period in 2020, primarily due to improved margins at the Cromwell business in the U.K.

SG&A decreased \$335 million, or 81%, in the nine months ended September 30, 2021 from \$414 million for the same period in 2020 primarily due to the impairment and losses related to the divested Fabory business in the first half of 2020. Excluding restructuring, net, impairment charges and business divestiture in both periods, SG&A would have decreased \$54 million, or 41%. See table above for reconciliation of non-GAAP measures.

Operating losses of \$17 million for the nine months ended September 30, 2021 improved \$297 million from operating losses of \$314 million in the comparable period from the prior year. Excluding restructuring, net, impairment charges and business divestiture in both periods, operating losses would have improved \$16 million or 48%. See table above for reconciliation of non-GAAP measures.

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Financial Condition

Grainger believes that its current level of cash and cash equivalents, marketable securities and availability under its revolving credit facilities will be sufficient to meet its liquidity needs for the next twelve months. Grainger expects to continue to invest in its business and return excess cash to shareholders through cash dividends and share repurchases, which it plans to fund through total available liquidity and cash flows generated from operations. Grainger also maintains access to capital markets and may issue debt or equity securities from time to time, which may provide an additional source of liquidity.

Cash, Cash Equivalents and Liquidity

As of September 30, 2021 and December 31, 2020, Grainger had cash and cash equivalents of \$328 million and \$585 million, respectively. This decrease in cash is primarily due to resuming capital investments and the share repurchase program, which were paused in 2020 due to the COVID-19 pandemic. As of September 30, 2021, the Company had approximately \$1.8 billion in available liquidity.

Cash Flows

Net cash provided by operating activities was \$724 million and \$787 million for the nine months ended September 30, 2021 and 2020, respectively. The decrease in cash provided by operating activities is primarily the result of the net impacts from the now divested Fabory business partially offset by higher net earnings and favorable working capital.

Net cash used in investing activities was \$180 million and \$132 million for the nine months ended September 30, 2021 and 2020, respectively. This increase in net cash used in investing activities was primarily driven by higher additions to the Company's supply chain infrastructure combined with lower proceeds from sales and redemptions of assets.

Net cash used in financing activities was \$790 million in the nine months ended September 30, 2021 compared to \$147 million in the nine months ended September 30, 2020. The change in net cash used in financing activities was primarily driven by higher treasury stock repurchases in the current year and prior year borrowings of long-term debt.

Working Capital

Internally generated funds are the primary source of working capital and funds used for growth initiatives and capital expenditures.

Working capital consists of current assets (less non-operating cash) and current liabilities (less short-term debt, current maturities of long-term debt and lease liabilities). Working capital as of September 30, 2021, was \$2,350 million, an increase of \$130 million when compared to \$2,220 million as of December 31, 2020. The increase was primarily driven by an increase in accounts receivable partially offset by an increase in accounts payable. At these dates, the ratio of current assets to current liabilities was 2.6 for both September 30, 2021 and December 31, 2020.

Debt

Grainger maintains a debt ratio and liquidity position that provides flexibility in funding working capital needs and long-term cash requirements. In addition to internally generated funds, Grainger has various sources of financing available, including revolving credit facilities. Total debt, which is defined as total interest-bearing debt (short-term, current maturities and long-term) and lease liabilities as a percent of total capitalization was 55.1% at September 30, 2021, and 55.6% at December 31, 2020.

Grainger receives ratings from two independent credit rating agencies: Moody's Investor Service (Moody's) and Standard & Poor's (S&P). Both credit rating agencies currently rate the Company's corporate credit at investment grade. The following table summarizes the Company's credit ratings at September 30, 2021:

| | Corporate | Senior Unsecured | Short-term |
|---------|-----------|------------------|------------|
| Moody's | A3 | A3 | P2 |
| S&P | A+ | A+ | A1 |

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

Commitments and Other Contractual Obligations

There were no material changes to the Company's commitments and other contractual obligations from those disclosed in Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2020 Form 10-K.

Critical Accounting Estimates

The methods, assumptions and estimates used in applying the Company's accounting policies may require the application of judgments regarding matters that are inherently uncertain. The Company considers an accounting policy to be a critical estimate if: (1) it involves assumptions that are uncertain when judgment was applied, and (2) changes in the estimate assumptions, or selection of a different estimate methodology could have a significant impact on Grainger's consolidated financial position and results. While the Company believes that estimates, assumptions and judgments used are reasonable, they are based on information available when the estimate was made.

A description of the Company's critical accounting estimates is described in Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations in the Company's 2020 Form 10-K. There have been no material changes to the Company's critical accounting estimates from those described in the Company's 2020 Form 10-K.

Forward-Looking Statements

From time to time in this Quarterly Report on Form 10-Q as well as in other written reports, communications and verbal statements, Grainger makes forward-looking statements that are not historical in nature but concern forecasts of future results, business plans, analyses, prospects, strategies, objectives and other matters that may be deemed to be "forward-looking statements" under the federal securities laws. 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.

Grainger cannot guarantee that any forward-looking statement will be realized and achievement of future results is subject to risks and uncertainties, many of which are beyond the Company's control, which could cause Grainger's results to differ materially from those that are presented.

Important factors that could cause actual results to differ materially from those presented or implied in the forward-looking statements include, without limitation: the unknown duration and health, economic, operational and financial impacts of the global outbreak of the coronavirus disease 2019 and its variants, including the Delta variant and any other variants that may emerge (COVID-19), as well as the impact of actions taken or contemplated by government authorities to mitigate the spread of COVID-19 (such as vaccine mandates for certain federal contractors and anticipated Occupational Health and Safety Administration safety directives, mask mandates, social distancing or other requirements) and to promote economic stability and recovery, on the Company's businesses, its employees, customers and suppliers, including disruption to Grainger's operations resulting from employee illnesses, the development, availability and usage of effective treatment or vaccines, changes in customers' product needs, the acquisition of excess inventory leading to additional inventory carrying costs and inventory obsolescence, raw material, inventory and labor shortages, continued strain on global supply chains, and diminished transportation availability and efficiency, disruption caused by business responses to the COVID-19 pandemic, including working remote arrangements, which may create increased vulnerability to cybersecurity incidents, including breaches of information systems security, adaptations to the Company's controls and procedures required by working remote arrangements, including financial reporting processes, which could impact the design or operating effectiveness of such controls or procedures, and global or regional economic downturns or recessions, which could result in a decline in demand for the Company's products; higher product costs or other expenses; a major loss of customers; loss or disruption of sources of supply; changes in customer or product mix; increased competitive pricing pressures; failure to enter into or sustain contractual arrangements on a satisfactory basis with group purchasing organizations; failure to develop or implement new technology initiatives or business strategies; 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, advertising and marketing, consumer protection, pricing (including disaster or emergency declaration pricing statutes), product liability, compliance or safety, trade and export compliance, general

W.W. Grainger, Inc. and Subsidiaries
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL
CONDITION AND RESULTS OF OPERATIONS

commercial disputes, or privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; failure to comply with laws, regulations and standards; government contract matters; disruption 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; other pandemic diseases or viral contagions; natural or human induced disasters, extreme weather and other catastrophes or conditions; failure to attract, retain, train, motivate, develop and transition 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 and other factors identified under Part I, Item 1A: "Risk Factors" in the Company's 2020 Form 10-K, as updated from time to time in the Company's Quarterly Reports on Form 10-Q.

Caution should be taken not to place undue reliance on Grainger's forward-looking statements and Grainger 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

As disclosed in Part II, Item 7A: Quantitative and Qualitative Disclosures About Market Risk in the Company's 2020 Form 10-K, Grainger's primary market risk exposures include changes in foreign currency exchange and interest rates.

For a discussion of current market conditions resulting from the COVID-19 pandemic, refer to Part I, Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Grainger carried out an evaluation, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of Grainger's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that Grainger's disclosure controls and procedures were effective as of the end of the period covered by this report in (i) ensuring that information required to be disclosed by Grainger in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) ensuring that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in Grainger's internal control over financial reporting for the quarter ended September 30, 2021, that have materially affected, or are reasonably likely to materially affect, Grainger's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1: Legal Proceedings

For a description of the Company's legal proceedings, see Note 11 - Contingencies, Legal Matters, Commitments and Other Contractual Obligations - to the Condensed Consolidated Financial Statements included under Part I, Item 1: Financial Statements.

Item 1A: Risk Factors

The Company's business, results of operations, and financial condition are subject to various risks and uncertainties, including those described in Part I, Item 1A: Risk Factors in the Company's 2020 Form 10-K. The following risk factors are being provided to supplement and update the risk factors set forth in the 2020 Form 10-K.

Grainger's business and operations have been and may continue to be adversely affected by the global outbreak of the Coronavirus (COVID-19 pandemic) and may be adversely affected by other global outbreaks of pandemic disease.

Any global outbreaks of pandemic disease, such as the COVID-19 pandemic, could have a material adverse effect on Grainger's business, results of operations and financial condition, including liquidity, capital and financing resources.

The COVID-19 pandemic has disrupted and adversely affected Grainger's business, including its business with customers and suppliers. Grainger has experienced customer disruptions to their ability or willingness to purchase Grainger products, customer delays in making purchasing decisions, shifts in the types and quantities of products purchased and, in some cases, diminished customer loyalty and retention rates. These may continue to persist during and beyond the COVID-19 pandemic. Grainger has also experienced and may continue to experience supply chain disruptions, supplier inability to manufacture or deliver products to Grainger or meet the unprecedented demand for pandemic-related products, rapid shifts in the type, quantity or quality of products sold, and higher product costs including as a result of inflation.

Additional effects from the COVID-19 pandemic on Grainger's business include adverse impacts on transportation, including shipping delays and port disruptions, the availability of products, and labor shortages, which have impacted Grainger's ability to hire employees to fill all open positions. There is the potential for disruptions or closures of customer and supplier facilities, and the ability of certain customers and suppliers to continue as a going concern. Furthermore, Grainger's ability to collect its accounts receivable or receive product ordered from suppliers, as customers and suppliers face higher liquidity and solvency risks and seek terms that are less favorable to Grainger, may adversely affect the Company's business. These developments, alone or in combination, could materially adversely affect Grainger's future sales and results of operations.

The effects of the COVID-19 pandemic on Grainger also include restrictions on Grainger's employees' ability to visit customers and many of Grainger's employees' ability to work in offices or at facilities, as well as disruptions or temporary closures of the Company's facilities, including distribution centers, branches, and support buildings. Some actions that Grainger has taken in response to the COVID-19 pandemic, including enabling remote working arrangements, may create increased vulnerability to cybersecurity incidents, including breaches of information systems security, which could damage Grainger's reputation and commercial relationships, disrupt operations, increase costs and/or decrease revenues, and expose Grainger to claims from customers, suppliers, financial institutions, regulators, payment card association, employees and others. In addition, Grainger's remote working arrangements have required the Company to make adaptations to its controls and procedures, including to its financial reporting processes, that could impact the design or operating effectiveness of such controls or procedures. The COVID-19 pandemic has also resulted in increased variable compensation, wage rates and employee healthcare costs, and Grainger expects these trends to continue.

Furthermore, as result of surges in demand and disruptions in supply chains, including in Asia and other locations, the COVID-19 pandemic has resulted in shortages of certain PPE, cleaning supplies and other products, which may materially impact Grainger's ability to obtain or deliver inventory to customers on a timely basis or at all. While Grainger attempts to maintain sufficient inventory levels to meet quickly shifting customer demand patterns and supplier lead time requirements, which may become extended due to the pandemic demand increase, the Company cannot be certain it will be able to accurately predict demand or lead times, which might cause it to be unable to service customer demand or expose it to risks of product shortages. This uncertainty has caused and may continue to cause Grainger to acquire excess inventory, which has led and may lead to additional inventory carrying costs and inventory obsolescence. For example, as discussed in the Company's Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2021 and June 30, 2021, respectively, the Company had certain pandemic-related

inventory adjustments in the U.S. business (part of High-Touch Solutions N.A.) on certain non-core SKUs, which were selling below cost based on then current market-relevant pricing.

Pandemic product shortages may also require the Company to attempt to procure products from new suppliers or through brokers with whom it has a limited or no prior relationship. Despite due diligence and product compliance protocols, the products from these sources may not be delivered on a timely basis or at all, or their quality may not be as represented, all of which could cause Grainger to incur costs, including the expense of procuring alternate products or recalling or replacing products in addition to other adverse impacts to Grainger's business.

Moreover, global outbreaks such as the COVID-19 pandemic have resulted in a widespread health crisis that has adversely affected and could continue to adversely affect the economies of many countries, resulting in a global or regional economic downturn or recession. Any such recession could result in a significant decline in demand for the Company's products or limit Grainger's ability to access capital markets on terms that are attractive or at all, any of which could materially adversely affect the Company's business, results of operations and financial condition.

The duration and ultimate impact of the COVID-19 pandemic on the Company's business, results of operations and financial condition, including liquidity, capital and financing resources, will depend on numerous evolving factors and future developments, which are highly uncertain and cannot be predicted at this time. Such factors and developments may include the geographic spread, severity and duration of the COVID-19 pandemic, including whether there are periods of increased COVID-19 cases, the further spread of the Delta variant or the emergence of other new or more contagious variants that may render vaccines ineffective or less effective, disruption to Grainger's operations resulting from employee illnesses or any inability to attract, retain or motivate employees, the development, availability and administration of effective treatment or vaccines and the willingness of individuals to receive a vaccine or otherwise comply with various mandates, the extent and duration of the impact on the U.S. or global economy, including the pace and extent of recovery when the pandemic subsides, and the actions that have been or may be taken by various governmental authorities in response to the outbreak.

The Company is a federal contractor and part of its workforce will be covered by vaccine mandates expected to be imposed by Executive Order, while other members of its workforce are likely to be covered by anticipated Occupational Health and Safety Administration safety directives for vaccination or testing. Complying with these requirements could disrupt the workforce and operations and impose additional compliance and other costs. Other requirements, including health and safety measures, such as mandatory facility closures of non-essential businesses, stay in shelter health orders or similar restrictions, social distancing mandates and/or travel bans, import and export restrictions, pricing mandates, including disaster or emergency declaration pricing statutes, and mandatory directives that certain products be allocated or provided to certain customers, could also disrupt the Company's business and impose costs. If the Company is unable to respond to and manage the impact of these mandates, requirement or events, the Company's business and results of operations may continue to be adversely affected.

Cybersecurity incidents, including breaches of information systems security, could damage Grainger's reputation, disrupt operations, increase costs and/or decrease revenues.

Through Grainger's sales and eCommerce channels, Grainger collects and stores personally identifiable, confidential, proprietary and other information from customers so that they may, among other things, purchase products or services, enroll in promotional programs, register on Grainger's websites or otherwise communicate or interact with the Company. Moreover, Grainger's operations routinely involve receiving, storing, processing and transmitting sensitive information pertaining to its business, customers, suppliers and employees, and other sensitive matters.

Cyber threats are rapidly evolving and those threats and the means for obtaining access to information in digital and other storage media are becoming increasingly sophisticated. Each year, cyber-attackers make numerous attempts to access the information stored in the Company's information systems. If successful, these attacks may expose Grainger to risk of loss or misuse of proprietary or confidential information or disruptions of business operations.

Grainger's IT infrastructure also includes products and services provided by suppliers, vendors and other third parties, and these providers can experience breaches of their systems and products that impact the security of systems and proprietary or confidential information. Moreover, from time to time, Grainger may share information with these third parties in connection with the products and services they provide to the business. While Grainger requires assurances that these third parties will protect confidential information, there is a risk that the confidentiality of data held or accessed by them may be compromised. If successful, those attempting to penetrate Grainger's or its vendors' information systems may misappropriate intellectual property or personally identifiable, credit card,

confidential, proprietary or other sensitive customer, supplier, employee or business information, or cause systems disruption. While many of Grainger's agreements with these third parties include indemnification provisions, the Company may not be able to recover sufficiently, or at all, under such provisions to adequately offset any losses it may incur.

Moreover, the Company may face the threat to its computer systems of unauthorized access, computer hackers, computer viruses, malicious code, ransomware, phishing, organized cyber-attacks and other security problems and system disruptions. Such tactics may also seek to cause payments due to or from the Company to be misdirected to fraudulent accounts, which may not be recoverable by the Company.

In addition, a Grainger employee, contractor or other third party with whom Grainger does business may attempt to circumvent security measures or otherwise access Grainger's information systems in order to obtain such information or inadvertently cause a breach involving such information. Further, Grainger's systems are integrated with customer systems in certain cases, and a breach of the Company's information systems could be used to gain illicit access to a customer's systems and information.

Grainger has been subject to unauthorized accesses of certain supplier and customer information in the past, which it deemed immaterial to its business and operations, and may be subject to other unauthorized accesses of its systems in the future. There can be no assurance that any future unauthorized access to or breach of Grainger's information systems will not be material to Grainger's business, operations or financial condition.

Grainger maintains information security staff, policies and procedures for managing risk to its information security systems, conducts annual employee awareness training of cybersecurity threats and routinely utilizes consultants to assist in evaluating the effectiveness of the security of its IT systems. While Grainger has instituted these and other safeguards for the protection of information, because techniques used to obtain unauthorized access or to sabotage systems change frequently and generally are not recognized until they are launched against a target, Grainger may be unable to anticipate these techniques or implement adequate preventative measures. Any breach of Grainger's security measures or any breach, error or malfeasance of those of its third party service providers could cause Grainger to incur significant costs to protect any customers, suppliers, employees, and other parties whose personal data is compromised and to make changes to its information systems and administrative processes to address security issues. In addition, although Grainger maintains insurance coverage that may, subject to policy terms and conditions, cover certain aspects of cyber and information security risks, such insurance coverage may be insufficient to cover all losses.

Grainger continuously evaluates the need to upgrade and/or replace its systems and network infrastructure to protect its computing environment, to stay current on vendor supported products and to improve the efficiency of its systems and for other business reasons. The implementation of new systems and IT could adversely impact its operations by imposing substantial capital expenditures, demands on management time and risks of delays or difficulties in transitioning to new systems. In addition, the Company's systems implementations may not result in productivity improvements at the levels anticipated. Systems implementation disruption and any other IT disruption, if not anticipated and appropriately mitigated, could have an adverse effect on its business.

Loss of customer, supplier, employee or intellectual property or other business information or failure to comply with data privacy and security laws could disrupt operations, damage Grainger's reputation and expose Grainger to claims from customers, suppliers, financial institutions, regulators, payment card associations, employees and others, any of which could have a material adverse effect on Grainger, its financial condition and results of operations. In the past, Grainger has experienced certain cybersecurity incidents. In each instance, Grainger provided notifications and adopted remedial measures. While these incidents have not been deemed to be material to Grainger, there can be no assurance that a future breach or incident would not be material to Grainger's operations and financial condition.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities – Third Quarter**

| Period | Total Number of Shares Purchased ^{(A) (D)} | Average Price Paid per Share ^(B) | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ^(C) | Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs |
|--------------------|---|---|---|--|
| July 1 – July 31 | 80,047 | \$453.15 | 79,944 | 4,742,620 |
| Aug. 1 – Aug. 31 | 274,451 | \$437.41 | 274,451 | 4,468,169 |
| Sept. 1 – Sept. 30 | 208,265 | \$413.23 | 207,688 | 4,260,481 |
| Total | 562,763 | | 562,083 | |

(A) There were no shares withheld to satisfy tax withholding obligations.

(B) Average price paid per share excludes commissions of \$0.01 per share paid.

(C) Purchases were made pursuant to a share repurchase program approved by Grainger's Board of Directors and announced April 28, 2021 (2021 Program). The 2021 Program authorized the repurchase of up to 5 million shares with no expiration date.

(D) The difference of 680 shares between the Total Number of Shares Purchased and the Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs represents shares purchased by the administrator and record keeper of the W.W. Grainger, Inc. Retirement Savings Plan for the benefit of the employees who participate in the plan.

Item 6: Exhibits

A list of exhibits filed with this report on Form 10-Q is provided in the Exhibit Index on page 36 of this report.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

W.W. GRAINGER, INC.

Date: October 29, 2021

By: _____ /s/ Deidra C. Merriwether
Deidra C. Merriwether
Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

Date: October 29, 2021

By: _____ /s/ Laurie R. Thomson
Laurie R. Thomson
Vice President and Controller
(Principal Accounting Officer)

EXHIBIT INDEX

| EXHIBIT NO. | DESCRIPTION |
|----------------------|--|
| 31.1 | Certification of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32 | Certification of Principal Executive Officer and Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document. |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document. |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document. |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document. |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document. |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL and contained in Exhibit 101). |

CERTIFICATION

Exhibit 31.1

I, D.G. Macpherson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of W.W. Grainger, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2021

By: /s/ D.G. Macpherson
Name: D.G. Macpherson
Title: Chairman and Chief Executive Officer

CERTIFICATION

Exhibit 31.2

I, Deidra C. Merriwether, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of W.W. Grainger, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 29, 2021

By: /s/ Deidra C. Merriwether
Name: Deidra C. Merriwether
Title: Senior Vice President and Chief Financial Officer

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of W.W. Grainger, Inc. ("Grainger") for the quarterly period ended September 30, 2021, (the "Report"), D.G. Macpherson, as Chairman and Chief Executive Officer of Grainger, and Deidra C. Merriwether, as Senior Vice President and Chief Financial Officer of Grainger, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Grainger.

/s/ D.G. Macpherson

D.G. Macpherson
Chairman and Chief Executive Officer
October 29, 2021

/s/ Deidra C. Merriwether

Deidra C. Merriwether
Senior Vice President and Chief Financial Officer
October 29, 2021