# W.W. Grainger, Inc. - Financial and Strategic Analysis Review

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## Company Snapshot

### Key Information

| W.W. Grainger, Inc., Key Information | |
|---|---|
| Web Address | www.grainger.com |
| Financial year-end | December |
| Number of Employees | 20,000 |
| NYSE | GWW |
| Source : GlobalData | |

### Key Ratios

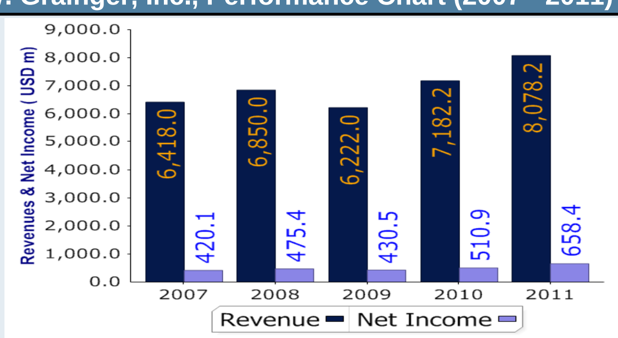
| W.W. Grainger, Inc., Key Ratios | |
|---|---|
| P/E | 22.10 |
| EV/EBITDA | 13.63 |
| Return on Equity (%) | 25.05 |
| Debt/Equity | 19.65 |
| Operating profit margin (%) | 13.03.00 |
| Dividend Yield | 0.01 |
| Note: Above ratios are based on share price as of 01-Nov-2012 | |
| Source : GlobalData | |

### Share Data

| W.W. Grainger, Inc., Share Data | |
|---|---|
| Price (USD) as on 01-Nov-2012 | 200.52 |
| EPS (USD) | 9.07 |
| Book value per share (USD) | 37.57 |
| Shares Outstanding (in million) | 71.18 |
| Source : GlobalData | |

### Performance Chart

W.W. Grainger, Inc., Performance Chart (2007 - 2011)




Source : GlobalData

## Company Overview

W. W. Grainger, Inc. (Grainger) is a broad-line distributor of maintenance, repair and operating (MRO) supplies and other associated products and services.

## SWOT Analysis

| W.W. Grainger, Inc., SWOT Analysis | |
|---|---|
| **Strengths** | **Weaknesses** |
| Broad Product Portfolio<br>Robust Operational Network<br>Strong Market Position | Legal Proceedings<br>Substantial Debt Leverage<br>Concentrated Revenue |
| **Opportunities** | **Threats** |
| Growth of Emerging Markets<br>Broadening Product Portfolio<br>Strategic Business Initiatives | Consolidation in Supplier and Customer Industries<br>Legal and Political Framework<br>Highly Competitive Market |
| Source : GlobalData | |

## Financial Performance

The company reported revenues of (U.S. Dollars) USD 8,078.19 million during the fiscal year ended December 2011, an increase of 12.48% over 2010. The operating profit of the company was USD 1,052.43 million during the fiscal year 2011, an increase of 22.31% over 2010. The net profit of the company was USD 658.42 million during the fiscal year 2011, an increase of 28.88% over 2010.

## W.W. Grainger, Inc. - SWOT Analysis

### *SWOT Analysis - Overview*

W.W. Grainger, Inc. (Grainger) is one of the leading broad-line suppliers of facilities maintenance and other related products and services in North America. The company is among the leading broad-line suppliers of facilities maintenance products in the US, Canada, Mexico, China and Panama. Its products are marketed across 157 countries throughout the world. Its broad product portfolio and robust operational presence has enabled it to reduce the risks associated with adverse economic and political developments in any particular region. However, increasing competitive risks could be detrimental to its operations, if the company fails to evaluate them properly.

### *W.W. Grainger, Inc. - Strengths*

#### Strength - Broad Product Portfolio

A broad range of product offerings catering to the needs of various markets reduces the business risks arising from the organization's overdependence on a particular segment. Grainger is a business support services company that conducts the distribution of a wide range of maintenance, repair and operating (MRO) supplies and other associated products and services to a variety of businesses and institutions in the US, Europe, Canada, Latin America, and Asia. The company's product portfolio includes abrasives, adhesives, sealants and tapes; pumps and plumbing supplies; cleaning and maintenance supplies; lighting and electrical products, and electronic appliances and batteries; fasteners; vehicle and fleet maintenance components; janitorial and painting; furniture, hospitality and food services; heating, ventilation, air conditioning and refrigeration supplies; pneumatics and hydraulics; power tools and power transmission supplies; raw materials; safety and security products; and test instruments. For the fiscal year ended December 2011, the safety and security product line contributed 16% to the company's total revenue, followed by material handling with a contribution of 11%, metalworking with 10%, cleaning and maintenance with 9%, pumps, plumbing and test equipment and hand tools with 8% each, HVAC and electrical with 7% each, lighting with a  contribution 6%, specialty brands and other related products with 4% each, power tools and fluid power each with 3% each, and motors and power transmission with a contribution of 2% each. The company also offers various product support services such as emergency services, lighting assessment and consultation, repair and replacement coverage, inventory management, online purchase solutions, facility labeling and sign-marking, prescription safety eyewear program, safety training and equipment services, and hazardous recycling services.

#### Strength - Robust Operational Network

The company's multi-channel business model consists of an integrated network of 711 branches, 28 distribution centers, sales representatives, catalogues, direct marketing media and the Internet to offer over one million products. The company sources its products and services from over 3,500 suppliers and serves approximately two million customers. The company conducts its business in three business segments, namely, the US, Canada and the Others. The US Business segment has operational presence across all 50 states through an integrated network of 368 branches serving counter and will-call product purchases and customer service; and 15 distribution centers. The segment markets its products through a sales force of over 2,700 professionals, catalogue and e-commerce websites (www.grainger.com, www.imperialinc.com, www.supplylink.com, and www.experiencedone.com). The Canada business segment operates through a network of 172 branches and six distribution centers. It markets its products through a French and English language product catalogue and on www.Acklandsgrainger.com. The Other business segment comprises Europe, Latin America and Asia, which operates through 173 branches and seven distribution centers. The segment markets its products through catalogues and websites such as www.fabory.com, www.grainger.com.co, www.grainger.com.mx, www.grainger.com, www.grainger.com.cn, www.graingerindia.com, and www.monotaro.com.

#### Strength - Strong Market Position

Grainger is one of the leading broad-line distributors of repair, maintenance and operating supplies and other associated products and services to a variety of businesses and institutions in the US, Europe, Canada, Latin America and Asia. The company leverages its product availability, sourcing and distribution network, and information technology platform to be the 15th largest e-retailer in the US and Canada. The company has a marketing presence in over 157 countries and has 6% and 8% market share in the US and Canada. In 2012 and 2011, the company also received industry recognition, which underscores its commitment to providing quality products to its clients. In 2012, it was ranked second in Modern Distribution Management's 2012 Industrial Distributors Market Leaders, ranked 73rd in Barron's magazine. In 2011, the company was ranked as America's most admired company among diversified wholesalers by Fortune magazine; and was one among the Fortune's 100 best companies to work for. Such awards provide the company a competitive edge over its competitors.

### *W.W. Grainger, Inc. - Weaknesses*

#### Weakness - Legal Proceedings

The company is a respondent in many lawsuits brought against it by plaintiffs. The company is involved in many cases, which were filed by approximately 1,900 plaintiffs in which there were allegations of exposure to asbestos and silica, as of January 2011. The company is in contract with the United States General Services Administration (the GSA) which is subject to audit by the GSA's Office of the Inspector General. The company received a letter from the Commercial Litigation Branch of the Civil Division of the Department of Justice related to its contract with the GSA. The letter indicated non-compliance of the company with its disclosure obligations and the contract's pricing provisions with the GSA. The company is also party to a contract with the USPS covering the sale of certain janitorial and custodial items. It received a subpoena from the USPS Office of Inspector General seeking information about the company's pricing practices and compliance under the custodial contract. Matters such as these have a negative effect on the company's results of operations, cash flows and financial condition. It could also hamper the image of the company in the public view.

### Weakness - Substantial Debt Leverage

The company reported highly leveraged capital structure, which could affect its expansion and growth plans. The company's debt to equity ratio was reported as 19.65% in 2011. This could be due to the company's huge debt, which stood at $516.56m in 2011. The company secured this debt to meet its working capital and capital expenditure needs. If it fails to comply with any of the debt service requirements, the debt could become due and payable prior to its scheduled maturity. Such huge debt requires the company to dedicate a significant portion of its cash flow from operations to service interest and principal payments. Any reduction in revenue and operating cash flows could hinder the company's ability to repay interest and principal, resulting in default. Hence, such huge debt increases the financial burden on the company, limiting the availability of cash for growth.

### Weakness - Concentrated Revenue

Grainger's overwhelming dependence on the US markets to generate revenue exposes it to the risks associated with operations in a limited territory, and impedes its growth. The company has a presence in over 157 countries including the US, Canada, Belgium, Czech Republic, France, Hungary, the Netherlands, Poland, Romania, Portugal, Slovakia, the UK, Colombia, Costa Rica, Dominican Republic, Mexico, Panama, Puerto Rico, Trinidad, China, India and Japan. However, the company conducts its operations primarily in the US, which exposes it to associated risks. For the fiscal year ended December 2011, the company generated 79.7% of its revenue from the US region. By limiting its operations only to the US, the company exposes itself to increased risk of market volatility. Such concentration would make the company more vulnerable than other competitors, which have greater geographical presence. Grainger has to strategically increase its presence in other geographies to sustain growth and profitability.

## *W.W. Grainger, Inc. - Opportunities*

### Opportunity - Growth of Emerging Markets

The company has an opportunity to register growth by focusing on rapidly developing economies including Brazil, China and India. While the developed countries are struggling with the effects of the economic downturn, the emerging economies are reporting a huge inflow of funds for development. According to the World Bank, the top nine countries (China, Brazil, India, Turkey, South Africa, Mexico, Indonesia, Thailand and Malaysia) account for 63% of the GDP of developing countries. Almost 50% of bond flows, 95% of the portfolio equity flows, and 78% of short-term debt go to the top nine countries. Cross-border flows to the top nine countries are expected to reach in nominal terms $875 billion (3.8% of GDP) by 2012. According to Credit Suisse Research Institute's (CSRI) "Global Market Report", the global wealth held by 4.4 billion adults increased 72% reaching $195 trillion since 2000. Driven by the economic expansion of emerging economies, CSRI estimates that global wealth will grow 60% to $314 trillion by 2015. The middle segment of the global wealth pyramid consists of one billions individuals, who are based in the fast growing economies holding $32 trillion in global wealth. Of the middle segment, Asia Pacific accounts for the 60% or 587 million individuals with China being the third-largest wealth generator in the world only after the US and Japan. Thus, the increasing growth in the emerging economies could open up new revenue sources for the company and decrease the influence of ill effect of economic recession.

### Opportunity - Broadening Product Portfolio

The company has an extensive product portfolio and it continues to aggressively expand its product line. It continued to add new products to its broad line of products. The number of products in Grainger's catalog in the US has tripled over the last five years. In June 2012, the company launched a new edition of its hospitality catalogue which comprises 4,000 new product additions, totaling 12000 products in the areas of housekeeping and janitorial supplies, banquet and foodservice, facility maintenance, lobby office and conference center, fixtures and equipment, safety and security and uniforms, apparel and footwear, and public and guest bathroom. It also launched a public safety catalogue comprising 11,000 products which can be classified into 15 specific public safety categories. In 2012, the Grainger catalog in the US comprised 410,000 facility maintenance and other products in the US; 110,000 products in Canada; 80,000 products in Europe; 59,000 products in China; and 30,000 products in Colombia. In 2010, the company launched a multi-year product line expansion program and featured over 307,000 products in its catalog including 70,000 items over its last year's offering. The company 2011 product catalog includes more than 350,000 maintenance, repair and operating (MRO) products, the company's largest offering. In 2010, its Canadian business added 15,000 products to its catalog, which made a total of 106,000 product offerings in the region. Grainger Mexico's catalog has nearly doubled the number of products over the last four years to 75,000 products. The company's business in Japan offers one million products online. In China, the company offers 59,000 products through online and through a Chinese language catalog. The customer feedback added approximately 70,000 new items across product categories such as cutting tools, shelving and storage, and fleet maintenance products. The company plans to add a number of new products in the future to its already broad offerings to drive incremental sales growth. Such broadening of product portfolio helps the company in attracting new customers, expand its business operations and attain profitability.

### Opportunity - Strategic Business Initiatives

Successful implementation of growth strategies would enable the company to enhance the scope of its business operations and gain substantial market share in the industry. In August 2012, the company launched a free mobile application for Android smart phones and iPhone in North America to provide instant access to over 900,000 products which provide convenience to the maintenance, repair and operations professionals to search for products, check its price and availability. This application would enable efficient working through speedy information gathering and enhanced work flow management. The company also enhanced its Canadian business website for enhanced search and ordering functionality to adapt to the changing environment in the industry. The company opened two new distribution centers in California and Canada to service its expanding product lines and customer base.

The company also grew inorganically to expand its product line and geographical reach. In April 2012, the company acquired AnFreixo S.A., which is a broad line supplier in the MRO market operating in Brazil. The acquisition offers the company a strong entry position to initiate its operations in Brazil, which is the largest MRO market in Latin America. The company also expanded its presence in Quebec, Canada by acquiring the assets of Baie-Comeau industrial distributor Fercomat Inc. which would enable the company to offers its product portfolio to hydroelectricity, mining and aluminum industries. In 2011, the company also acquired Fabory Group, which is a European distributor of fasteners and associated MRO products. Through the acquisition, the company expanded its branch and product portfolio to cater to a large base of customers. These acquisitions help the company broaden the product portfolio and expand the company's reach in existing and new markets, increasing its revenue.

## *W.W. Grainger, Inc. - Threats*

### Threat - Consolidation in Supplier and Customer Industries

The company could be affected by the consolidations that are happening in the customers and suppliers respective industries. With the customer's industries consolidating, the company may have to generate its business from high volume contracts, which could have an adverse affect on the company's earnings. Such consolidation could trigger changes in purchasing policies, which can move large chunks of business among competing industrial distributors, and it also increases the risk that large customers might purchase directly from manufacturers rather than from distributors. Similarly, consolidation in suppliers' business can reduce the company's ability to negotiate on pricing and other commercial terms.

### Threat - Legal and Political Framework

Grainger has operations in various regions of the world. Such operations are exposed to various levels of political, economic, and other risks and uncertainties. These risks and uncertainties vary from country to country and include terrorism, hostage taking, military repression, extreme fluctuations in currency exchange rates, high rates of inflation, labor unrest, the risks of war or civil unrest, expropriation and nationalization, renegotiation or nullification of existing concessions, licenses, permits and contracts, changes in taxation policies, restrictions on foreign exchange and repatriation and changing political conditions, currency controls, and governmental regulations.

### Threat - Highly Competitive Market

Grainger operates in a highly competitive market which could have material impact on the company's sales and revenues. The company is an industrial distributor and offers parts, which are critical to the operations of MRO and OEM customers in a wide range of industries. The company competes with a wide range of global companies with greater sales, assets and financial resources. The competitive factors in the industry include the range and quality of product and service offerings, product availability, price, ease of product selection and ordering, catalogs, online capability, local presence. The company principally competes with Airgas Safety, Fastenal Corporation, HD Supply, K+K America, McMaster-Carr Supply Company, MSC Industrial Direct, Applied Industrial technologies, WESCo International, and many others. If the company is not able to maintain the product quality and consumer loyalty, this intense competition could reduce the sales volume of the company, thereby hampers its market position.

**NOTE:**

* Sector average represents top companies within the specified sector

The above strategic analysis is based on in-house research and reflects the publishers opinion only