

GRAINGER W W INC  
Form 10-Q  
July 31, 2014

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 June 30, 2014  
OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-5684

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

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted 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 and post such files). Yes  No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

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

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 68,395,811 shares of the Company’s Common Stock outstanding as of June 30, 2014.

1

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TABLE OF CONTENTS		Page No.
PART I	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Statements of Earnings for the Three and Six Months Ended June 30, 2014 and 2013	<u>3</u>
	Condensed Consolidated Statements of Comprehensive Earnings for the Three and Six Months Ended June 30, 2014 and 2013	<u>4</u>
	Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013	<u>5</u>
	Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2014 and 2013	<u>7</u>
	Notes to Condensed Consolidated Financial Statements	<u>8</u>
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	<u>13</u>
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	<u>22</u>
Item 4.	Controls and Procedures	<u>22</u>
PART II	OTHER INFORMATION	
Item 1.	Legal Proceedings	<u>22</u>
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	<u>23</u>
Item 6.	Exhibits	<u>23</u>
	Signatures	<u>24</u>
	EXHIBITS	

## PART I – FINANCIAL INFORMATION

## Item 1. Financial Statements

## W.W. Grainger, Inc. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS

(In thousands of dollars, except for share and per share amounts)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2014	2013	2014	2013
Net sales	\$2,506,104	\$2,381,561	\$4,891,731	\$4,661,996
Cost of merchandise sold	1,425,418	1,334,577	2,735,074	2,583,276
Gross profit	1,080,686	1,046,984	2,156,657	2,078,720
Warehousing, marketing and administrative expenses	739,935	696,912	1,461,567	1,385,344
Operating earnings	340,751	350,072	695,090	693,376
Other income and (expense):				
Interest income	413	796	1,053	1,694
Interest expense	(2,757)	(3,201)	(5,620)	(6,367)
Other non-operating income	177	164	345	2,146
Other non-operating expense	(159)	(311)	(830)	(1,405)
Total other expense	(2,326)	(2,552)	(5,052)	(3,932)
Earnings before income taxes	338,425	347,520	690,038	689,444
Income taxes	129,348	126,767	261,906	254,164
Net earnings	209,077	220,753	428,132	435,280
Less: Net earnings attributable to noncontrolling interest	3,162	3,093	5,564	5,782
Net earnings attributable to W.W. Grainger, Inc.	\$205,915	\$217,660	\$422,568	\$429,498
Earnings per share:				
Basic	\$2.97	\$3.08	\$6.08	\$6.07
Diluted	\$2.94	\$3.03	\$6.00	\$5.97
Weighted average number of shares outstanding:				
Basic	68,453,602	69,664,697	68,576,232	69,613,947
Diluted	69,341,885	70,801,050	69,509,125	70,788,203
Cash dividends paid per share	\$1.08	\$0.93	\$2.01	\$1.73

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

## W.W. Grainger, Inc. and Subsidiaries

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS

(In thousands of dollars)

(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30, 2014	2013	June 30, 2014	2013
Net earnings	\$209,077	\$220,753	\$428,132	\$435,280
Other comprehensive earnings (losses):				
Foreign currency translation adjustments, net of tax benefit of \$2,103, \$1,988, \$75 and \$3,517, respectively	23,295	(38,689 )	8,175	(69,800 )
Derivative instruments, net of tax (expense) benefit of \$(1,987), \$(1,862), \$255 and \$(2,994), respectively	3,176	3,657	(386 )	6,035
Other, net of tax (expense) benefit of \$(1,692), \$430, \$(1,051) and \$722, respectively	6,045	(775 )	5,013	(527 )
Comprehensive earnings, net of tax	241,593	184,946	440,934	370,988
Comprehensive earnings (losses) attributable to noncontrolling interest	4,713	(1,221 )	8,594	(5,299 )
Comprehensive earnings attributable to W.W. Grainger, Inc.	\$236,880	\$186,167	\$432,340	\$376,287

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

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

	(Unaudited) June 30, 2014	Dec 31, 2013
<b>ASSETS</b>		
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$331,707	\$430,644
Accounts receivable (less allowances for doubtful accounts of \$21,254 and \$20,096, respectively)	1,177,543	1,101,656
Inventories – net	1,317,467	1,305,520
Prepaid expenses and other assets	112,598	115,331
Deferred income taxes	66,468	75,819
Prepaid income taxes	24,770	15,315
Total current assets	3,030,553	3,044,285
<b>PROPERTY, BUILDINGS AND EQUIPMENT</b>	2,957,430	2,941,090
Less: Accumulated depreciation and amortization	1,708,342	1,732,528
Property, buildings and equipment – net	1,249,088	1,208,562
<b>DEFERRED INCOME TAXES</b>	16,382	16,209
<b>GOODWILL</b>	554,719	525,467
<b>OTHER ASSETS AND INTANGIBLES – NET</b>	460,570	471,805
<b>TOTAL ASSETS</b>	<b>\$5,311,312</b>	<b>\$5,266,328</b>

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

	(Unaudited)	
	June 30, 2014	Dec 31, 2013
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES</b>		
Short-term debt	\$101,617	\$66,857
Current maturities of long-term debt	33,352	30,429
Trade accounts payable	513,829	510,634
Accrued compensation and benefits	160,712	185,905
Accrued contributions to employees' profit sharing plans	93,764	176,800
Accrued expenses	214,479	218,835
Income taxes payable	8,700	6,330
Total current liabilities	1,126,453	1,195,790
LONG-TERM DEBT (less current maturities)	432,485	445,513
DEFERRED INCOME TAXES AND TAX UNCERTAINTIES	112,319	113,585
EMPLOYMENT-RELATED AND OTHER NON-CURRENT LIABILITIES	192,031	184,604
<b>SHAREHOLDERS' EQUITY</b>		
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	54,830	54,830
Additional contributed capital	923,061	893,055
Retained earnings	6,105,729	5,822,612
Accumulated other comprehensive earnings	38,687	28,914
Treasury stock, at cost – 41,263,408 and 40,805,281 shares, respectively	(3,758,016	) (3,548,973
Total W.W. Grainger, Inc. shareholders' equity	3,364,291	3,250,438
Noncontrolling interest	83,733	76,398
Total shareholders' equity	3,448,024	3,326,836
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$5,311,312</b>	<b>\$5,266,328</b>

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

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

	Six Months Ended	
	June 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net earnings	\$428,132	\$435,280
Provision for losses on accounts receivable	4,782	3,783
Deferred income taxes and tax uncertainties	(9,605)	(1,074)
Depreciation and amortization	93,796	80,813
Losses (gains) from sales of assets and write-offs	14,576	(868)
Stock-based compensation	28,988	31,372
Change in operating assets and liabilities – net of business acquisitions and divestitures:		
Accounts receivable	(98,574)	(155,887)
Inventories	(13,497)	57,771
Prepaid expenses and other assets	(4,610)	31,369
Trade accounts payable	2,852	31,472
Other current liabilities	(127,930)	(128,468)
Current income taxes payable	1,601	(2,648)
Employment-related and other non-current liabilities	6,712	8,088
Other – net	1,243	(4,180)
Net cash provided by operating activities	328,466	386,823
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Additions to property, buildings and equipment	(156,210)	(83,175)
Proceeds from sales of property, buildings and equipment	5,416	2,528
Net cash received (paid) for business divestitures (acquisitions)	19,199	(8,234)
Other – net	—	100
Net cash used in investing activities	(131,595)	(88,781)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Borrowings under lines of credit	44,686	105,412
Payments against lines of credit	(64,634)	(114,436)
Net borrowings of commercial paper	54,997	—
Net decrease in long-term debt	(9,538)	(4,845)
Proceeds from stock options exercised	31,816	48,142
Excess tax benefits from stock-based compensation	22,177	41,690
Purchase of treasury stock	(235,847)	(202,400)
Cash dividends paid	(140,885)	(123,549)
Net cash used in financing activities	(297,228)	(249,986)
Exchange rate effect on cash and cash equivalents	1,420	(11,378)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	<b>(98,937)</b>	<b>36,678</b>
Cash and cash equivalents at beginning of year	430,644	452,063
Cash and cash equivalents at end of period	\$331,707	\$488,741