2021 ANNUAL REPORT

GRAINGER®

About Us

W.W. Grainger, Inc. (Grainger or the Company) is a leading broad line distributor with operations primarily in North America, Japan and the United Kingdom. Grainger achieves its purpose, We Keep the World Working,® by serving more than 4.5 million customers worldwide with a wide range of product categories that keep customer operations running and their people safe. The Company also delivers services and solutions, such as technical support and inventory management, to provide tangible value and save customers time and money. Grainger offers more than 2 million maintenance, repair and operating (MRO) products in its High-Touch Solutions assortment and more than 30 million products through its expanding Endless Assortment offering.

2021 Financial Summary

In 2021, Grainger announced the re-segmentation of its business into two reportable segments—High-Touch Solutions North America (N.A.) and Endless Assortment. Grainger operates with a continuous improvement mindset focused on driving growth while maintaining an efficient cost structure, which in turn creates high return on strategic investments.

	High-Touch Solutions N.A.	Endless Assortment	Other[1]	Total Company
Revenue	$10.2B	$2.6B	$0.2B	$13.0B
Daily Sales Growth %[2]	11.3%	19.2%	(34.2)%	11.3%
Adjusted Operating Margin %[2]	13.1%	9.0%	(7.3)%	11.9%
Adjusted ROIC[2]	32.5%	36.0%	N/A	31.9%

[1] Includes Cromwell as well as the divested Fabory and China businesses in periods prior to their divestitures.
[2] Reconciliations of the non-GAAP measures referenced in the table above to the most directly comparable GAAP measures are provide on page 84 of this report.

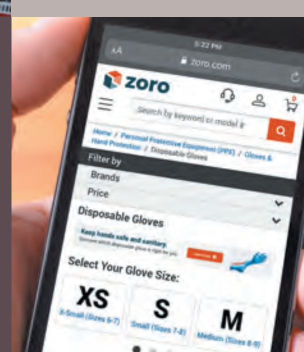
Approximately
24,200
team members

More than
4.5 million
active customers

50
consecutive years of
dividend increases

>30 million
products offered
globally

>75 percent
of orders in the U.S.
originate through
a digital channel



$13.0 billion
in sales in 2021

$695 million
returned to
shareholders through
share repurchases

More than
5,000
key product
suppliers

Grainger's common stock
is listed on the New York
Stock Exchange under
the trading symbol
GWW

The Grainger Edge℠

The Grainger Edge is our strategic framework that defines why we exist, how we serve our customers, and how our team members work together to achieve our objectives. Grainger's purpose, We Keep the World Working,® allows our customers to focus on the core of their businesses and what they do best. This framework also outlines a set of principles that define the behaviors expected from all team members in working with each other and our customers, suppliers and communities as we execute our strategy and create value for shareholders.

Our Purpose

We Keep the World Working®

Our Aspiration

We relentlessly expand our leadership position by being the go-to partner for people who build and run safe, sustainable and productive operations.

Our Strategy

High-Touch Solutions Model

- Advantaged MRO solutions
- Differentiated sales and services
- Unparalleled customer service

Endless Assortment Model

- Expansive product assortment
- Innovative customer acquisition and retention capabilities

Our Principles

- Start with the customer
- Embrace curiosity
- Act with intent
- Compete with urgency
- Win as one team
- Invest in our success
- Do the right thing

Grainger Shareholders:

D.G. Macpherson
Chairman of the Board and
Chief Executive Officer

2021 was both a challenging and rewarding year. While the global pandemic created difficulties for team members, customers and the supply chain, Grainger stayed committed to our purpose — *We Keep the World Working.* Living our purpose and guided by our principles, we demonstrated we can thrive in challenging times.

Our customers trust Grainger to keep their operations running and their people safe. They rely on us to provide the right products, manage their inventory and solve their problems. They expect Grainger to deliver independent of the labor, freight and inflationary pressures that were the hallmarks of 2021. Throughout the year, Grainger's 24,200 team members continued to demonstrate resiliency, agility and strength by remaining relentlessly focused on our customers and building our company for the future. Over the last year we:

- Leveraged our supply chain scale to deliver strong service and invested in inventory to meet strong demand. Our customer satisfaction remained high throughout the year.
- Increased team member wages, ensuring our distribution centers and service teams were staffed to serve customers effectively.
- Advanced our strategic initiatives to drive short- and long-term growth.

In our High-Touch Solutions North America segment:

- Remerchandised $1.5 billion of the assortment, continuing to make it easier for customers to navigate Grainger.com and find the products they need quickly and with confidence. That brings our total remerchandised assortment to $4.4 billion.
- Enhanced marketing effectiveness and improved brand recognition.
- Improved our onsite service offering to better serve customer inventory management needs by providing valuable insights that save time and money.
- Leveraged our new product information, publishing, customer information and marketing systems to gain share.

In our Endless Assortment segment:

- Added over 2.5 millions SKUs at Zoro in 2021, bringing the total assortment to 8.7 million SKUs available in the U.S. We expanded into new categories and new customer segments, driving both new and repeat business.
- Opened the Ibaraki distribution center in Japan, allowing MonotaRO to stock more high-demand items locally. Another new DC is planned in 2022 to support MonotaRO's growth.

At the Total Company level, we delivered very strong financial results including[1]:

- Sales of $13.0 billion, up 12.4% from 2020 on an organic, constant currency basis;
- Market outgrowth of 450 bps in the U.S., on a two-year average;
- Adjusted operating margin of 11.9%, reflecting strong SG&A leverage;
- Adjusted earnings per share were $19.84, up 22.6%;
- Strong and improved adjusted ROIC of 31.9% for the company; and
- Over $1.0 billion in cash returned to shareholders in the form of $695 million in share repurchases and $357 million in dividends paid.

[1] Reconciliations of the non-GAAP measures referenced above to the most directly comparable GAAP measures are provided on page 84 of this report.

2021 also marked our eleventh year publishing our corporate responsibility report. We received recognition throughout the year for our efforts including being listed for the ninth time on *Fortunes* Most Admired Companies, and for the sixth time on the Dow Jones Sustainability Index for North America. Last year we further elevated the importance of corporate responsibility through the development of our Environmental, Social and Governance (ESG) Leadership Council, which I chair. We reviewed and updated our materiality matrix to ensure our priorities are aligned to those of our stakeholders, identifying four core areas of focus: Customer Sustainability Solutions; Diversity, Equity and Inclusion; Energy and Emissions; and Supplier Diversity. In 2022, we are testing a notional compensation program designed to determine what ESG metrics and outcomes might be appropriate components in our future executive compensation program. You will be able to read more about our efforts in our upcoming corporate responsibility report which we expect will be available this summer.

In 2022, we are focused on the following three core priorities as we aim to continue serving our customers better than anyone else, grow market share profitably, and make Grainger a great place to work.

- Execute on our growth drivers that provide customers with both a flawless experience and tangible value to help them operate safely and effectively.
- Drive operational excellence and productivity to keep the Company healthy and enable future investments in the business.
- Strengthen our culture and team by focusing on talent development at all levels of the organization.

Our 2022 plan is to continue navigating short-term challenges while building for the future. In the coming year, we expect growth of 6.5 to 9.5% in our High-Touch Solutions N.A. segment and growth in the high teens in our Endless Assortment segment. Our HTS-NA growth is supported by expected U.S. market outgrowth of 3 to 4%.

We expect to achieve these goals while making strong progress on our long-term ESG objectives and strengthening our culture. We understand that all team members play an important role in making Grainger a welcoming and invigorating workplace that embraces new ways of thinking and respects everyone as an individual. In 2022, we will continue with our diversity efforts by launching dedicated training for all leaders to build inclusive teams and for all team members to create a sense of belonging. When we do the right things the right way, we benefit not just Grainger but the communities where we live and work.

I would like to take this opportunity to recognize Brian Anderson for being a trusted advisor and contributor, serving on Grainger's Board for 23 years. Brian has decided to retire from the board. The Company has benefited from his thoughtful service, and he will be missed. I want to thank Brian for his dedication and service.

I am tremendously proud of what we've achieved over the last year and want to thank our team members for their commitment, as well as our suppliers, transportation partners and other stakeholders for their shared passion in supporting our customers. As I look to 2022 and Grainger's 95th year in business, I am confident in our team and am optimistic about the future. It is always a privilege to help our customers keep their people safe and their operations running and we have the capabilities, knowledge and commitment to do just that and lead this industry for years to come.

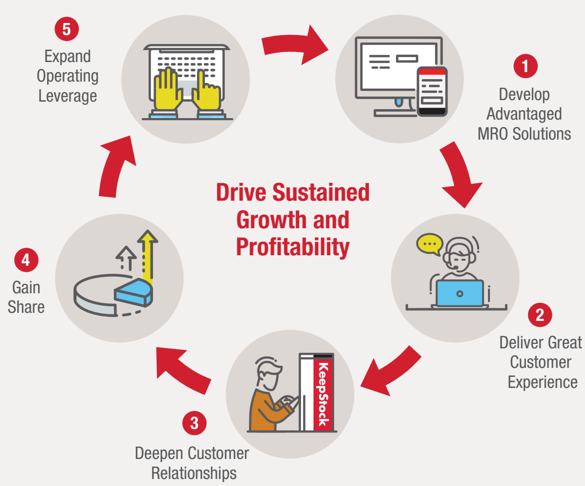
D.G. Macpherson
Chairman of the Board and Chief Executive Officer
February 23, 2022

Business Models

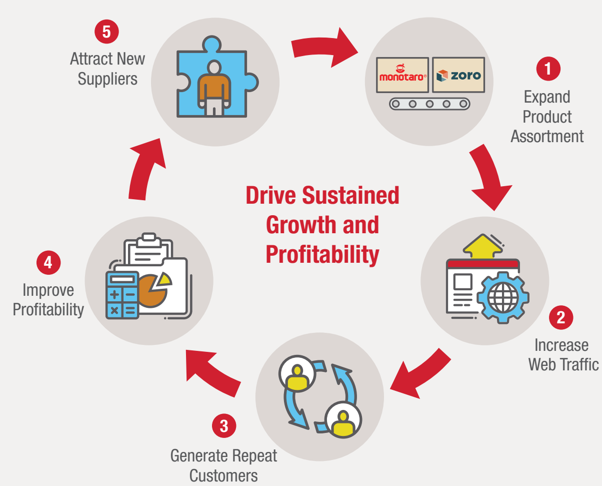
Both business models are focused on creating value for their individual customers, using their superior customer value propositions. The Company's strategy has always been defined by its customers' needs, and Grainger uses its high-touch solutions and endless assortment models to serve customers of all sizes.

HIGH-TOUCH SOLUTIONS		ENDLESS ASSORTMENT
▪ Typically, larger businesses ▪ Multifaceted purchasing and processing complexities ▪ Expert product and service depth and breadth ▪ Focused on total cost of ownership	**CUSTOMER PROFILE "WHO"**	▪ Typically, smaller businesses ▪ Easier-to-navigate procurement process ▪ Straight-forward product and service needs ▪ Focused on streamlined, transparent pricing
Advantaged MRO Solutions ▪ MRO-focused assortment ▪ Deep product and customer expertise ▪ Superior digital platform **Differentiated Sales and Service** ▪ Sales and on-site services deliver expertise and help customers manage inventory **Unparalleled Customer Service** ▪ Focus on quick and complete orders ▪ No-hassle invoicing and returns	**CUSTOMER VALUE PROPOSITION "WHAT"**	**Expansive Product Assortment** ▪ Extended product range covering broad business categories ▪ Competitive pricing **Innovative Customer Experience** ▪ Efficient, business-focused e-commerce platform ▪ Intelligent analytics capabilities ▪ Advantaged fulfillment

Leveraging industry-leading position and capabilities to gain share profitably.



Continue executing strategic playbook to drive strong top-line growth.



BEST-IN-CLASS SUPPLY CHAIN | STRONG FINANCIAL POSITION | STRONG CULTURE AND ESG LEADERSHIP | DEEP INDUSTRY AND FUNCTIONAL KNOW-HOW

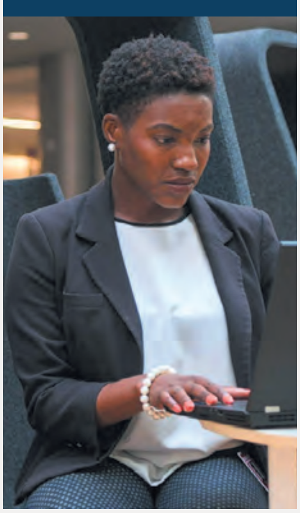
Environmental, Social and Governance

Grainger's corporate responsibility platform supports the needs of our customers, team members, suppliers, investors and communities. We're committed to address the most critical environmental, social and governance issues across these key categories.

OUR COMMITMENT

ETHICS & GOVERNANCE

- Our Corporate Responsibility strategy and direction is led by our ESG Leadership Council, which is chaired by D.G. Macpherson. This Council provides strategic direction and oversight and incorporates relevant ESG initiatives into the business operations and strategy.



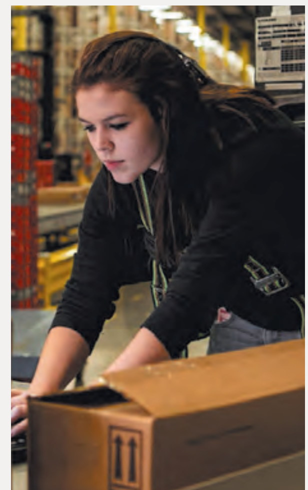
PEOPLE & PURPOSE

- Our authentic, inclusive culture extends from our customers to our team members and local communities.
- In 2019, D.G. Macpherson signed The Chicago Network Equity Principles pledge, which focuses on advancing women into senior leader roles.
- Nine business resource groups organized to celebrate diversity and encourage understanding and inclusion.
- >$96M cash and product donations to nonprofit groups.

SUSTAINABILITY & STEWARDSHIP

- Grainger works to continuously improve the environmental performance of our operations, solutions and products.
- We embrace climate change action and plan to reduce our absolute scope 1 and scope 2 emissions by 30% by 2030, using a 2018 baseline.*

* *North American facilities only*



SUPPLY CHAIN

- We recognize our duty to ensure our supply chain operates responsibly, while providing the best support and resources to our suppliers and customers.
- We work with thousands of suppliers to stock 1.5 million products to maintain, repair and operate facilities.

For more information on Grainger's Corporate Responsibility initiatives, see the annual CSR report available at www.GraingerESG.com

Awards and Recognition

Grainger is honored to be recognized by influential publications and organizations around the world as a responsible company and a top place to work.

DiversityInc 2021 TOP REGIONAL COMPANIES

Great Place To Work. Certified JUN 2021-JUN 2022 USA

HUMAN RIGHTS CAMPAIGN FOUNDATION BEST PLACES TO WORK 2021 for LGBTQ Equality 100% CORPORATE EQUALITY INDEX

100% score for the seventh straight year

BIG50 2021 INDUSTRIAL DISTRIBUTION

Number 1
Industrial Distribution's
Big 50 List 2021

FTSE4Good

Sustainability Yearbook
Member 2022
S&P Global

LinkedIn TOP 2021 COMPANIES Chicago

DEI BEST PLACE TO WORK FOR DISABILITY INCLUSION 2021 90% DISABILITY EQUALITY INDEX

2021 high score for
best place to work

INVESTOR'S BUSINESS DAILY 2020 BEST ESG COMPANIES ENVIRONMENTAL, SOCIAL & GOVERNANCE TOP 50

Investor's Business Daily 50
Best ESG Companies 2020

CDP

B

CDP rating for 2021

builtin 2021 BEST PLACES TO WORK CHICAGO

Built in 2021
Best Places to Work Chicago

SILVER 2020 ecovadis Sustainability Rating

EcoVadis Silver Rating
in 2020

Member of
Dow Jones
Sustainability Indices
Powered by the S&P Global CSA

BARRON'S 100 MOST SUSTAINABLE COMPANIES

#28 ranking among
Top 100 Most Sustainable Companies

MSCI

ESG rating of
AAA
in 2021 and 2020

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 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	**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)

Registrant's telephone number, including area code: (847) 535-1000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on Which Registered
Common Stock	GWW	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes ☐ No ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

The aggregate market value of the voting common equity held by non-affiliates of the registrant was $20,483,168,550 as of the close of trading as reported on the New York Stock Exchange on June 30, 2021. The Company does not have nonvoting common equity.

The registrant had 51,107,898 shares of the Company’s Common Stock outstanding as of February 11, 2022.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement to be filed in connection with the annual meeting of shareholders to be held on April 27, 2022, are incorporated by reference into Part III of this Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (Form 10-K) where indicated. The registrant's definitive 2021 proxy statement will be filed on or about March 17, 2022.

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PART I

Item 1: Business

W.W. Grainger, Inc., incorporated in the State of Illinois in 1928, 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 “Grainger” or “Company” 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.

For financial information regarding the Company, see the Consolidated Financial Statements and Notes included in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

The Grainger Edge

Grainger's framework, “The Grainger Edge,” uniquely defines the Company by asserting why it exists, how it serves customers and how team members work together to achieve its objectives. Grainger’s purpose is to keep the world working, which in turn allows customers to focus on the core of their businesses and do what they do best.

This framework also outlines a set of principles that define the behaviors expected from Grainger’s team members in working with each other and the Company's customers, suppliers and communities as Grainger executes its strategy and creates value for shareholders. For further information on the Company's principles, see below "Workplace Practices and Policies."

General

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 of high-touch solutions and endless assortment. For further segment information, see Part II, Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) and Note 14 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

Below is a description of Grainger’s reportable segments and other businesses.

High-Touch Solutions N.A.

The Company's High-Touch Solutions N.A. segment provides value-added MRO solutions that are rooted in deep product knowledge and customer expertise. The high-touch solutions model serves customers with complex buying needs. This segment includes the Grainger-branded businesses in the United States (U.S.), Canada, Mexico and Puerto Rico.

Endless Assortment

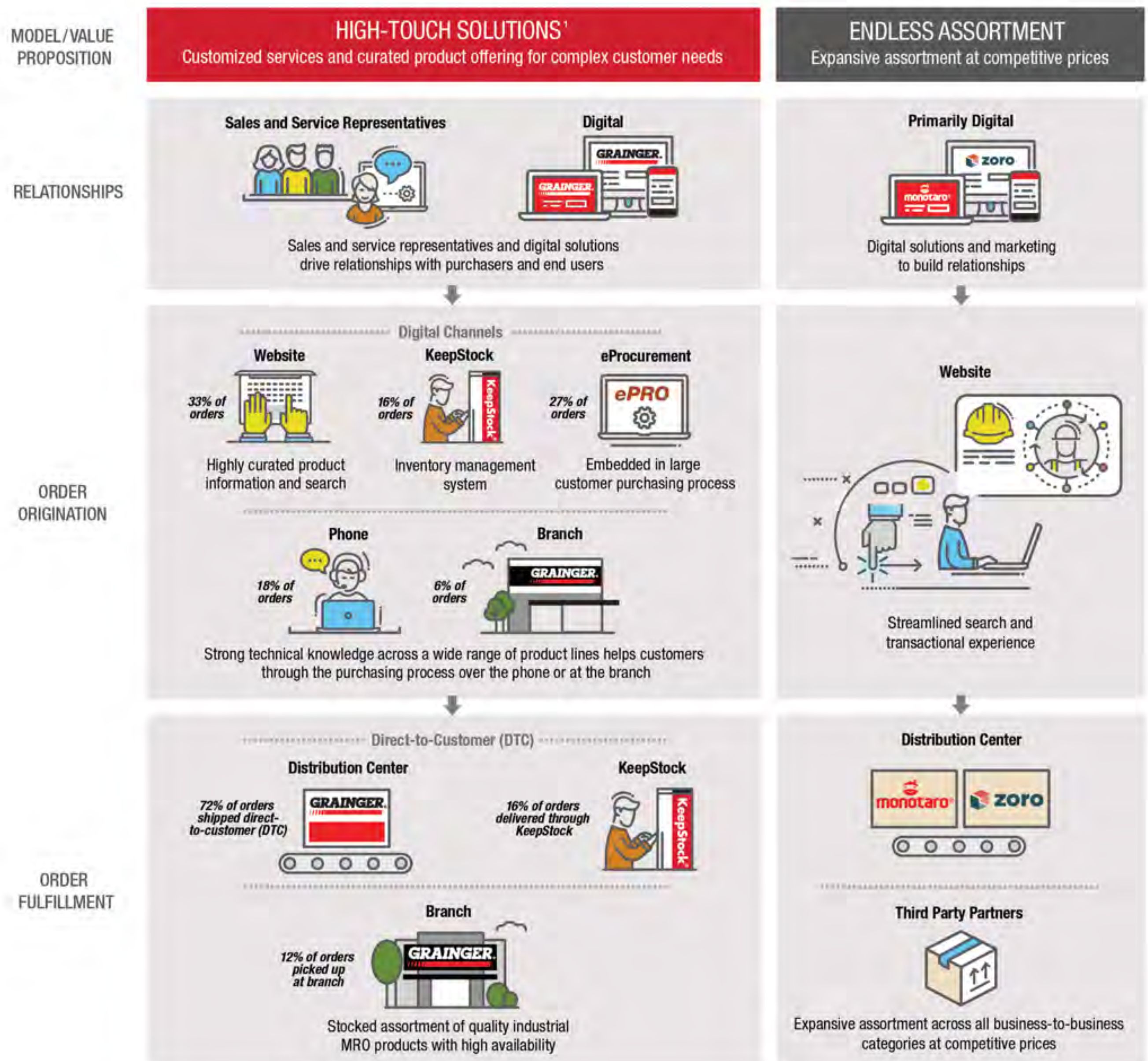
The Company’s Endless Assortment segment provides a streamlined and transparent online platform with one-stop shopping for millions of products. The Endless Assortment segment includes the Company’s Zoro Tools, Inc. (Zoro) and MonotaRO Co., Ltd. (MonotaRO) online channels which operate predominately in the U.S., U.K. and Japan.

Other

Other businesses is comprised of smaller international high-touch solutions businesses primarily in the U.K., as well as the Fabory and China businesses in the periods prior to their divestitures in the second and third quarter of 2020, respectively. These businesses individually and in the aggregate do not meet the criteria of a reportable segment. For further business divestitures and liquidation information, see Note 2 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

Business Models

Competing with both high-touch solutions and endless assortment business models allows Grainger to leverage its scale and advantaged supply chain to meet the changing needs of its customers. The following provides a high-level view of the Company's business models:



[1] Order origination and fulfillment data provided is for the U.S. High-Touch Solutions business as of December 31, 2021.

Customers

The Company uses a combination of its two business models to serve its more than 4.5 million customers worldwide which rely on Grainger for products and services that enable them to run safe, sustainable and productive operations. Grainger's customers range from smaller businesses to large corporations, government entities and other institutions, representing a broad collection of industries, including, but not limited to commercial, healthcare, and manufacturing. No single end customer accounted for more than 3% of total sales for the year ended December 31, 2021.

In the High-Touch Solutions N.A. segment, customers are typically large enterprises with multi-faceted purchasing and processing complexities. Customers served in this segment expect product and service depth and are focused on total cost of procurement. For customers with sophisticated electronic purchasing platforms, the segment utilizes eProcurement technology that allows these systems to communicate directly with Grainger.com. Sales and service representatives drive relationships with customers by helping select the right products and reducing costs by utilizing Grainger as a consistent source of supply. KeepStock®, Grainger's inventory management solution, serves customers on site, offering valuable insights to drive efficiencies and cost savings. The North American Customer Service Centers handle customer interactions for the region via phone, email, eCommerce portals and online chat.

In the Endless Assortment segment, customers are typically smaller businesses with straight-forward product and service needs. Additionally, MonotaRO continues to attract and retain large enterprise customers. Customers purchasing through the endless assortment platforms are focused on transparent pricing and an easy-to-navigate procurement process. MonotaRO and Zoro offer an innovative customer experience by allowing customers to quickly find competitively priced products through intuitive business-focused eCommerce platforms with intelligent analytic capabilities.

Products

Grainger's product offering is grouped under several broad categories, including safety and security, material handling and storage, pumps and plumbing equipment, cleaning and maintenance, metalworking and hand tools. Products are regularly added and removed from Grainger's product lines based on customer demand, market research, suppliers' recommendations and other factors. No single product category comprised more than 18% of the Company's sales for the year ended December 31, 2021.

In the High-Touch Solutions N.A. segment, Grainger.com provides real-time price and product availability, detailed product information and features, such as product search and compare capabilities. Collectively, this segment offers more than 2 million products.

In the Endless Assortment segment, Grainger offers an expansive product assortment and a broad, extensive product range that contains millions of products including those outside of traditional industrial MRO categories. Collectively in the U.S. and U.K., Zoro offers approximately 10 million products and MonotaRO provides access to more than 20 million products, primarily through its websites and catalogs. The endless assortment businesses continue to enhance assortment by strategically adding products and expanding the offer of third party held products.

Distribution and Sources of Supply

In the large and fragmented MRO industry, Grainger holds an advantaged position with its supply chain infrastructure and broad in-stock product offering. Approximately 5,000 suppliers worldwide provide Grainger businesses with more than 1.5 million products stocked in Distribution Centers (DCs) and branches globally. No single supplier comprised more than 5% of Grainger's total purchases for the year ended December 31, 2021.

In the High-Touch Solutions N.A. segment, DCs are the primary order fulfillment channel, mainly through direct shipments to customers. Automation in the DCs allows most orders to ship complete with next-day delivery and replenish branches that provide same-day availability to customers. Grainger's North American distribution network supplies inventory planning and management, transportation and distribution services to all Grainger businesses in the North American region. Branches serve the immediate needs of customers by allowing them to directly pick up items and leverage branch staff for their technical product expertise and search-and-select support. Additionally, Grainger offers comprehensive inventory management through its KeepStock® program that includes vendor-managed inventory, customer-managed inventory and onsite vending machines.

In the Endless Assortment segment, orders are placed primarily through online channels. Zoro leverages the High-Touch Solution N.A.'s DCs and third-party drop shipments to deliver products to customers. MonotaRO fulfills customer orders through local DCs and third-party drop shipments.

For further information on the Company's properties, see Part I, Item 2: Properties of this Form 10-K.

Trademarks and Service Marks

Grainger conducts business under various trademarks and service marks. Approximately 19% of 2021 sales were private label MRO items bearing Grainger's registered trademarks, including DAYTON®, SPEEDAIRE®, AIR HANDLER®, TOUGH GUY®, WESTWARD®, CONDOR® and LUMAPRO®. Grainger also provides a suite of inventory services to its customers under the KEEPSTOCK® brand, which is a registered service mark. Grainger has taken steps to protect these service marks and trademarks against infringement and believes they will remain available for future use in its business.

Seasonality

Grainger sells products that may have seasonal demand fluctuations during the winter or summer seasons or during periods of natural disasters. However, historical seasonality impacts have not been material to Grainger's operating results.

Competition

Grainger faces competition from a variety of competitors, including manufacturers (including some of its own suppliers) that sell directly to certain segments of the market, wholesale distributors, retailers and internet-based businesses. Also, competitors vary by size, from large broad line distributors and eCommerce retailers to small local and regional competitors. Grainger differentiates itself by providing local product availability, a broad product line, sales and service representatives and advanced electronic and eCommerce technology. Grainger also offers other services, such as inventory management and technical support.

Government Regulations

Grainger's business is subject to a wide array of laws, regulations and standards in each domestic and foreign jurisdiction where Grainger operates. In addition to Grainger's U.S.-based operations, which in 2021 generated approximately 79% of its consolidated net sales, Grainger operates its business principally through wholly owned subsidiaries in Canada, Mexico and the U.K., and through its majority-owned subsidiary in Japan. Compliance with these laws, regulations and standards requires the dedication of time and effort of team members as well as financial resources. In 2021, compliance with the applicable laws, regulations and standards did not have a material effect on capital expenditures, earnings or competitive position. See Part I, Item 1A: Risk Factors of this Form 10-K for a discussion of the risks associated with government regulations that may materially impact Grainger.

Human Capital

The Company strongly believes that its corporate culture must be aligned with its business strategy and aspiration to create value. To that end, Grainger's Board of Directors and senior management are actively involved in cultivating Grainger's culture. The Compensation Committee of the Board, which is comprised of independent directors, oversees the Company's human capital management programs and policies and routinely provides updates to the Board.

Grainger believes that a purpose-driven culture is an asset that creates a sustainable, competitive advantage for the Company. Building on its strong foundation while evolving a framework to address future challenges is critical to Grainger's continued success. Grainger has been consistently recognized for its commitment to its culture, diversity, equity and inclusion efforts and employee engagement.

Team Member Profile

As of December 31, 2021, Grainger had approximately 24,200 team members worldwide, of whom approximately 22,700 were full-time and 1,500 were part-time or temporary. Approximately 86% of these team members resided in North America, 8% in Asia and 6% in Europe. Grainger has not experienced any major work stoppages and considers team member relations to be good.

Workplace Practices and Policies

The Company has in place a strategic framework, The Grainger Edge, which outlines a set of principles that define the behaviors expected from Grainger's team members in working with each other and the Company's customers, suppliers and communities. This framework helps the Company execute its strategy and create value for shareholders.

The Grainger Edge principles also guide the Company’s actions supporting health and safety, diversity, equity and inclusion, and team member experience, including talent acquisition and team member retention, development and compensation and benefits. The Grainger Edge principles are:

- Start with the Customer
- Embrace Curiosity
- Act with Intent
- Compete with Urgency
- Win as One Team
- Invest in our Success
- Do the Right Thing

Grainger’s culture and principles help the Company attract, retain, motivate and develop its workforce and help drive team member engagement. The Company believes an engaged workforce leads to a more innovative, productive and profitable company and measures team member engagement on an ongoing basis. The results from engagement surveys are used to identify and then implement programs and processes designed to enhance the inclusive culture Grainger aspires to achieve.

Health and Safety

Grainger strives to provide a safe work environment and ensuring team members are properly prepared to perform the many tasks required to support customers. The Company’s Environmental, Health and Safety (EHS) program is designed to integrate EHS into Grainger’s business operations and comply with applicable regulations. To that end, the Company requires each of its locations to perform regular safety audits to confirm proper safety policies, programs, procedures and training are in place.

The Company is focused on promoting a culture of safety and education. Operational team members must complete routine training to fully understand the expectation of behaviors defined by the Company’s global EHS policy. Managing and reducing risks at DCs and other facilities remain a core objective and injury rates continue to be low. In 2021, the Company’s Occupational Safety and Health Administration (OSHA) Total Recordable Incident Rate in the U.S. was 1.2 and the Company’s Lost Time Incident Rate in the U.S. was 0.3 based upon the number of incidents per 100 team members (or per 200,000 work hours).

The Company has a proactive response to the coronavirus (COVID-19) pandemic via a task force that helps to ensure the Company’s actions around team members and facilities meet the rigorous guidelines from the Center for Disease Control and World Health Organization, as well as maintaining compliance with state and local health guidelines.

To further support team members' well-being, the Company enhanced its benefit offerings to provide greater access to mental, financial and physical health resources.

Diversity, Equity and Inclusion

Grainger believes a diverse talent pipeline is essential to live its principles, foster innovation, build high-performing teams and drive business results. The Company understands that future business success requires a mix of current and new skill sets, multiple experiences, and a diversity of backgrounds and perspectives, and strives to reflect this priority in its hiring, retention and promotion practices. The Company aspires to increasingly promote a welcoming, inclusive culture that values all people – regardless of sex, gender, race, color, religion, national origin, age, disability, veteran status, sexual orientation, gender expression or experiences – through recruiting outreach, internal networking, business resource groups and mentoring programs.

Grainger's commitment to diversity, equity and inclusion starts at the top. The Company’s Board of Directors is comprised of approximately 31% female and 31% racially and ethnically diverse directors. Grainger also maintains this strong commitment with the CEO's leadership team and throughout the organization. The CEO's leadership team is comprised of approximately 43% women and approximately 29% racially and ethnically diverse leaders. As of December 31, 2021, within Grainger’s U.S. workforce, approximately 39% of team members were women and approximately 37% of team members were racially and ethnically diverse.

Talent Acquisition, Retention and Development

Grainger believes that a great customer experience starts with a great team member experience. The Company is committed to providing team members with resources designed to help them succeed. Grainger focuses on creating opportunities for team member growth, development and training, including offering a comprehensive talent program that continues throughout a team member’s career. This talent program is comprised of performance management, career management, professional development learning opportunities and milestone leadership development programs.

Compensation and Benefits

Grainger believes that its future success is highly dependent upon the Company’s continued ability to attract, retain and motivate team members. As part of its efforts in these areas, the Company offers competitive compensation and benefits to meet the diverse needs of team members and support their health and well-being, financial future and work-life balance. Team members are given access to health plan resources which include 24-hour virtual health services, disease management, tobacco cessation, parental support, stress management and weight loss programs with access to online support communities. In addition, Grainger provides retirement savings, paid holidays and time off, educational assistance and income protection benefits as well as a variety of other programs.

Available Information

Grainger makes available free of charge, through its website, http://www.invest.grainger.com, its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to those reports as soon as reasonably practicable after these materials are electronically filed with, or furnished to, the U.S. Securities and Exchange Commission (SEC). The content of Grainger’s website is not incorporated by reference into this Form 10-K or in any other report or document filed with the SEC, and any references to Grainger’s website are intended to be inactive textual references only. The SEC also maintains a website at http://www.sec.gov that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC.

Information about Executive Officers

Following is information about the Executive Officers of Grainger, including age, as of January 31, 2022. Executive officers of Grainger generally serve until the next annual appointment of officers, or until earlier resignation or removal.

Name and Age	Positions and Offices Held and Principal Occupation and Employment
Kathleen S. Carroll (53)	Senior Vice President and Chief Human Resources Officer, a position assumed in December 2018. Previously, Ms. Carroll served as Executive Vice President, Chief Human Resources Officer of First Midwest Bancorp, Inc., a diversified financial services company, from 2017 to 2018. Prior to that role, Ms. Carroll was employed at Aon Corporation, a global insurance brokerage and consulting company, between 2006 and 2017 in various human resources roles, culminating in her position as Vice President, Global Head of Talent Acquisition.
John L. Howard (64)	Senior Vice President and General Counsel, a position assumed in January 2000. Previously, Mr. Howard served in several roles of increasing responsibility at Tenneco, Inc., a global conglomerate. Prior to those roles, Mr. Howard held a variety of legal positions in the federal government, including Associate Deputy Attorney General in the U.S. Department of Justice and in The White House as Counsel to the Vice President.
D.G. Macpherson (54)	Chairman of the Board, a position assumed in October 2017, and Chief Executive Officer, a position assumed in October 2016 at which time he was also appointed to the Board of Directors. Previously, Mr. Macpherson served as Chief Operating Officer, a position assumed in 2015, Senior Vice President and Group President, Global Supply Chain and International, a position assumed in 2013, Senior Vice President and President, Global Supply Chain and Corporate Strategy, a position assumed in 2012, and Senior Vice President, Global Supply Chain, a position assumed in 2008. Prior to Grainger, Mr. Macpherson served as Partner and Managing Director at Boston Consulting Group, a global management consulting firm.
Deidra C. Merriwether (53)	Senior Vice President and Chief Financial Officer, a position assumed in January 2021. Previously, Ms. Merriwether served as Senior Vice President, and President, North American Sales & Services, a position assumed in November 2019, Senior Vice President, U.S. Direct Sales and Strategic Initiatives, a position assumed in September 2017, Vice President, Pricing and Indirect Procurement, a position assumed in 2016 and as a Vice President in Finance from 2013 to 2016. Prior to Grainger, Ms. Merriwether held various positions as a Vice President, including positions of increasing responsibility at Sears Holdings Corporation, a broadline retailer, PriceWaterhouseCoopers, a global professional services firm, and Eli Lilly & Company, a global pharmaceutical company.
Paige K. Robbins (53)	Senior Vice President and President, Grainger Business Unit, a position assumed in January 2021. Previously, Ms. Robbins served as Senior Vice President and Chief Technology, Merchandising, Marketing, and Strategy Officer, a position assumed in November 2019, as Senior Vice President and Chief Merchandising, Marketing, Digital, Strategy Officer, a position assumed in May 2019, as Senior Vice President and Chief Digital Officer, a position assumed in September 2017, and as Senior Vice President, Global Supply Chain, Branch Network, Contact Centers and Corporate Strategy, a position assumed in 2016. Since joining Grainger in September 2010, Ms. Robbins has held various positions as a Vice President, including in the areas of Global Supply Chain and Logistics. Prior to Grainger, Ms. Robbins served as Partner and Managing Director at Boston Consulting Group, a global management consulting firm.
Laurie R. Thomson (48)	Vice President, Controller and principal accounting officer, a position assumed in May 2021. Previously, Ms. Thomson served as Vice President, Internal Audit and Finance Continuous Improvement of the Company, a position assumed in November 2019, Vice President, Internal Audit from October 2016 to November 2019, Senior Director, Finance from June 2011 to September 2016, and Director, Internal Audit from February 2008 to June 2011. Ms. Thomson is a certified public accountant and prior to Grainger served as Director, Internal Audit at CVS Health Corporation, a pharmacy healthcare provider, and Audit Manager at Arthur Andersen LLP, a professional services firm.

Item 1A: Risk Factors

The following is a discussion of significant risk factors relevant to Grainger’s business that could adversely affect its financial condition, results of operations and cash flows. The risk factors discussed in this section should be considered together with information included elsewhere in this Annual Report on Form 10-K and should not be considered the only risks to which the Company is exposed.

Industry and Market Risks

Grainger’s business and operations have been and may continue to be adversely affected by the global outbreak of the Coronavirus and its variants, including the Delta variant, the Omicron variant and any other variants that may emerge (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. Among other things, Grainger experienced customer disruptions, including their ability or willingness to purchase products, delays in making purchasing decisions, and shifts in the types and quantities of products purchased. These may recur 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 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, increased shipping costs, constraints on the availability of products, and labor shortages, which have impacted Grainger’s ability to hire employees to fill all open positions. The potential for further disruptions from the COVID-19 pandemic, including closures of customer and supplier facilities remains. 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 increase Grainger’s 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 adaptions to its controls and procedures that could impact their design or operating effectiveness. The COVID-19 pandemic has also resulted in increased variable compensation, wage rates and employee healthcare costs, which adversely affect net earnings, and Grainger expects these trends to continue.

Furthermore, as a result of surges in demand and disruptions in supply chains, including in Asia and other locations, from time to time, the COVID-19 pandemic has resulted in shortages of certain PPE, cleaning supplies and other products. These shortages have impacted and in the future may continue to 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 caused Grainger to acquire excess inventory, which led to additional inventory carrying costs and inventory obsolescence, and similar results may occur in the future. For example, in each of its first two fiscal quarters of 2021 as discussed in its corresponding Quarterly Reports on Form 10-Q, the Company had 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.

From time to time, product shortages have also required the Company 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 reputational and 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 and supply chain challenges. Any such recession could result in a significant decline in access to products, demand for the Company’s products or limit Grainger’s ability to access capital markets, 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 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, Omicron 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 is covered by vaccine mandates imposed under President Biden's September 9, 2021 executive order. Complying with these requirements or other potential government mandates could disrupt the workforce and operations and impose additional compliance and other costs. Other requirements, including health and safety measures such as social distancing and mask 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.

Inflation could cause Grainger's operating and administrative expenses to grow more rapidly than net sales, which could result in lower gross margins and lower net earnings.

Market variables, such as inflation of product costs, labor rates and fuel, freight and energy costs, could increase potentially causing the Company to be unable to manage its operating and administrative expenses in a way that would enable it to leverage its revenue growth into higher net earnings. In addition, Grainger's inability to pass on such increases in costs to customers in a timely manner, or at all, could cause Grainger's operating and administrative expenses to grow, which could result in lower gross profit margins and lower net earnings.

Disruptions in Grainger’s supply chain could result in an adverse impact on results of operations.

The occurrence of one or more natural or human induced disasters, including earthquakes, storms, hurricanes, floods, fires, droughts, tornados and other extreme weather; pandemic diseases or viral contagions such as the COVID-19 pandemic; geopolitical events, such as war, civil unrest or terrorist attacks in a country in which Grainger operates or in which its suppliers are located; and the imposition of measures that create barriers to or increase the costs associated with international trade could result in disruption of Grainger’s logistics or supply chain network. For example, the outbreak of the COVID-19 pandemic has disrupted and may continue to disrupt the operations of the Company and its suppliers and customers. Customer demand for certain products has also fluctuated as the pandemic has progressed, which has challenged Grainger's ability to anticipate and/or procure product to maintain inventory levels to meet that demand. These factors have resulted in higher out-of-stock inventory positions in certain products as well as delays in delivering those products to the Company's distribution centers, branches or customers, and similar results may occur in the future. Even when Grainger is able to find alternate sources for certain products, they may cost more or require the Company to incur higher transportation costs, which could adversely impact the Company's profitability and financial condition. Any of these circumstances could impair Grainger's ability to meet customer demand for products and result in lost sales, increased supply chain costs, penalties or damage to Grainger's reputation. Grainger’s ability to provide same-day shipping and next-day delivery is an integral component of Grainger’s business strategy and any such disruption could adversely impact results of operations and financial performance.

Weakness in the economy, market trends and other conditions affecting the profitability and financial stability of Grainger’s customers could negatively impact Grainger’s sales growth and results of operations.

Economic, political and industry trends affect Grainger’s business environments. Grainger serves several industries and markets in which the demand for its products and services is sensitive to the production activity, capital spending and demand for products and services of Grainger’s customers. Many of these customers operate in markets that are subject to cyclical fluctuations resulting from market uncertainty, trade and tariff policies, costs of goods sold, currency exchange rates, central bank interest rate fluctuations, economic downturns, recessions, foreign competition, offshoring of production, oil and natural gas prices, geopolitical developments, labor shortages, inflation, natural or human induced disasters, extreme weather, outbreaks of pandemic disease such as the COVID-19 pandemic, inflation, deflation, and a variety of other factors beyond Grainger’s control. Any of these factors could cause customers to idle or close facilities, delay purchases, reduce production levels, or experience reductions in the demand for their own products or services.

Any of these events could also reduce the volume of products and services these customers purchase from Grainger or impair the ability of Grainger’s customers to make full and timely payments and could cause increased pressure on Grainger’s selling prices and terms of sale. Accordingly, a significant or prolonged slowdown in economic activity in Canada, China, Japan, Mexico, the U.K., the U.S. or any other major world economy, or a segment of any such economy, could negatively impact Grainger’s sales growth and results of operations.

Unexpected product shortages, tariffs, product cost increases and risks associated with Grainger’s suppliers could negatively impact customer relationships or result in an adverse impact on results of operations.

Grainger’s competitive strengths include product selection and availability. Products are purchased from more than 4,900 suppliers located in various countries around the world, not one of which accounted for more than 5% of total purchases.

Disruptions in procuring sources of supply could occur due to factors beyond Grainger’s control. These factors could include economic downturns, recessions, outbreaks of pandemic disease such as the COVID-19 pandemic (which from time to time has resulted in some shortages of PPE, cleaning supplies and other products), natural or human induced disasters, extreme weather, geopolitical unrest, tariffs, new tariffs or tariff increases, trade issues and policies, detention orders or withhold release orders on imported products, labor problems or shortages experienced by Grainger’s suppliers or others in the supply chain, transportation availability, staffing and cost, shortage of raw materials, unilateral product cost increases by suppliers of products in short supply, inflation and other factors, any of which could adversely affect a supplier’s ability to manufacture or deliver products or could result in an increase in Grainger’s product costs.

Further, Grainger sources products from Asia and other areas of the world. This increases the risk of supply disruption due to the additional lead time required and distances involved.

If Grainger was unable to promptly replace sources of supply that become disrupted, there could be adverse effects on inventory levels, results of operations, customer relationships and Grainger’s reputation. In addition, Grainger has strategic relationships with a number of vendors. In the event Grainger was unable to maintain those relations, there might be a loss of competitive pricing advantages which could, in turn, adversely affect results of operations.

Volatility in commodity prices may adversely affect gross margins.

Some of Grainger’s products contain significant amounts of commodity-priced materials, such as steel, copper, petroleum derivatives, rare earth minerals, or other materials or inputs required to manufacture PPE and other pandemic-related products and are subject to price changes based on fluctuations in the commodities market. The recent global geopolitical and trade environment has resulted in raw material inflation and potential for increased escalation of domestic and international tariffs and retaliatory trade policies. Further changes in U.S. trade policy (including new or additional increases in duties or tariffs) and retaliatory actions by U.S. trade partners could result in a worsening of economic conditions. The level of demand for Grainger's products and services is influenced in multiple ways by the price and availability of raw materials and commodities, including fuel. Fluctuations in the price of fuel or increased demand for freight services, including as a result of outbreaks of pandemic disease such as the COVID-19 pandemic, could affect transportation costs. Grainger’s ability to pass on such increases in costs in a timely manner depends on market conditions. The inability to pass along cost increases could result in lower gross margins. In addition, higher prices could reduce demand for these products, resulting in lower sales volumes.

Fluctuations in foreign currency could have an effect on reported results of operations.

Grainger’s exposure to fluctuations in foreign currency rates results primarily from the translation exposure associated with the preparation of the Consolidated Financial Statements (Financial Statements), as well as from transaction exposure associated with transactions in currencies other than an entity’s functional currency. While the Financial Statements are reported in U.S. dollars, the Financial Statements of Grainger’s subsidiaries outside the U.S. are prepared using the local currency as the functional currency and translated into U.S. dollars. In addition, Grainger is exposed to foreign currency exchange rate risk with respect to the U.S. dollar relative to the local currencies of Grainger’s international subsidiaries, primarily the Canadian dollar, euro, pound sterling, Mexican peso, renminbi and yen, arising from transactions in the normal course of business, such as sales and loans to wholly owned subsidiaries, sales to customers, purchases from suppliers, and bank loans and lines of credit denominated in foreign currencies. Grainger also has foreign currency exposure to the extent receipts and expenditures are not denominated in a subsidiary’s functional currency and that could have an impact on sales, costs and cash flows. These fluctuations in foreign currency exchange rates could affect Grainger’s results of operations and impact reported net sales and net earnings.

The facilities maintenance industry is highly competitive, and changes in competition could result in decreased demand for Grainger’s products and services.

Grainger competes in a variety of ways, including product assortment and availability, services offered to customers, pricing, purchasing convenience, and the overall experience Grainger offers. This includes the ease of use of Grainger’s high-touch operations and delivery of products.

There are several large competitors in the industry, although most of the market is served by small local and regional competitors. Grainger faces competition in all markets it serves from manufacturers (including some of its own suppliers) that sell directly to certain segments of the market, wholesale distributors, catalog houses, retail enterprises and online businesses that compete with price transparency.

To remain competitive, the Company must be willing and able to respond to market pressures. Downward pressure on sales prices, changes in the volume of orders, and an inability to pass higher product costs on to customers could cause Grainger’s gross profit percentage to fluctuate or decline. Grainger may not be able to pass rising product costs to customers if those customers have ready product or supplier alternatives in the marketplace. These pressures could have a material effect on Grainger’s sales and profitability. If the Company is unable to grow sales or reduce costs, among other actions, the Company’s results of operations and financial condition may be adversely affected.

Moreover, Grainger expects technological advancements and the increased use of eCommerce solutions within the industry to continue to evolve at a rapid pace. As a result, Grainger’s ability to effectively compete requires Grainger to respond and adapt to new industry trends and developments. Grainger has increased, and expects to continue to increase, its investments in developing, managing and implementing technology information systems, software development and other capabilities to provide high-quality service to its customers and simplify customer interactions. Developing, managing or implementing new technology and innovations may result in unexpected costs and disruptions to operations, may take longer than expected, may increase the Company’s vulnerability to cyber breaches, attacks or intrusions, and may not provide all anticipated benefits.

Changes in customer base or product mix could cause changes in Grainger’s revenue or gross margin, or affect Grainger’s competitive position.

From time to time, Grainger experiences changes in customer base and product mix that affect gross margin. Changes in customer base and product mix result primarily from business acquisitions, changes in customer demand, customer acquisitions, selling and marketing activities, competition and the increased use of eCommerce by Grainger and its competitors. For example, as a result of the COVID-19 pandemic, the Company has sold higher volumes of lower-margin pandemic-related products to larger, lower-margin customers, while non-pandemic sales have decreased.

In addition, Grainger has entered, and may in the future continue to enter, into contracts with group purchasing organizations (GPOs) that aggregate the buying power of their member customers in negotiating selling prices. If the Company is unable to enter into, or sustain, contractual arrangements on a satisfactory commercial basis with GPOs, Grainger's results of operations could be adversely affected.

As customer base and product mix change over time, Grainger must identify new products, product lines and services that respond to industry trends and customer needs. The inability to introduce new products and services and effectively integrate them into Grainger’s existing mix could have a negative impact on future sales growth and Grainger’s competitive position.

Grainger’s common stock may be subject to volatility or price declines.

The trading prices and volumes of Grainger’s common stock may be subject to broad and unpredictable fluctuations due to changes in economic, political and market conditions, the financial results and business strategies of Grainger and its competitors, changes in expectations as to Grainger’s future financial or operating performance, including estimates by securities analysts and investors, the Company’s failure to meet the financial performance guidance or other forward-looking statements provided to the public, speculation, coverage or sentiment in the media or investment community or by groups of individual investors, changes in capital structure, share repurchase programs or dividend policies, outbreak of pandemic disease such as the COVID-19 pandemic, and a number of other factors, including those discussed in this Item 1A. These factors, many of which are outside of Grainger’s control, could cause stock price and trading volume volatility or Grainger’s stock price to decline. Volatility in the price of Grainger's securities could result in the filing of securities class action litigation, which could result in substantial costs and the diversion of management time and resources.

Operational Risks

Interruptions in the proper functioning of information systems could disrupt operations and cause unanticipated increases in costs and/or decreases in revenues.

The proper functioning of Grainger’s information systems is critical to the successful operation of its business. Grainger continues to invest in software, hardware and network infrastructures in order to effectively manage its information systems. Although Grainger’s information systems are protected with robust backup and security systems, including physical and software safeguards and remote processing capabilities, information systems are still vulnerable to damage or interruption from natural or human induced disasters, extreme weather, power losses, telecommunication failures, user error, third party actions such as malicious computer programs, denial-of-service attacks and cybersecurity breaches, and other problems. In addition, from time to time Grainger relies on the information technology (IT) systems of third parties to assist in conducting its business.

If Grainger’s systems or those of third parties on which Grainger depends are damaged, breached, cease to function properly or are otherwise disrupted, Grainger may have to make a significant investment to repair or replace them and may suffer interruptions in its business operations in the interim. If critical information systems fail or otherwise become unavailable, Grainger’s ability to operate its eCommerce platforms, process orders, maintain proper levels of inventories, collect accounts receivable, disburse funds, manage its supply chain, monitor results of operations, and process and store employee or customer data, among other functions, could be adversely affected. Any such interruption of Grainger’s information systems could have a material adverse effect on its business or results of operations. Grainger has experienced these incidents in the past, which it deemed immaterial to its business and operations individually and in the aggregate and may be subject to other incidents in the future. There can be no assurance that any future incidents will not be material to Grainger’s business, operations or financial condition.

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, the Company 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. Some actions that Grainger has taken in response to the COVID-19 pandemic, including enabling remote working arrangements, may increase Grainger’s 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.

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 individually and in the aggregate, 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.

Grainger's ability to adequately protect its intellectual property or successfully defend against infringement claims by others may have an adverse impact on operations.

Grainger's business relies on the use, validity and continued protection of certain proprietary information and intellectual property, which includes current and future patents, trade secrets, trademarks, service marks, copyrights and confidentiality agreements as well as license and sublicense agreements to use intellectual property owned by affiliated entities or third parties. Unauthorized use of Grainger's intellectual property by others could result in harm to various aspects of the business and may result in costly and protracted litigation in order to protect Grainger's rights. In addition, Grainger may be subject to claims that it has infringed on the intellectual property rights of others, which could subject Grainger to liability, require Grainger to obtain licenses to use those rights at significant cost or otherwise cause Grainger to modify its operations.

In order to compete, Grainger must attract, retain, train, motivate and develop key employees, and the failure to do so could have an adverse effect on results of operations.

In order to compete and have continued growth, Grainger must attract, retain, train, motivate and develop executives and other key employees, including those in managerial, technical, sales, marketing and IT support positions. Grainger competes to hire employees at increasingly competitive wage rates and then must train them and develop their skills and competencies. Qualified individuals needed to fill open positions may be in short supply in some areas. Further, changes in market compensation rates may adversely affect the Company's labor costs. Competition for qualified employees could require the Company to pay higher wages to attract a sufficient number of employees. The Company's employee hiring and retention also depends on the Company's ability to build and maintain a diverse and inclusive workplace culture that enables its employees to thrive.

Grainger's results of operations could be adversely affected by increased costs due to increased competition for diverse talent, higher employee turnover, increased employee benefit costs, failure to successfully hire executives and key employees or the loss of executives and key employees. Further, changes in the Company's management team may be disruptive to its business, and any failure to successfully transition and assimilate key new hires or promoted employees could adversely affect its business and results of operations.

Grainger's continued success is substantially dependent on positive perceptions of Grainger's reputation.

One of the reasons customers choose to do business with Grainger and employees choose Grainger as a place of employment is the reputation that Grainger has built over many years. Grainger devotes time and resources to environmental, social and governance (ESG) efforts that are consistent with its corporate values and are designed to strengthen its business and protect and preserve its reputation, including programs driving ethics and corporate responsibility, strong communities, diversity, equity and inclusion, gender equality and environmental sustainability. Grainger's failure to execute its ESG programs as planned could adversely affect the Company's reputation, business and financial performance. To be successful in the future, Grainger must continue to preserve, grow and leverage the value of Grainger's brand. Reputational value is based in large part on perceptions of subjective qualities. Even an isolated incident, or the aggregate effect of individually insignificant incidents, can erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation, and as a result, could tarnish Grainger's brand and lead to adverse effects on Grainger's business.

Regulatory, Legal and Tax Risks

Grainger is subject to various domestic and foreign laws, regulations and standards. Failure to comply or unforeseen developments in related contingencies such as litigation could adversely affect Grainger's financial condition, profitability and cash flows.

Grainger's business is subject to legislative, legal, and regulatory risks and conditions specific to the countries in which it operates. In addition to Grainger's U.S. operations, which in 2021 generated approximately 79% of its consolidated net sales, Grainger operates its business principally through wholly owned subsidiaries in Canada, China, Mexico, and the U.K., and its majority-owned subsidiary in Japan.

The wide array of laws, regulations and standards in each domestic and foreign jurisdiction where Grainger operates, include, but are not limited to: advertising and marketing regulations, anti-bribery and corruption laws, anti-competition regulations, data protection (including, because Grainger accepts credit cards, the Payment Card Industry Data Security Standard), data privacy (including in the U.S., the California Consumer Privacy Act, and in the European Union, the General Data Protection Regulation 2016) and cybersecurity requirements (including protection of information and incident responses), environmental protection laws, foreign exchange controls and cash repatriation restrictions, health and safety laws, import and export requirements, intellectual property laws, labor laws (including federal and state wage and hour laws), product compliance or safety laws, supplier regulations regarding the sources of supplies or products, tax laws (including as to U.S. taxes on foreign subsidiaries), unclaimed property laws and laws, regulations and standards applicable to other commercial matters. Moreover, Grainger is also subject to audits and inquiries in the normal course of business.

Failure to comply with any of these laws, regulations and standards could result in civil, criminal, monetary and non-monetary fines, penalties and/or, remediation costs as well as potential damage to the Company's reputation. Changes in these laws, regulations and standards, or in their interpretation, could increase the cost of doing business, including, among other factors, as a result of increased investments in technology and the development of new operational processes. Furthermore, while Grainger has implemented policies and procedures designed to facilitate compliance with these laws, regulations and standards, there can be no assurance that employees, contractors, suppliers, vendors, or other third parties will not violate such laws, regulations and standards or Grainger's policies. Any such failure to comply or violation could individually or in the aggregate materially adversely affect Grainger's financial condition, results of operations and cash flows.

In addition, Grainger's business and results of operations in the U.K. may be negatively affected by changes in trade policies, or changes in labor, immigration, tax or other laws, resulting from the U.K.'s exit from the European Union.

Grainger is subject to a number of rules and regulations related to its government contracts, which may result in increased compliance costs and potential liabilities.

Grainger's contracts with U.S. federal, state and local government entities are subject to various and changing regulations related to procurement, formation and performance. In addition, the Company's government contracts may provide for termination, reduction or modification by the government at any time, with or without cause. From time to time, Grainger is subject to governmental or regulatory investigations or audits related to its compliance with these rules and regulations. Violations of these regulations could result in fines, criminal sanctions, the inability to participate in existing or future government contracting and other administrative sanctions. Any such penalties could result in damage to the Company's reputation, increased costs of compliance and/or remediation and could adversely affect the Company's financial condition and results of operations.

In conducting its business, Grainger may become subject to legal proceedings or governmental investigations, including in connection with product liability or product compliance claims if people, property or the environment are harmed by Grainger's products or services.

Grainger is, and from time to time may become, party to a number of legal proceedings or governmental investigations for alleged violations of laws, rules or regulations. Grainger also may be subject to disputes and proceedings incidental to its business, including product-related claims for personal injury or illness, death, environmental or property damage or other commercial disputes, including the proceedings discussed in Part I, Item 3: Legal Proceedings. The defense of these proceedings may require significant expenses and divert management's time and attention, and Grainger may be required to pay damages that could individually or in the aggregate materially adversely affect its financial condition, results of operations and cash flows. In addition, any insurance or indemnification rights that Grainger may have with respect to such matters may be insufficient or unavailable to protect the Company against potential loss exposures. Grainger also may be requested or required to recall products or take other actions. The Company's reputation could also be adversely affected by any resulting negative publicity.

Tax changes could affect Grainger's effective tax rate and future profitability.

Grainger's future results could be adversely affected by changes in the effective tax rate as a result of Grainger's relative overall profitability and the mix of earnings in countries with differing statutory tax rates, changes in tax legislation, the results of the examination of previously filed tax returns, and continuing assessment of the Company's tax exposures.

Grainger may be adversely impacted by the effects of climate change and may incur increased costs and experience other impacts due to new or more stringent environmental laws and regulations designed to address climate change.

The potential impacts of climate change on the Company's suppliers, product offerings, operations, facilities and customers are accelerating and uncertain. Increased public awareness and concern regarding global climate change may result in more international, federal, and/or state or other stakeholder requirements or expectations that could result in more restrictive or expansive standards, such as stricter limits on greenhouse gas emissions or more prescriptive reporting of environmental, social, and governance metrics. There continues to be a lack of consistent climate change legislation and standards, which creates economic and regulatory uncertainty. New laws, regulations and enforcement could strain the Company's suppliers and result in increased compliance-related costs, which could result in higher product costs that are passed to the Company. New or changing environmental laws and regulations could also increase the Company's operating costs, including through higher utility and transportation costs, and Grainger is unable to predict the potential impact such laws and regulations could have on its financial condition and results of operations. In addition, the potential physical risks of climate change may impact the availability and cost of materials and natural resources, sources and supply of energy and product demand, and could increase the Company's operating costs. Natural disasters as a result of climate change at locations where the Company, its suppliers or customers operate could cause disruptions to the Company's operations, which could adversely affect sales and could negatively impact Grainger's business, financial condition, results of operations and cash flows. If environmental laws and regulations are either changed or adopted that impose significant operational restrictions or compliance requirements upon the Company or its suppliers, products, or customers, or the Company's operations are disrupted due to physical impacts of climate change, the Company's business, capital expenditures, financial condition, results of operations and competitive position could be negatively impacted.

Credit and Liquidity Risks

Changes in Grainger's credit ratings and outlook may reduce access to capital and increase borrowing costs.

Grainger's credit ratings are based on a number of factors, including the Company's financial strength and factors outside of Grainger's control, such as conditions affecting Grainger's industry generally or the introduction of new rating practices and methodologies. Grainger cannot provide assurances that its current credit ratings will remain in effect or that the ratings will not be lowered, suspended or withdrawn entirely by the rating agencies. If rating agencies lower, suspend or withdraw the ratings, the market price or marketability of Grainger's securities may be adversely affected. In addition, any change in ratings could make it more difficult for the Company to raise capital on favorable terms, impact the Company's ability to obtain adequate financing, and result in higher interest costs for the Company's existing credit facilities or on future financings.

Grainger has incurred substantial indebtedness and may incur substantial additional indebtedness, which could adversely affect cash flow, decrease business flexibility, or prevent Grainger from fulfilling its obligations.

As of December 31, 2021, Grainger's consolidated indebtedness was approximately $2.4 billion. The Company's indebtedness could, among other things, limit Grainger's ability to respond to rapidly changing business and economic conditions, require the Company to dedicate a substantial portion of its cash flows to the payment of principal and interest on its indebtedness, reducing the funds available for other business purposes, and make it more difficult to satisfy the Company's financial obligations as they come due during periods of adverse economic and industry conditions.

The agreements governing Grainger's debt agreements and instruments contain representations, warranties, affirmative, negative and financial covenants, and default provisions. Grainger's failure to comply with these restrictions and obligations could result in a default under such agreements, which may allow Grainger's creditors to accelerate the related indebtedness. Any such acceleration could have a material adverse effect on Grainger's business, financial condition, results of operations, cash flows, and its ability to obtain financing on favorable terms in the future.

In addition, Grainger may in the future seek to raise additional financing for working capital, capital expenditures, refinancing of indebtedness, share repurchases or other general corporate purposes. Grainger's ability to obtain additional financing will be dependent on, among other things, the Company's financial condition, prevailing market conditions and numerous other factors beyond the Company's control. Such additional financing may not be available on commercially reasonable terms or at all. Any inability to obtain financing when needed could materially adversely affect the Company's business, financial condition or results of operations.

Item 1B: Unresolved Staff Comments

None.

Item 2: Properties

As of December 31, 2021, Grainger's owned and leased facilities totaled approximately 29.2 million square feet. Grainger owns and leases facilities primarily in the U.S., Japan, Canada (5), Mexico (6), Puerto Rico (7) and the U.K. (8) The Company's corporate headquarters is located in Lake Forest, Illinois and other general offices are located in the Chicago Metropolitan area. Grainger believes that its properties are generally in excellent condition, well maintained and suitable for the conduct of business.

The following table includes Grainger's material facilities:

Location	Facility and Use (9)	Size in Square Feet (in thousands)	Segment
U.S. (1)	DCs	9,132	High-Touch Solutions N.A.
U.S. (2)	Branch Locations	6,407	High-Touch Solutions N.A.
U.S. (3)	Other Facilities	4,805	High-Touch Solutions N.A.
Japan (4)	DCs	3,718	Endless Assortment

(1) Consists of 16 DCs that range in size from approximately 55,000 to 1.5 million square feet. These facilities are primarily owned.

(2) Consists of 246 branches, 45 onsite and three will-call express locations. These branches range in size from approximately 500 to 109,000 square feet. These facilities are primarily owned.

(3) Primarily consists of storage facilities, office space and customer service centers. These facilities are both owned and leased. These facilities range in size from approximately 200 to 633,000 square feet.

(4) Consists of eight DCs that range in size from approximately 11,000 to 1.8 million square feet. These facilities are primarily leased. Other facilities include office space that range in size from approximately 1,000 to 49,000 square feet. These facilities are also primarily leased.

(5) In Canada, Grainger has 35 branch locations, five DCs and other facilities which total two million square feet.

(6) In Mexico, Grainger has 16 branch locations and two DCs which total 712,000 square feet.

(7) In Puerto Rico, Grainger has three branch locations and one DC which total 95,000 square feet.

(8) In the U.K., Grainger has 43 branch locations, one DC and other facilities which total 806,000 square feet.

(9) Owned facilities are not subject to any mortgages.

Item 3: Legal Proceedings

For a description of legal proceedings, see the disclosure contained in Note 15 to the Consolidated Financial Statements included in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K, which is incorporated herein by reference.

Item 4: Mine Safety Disclosures

Not applicable.

PART II

Item 5: Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

Market Information and Dividends

Grainger's common stock is listed and traded on the New York Stock Exchange, under the symbol GWW.

Holders

The approximate number of shareholders of record of Grainger’s common stock as of February 11, 2022, was 553 with approximately 285,524 additional shareholders holding stock through nominees.

Dividends

Grainger expects that its practice of paying quarterly dividends on its common stock will continue, although the payment of future dividends is at the discretion of Grainger’s Board of Directors and will depend upon Grainger’s earnings, capital requirements, financial condition and other factors.

Issuer Purchases of Equity Securities - Fourth 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
Oct. 1 – Oct. 31	138,985	$423.80	138,890	4,121,591 shares
Nov. 1 – Nov. 30	101,244	$484.93	101,043	4,020,548 shares
Dec. 1 – Dec. 31	134,893	$502.16	134,359	3,886,189 shares
Total	375,122		374,292	

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

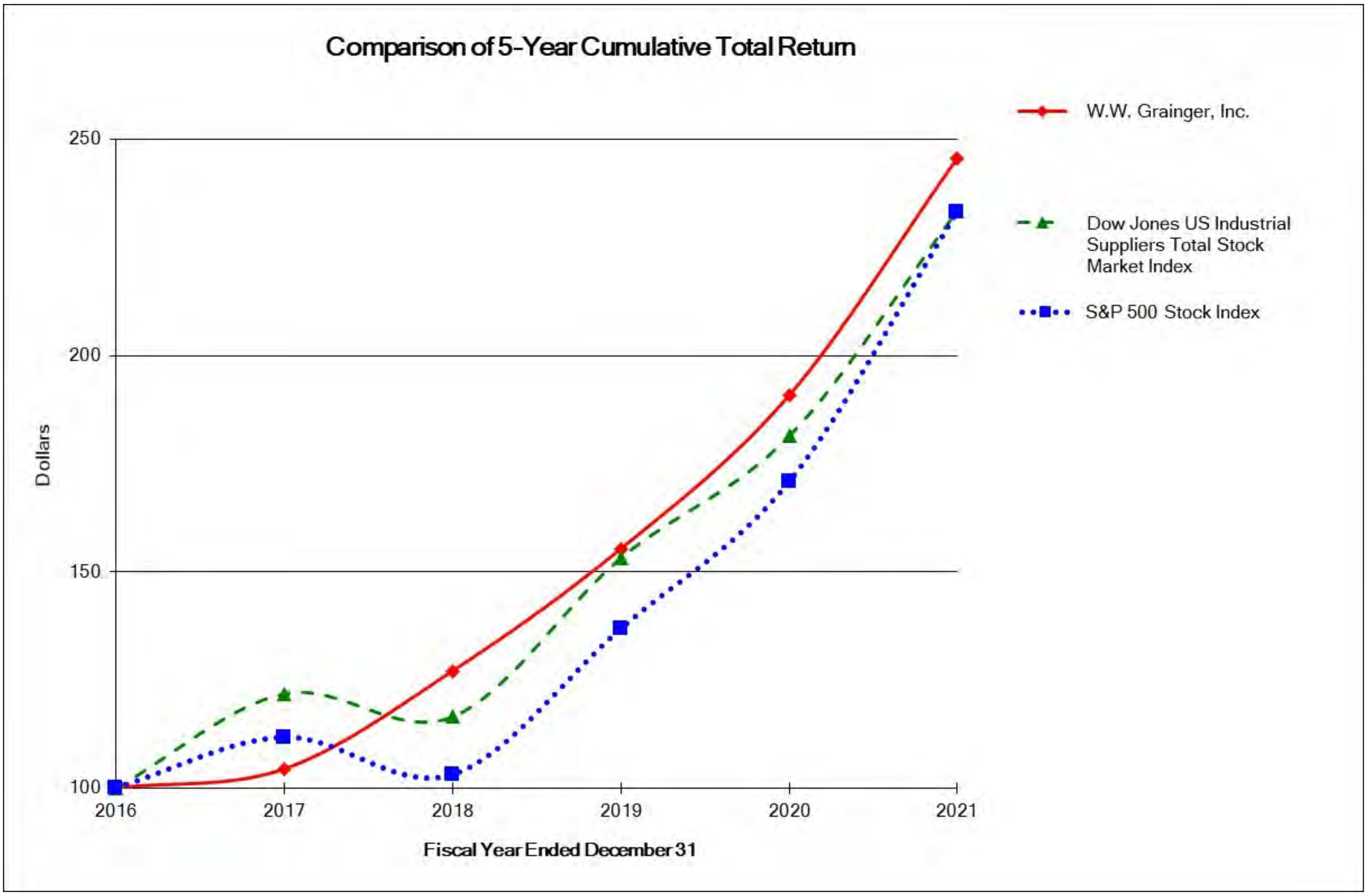
(B) Average price paid per share excludes commissions of $0.01 per share paid.

(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 five million shares with no expiration date.

(D) The difference of 830 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 team members who participate in the plan.

Company Performance

The following stock price performance graph compares the cumulative total return on an investment in Grainger common stock with the cumulative total return of an investment in each of the Dow Jones US Industrial Suppliers Total Stock Market Index and the S&P 500 Stock Index. It covers the period commencing December 31, 2016 and ending December 31, 2021. The graph assumes that the value for the investment in Grainger common stock and in each index was $100 on December 31, 2016, and that all dividends were reinvested.



	December 31,					
	2016	2017	2018	2019	2020	2021
W.W. Grainger, Inc.	$ 100	$ 104	$ 127	$ 155	$ 191	$ 246
Dow Jones US Industrial Suppliers Total Stock Market Index	100	112	103	137	171	233
S&P 500 Stock Index	100	122	116	153	181	233

Item 6: [Reserved]

Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations

Objective

The following Management’s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to help the reader understand the results of operations and financial condition of W.W. Grainger, Inc. (Grainger or Company) as it is viewed by the Company. The following discussion should be read in conjunction with the Consolidated Financial Statements and accompanying notes included in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

Percentage figures included in this section have not in all cases been calculated on the basis of such rounded figures but on the basis of such amounts prior to rounding. For this reason, percentage amounts in this section may vary slightly from those obtained by performing the same calculations using the figures in the Company's Consolidated Financial Statements or in the associated text.

Overview

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.). Grainger uses a combination of its high-touch solutions and endless assortment businesses to serve its customers worldwide, which rely on Grainger for products and services that enable them to run safe, sustainable and productive operations.

The Company’s continued strategic priority for 2022 is to relentlessly expand Grainger’s leadership position in the MRO space by being the go-to partner for people who build and run safe and productive operations. To achieve this, each Grainger business has a set of strategic objectives. The high-touch solutions businesses are focused on key initiatives that drive top-line revenue and MRO market outgrowth. Additionally, the high-touch solutions businesses are focused on growing through differentiated sales and services (e.g., direct customer relationships and onsite services), advantaged MRO solutions (e.g., get customers the exact products and services they need to solve a problem quickly) and unparalleled customer service (e.g., deliver flawlessly on every customer transaction). The endless assortment businesses are focused on product assortment expansion and innovative customer acquisition and retention. Additionally, all Grainger businesses are focused on continuously improving customer experience, optimizing and scaling cost structures and investing in digital marketing, technology and supply chain infrastructure to ultimately deliver long-term returns for shareholders.

Strategic Priorities and Impact of the COVID-19 Pandemic

The Company continues to adhere to its purpose to keep the world working while using its core principles as the framework for expanding Grainger’s leadership position and ensuring Grainger is the go-to-partner for building and running safe, sustainable and productive operations. However, the Company’s business plans to achieve these strategic priorities continue to be affected by the impact of the COVID-19 pandemic.

The COVID-19 pandemic caused significant disruptions in the U.S. and global markets, and the full extent of the impacts will depend on several uncertain and unpredictable developments including any continued spread of the virus and its variants, the availability and effectiveness of treatments and vaccines, imposition of protective public safety measures and the overall impact of government measures to combat the spread of the virus.

While the ongoing recovery from the COVID-19 pandemic has fluctuated throughout the year, it has been accompanied by a resurgence in demand as industries return to regular operations, which 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 inventory availability and remains committed to serving customers and supporting team members.

As the pandemic continues to impact global markets and the needs of customers, team members, suppliers and communities continue to change, the Company’s efforts and business plan will evolve accordingly. 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 team members, customers, suppliers and shareholders.

The Company qualified for certain government assistance programs that partially offset related expenses in Canada and the U.K. The amounts received were not material to the Consolidated Financial Statements for the year ended December 31, 2021.

The Company cannot reasonably estimate the full extent to which the COVID-19 pandemic will continue to impact its business and financial results. 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 team members 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, see Part I, Item 1A: Risk Factors of this Form 10-K.

Matters Affecting Comparability

There were 254 sales days in the full year 2021 versus 256 and 255 sales days in the full year of 2020 and 2019, respectively.

Effective January 1, 2021, Grainger's two reportable segments are High-Touch Solutions N.A. and Endless Assortment. On March 8, 2021, Grainger provided investors with segment summary historical financial information and segment historical data that is consistent with its new reportable segment structure and reflective of its updated intersegment accounting policies. For further segment information, see Note 14 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

In November 2020, consistent with the Company's strategic focus on broad line MRO distribution in key markets, Grainger commenced the liquidation of Zoro Tools Europe (ZTE) in Germany. In August 2020, Grainger divested the China high-touch solutions business (China) and in June 2020, divested the Fabory high-touch solutions business. Accordingly, the Company’s operating results include Fabory, China and ZTE through the respective dates of divestiture or liquidation. For further business divestitures and liquidation information, see Note 2 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Data and Supplementary Data of this Form 10-K.

In mid-February 2020, the Company began experiencing elevated levels of COVID-19 pandemic-related product sales (e.g., 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 through 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

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

	For the Years Ended December 31,						
				Percent Increase/ (Decrease) from Prior Year	As a Percent of Net Sales		
	2021	2020	2019	2021	2021	2020	2019
Net sales [(1)]	$ 13,022	$ 11,797	$ 11,486	10.4 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	8,302	7,559	7,089	9.8	63.8	64.1	61.7
Gross profit	4,720	4,238	4,397	11.4	36.2	35.9	38.3
SG&A	3,173	3,219	3,135	(1.4)	24.4	27.3	27.3
Operating earnings	1,547	1,019	1,262	51.8	11.9	8.6	11.0
Other expense - net	62	72	53	(12.8)	0.5	0.6	0.5
Income tax provision	371	192	314	92.7	2.8	1.6	2.7
Net earnings	1,114	755	895	47.5	8.6	6.4	7.8
Noncontrolling interest	71	60	46	19.0	0.5	0.5	0.4
Net earnings attributable to W.W. Grainger, Inc.	$ 1,043	$ 695	$ 849	50.0	8.0	5.9	7.4
Diluted earnings per share:	$ 19.84	$ 12.82	$ 15.32	54.8 %			

(1) For further information regarding the Company's disaggregated revenue, see Note 3 of the Notes to the Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

2021 Compared to 2020

Net sales of $13,022 million for the year ended December 31, 2021 increased $1,225 million, or 10.4%, compared to the same period in 2020. On a daily basis, net sales increased 11.3%, primarily driven by improved core, non-pandemic related product sales volume as product mix continued to revert to more normalized levels in the year ended December 31, 2021. This consisted of increased volume, which includes product mix, of 10.1%, price, which includes customer mix, of 2.3% and foreign exchange of 0.3%, partially offset by the impact of the business divestitures in the prior year of 1.4%.

Gross profit of $4,720 million for the year ended December 31, 2021 increased $482 million, or 11%, compared to the same period in 2020. Gross profit margin of 36.2% increased 0.3 percentage point compared to the same period in 2020. The increase was primarily driven by price realization and favorable product mix, partially offset by unfavorable pandemic-related inventory adjustments and product cost inflation in the year ended December 31, 2021.

SG&A of $3,173 million for the year ended December 31, 2021 decreased $46 million, or 1%, compared to the same period in 2020. The decrease was the result of impairment charges and losses related to the divested Fabory business in the first half of 2020, partially offset by increased SG&A due to higher wages, variable compensation and marketing expenses in 2021.

Operating earnings of $1,547 million for the year ended December 31, 2021 increased $528 million, or 52%, compared to the same period in 2020. The increase was driven by higher gross profit dollars and lower SG&A.

Other expense, net of $62 million for the year ended December 31, 2021 decreased $10 million, or 13%, compared to the same period in 2020. The decrease was primarily driven by lower interest expense in 2021 due to the increase in indebtedness as a proactive measure to preserve financial flexibility during pandemic uncertainty in the first half of 2020.

Income taxes of $371 million for the year ended December 31, 2021 increased $179 million, or 93%, compared to the same period in 2020. The increase was primarily driven by higher taxable operating earnings in 2021 and the absence of the tax impacts from the Company's investment in Fabory. In the first quarter of 2020, the Company impaired and reorganized its holdings in Fabory. In the second quarter of 2020, the Company divested its interest in Fabory. Grainger's effective tax rates were 25.0% and 20.3% for the twelve months ended December 31, 2021 and 2020, respectively.

Net earnings of $1,043 million attributable to W.W. Grainger, Inc. for the year ended December 31, 2021 increased $348 million, or 50%, compared to the same period in 2020.

Diluted earnings per share was $19.84 for the year ended December 31, 2021, an increase of 55% compared to $12.82 for the same period in 2020. The increase was primarily due to higher net earnings in 2021.

2020 Compared to 2019

Net sales of $11,797 million for the year ended December 31, 2020 increased $311 million, or 2.7%, compared to the same period in 2019. On a daily basis, net sales increased 2.3%, primarily due to strong pandemic-related sales volume mainly to large government and healthcare customers, partially offset by volume declines of non-pandemic related products across most industries. This consisted of increased volume, which includes product mix, of 3.7% and foreign exchange of 0.1%, partially offset by the impact of the business divestitures and price, including customer mix, of 1.3% and 0.2%, respectively.

Gross profit of $4,238 million for the year ended December 31, 2020 decreased $159 million, or 4%, compared to the same period in 2019. Gross profit margin of 35.9% decreased 2.4 percentage points compared to the same period in 2019. The decrease was primarily driven by lower margins from COVID-19 pandemic-related product sales in the high-touch solutions businesses and business unit mix due to growth in the lower margin endless assortment businesses.

SG&A of $3,219 million for the year ended December 31, 2020 increased $84 million, or 3%, compared to the same period in 2019. The increase was primarily due to a $177 million write-down of goodwill, intangibles and long-lived assets for the Fabory business and a $109 million pretax loss from the sale of the Fabory business in the first and second quarters of 2020, respectively. These charges were partially offset by reduced travel and entertainment expenses in 2020 and an aggregate intangible asset impairment charge of $120 million for the Cromwell business in the fourth quarter of 2019.

Operating earnings of $1,019 million for the year ended December 31, 2020 decreased $243 million, or 19%, compared to $1,262 million for the same period in 2019. The decrease was primarily a result of impairment charges and losses for the divested Fabory business in the first half of 2020.

Other expense, net of $72 million for the year ended December 31, 2020 increased $19 million, or 35%, compared to the same period in 2019. The increase was primarily from costs related to an increase in indebtedness as a proactive measure to preserve financial flexibility during pandemic uncertainty during 2020.

Income taxes of $192 million for the year ended December 31, 2020 decreased $122 million, or 39%, compared to the same period in 2019. The decrease was driven by lower taxable operating earnings for the year, tax losses from the Company's investment in Fabory due to the impairment and internal reorganization of the Company's holdings in Fabory in the first quarter of 2020 and tax impacts of the Fabory divestiture.

Net earnings of $695 million attributable to W.W. Grainger, Inc. for the year ended December 31, 2020 decreased $154 million, or 18%, compared to the same period in 2019.

Diluted earnings per share of $12.82 for the year ended December 31, 2020, decreased 16% compared to $15.32 for the same period in 2019. The decrease was due to lower net earnings.

Non-GAAP Measures

The following tables reconcile reported SG&A expenses, operating earnings, net earnings attributable to W.W. Grainger, Inc. and diluted earnings per share determined in accordance with U.S. generally accepted accounting principles (GAAP) to non-GAAP measures including adjusted SG&A, adjusted operating earnings, adjusted net earnings attributable to W.W. Grainger, Inc. and adjusted diluted earnings per share. 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.

The following tables provide a reconciliation of GAAP to non-GAAP measures (dollars in millions):

	For the Years Ended December 31,			
	2021	2020	2019	%
SG&A reported	$ 3,173	$ 3,219	$ 3,135	(1)%
Restructuring – net (High-Touch Solutions N.A.)	—	18	4	
Restructuring – net (Endless Assortment)	—	9	—	
Restructuring – net (Other)	—	—	2	
Fabory impairment charges (Other)	—	177	—	
Cromwell impairment charges (Other)	—	—	120	
Fabory divestiture (Other)	—	109	—	
Grainger China divestiture (Other)	—	(5)	—	
SG&A adjusted	$ 3,173	$ 2,911	$ 3,009	9 %
Operating earnings reported	$ 1,547	$ 1,019	$ 1,262	52 %
Total restructuring – net, impairment charges and business divestiture	—	308	126	
Operating earnings adjusted	$ 1,547	$ 1,327	$ 1,388	17 %
Net earnings attributable to W.W. Grainger, Inc. reported	$ 1,043	$ 695	$ 849	50 %
Total restructuring – net, impairment charges and business divestiture	—	308	126	
Tax effect [1]	—	(126)	(17)	
Total restructuring – net, impairment charges and business divestiture, net of tax	—	182	109	
Net earnings attributable to W.W. Grainger, Inc. adjusted	$ 1,043	$ 877	$ 958	19 %
Diluted earnings per share reported	$ 19.84	$ 12.82	$ 15.32	55 %
Restructuring – net (High-Touch Solutions N.A.)	—	0.33	0.08	
Restructuring – net (Endless Assortment)	—	0.16	—	
Restructuring – net (Other)	—	—	0.03	
Fabory impairment charges (Other)	—	3.26	—	
Cromwell impairment charges (Other)	—	—	2.15	
Fabory divestiture (Other)	—	2.02	—	
Grainger China divestiture (Other)	—	(0.09)	—	
Total pretax adjustments	—	5.68	2.26	
Tax effect [1]	—	(2.32)	(0.29)	
Total – net of tax	—	3.36	1.97	
Diluted earnings per share adjusted	$ 19.84	$ 16.18	$ 17.29	23 %

[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.

2021 Compared to 2020

Noted in the table above for the twelve months ended December 31, 2020, the Company recorded a $177 million Fabory impairment charge and $109 million loss on the divestiture of the Fabory business in SG&A in the first and second quarters, respectively.

Excluding restructuring, net, impairment charges and business divestitures for the twelve months ended December 31, 2020, adjusted SG&A and operating earnings for the full year 2021 were $3,173 and $1,547, an increase of $262 million and $220 million, or 9% and 17%, respectively, compared to the same period in 2020.

Excluding the tax benefit related to Fabory, as well as the restructuring, net, impairment charges and business divestitures for the twelve months ended December 31, 2020, Grainger's adjusted effective tax rates were 25.0% and 25.3% for the twelve months ended December 31, 2021 and 2020, respectively. The Company's adjusted net earnings attributable to W.W. Grainger Inc. for the full year 2021 was $1,043 million, an increase of $166 million, or 19%, compared to the same period in 2020. Adjusted diluted earnings per share of $19.84 increased 23% compared to $16.18 for the twelve months ended December 31, 2020.

2020 Compared to 2019

Noted in the table above for the twelve months ended December 31, 2019, the Company recorded an aggregate intangible asset impairment charge in SG&A of $120 million for the Cromwell business in the fourth quarter of 2019.

Excluding restructuring, net, impairment charges and business divestitures for the twelve months ended December 31, 2020 and December 31, 2019, adjusted SG&A and operating earnings for the full year 2020 were $2,911 and $1,327, a decrease of $98 million and $61 million, or 3% and 4%, respectively, compared to the same period in 2019.

Excluding restructuring, net, impairment charges, business divestitures and income taxes for the twelve months ended December 31, 2020, and December 31, 2019, Grainger's adjusted effective tax rates were 25.3% and 24.8% for the twelve months ended December 31, 2020 and 2019, respectively. The Company's adjusted net earnings attributable to W.W. Grainger, Inc. for the full year 2020 was $877 million, a decrease of $81 million, or 8%, compared to the same period in 2019. Adjusted diluted earnings per share of $16.18 decreased 6% compared to $17.29 for the twelve months ended December 31, 2019.

Segment Analysis

The following comments at the reportable segment and other business unit levels include external net sales and operating earnings. For further segment information, see Note 14 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

High-Touch Solutions N.A.

The following table shows reported segment results (dollars in millions):

	For the Years Ended December 31,				
	2021	Percent Increase from Prior Year	2020 (1)	Percent Increase/ (Decrease) from Prior Year	2019 (1)
Net sales	$ 10,186	10.5 %	$ 9,221	2.0 %	$ 9,036
Gross profit	$ 3,906	10.9 %	$ 3,524	(4.4)%	$ 3,684
SG&A	$ 2,572	9.8 %	$ 2,342	(2.7)%	$ 2,406
Operating earnings	$ 1,334	12.9 %	$ 1,182	(7.6)%	$ 1,278

(1) Effective January 1, 2021, segment results for the years ended December 31, 2020 and 2019 were recast to reflect the Company's re-segmentation.

2021 Compared to 2020

Net sales of $10,186 million for the year ended December 31, 2021 increased $965 million, or 10.5%, compared to the same period in 2020. On a daily basis, net sales increased 11.3%, primarily driven by improved core, non-pandemic related product sales volume as product mix continued to revert to more normalized levels in the year ended December 31, 2021. This consisted of increased volume, price and foreign exchange of 7.8%, 3.0% and 0.5%, respectively.

Gross profit of $3,906 million for the year ended December 31, 2021 increased $382 million, or 11%, compared to the same period in 2020. Gross profit margin of 38.3% increased 0.1 percentage point compared to the same period in 2020. The increase was primarily the result of price realization and product mix in the second half of 2021, partially offset by unfavorable pandemic-related inventory adjustments and product cost inflation in the year ended December 31, 2021.

SG&A of $2,572 million for the year ended December 31, 2021 increased $230 million, or 10%, compared to the same period in 2020. The increase was primarily driven by higher wages, variable compensation and marketing expenses.

Operating earnings of $1,334 million for the year ended December 31, 2021 increased $152 million, or 13%, compared to the same period in 2020. The increase was driven by higher gross profit dollars, partially offset by higher SG&A.

2020 Compared to 2019

Net sales of $9,221 million for the year ended December 31, 2020 increased $185 million, or 2.0%, compared to the same period in 2019. On a daily basis, net sales increased 1.7%, primarily driven by COVID-19 pandemic-related sales, partially offset by volume declines of non-pandemic related products. This consisted of increased volume of 2.2%, partially offset by price and foreign exchange of 0.3% and 0.2%, respectively.

Gross profit of $3,524 million for the year ended December 31, 2020 decreased $160 million, or 4%, compared to the same period in 2019. Gross profit margin of 38.2% decreased 2.6 percentage points compared to the same period in 2019. The decrease was primarily the result of COVID-19 pandemic-related headwinds, including product, customer mix and inventory write-downs in 2020.

SG&A of $2,342 million for the year ended December 31, 2020 decreased $64 million, or 3%, compared to the same period in 2019. The decrease was primarily driven by reduced travel and depreciation expense, partially offset by incremental operating costs to support the response to the COVID-19 pandemic and related activities.

Operating earnings of $1,182 million for the year ended December 31, 2020 decreased $96 million, or 8%, compared to the same period of 2019. The decrease was primarily driven by lower gross profit dollars.

Endless Assortment

The following table shows reported segment results (dollars in millions):

	For the Years Ended December 31,				
	2021	Percent Increase from Prior Year	2020 [1]	Percent Increase from Prior Year	2019 [1]
Net sales	$ 2,576	18.3 %	$ 2,178	18.7 %	$ 1,836
Gross profit	$ 729	21.3 %	$ 601	18.2 %	$ 509
SG&A	$ 497	14.4 %	$ 435	12.2 %	$ 387
Operating earnings	$ 232	39.3 %	$ 166	37.2 %	$ 122

[1] Effective January 1, 2021, segment results for the years ended December 31, 2020 and 2019 were recast to reflect the Company's re-segmentation.

2021 Compared to 2020

Net sales of $2,576 million for the year ended December 31, 2021 increased $398 million, or 18.3%, compared to the same period in 2020. On a daily basis, net sales increased 19.2%, primarily driven by strong customer acquisition and continued growth with enterprise customers at MonotaRO. This consisted of increased volume of 20.5%, partially offset by decreased foreign exchange of 1.3%.

Gross profit of $729 million for the year ended December 31, 2021 increased $128 million, or 21%, compared to the same period in 2020. Gross profit margin of 28.3% increased 0.7 percentage point compared to the same period in 2020. The increase in gross profit margin was primarily driven by pricing actions at Zoro and freight efficiencies at Zoro and MonotaRO, partially offset by unfavorable product mix at MonotaRO.

SG&A of $497 million for the year ended December 31, 2021 increased $62 million, or 14%, compared to the same period in 2020. The increase was primarily driven by higher marketing and payroll expenses due to an increase in team members to support the continued growth of the segment. SG&A leverage improved 0.7 percentage point compared to the same period in 2020 due to sales revenue outpacing SG&A.

Operating earnings of $232 million for the year ended December 31, 2021 increased $66 million, or 39%, compared to the same period in 2020. The increase was primarily driven by higher sales volume, partially offset by higher SG&A.

2020 Compared to 2019

Net sales of $2,178 million for the year ended December 31, 2020 increased $342 million, or 18.7%, compared to the same period in 2019. On a daily basis, net sales increased 18.2%, primarily driven by higher sales volume due to COVID-19 pandemic-related sales and strong customer acquisitions during the year ended December 31, 2020. This consisted of increased volume of 16.6% and foreign exchange of 1.6%.

Gross profit of $601 million for the year ended December 31, 2020 increased $92 million, or 18%, compared to the same period in 2019. Gross profit margin of 27.6% decreased 0.1 percentage point compared to the same period in 2019. The decrease was primarily driven by unfavorable supply chain costs.

SG&A of $435 million for the year ended December 31, 2020 increased $48 million, or 12%, compared to the same period in 2019. The increase was primarily driven by higher payroll and benefits expenses and the liquidation of the ZTE business in the fourth quarter of 2020. SG&A leverage improved 1.1 percentage points compared to the same period in 2019 due to sales revenue outpacing SG&A.

Operating earnings of $166 million for the year ended December 31, 2020, increased $44 million, or 37%, compared to the same period in 2019. The increase was primarily driven by higher sales volume, partially offset by higher SG&A.

Other

2021 Compared to 2020

Net sales of $260 million for the year ended December 31, 2021 decreased $138 million, or 34.7%, compared to the same period in 2020. On a daily basis, net sales decreased 34.2%, primarily driven by the net impact of the Fabory and China business divestitures, partially offset by volume increases and favorable changes in the exchange rate between the U.S. dollar and the British pound sterling for the Cromwell business. This consisted of a decrease in business divestitures of 39.9%, partially offset by favorable foreign exchange and volume of 4.4% and 1.3%, respectively.

Gross profit of $85 million for the year ended December 31, 2021 decreased $28 million, or 25%, compared to the same period in 2020. Gross profit margin of 32.7% increased 4.2 percentage points compared to the same period in 2020. The increase in gross profit margin was primarily due to the impact of the business divestitures in the prior year and improved customer mix for the Cromwell business.

SG&A of $104 million for the year ended December 31, 2021 decreased $338 million, or 77%, compared to the same period in 2020. The decrease was primarily due to impairment charges and losses related to the divested Fabory business in the first half of 2020.

Operating losses of $19 million for the year ended December 31, 2021 decreased $310 million, or 94%, compared to the same period in 2020. The decrease was primarily driven by the divested Fabory business in the first half of 2020, partially offset by lower gross profit dollars.

2020 Compared to 2019

Net sales of $398 million for the year ended December 31, 2020 decreased $216 million, or 35.3%, compared to the same period in 2019. On a daily basis, net sales decreased 35.5%, primarily driven by the net impact of the Fabory and China business divestitures and lower volume due to COVID-19 pandemic-related slowdown. This consisted of a decrease in business divestitures of 18.3%, volume of 16.7% and foreign exchange of 0.5%.

Gross profit of $113 million for the year ended December 30, 2020 decreased $91 million, or 45%, compared to the same period in 2019. Gross profit margin of 28.4% decreased 4.8 percentage points compared to the same period in 2019. The decrease was primarily driven by the Fabory divestiture and lower margins for the Cromwell business.

SG&A of $442 million for the year ended December 30, 2020 increased $101 million, or 29%, compared to the same period in 2019 to support the continued growth of the segment. The increase was primarily driven by impairment charges and losses related to the divested Fabory business in 2020, partially offset by an intangible asset impairment charge for the Cromwell business in the year ended December 31, 2019.

Operating losses of $329 million for the year ended December 31, 2020 increased $191 million, or 140%, compared to the same period in 2019. The increase was primarily due to the Fabory business divestiture.

Financial Condition

Grainger believes its current balances 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. The Company 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 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.

For a full discussion related to the financial condition for the fiscal year ended December 31, 2019, including a year-to-year comparison between 2020 and 2019, see Part II, Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations in Grainger's Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Cash, Cash Equivalents and Liquidity

At December 31, 2021 and 2020, Grainger had cash and cash equivalents of $241 million and $585 million, respectively. The decrease in cash was primarily due to increased investment in capital expenditures and higher inventory purchases to meet customer demand. As of December 31, 2021, the Company had approximately $1.5 billion in available liquidity.

Cash Flows

Net cash provided by operating activities was $937 million and $1,123 million for the years ended December 31, 2021 and 2020, respectively. The decrease in cash provided by operating activities was driven by working capital, primarily related to an increase in accounts receivable due to strong sales growth and inventory purchases to meet customer demand.

Net cash used in investing activities was $226 million and $179 million for the years ended December 31, 2021 and 2020, respectively. This increase in net cash used in investing activities was primarily driven by investments in the Company's supply chain infrastructure.

Net cash used in financing activities was $1,039 million and $726 million for the years ended December 31, 2021 and 2020, respectively. The increase in net cash used in financing activities was primarily driven by higher 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 growth initiatives including capital expenditures. Working capital was $2,455 million at December 31, 2021, compared to $2,220 million at December 31, 2020. The increase was primarily driven by an increase in accounts receivable due to strong sales growth, partially offset by an increase in accounts payable due to higher inventory purchases to meet customer demand. At these dates, the ratio of current assets to current liabilities was 2.7 and 2.6, respectively.

Capital Expenditures

For the year ending December 31, 2021 and 2020, capital expenditures were $255 million and $197 million, respectively. The increase was due to the Company's investment in the North American and Japanese distribution networks. In addition, the Company invested in the development of inventory management and technology enhancements.

Project spending for 2022 is expected to be in the range of $275 million and $325 million, which includes DC investments in the U.S. and Japan and IT enhancements. Grainger expects to fund 2022 capital spending primarily from operating cash flows.

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 bank borrowings under lines of credit.

Total debt, which is defined as total interest-bearing debt and lease liabilities as a percent of total capitalization, was 55.4% and 55.6%, as of December 31, 2021 and 2020, respectively.

Grainger receives ratings from two independent credit ratings 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 December 31, 2021:

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

Commitments and Other Contractual Obligations

At December 31, 2021, the Company's material cash requirements for commitments and other contractual obligations, included outstanding debt obligations (Senior Notes) with varying maturities for an aggregate principal amount of $2,384 million, with no amount payable within 12 months. Future interest payments associated with the Senior Notes total $1,921 million, with $87 million payable within 12 months.

Additionally, as of December 31, 2021, the Company had purchase obligations of $1,505 million, which includes $1,361 million payable within 12 months. Grainger's purchase obligations primarily include commitments to purchase inventory and other goods and services and uncompleted additions to property, buildings and equipment. Purchase obligations are made in the normal course of business to meet operating needs. While purchase orders for both inventory purchases and non-inventory purchases are generally cancellable without penalty, certain vendor agreements provide for cancellation fees or penalties depending on the terms of the contract.

Critical Accounting Estimates

The preparation of Grainger’s Consolidated Financial Statements and accompanying notes are in conformity with GAAP and the Company’s discussion and analysis of its financial condition and operating results require the Company’s management to make assumptions and estimates that affect the reported amounts. 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 the assumptions and estimates used are reasonable, the Company’s management bases its estimates on historical experience and on various other assumptions it believes to be reasonable under the circumstances. Note 1 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K describes the significant accounting policies and methods used in the preparation of the Company’s Consolidated Financial Statements.

Inventories

Company inventories primarily consist of merchandise purchased for resale and are valued at the lower of cost or net realizable value. The majority of the Company’s inventory is accounted for using the last-in, first-out (LIFO) method. Net realizable value is based on an analysis of inventory trends including, but not limited to, reviews of inventory levels, sales and cost information and on-hand quantities relative to the sales history for the product and shelf-life. The Company's methodology for estimating whether adjustments are necessary is continually evaluated for factors including significant changes in product demand, liquidation or disposition history values and market conditions such as inflation and other acquisition costs, including freight and duties. If business or economic conditions change, estimates and assumptions may be adjusted as deemed appropriate.

Goodwill and Other Intangible Assets

The Company evaluates goodwill and indefinite-lived intangible assets for impairment annually during the fourth quarter and more frequently if impairment indicators exist. The fair value of reporting units is calculated primarily using the discounted cash flow method and utilizing value indicators from a market approach to evaluate the reasonableness of the resulting fair values. The Company’s indefinite-lived intangible assets are primarily trade names. The fair value of trade names is calculated primarily using the relief-from-royalty method, which estimates the expected royalty savings attributable to the ownership of the trade name asset.

The estimates used to calculate the fair values of reporting units and indefinite-lived intangible assets involve the use of significant assumptions, estimates and judgments and changes from year to year based on operating results, market conditions, macroeconomic developments and other factors. Changes in these estimates and assumptions could materially affect the determination of fair value and impairment for each reporting unit and indefinite-lived intangible asset. For further information on the Company's goodwill and other intangible assets, see Note 5 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

Contingencies and Legal Matters

The Company is subject to various claims and legal proceedings that arise in the ordinary course of business, the outcomes of which are inherently uncertain. The Company accrues for costs relating to litigation claims and other contingent matters when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated. A detailed summary of the Company’s contingencies and legal matters is included in Note 15 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

Forward-Looking Statements

From time to time in this Annual Report on Form 10-K 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 (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, 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, adaptions to the Company's controls and procedures required by working remote arrangements, 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; inflation, higher product costs or other expenses, including operational 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, manage 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 commercial disputes, or privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; failure to comply with laws, regulations and standards, including new or stricter environmental laws or regulations; 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; effects of climate change; competition for, or failure to attract, retain, train, motivate and develop 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 and elsewhere in this Form 10-K.

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 7A: Quantitative and Qualitative Disclosures About Market Risk

Grainger's primary market risk exposures is as follows:

Foreign Currency Exchange Rates

Grainger’s financial results, including the value of assets and liabilities, are exposed to foreign currency exchange rate risk when the financial statements of the business units outside the U.S., as stated in their local currencies, are translated into U.S. dollars. For the fiscal year ended December 31, 2021, approximately 21% of the Company's net sales were denominated in a currency other than the Company's functional U.S. dollar currency. Consequently, the Company is exposed to the impact of exchange rate volatility primarily between the U.S. dollar and the Japanese yen, Canadian dollar and the British pound sterling. In February 2020, Grainger entered into certain derivative instrument agreements to manage this risk. A hypothetical 10% change in the relative value of the U.S. dollar would not materially impact the Company's net earnings for 2021.

For derivative instrument information, see Note 12 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

Interest Rate Risks

Grainger is exposed to interest rate risk on its long-term debt. In February 2020, Grainger entered into certain derivative instrument agreements to hedge a portion of its fixed-rate long-term debt to manage this risk. The annualized effect of a 0.1 percentage point increase in interest rates on Grainger’s variable-rate debt obligations did not have a material impact on the Company's net earnings for 2021.

For long-term debt and derivative instrument information, see Note 6 and Note 12 of the Notes to Consolidated Financial Statements in Part II, Item 8: Financial Statements and Supplementary Data of this Form 10-K.

Commodity Price Risk

Grainger’s transportation costs are exposed to fluctuations in the price of fuel and some sourced products contain commodity-priced materials. The Company regularly monitors commodity trends and, as a broad line supplier, mitigates any material exposure to commodity price risk by having alternative sourcing plans in place that mitigate the risk of supplier concentration, passing commodity-related inflation to customers or suppliers and continuing to scale its distribution networks, including its transportation infrastructure.

Item 8: Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
W.W. Grainger, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of W.W. Grainger, Inc. and Subsidiaries (the Company) as of December 31, 2021 and 2020, the related consolidated statements of earnings, comprehensive earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

	Valuation of Goodwill for the Canadian Reporting Unit
Description of the Matter	At December 31, 2021, the goodwill balance of the Canada business reporting unit was \$129 million. As discussed in Notes 1 and 5 of the financial statements, goodwill is tested at the reporting unit level annually during the fourth quarter and more frequently if impairment indicators exist. Auditing management's annual goodwill impairment analysis is complex and highly judgmental due to certain assumptions that are significant to the analysis. Management performed an annual impairment analysis in the fourth quarter to evaluate changes in key assumptions and results since the last impairment test. The more subjective assumptions used in the analysis were projections of future revenue growth and operating expenditures as well as the discount rate used, which are all affected by expectations about future market or economic conditions.
How We Addressed the Matter in Our Audit	Our audit procedures included, among others obtaining an understanding, evaluating the design and testing the operating effectiveness of controls over the Company's goodwill impairment analysis, including controls over management's review of the significant assumptions described above. To test management's annual goodwill impairment analysis of the Canada business reporting unit, we performed audit procedures that included, among others, evaluating the key assumptions and results considering the relevant events and circumstances identified since the date the last fair value calculation. We compared the significant assumptions used by management to current industry and economic trends, changes to the Company's business model, customer product mix, and other relevant factors. We also assessed the historical accuracy of management's estimates and performed sensitivity analyses of significant assumptions to evaluate the changes in fair value that would result from changes in the assumptions utilized in the last quantitative assessment. In addition, we reviewed the reconciliation of the fair value of the reporting units to the market capitalization of the Company and tested the completeness and accuracy of the underlying data used by management in its analysis.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 2005.

Chicago, Illinois
February 23, 2022

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

	For the Years Ended December 31,		
	2021	2020	2019
Net sales	$ 13,022	$ 11,797	$ 11,486
Cost of goods sold	8,302	7,559	7,089
Gross profit	4,720	4,238	4,397
Selling, general and administrative expenses	3,173	3,219	3,135
Operating earnings	1,547	1,019	1,262
Other (income) expense:			
Interest expense – net	87	93	79
Other – net	(25)	(21)	(26)
Total other expense – net	62	72	53
Earnings before income taxes	1,485	947	1,209
Income tax provision	371	192	314
Net earnings	1,114	755	895
Less: Net earnings attributable to noncontrolling interest	71	60	46
Net earnings attributable to W.W. Grainger, Inc.	$ 1,043	$ 695	$ 849
Earnings per share:			
Basic	$ 19.94	$ 12.88	$ 15.39
Diluted	$ 19.84	$ 12.82	$ 15.32
Weighted average number of shares outstanding:			
Basic	51.9	53.5	54.7
Diluted	52.2	53.7	54.9

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

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF COMPREHENSIVE EARNINGS
(In millions of dollars)

	For the Years Ended December 31,		
	2021	2020	2019
Net earnings	$ 1,114	$ 755	$ 895
Other comprehensive earnings (losses):			
Foreign currency translation adjustments – net of reclassification to earnings (see Note 2 and Note 11)	(64)	83	26
Postretirement benefit plan gains (losses) – net of tax benefit (expense) of $—, $(7), and $2, respectively (see Note 7 and Note 11)	—	22	(6)
Total other comprehensive earnings (losses)	(64)	105	20
Comprehensive earnings – net of tax	1,050	860	915
Less: Comprehensive earnings (losses) attributable to noncontrolling interest			
Net earnings	71	60	46
Foreign currency translation adjustments	(29)	12	3
Total comprehensive earnings (losses) attributable to noncontrolling interest	42	72	49
Comprehensive earnings attributable to W.W. Grainger, Inc.	$ 1,008	$ 788	$ 866

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

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

	As of December 31,	
Assets	2021	2020
Current assets		
Cash and cash equivalents	$ 241	$ 585
Accounts receivable (less allowance for credit losses of $30 and $27, respectively)	1,754	1,474
Inventories – net	1,870	1,733
Prepaid expenses and other current assets	146	127
Total current assets	4,011	3,919
Property, buildings and equipment – net	1,424	1,395
Goodwill	384	391
Intangibles – net	238	228
Operating lease right-of-use	393	210
Other assets	142	152
Total assets	$ 6,592	$ 6,295
Liabilities and shareholders' equity		
Current liabilities		
Current maturities of long-term debt	—	8
Trade accounts payable	816	779
Accrued compensation and benefits	319	307
Operating lease liability	66	57
Accrued expenses	290	248
Income taxes payable	37	42
Total current liabilities	1,528	1,441
Long-term debt (less current maturities)	2,362	2,389
Long-term operating lease liability	334	162
Deferred income taxes and tax uncertainties	121	110
Other non-current liabilities	87	100
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	1,270	1,239
Retained earnings	9,500	8,779
Accumulated other comprehensive losses	(96)	(61)
Treasury stock, at cost – 58,439,014 and 57,134,828 shares, respectively	(8,855)	(8,184)
Total W.W. Grainger, Inc. shareholders' equity	1,874	1,828
Noncontrolling interest	286	265
Total shareholders' equity	2,160	2,093
Total liabilities and shareholders' equity	$ 6,592	$ 6,295

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

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

	For the Years Ended December 31,		
	2021	2020	2019
Cash flows from operating activities:			
Net earnings	$ 1,114	$ 755	$ 895
Provision for credit losses	18	22	12
Deferred income taxes and tax uncertainties	27	(5)	4
Depreciation and amortization	185	182	229
Impairment of goodwill, intangible and long-lived assets	—	187	123
Net (gains) losses from sales of assets and business divestitures	(6)	106	(6)
Stock-based compensation	42	46	40
Subtotal	266	538	402
Change in operating assets and liabilities			
Accounts receivable	(324)	(121)	(42)
Inventories	(152)	(158)	(106)
Prepaid expenses and other assets	(15)	(23)	(33)
Trade accounts payable	54	80	32
Accrued liabilities	43	15	(84)
Income taxes – net	(26)	24	(3)
Other non-current liabilities	(23)	13	(19)
Subtotal	(443)	(170)	(255)
Net cash provided by operating activities	937	1,123	1,042
Cash flows from investing activities:			
Additions to property, buildings, equipment and intangibles	(255)	(197)	(221)
Proceeds from sale or redemption of assets and business divestitures	29	20	17
Other – net	—	(2)	2
Net cash used in investing activities	(226)	(179)	(202)
Cash flows from financing activities:			
Borrowings under lines of credit	—	12	20
Payments against lines of credit	—	(65)	(15)
Proceeds from long-term debt	—	1,584	—
Payments of long-term debt	(8)	(1,370)	(42)
Proceeds from stock options exercised	48	70	49
Payments for employee taxes withheld from stock awards	(30)	(18)	(11)
Purchases of treasury stock	(695)	(601)	(700)
Cash dividends paid	(357)	(338)	(328)
Other – net	3	—	4
Net cash used in financing activities	(1,039)	(726)	(1,023)
Exchange rate effect on cash and cash equivalents	(16)	7	5
Net change in cash and cash equivalents:	(344)	225	(178)
Cash and cash equivalents at beginning of year	585	360	538
Cash and cash equivalents at end of year	$ 241	$ 585	$ 360
Supplemental cash flow information:			
Cash payments for interest (net of amounts capitalized)	$ 87	$ 94	$ 84
Cash payments for income taxes	$ 377	$ 180	$ 322

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

W.W. Grainger, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In millions of dollars, except for per share amounts)

	Common Stock	Additional Contributed Capital	Retained Earnings	Accumulated Other Comprehensive Earnings (Losses)	Treasury Stock	Noncontrolling Interest	Total
Balance at January 1, 2019	$ 55	$ 1,134	$ 7,869	$ (171)	$ (6,966)	$ 172	$ 2,093
Stock-based compensation	—	45	—	—	33	—	78
Purchases of treasury stock	—	—	—	—	(700)	—	(700)
Net earnings	—	—	849	—	—	46	895
Other comprehensive earnings (losses)	—	—	—	17	—	3	20
Capital contribution	—	2	—	—	—	—	2
Cash dividends paid ($5.68 per share)	—	1	(313)	—	—	(16)	(328)
Balance at December 31, 2019	$ 55	$ 1,182	$ 8,405	$ (154)	$ (7,633)	$ 205	$ 2,060
Stock-based compensation	—	49	—	—	49	—	98
Purchases of treasury stock	—	—	—	—	(600)	(1)	(601)
Net earnings	—	—	695	—	—	60	755
Other comprehensive earnings (losses)	—	—	—	93	—	12	105
Capital contribution	—	7	—	—	—	7	14
Cash dividends paid ($5.94 per share)	—	1	(321)	—	—	(18)	(338)
Balance at December 31, 2020	$ 55	$ 1,239	$ 8,779	$ (61)	$ (8,184)	$ 265	$ 2,093
Stock-based compensation	—	31	—	—	28	1	60
Purchases of treasury stock	—	—	—	—	(699)	(1)	(700)
Net earnings	—	—	1,043	—	—	71	1,114
Other comprehensive earnings (losses)	—	—	—	(35)	—	(29)	(64)
Reclassification due to the adoption of ASU 2019-12	—	—	12	—	—	—	12
Capital contribution	—	—	—	—	—	2	2
Cash dividends paid ($6.39 per share)	—	—	(334)	—	—	(23)	(357)
Balance at December 31, 2021	$ 55	$ 1,270	$ 9,500	$ (96)	$ (8,855)	$ 286	$ 2,160

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 “Grainger” or “Company” 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.

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 its updated intersegment accounting policies. For further segment information, see Note 14.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of the Company and its subsidiaries over which the Company exercises control. All significant intercompany transactions are eliminated from the Consolidated Financial Statements. The Company has a controlling ownership interest in MonotaRO, the endless assortment business in Japan, with the residual representing the noncontrolling interest.

The Company reports MonotaRO on a one-month calendar lag allowing for the timely preparation of financial statements. This one-month reporting lag is with the exception of significant transactions or events that occur during the intervening period. During December 2021, MonotaRO entered into a lease for a new Distribution Center (DC), which the Company deemed significant and included in the Consolidated Financial Statements for the year ended December 31, 2021.

Reclassifications

Certain reclassifications have been made to prior year amounts in the Company's Consolidated Balance Sheets to conform with the current year presentation. Reclassifications were made to separately present operating lease right-of-use assets and current and long-term lease obligations that were previously presented as Other assets, Accrued expenses and Other non-current liabilities, respectively. The reclassifications had no effect on net earnings or cash flows for the years ended December 31, 2021, 2020, or 2019.

Use of Estimates

The preparation of the Company's Consolidated Financial Statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions affecting reported amounts in the Consolidated Financial Statements and accompanying notes. Actual results may differ from those estimates.

Foreign Currency Translation

The U.S. dollar is the Company's reporting currency for all periods presented. The financial statements of the Company’s foreign operating subsidiaries are measured using the local currency as the functional currency. Assets and liabilities of the Company’s foreign operating subsidiaries are translated into U.S. dollars at the exchange rate in effect at the balance sheet date. Revenues and expenses are translated at average rates in effect during the period. Translation gains or losses are recorded as a separate component of other comprehensive earnings (losses).

Revenue Recognition

The Company recognizes revenue when a sales arrangement with a customer exists (e.g., contract, purchase orders, others), the transaction price is fixed or determinable and the Company has satisfied its performance obligation per the sales arrangement.

The majority of Company revenue originates from contracts with a single performance obligation to deliver products, whereby performance obligations are satisfied when control of the product is transferred to the customer per the arranged shipping terms. Some Company contracts contain a combination of product sales and services, which are distinct and accounted for as separate performance obligations and are satisfied when the services are rendered. Total service revenue is not material and accounted for approximately 1% of the Company's revenue for the years ended December 31, 2021, 2020 and 2019, respectively.

The Company's revenue is measured at the determinable transaction price, net of any variable considerations granted to customers and any taxes collected from customers and subsequently remitted to governmental authorities. Variable considerations include rights to return products and sales incentives, which primarily consist of volume rebates. These variable considerations are estimated throughout the year based on various factors, including contract terms, historical experience and performance levels. Total accrued sales returns were approximately $34 million and $31 million as of December 31, 2021 and 2020, respectively, and are reported as a reduction of Accounts receivable, net. Total accrued sales incentives were approximately $73 million and $58 million as of December 31, 2021 and 2020, respectively, and are reported as part of Accrued expenses.

The Company records a contract asset when it has a right to payment from a customer that is conditioned on events other than the passage of time. The Company also records a contract liability when customers prepay but the Company has not yet satisfied its performance obligation. The Company did not have any material unsatisfied performance obligations, contract assets or liabilities as of December 31, 2021 and 2020.

Cost of Goods Sold (COGS)

COGS, exclusive of depreciation and amortization, includes the purchase cost of goods sold net of vendor considerations, in-bound shipping costs, outbound shipping and handling costs and service costs. The Company receives vendor considerations, such as rebates to promote their products, which are generally recorded as a reduction to COGS. Rebates earned from vendors that are based on product purchases are capitalized into inventory and rebates earned based on products sold are credited directly to COGS.

Selling, General and Administrative Expenses (SG&A)

Company SG&A is primarily comprised of depreciation and amortization, compensation and benefit costs, indirect purchasing, supply chain and branch operations, technology, leases, restructuring, impairments, advertising and selling expenses, as well as other types of general and administrative costs.

Advertising

Advertising costs, which include online marketing, are generally expensed in the year the related advertisement is first presented or when incurred. Total advertising expense was $402 million, $319 million and $316 million for 2021, 2020 and 2019, respectively.

Stock Incentive Plans

The Company measures all share-based payments using fair-value-based methods and records compensation expense on a straight-line basis over the vesting periods, net of estimated forfeitures.

Income Taxes

The Company recognizes the provision for income taxes using the asset and liability method, under which deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities, and for operating losses and tax credit carryforwards. Deferred tax assets and liabilities are measured using the currently enacted tax rates that apply to taxable income in effect for the years in which those tax assets are expected to be realized or settled. Also, the Company evaluates deferred income taxes to determine if valuation allowances are required using a "more likely than not" standard. This assessment considers the nature, frequency and amount of book and taxable income and losses, the duration of statutory carryback and forward periods, future reversals of existing taxable temporary differences and tax planning strategies, among other matters.

The Company recognizes tax benefits from uncertain tax positions only if (based on the technical merits of the position) it is more likely than not that the tax positions will be sustained on examination by the tax authority. The Company recognizes interest expense and penalties to its tax uncertainties in the provision for income taxes.

Other Comprehensive Earnings (Losses)

The Company's Other comprehensive earnings (losses) include foreign currency translation adjustments and unrecognized gains (losses) on postretirement and other employment-related benefit plans. Accumulated other comprehensive earnings (losses) (AOCE) are presented separately as part of shareholders' equity.

Cash and Cash Equivalents

The Company considers investments in highly liquid debt instruments, purchased with an original maturity of 90 days or less, to be cash equivalents.

Concentration of Credit Risk

The Company places temporary cash investments with institutions of high credit quality and, by policy, limits the amount of credit exposure to any one institution. Also, the Company has a broad customer base representing many diverse industries across North America, Japan and U.K. Consequently, no significant concentration of credit risk is considered to exist.

Accounts Receivable and Allowance for Credit Losses

The Company's accounts receivable arises primarily from sales on credit to customers and are stated at their estimated net realizable value. The Company establishes allowances for credit losses on customer accounts that are potentially uncollectible. These allowances are determined based on several factors, including the age of the receivables, historical collection trends and economic conditions that may have an impact on a specific industry, group of customers or a specific customer.

The Company establishes an allowance for credit losses to present the net amount of accounts receivable expected to be collected. The allowance is determined by using the loss-rate method, which requires an estimation of loss rates based upon historical loss experience adjusted for factors that are relevant to determining the expected collectability of accounts receivable. Some of these factors include macroeconomic conditions that correlate with historical loss experience, delinquency trends, aging behavior of receivables and credit and liquidity quality indicators for industry groups, customer classes or individual customers.

Inventories

Company inventories primarily consist of merchandise purchased for resale, and they are valued at the lower of cost or net realizable value. The Company uses the last-in, first-out (LIFO) method to account for approximately 75% of total inventory and the first-in, first-out (FIFO) method for the remaining inventory. The Company regularly reviews inventory to evaluate continued demand and records excess and obsolete provisions representing the difference between excess and obsolete inventories and net realizable value. Estimated net realizable value considers various variables, including product demand, aging and shelf life, market conditions, and liquidation or disposition history and values.

If FIFO had been used for all of the Company's inventories, they would have been $510 million and $446 million higher than reported at December 31, 2021 and December 31, 2020, respectively. Concurrently, net earnings would have increased by $49 million, $15 million and $24 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Property, Buildings and Equipment

Property, buildings and equipment are stated at cost, less accumulated depreciation. Depreciation is computed over the estimated useful lives of the asset classes using the straight-line method. Useful lives for buildings, structures and improvements range from 10 to 50 years and furniture, fixtures, machinery and equipment from three to 15 years. Amounts expended for maintenance and repairs are charged to expense as incurred.

Historically, Grainger had depreciated certain property, buildings and equipment using both the declining balance and sum-of-the-years' digits methods as well as certain buildings over estimated useful lives of approximately thirty years. In accordance with its policy, the Company periodically reviews information impacting the pattern of consumption for its capital assets and useful lives to ensure that estimates of depreciation expenses are appropriate. The Company's investment in its supply chain infrastructure and technology triggered the review of these patterns of consumption. Pursuant to the review and effective January 1, 2020, the method of estimating depreciation for certain assets was changed to the straight-line method and updated useful lives to forty and fifty years. The Company determined that these changes in depreciation method and useful lives were considered a change in accounting estimate effected by a change in accounting principle, and as such have been accounted for on a prospective basis. Grainger believes the changes to the straight-line method and useful lives are appropriate estimations of the Company's current patterns of economic consumption of its capital assets and appropriately match current revenues and costs over updated estimates of the assets' useful lives. The effect of these changes resulted in a decrease of $34 million to depreciation expense for the year ended December 2020.

Depreciation expense was $123 million, $116 million and $150 million for the years ended December 31, 2021, 2020 and 2019, respectively.

The Company capitalized interest costs of $1 million, $4 million and $9 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Long-Lived Assets

The carrying value of long-lived assets, primarily property, buildings and equipment and amortizable intangibles, is evaluated whenever events or changes in circumstances indicate that the carrying value of the asset group may be impaired. An impairment loss is recognized when estimated undiscounted future cash flows resulting from use of the asset, including disposition, are less than their carrying value. Impairment is measured as the amount by which the asset's carrying amount exceeds the fair value.

Leases

The Company leases certain properties and buildings (including branches, warehouses, DCs and office space) and equipment under various arrangements which provide the right to use the underlying asset and require lease payments for the lease term. The Company determines if an arrangement contains a lease at inception. Leases with an initial term of more than 12 months are recorded on the balance sheet as right-of-use (ROU) assets representing the right to use the underlying asset for the lease term and the corresponding current and long-term lease liabilities representing the obligation to make lease payments arising from the lease.

ROU assets and lease liabilities are recognized at the lease commencement or possession date based on the present value of lease payments over the lease term and include options to extend or terminate the lease when they are reasonably certain to be exercised. The present value of lease payments is determined primarily using the incremental borrowing rate based on the information available at the lease commencement date. The incremental borrowing rate, the ROU asset and the lease liability are re-evaluated upon a lease modification.

Certain lease agreements include variable lease payments that primarily include payments for non-lease components including pass-through operating expenses such as certain maintenance costs and utilities, and payments for non-components such as real estate taxes and insurance. Lease agreements with fixed lease and non-lease components are generally accounted for as a single lease component for all underlying classes of assets. Certain of the Company's lease arrangements contain renewal provisions from one to 30 years, exercisable at the Company's option. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company's operating lease expense is recognized on a straight-line basis over the lease term and is recorded in SG&A.

Goodwill and Other Intangible Assets

In a business acquisition, the Company recognizes goodwill as the excess purchase price of an acquired reporting unit over the net amount assigned to assets acquired including intangible assets and liabilities assumed. Acquired intangibles include both assets with indefinite lives and assets that are subject to amortization, which are amortized straight-line over their estimated useful lives.

The Company tests goodwill and indefinite-lived intangibles for impairment annually during the fourth quarter and more frequently if impairment indicators exist. The Company performs 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 COVID-19 pandemic to determine the existence of impairment indicators and assess if it is more likely than not that the fair value of the reporting unit or indefinite-lived intangible asset is less than its carrying value that would necessitate a quantitative impairment test. In the quantitative test, Grainger compares the carrying value of the reporting unit or an indefinite-lived intangible asset with its fair value. Any excess of the carrying value over fair value is recorded as an impairment charge, presented as part of SG&A.

The fair value of reporting units is calculated primarily using the discounted cash flow method and utilizing value indicators from a market approach to evaluate the reasonableness of the resulting fair values. Estimates of market-participant risk-adjusted weighted average cost of capital are used as a basis for determining the discount rates to apply to the reporting units’ future expected cash flows and terminal value.

The Company’s indefinite-lived intangibles are primarily trade names. The fair value of trade names is calculated primarily using the relief-from-royalty method, which estimates the expected royalty savings attributable to the ownership of the trade name asset. The key assumptions when valuing a trade name are the revenue base, the royalty rate, and the discount rate.

Additionally, the Company capitalizes certain costs related to the purchase and development of internal-use software, which are presented as intangible assets. Amortization of capitalized software is on a straight-line basis over three or five years.

Accounting for Derivative Instruments

The Company recognizes all derivative instruments as assets or liabilities in the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and, further, on the type of hedging relationship.

To qualify for hedge accounting, a derivative must be highly effective at reducing the risk associated with the exposure being hedged. In addition, for a derivative to be designated as a hedge, the risk management objective and strategy must be documented. Hedge documentation must identify the derivative hedging instrument, the asset or liability or forecasted transaction, type of risk to be hedged, and how the effectiveness of the derivative is assessed prospectively and retrospectively. To assess effectiveness, the Company uses statistical methods and qualitative comparisons of critical terms. The extent to which a derivative has been and is expected to continue to be, highly effective at offsetting changes in the fair value or cash flows of the hedged item is assessed and documented periodically. If it is determined that a derivative is not highly effective at hedging the designated exposure, hedge accounting is discontinued. For those derivative instruments that are designated and qualify as hedging instruments, the Company classifies them as fair value hedges or cash flow hedges.

Contingencies

The Company accrues for costs relating to litigation claims and other contingent matters when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

New Accounting Standards

Accounting Pronouncements Recently Adopted

In October 2020, the Financial Accounting Standards Board (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 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 Consolidated 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 Consolidated Financial Statements.

In December 2019, the FASB issued 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 Consolidated Financial Statements.

Accounting Pronouncements Recently Issued

In November 2021, the FASB issued ASU 2021-10, *Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance.* This update provides increased transparency of government assistance including the disclosure of the types of assistance an entity receives, an entity's method of accounting for government assistance and the effect of the assistance on an entity's financial statements. The guidance is effective for annual periods beginning after December 15, 2021 and should be applied prospectively or retrospectively. Early adoption is permitted. The Company is currently evaluating the impact of this accounting standard and does not expect a material impact on the Financial Statements or related disclosures.

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 or evaluated on or before December 31, 2022. The Company evaluated the impact of this ASU and it does not expect a material impact on the Consolidated Financial Statements.

NOTE 2 - BUSINESS DIVESTITURES AND LIQUIDATIONS

Consistent with the Company's strategic focus on broad line MRO distribution in key markets, Grainger divested the Fabory business in Europe (Fabory) on June 30, 2020 and the China business (China) on August 21, 2020. Accordingly, the Company's Consolidated Statements of Earnings, Comprehensive Earnings and Cash Flows and related notes include Fabory and China results through the respective dates of divestiture. The proceeds from these divestitures were used to fund general corporate needs.

During the second and third quarters of 2020, Grainger recognized a net loss of approximately $109 million and a gain of $5 million in SG&A as a result of the Fabory and China divestitures, respectively, which included net accumulated foreign currency translation losses of $45 million, that were reclassified from Accumulated other comprehensive earnings (losses) (AOCE) to SG&A. During the fourth quarter of 2020, the Company commenced the liquidation of ZTE and recognized $9 million in expense in SG&A associated with the wind down of the business.

NOTE 3 - REVENUE

Grainger serves a large number of customers in diverse industries, which are subject to different economic and market specific factors. Revenue is primarily comprised of MRO product sales and related activities, such as freight and services. The Company's presentation of revenue by reportable segment and industry most reasonably depicts how the nature, amount, timing and uncertainty of the Company's 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 and in the Endless Assortment segment, a majority of revenue is derived from spot buys.

The following table presents the Company's percentage of revenue by reportable segment and by major customer industry:

	Twelve Months Ended December 31,								
	2021			2020			2019		
	High-Touch Solutions N.A.	Endless Assortment	Total Company (2)	High-Touch Solutions N.A.	Endless Assortment	Total Company (2)	High-Touch Solutions N.A.	Endless Assortment	Total Company (2)
Contractors	9 %	16 %	10 %	9 %	15 %	10 %	10 %	16 %	10 %
Commercial	9	15	10	8	15	9	10	15	11
Government	18	3	15	20	3	16	17	3	14
Healthcare	7	2	6	9	2	7	7	1	6
Manufacturing	30	29	30	29	29	30	31	31	31
Retail/ Wholesale	10	10	10	9	10	9	8	10	8
Transportation	5	3	5	5	3	5	6	3	5
Other (1)	12	22	14	11	23	14	11	21	15
Total net sales	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %
Percent of Total Company Revenue	78 %	20 %	100 %	78 %	18 %	100 %	79 %	16 %	100 %

(1) Other 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, as well as the Fabory and China businesses in the periods prior to their divestitures in the second and third quarter of 2020, respectively. Other businesses account for approximately 2%, 4% and 5% of revenue for the twelve months ended December 31, 2021, 2020 and 2019, respectively.

NOTE 4 - PROPERTY, BUILDINGS AND EQUIPMENT

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

	As of	
	December 31, 2021	December 31, 2020
Land	$ 329	$ 329
Building, structures and improvements	1,431	1,330
Furniture, fixtures, machinery and equipment	1,567	1,878
Property, buildings and equipment	$ 3,327	$ 3,537
Less: Accumulated depreciation and amortization	1,903	2,142
Property, buildings and equipment, net	$ 1,424	$ 1,395

During the first quarter of 2020, the Company recorded impairment charges in SG&A in connection with the impairment of Fabory’s long-lived assets, including property, buildings and equipment for approximately $24 million. The Company divested Fabory during the second quarter of 2020.

NOTE 5 - GOODWILL AND OTHER INTANGIBLE ASSETS

Grainger completed its annual impairment testing of goodwill and intangible assets during the fourth quarter of 2021 and 2020. Based on the results of that testing, the Company concluded that it was more likely than not that the fair value of the reporting units exceeded their carrying amounts at each respective period.

High-Touch Solutions N.A. – Canada Business

In the second quarter of 2020, qualitative tests indicated the existence of impairment indicators for the Canada business given the slowdowns in global oil markets and the economic repercussions from the COVID-19 pandemic in Canada. As such, a quantitative test was performed to evaluate whether any impairment of goodwill was necessary. Based on the result of the quantitative test, the Company concluded there was no impairment of goodwill.

During the subsequent annual impairment testing of the Canada business goodwill in 2020 and 2021, the Company performed qualitative assessments, which included evaluations of changes in key assumptions, notably projections of revenue growth, factors that could impact the discount rate used in the analysis, and the improvement in operating leverage since the performance of the last quantitative impairment test. As part of this assessment, Grainger compared the current results to the forecasted expectations of the most recent quantitative analysis, along with analyzing macroeconomic conditions, current industry trends and transactions, and other market data of industry peers. The Company did not identify any significant events or changes in circumstances that indicated the existence of impairment indicators, as such, additional quantitative assessments were not required and concluded that it was more likely than not that the fair value of the Canada business reporting unit exceeded its carrying amount. At December 31, 2021, the reporting unit's goodwill balance was $129 million.

The Company 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	—	(7)	—	(7)
Balance at December 31, 2021	$ 321	$ 63	$ —	$ 384

The cumulative goodwill impairments as of December 31, 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 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 twelve months ended December 31, 2021, and December 31, 2020, respectively.

The balances and changes in intangible assets, net are as follows (in millions of dollars):

		As of December 31,					
		2021			2020		
	Weighted average life	Gross carrying amount	Accumulated amortization/ impairment	Net carrying amount	Gross carrying amount	Accumulated amortization/ impairment	Net carrying amount
Customer lists and relationships	11.8 years	$ 221	$ 176	$ 45	$ 223	$ 171	$ 52
Trademarks, trade names and other	14.1 years	36	24	12	36	22	14
Non-amortized trade names and other	Indefinite	25	—	25	28	—	28
Capitalized software	4.4 years	525	369	156	461	327	134
Total intangible assets	6.9 years	$ 807	$ 569	$ 238	$ 748	$ 520	$ 228

Amortization expense of intangible assets presented in SG&A, excluding impairment charges was $63 million, $60 million, and $78 million for the years ended December 31, 2021, 2020 and 2019, respectively.

Estimated amortization expense for future periods is as follows (in millions of dollars):

Year	Expense
2022	$ 54
2023	41
2024	31
2025	24
2026	19
Thereafter	44
Total	$ 213

NOTE 6 - DEBT

In February 2020, the Company entered into a five-year unsecured credit agreement pursuant to which the Company may obtain loans in various currencies on a revolving basis in an aggregate amount not exceeding the U.S. Dollar equivalent of $1.25 billion ($1.25 billion credit facility), which may be increased from time to time up to $1.875 billion at the request of the Company, subject to approval from lenders and other customary conditions. The $1.25 billion credit facility replaced the Company's former $750 million unsecured revolving credit facility, which originated in October 2017 and was scheduled to mature in October 2022.

There were no borrowings outstanding under the line of credit as of December 31, 2021 and 2020. The primary purpose of this credit facility is to support the Company's commercial paper program and for general corporate purposes. The Company issues commercial paper from time to time for general working capital needs. At December 31, 2021 and 2020, there was none outstanding.

The Company's debt instruments include affirmative and negative covenants that are usual and customary for companies with similar credit ratings and do not contain any financial performance covenants. The Company was in compliance with all debt covenants as of December 31, 2021.

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

	As of December 31,			
	2021		2020	
	Carrying Value	Fair Value [4]	Carrying Value	Fair Value [4]
4.60% senior notes due 2045 [1]	1,000	1,284	$ 1,000	$ 1,343
3.75% senior notes due 2046 [1]	400	459	400	479
4.20% senior notes due 2047 [1]	400	492	400	514
1.85% senior notes due 2025 [2]	500	509	500	526
Japanese Yen term loan [3]	78	78	87	87
Other	7	7	34	34
Subtotal	2,385	2,829	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)	$ 2,362	$ 2,806	$ 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 semiannually.
- In May 2016, $400 million payable in 30 years and carries a 3.75% interest rate, payable semiannually.
- In June 2015, $1 billion payable in 30 years and carries a 4.60% interest rate, payable semiannually.

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, 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 associated with the issuance of the 1.85% Notes, 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 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.

The carrying value adjustments resulting from the interest rate swaps in both periods are presented within Other in the table above. For further discussion of the Company's hedge accounting policies and derivative instruments, see Notes 1 and 12.

(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 inputs within the fair value hierarchy. The carrying value of other long-term debt approximates fair value due to their variable interest rates.

The scheduled aggregate principal payments required on the Company's indebtedness, based on the maturity dates defined within the debt arrangements, for the succeeding five years, excluding debt issuance costs and the impact of derivatives, are due as follows (in millions of dollars):

Year	Payment Amount
2022	$ —
2023	39
2024	40
2025	500
2026	5
Thereafter	1,800
Total	$ 2,384

NOTE 7 - EMPLOYEE BENEFITS

The Company provides various retirement benefits to eligible team members, including contributions to defined contribution plans, pension benefits associated with defined benefit plans, postretirement medical benefits and other benefits. Eligibility requirements and benefit levels vary depending on team member location. Various foreign benefit plans cover team members in accordance with local legal requirements.

Defined Contribution Plans

A majority of the Company's U.S. team members are covered by a retirement savings plan, adopted as of January 1, 2021. The new plan amended and restated the prior noncontributory profit-sharing plan, which previously aligned Company contributions to Company performance and included two components, a variable annual contribution based on the Company's rate of return on invested capital and an automatic contribution equal to 3% of the eligible team member's total eligible compensation. As part of the amendment, beginning in 2021, the profit-sharing contribution was removed, and the Company's automatic contribution increased from 3% to 6% of total eligible participants' compensation. In addition, team members covered by the plan are also able to make personal contributions.

The total retirement savings plan expense was $78 million for 2021. The total profit-sharing plan expense was $99 million and $113 million for 2020 and 2019, respectively.

The Company sponsors additional defined contribution plans available to certain U.S. and foreign team members for which contributions are made by the Company and participating team members. The expense associated with these defined contribution plans totaled $16 million, $16 million, and $19 million for 2021, 2020 and 2019, respectively.

Postretirement Healthcare Benefits Plans

The Company has a postretirement healthcare benefits plan that provides coverage for a majority of its U.S. team members hired prior to January 1, 2013, and their dependents should they elect to maintain such coverage upon retirement. Covered team members become eligible for participation when they qualify for retirement while working for the Company. Participation in the plan is voluntary and requires participants to make contributions toward the cost of the plan, as determined by the Company.

The net periodic benefits costs were valued with a measurement date of January 1 for each year and consisted of the following components (in millions of dollars):

	For the Years Ended December 31,		
	2021	2020	2019
SG&A			
Service cost	$ 5	$ 5	$ 4
Other (income) expense			
Interest cost	3	6	7
Expected return on assets	(8)	(8)	(12)
Amortization of prior service credit	(9)	(10)	(10)
Amortization of unrecognized gains	(8)	(5)	(4)
Net periodic (benefits) costs	$ (17)	$ (12)	$ (15)

Reconciliations of the beginning and ending balances of the postretirement benefit asset (obligation), which is calculated as of December 31 measurement date, the fair value of plan assets available for benefits and the funded status of the benefit asset (obligation) follow (in millions of dollars):

	2021	2020
Benefit obligation at beginning of year	$ 167	$ 200
Service cost	5	5
Interest cost	3	6
Plan participants' contributions	3	3
Actuarial (gains)/losses	(14)	(38)
Benefits paid	(11)	(9)
Benefit obligation at end of year	$ 153	$ 167
Plan assets available for benefits at beginning of year	$ 206	$ 198
Actual returns on plan assets	9	14
Plan participants' contributions	3	3
Benefits paid	(11)	(9)
Plan assets available for benefits at end of year	207	206
Noncurrent postretirement benefit asset (obligation)	$ 54	$ 39

The amounts recognized in AOCE consisted of the following (in millions of dollars):

	As of December 31,	
	2021	2020
Prior service credit	$ 42	$ 51
Unrecognized gains	90	83
Deferred tax (liability)	(33)	(33)
Net accumulated gains	$ 99	$ 101

The Company has elected to amortize the amount of net unrecognized gains over a period equal to the average remaining service period for active plan participants expected to retire and receive benefits of approximately 10.5 years for 2021.

The postretirement benefit obligation was determined by applying the terms of the plan and actuarial models. These models include various actuarial assumptions, including discount rates, long-term rates of return on plan assets, healthcare cost trend rate and cost-sharing between the Company and the retirees. The Company evaluates its actuarial assumptions on an annual basis and considers changes in these long-term factors based upon market conditions and historical experience. The actuarial gains recognized during the plan year are primarily related to changes in assumptions related to certain retiree coverage elections, health reimbursement arrangement (HRA) subsidy and changes to the discount rate.

The following assumptions were used to determine net periodic benefit costs at January 1 of each year:

	For the Years Ended December 31,		
	2021	2020	2019
Discount rate	2.17 %	3.01 %	4.08 %
Long-term rate of return on plan assets – net of tax	4.04 %	4.04 %	7.13 %
Initial healthcare cost trend rate			
Pre age 65	5.81 %	6.06 %	6.31 %
Post age 65	NA	NA	NA
Catastrophic drug benefit	NA	NA	NA
Ultimate healthcare cost trend rate	4.50 %	4.50 %	4.50 %
Year ultimate healthcare cost trend rate reached	2026	2026	2026
HRA credit inflation index for grandfathered retirees	— %	2.50 %	2.50 %

The following assumptions were used to determine benefit obligations at December 31:

	2021	2020	2019
Discount rate	2.57 %	2.17 %	3.01 %
Expected long-term rate of return on plan assets – net of tax	4.04 %	4.04 %	4.04 %
Initial healthcare cost trend rate			
Pre age 65	6.50 %	5.81 %	6.06 %
Post age 65	NA	NA	NA
Catastrophic drug benefit	NA	NA	NA
Ultimate healthcare cost trend rate	4.50 %	4.50 %	4.50 %
Year ultimate healthcare cost trend rate reached	2030	2026	2026
HRA credit inflation index for grandfathered retirees	— %	— %	2.50 %

The discount rate assumptions reflect the rates available on high-quality fixed-income debt instruments as of December 31, the measurement date of each year. These rates have been selected due to their similarity to the duration of the projected cash flows of the postretirement healthcare benefit plan. As of December 31, 2021, the Company increased the discount rate from 2.17% to 2.57% to reflect the increase in the market interest rates at December 31, 2021.

The Company reviews external data and its own historical trends for healthcare costs to determine the healthcare cost trend rates. As of December 31, 2021, the initial healthcare cost trend rate was 6.50% for pre age 65. The healthcare costs trend rates decline each year until reaching the ultimate trend rate of 4.50%. The plan amendment adopted in 2017 moves all post age 65 Medicare eligible retirees to an exchange and provides a subsidy to those retirees to purchase insurance. The amount of the subsidy is based on years of service for grandfathered team members.

The Company has established a Group Benefit Trust (Trust) to fund the plan obligations and process benefit payments. In 2019, the Company liquidated previously held index funds and temporarily invested all assets of the Trust in money market funds. In 2020, the Company transitioned the Trust assets from money market funds into a liability-driven investment solution which enhances the Trust's after-tax returns and de-risks the Company's exposure by more closely match-funding the underlying liability. This investment strategy reflects the long-term nature of the plan obligation and seeks to reach a balanced allocation between Fixed Income securities and Equities of 65% and 35%, respectively. The plan's assets are stated at fair value, which represents the net asset value of shares held by the plan in the registered investment companies at the quoted market prices (Level 1 input) or at significant other observable inputs (Level 2 input).

The plan assets available for benefits are net of Trust liabilities, primarily related to deferred income taxes and taxes payable at December 31 (in millions of dollars):

	2021	2020
Asset Class:		
Level 1 Inputs:		
Mutual Funds:		
Funds – Municipal/Provincial Bonds	$ 12	$ 13
Funds – Corporate Bonds Fund	5	5
Federal Money Market Fund	4	11
Level 2 Inputs:		
Fixed Income:		
Corporate Bonds	89	102
Government/Municipal Bonds	14	8
Equity Funds	85	66
Plan Assets	209	205
Less: trust assets/(liabilities)	(2)	1
Plan assets available for benefits	$ 207	$ 206

Consistent with the new investment strategy, the after-tax expected long-term rates of return on plan assets of 4.04% at December 31, 2021 is based on the historical average of long-term rates of return and an estimated tax rate. The required use of an expected long-term rate of return on plan assets may result in recognition of income that is greater or lower than the actual return on plan assets in any given year. Over time, however, the expected long-term returns are designed to approximate the actual long-term returns and, therefore, result in a pattern of income recognition that more closely matches the pattern of the services provided by the team members.

The Company's investment policies include periodic reviews by management and trustees at least annually concerning: (1) the allocation of assets among various asset classes (e.g., domestic stocks, international stocks, short-term bonds, long-term bonds, etc.); (2) the investment performance of the assets, including performance comparisons with appropriate benchmarks; (3) investment guidelines and other matters of investment policy and (4) the hiring, dismissal or retention of investment managers.

The Company forecasts the following benefit payments related to postretirement (which include a projection for expected future team member service) for the next ten years (in millions of dollars):

Year	Estimated Gross Benefit Payments
2022	$ 8
2023	9
2024	9
2025	10
2026	10
2027-2031	46
Total	$ 92

NOTE 8 - LEASES

The Company leases certain properties and buildings (including branches, warehouses, DCs and office space) and equipment under various arrangements which provide the right to use the underlying asset and require lease payments for the lease term. The Company's lease portfolio consists mainly of operating leases that expire at various dates through 2036.

Information related to operating leases is as follows (in millions of dollars):

	As of December 31,	
	2021	2020
ROU Assets		
Operating lease right-of-use	$ 393	$ 210
Operating lease liabilities		
Operating lease liability	66	57
Long-term operating lease liability	334	162
Total operating lease liabilities	$ 400	$ 219

During the first quarter of 2020, the Company recorded impairment charges in SG&A in connection with the impairment of Fabory's ROU assets for approximately $20 million. The Company divested Fabory during the second quarter of 2020.

	As of December 31,	
	2021	2020
Weighted average remaining lease term	7 years	5 years
Weighted average incremental borrowing rate	0.81 %	1.95 %
Cash paid for operating leases	$ 68	$ 69
ROU assets obtained in exchange for operating lease obligations	$ 244	$ 74

Rent expense was $74 million for 2021 and $76 million for 2020 and 2019. These amounts are net of sublease income of $2 million for 2021 and 2020 and $3 million for 2019.

Remaining maturity of existing lease liabilities as of December 31, 2021 are as follows (in millions of dollars):

Year	Operating Leases
2022	$ 72
2023	69
2024	53
2025	44
2026	37
Thereafter	140
Total lease payments	415
Less interest	(15)
Present value of lease liabilities	$ 400

As of December 31, 2021 and 2020, the Company's finance leases and service contracts with lease arrangements were not material. Finance leases are reported in Property, buildings and equipment, net, and as a finance lease liability in Accrued Expenses and Other non-current liabilities, respectively.

As of December 31, 2021, the Company's future lease obligations that have not yet commenced were $18 million.

NOTE 9 - STOCK INCENTIVE PLANS

The Company maintains stock incentive plans under which the Company may grant a variety of incentive awards to team members and executives, which include restricted stock units (RSUs), performance shares and deferred stock units. As of December 31, 2021, there were 2.1 million shares available for grant under the plans. When awards are exercised or settled, shares of the Company's treasury stock are issued.

Pretax stock-based compensation expense included in SG&A was $42 million, $46 million, and $40 million in 2021, 2020 and 2019, respectively, and was primarily comprised of RSUs. Related income tax benefits recognized in earnings were $21 million, $16 million, and $12 million in 2021, 2020 and 2019, respectively.

Restricted Stock Units

The Company awards RSUs to certain team members and executives. RSUs vest generally over periods from one to seven years from issuance. RSU expense for the years ended December 31, 2021, 2020 and 2019 was approximately $30 million, $32 million and $27 million, respectively.

The following table summarizes RSU activity (in millions, except for share and per share amounts):

	2021		2020		2019	
	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share	Shares	Weighted Average Price Per Share
Beginning nonvested units	317,414	$ 259.67	326,124	$ 259.88	343,814	$ 245.38
Issued	105,866	$ 406.17	140,815	$ 252.11	96,823	$ 299.25
Canceled	(36,134)	$ 274.74	(26,254)	$ 257.56	(36,224)	$ 253.22
Vested	(184,825)	$ 276.34	(123,271)	$ 252.05	(78,289)	$ 247.96
Ending nonvested units	202,321	$ 318.40	317,414	$ 259.67	326,124	$ 259.88
Fair value of shares vested	$ 51		$ 31		$ 19	

At December 31, 2021, there was $46 million of total unrecognized compensation expense related to nonvested RSUs that the Company expects to recognize over a weighted average period of 2.1 years.

NOTE 10 - CAPITAL STOCK

The Company had no shares of preferred stock outstanding as of December 31, 2021 and 2020. The activity related to outstanding common stock and common stock held in treasury was as follows:

	2021		2020		2019	
	Outstanding Common Stock	Treasury Stock	Outstanding Common Stock	Treasury Stock	Outstanding Common Stock	Treasury Stock
Balance at beginning of period	52,524,391	57,134,828	53,687,528	55,971,691	55,862,360	53,796,859
Exercise of stock options	188,444	(188,444)	311,374	(311,374)	232,052	(232,052)
Settlement of restricted stock units – net of 61,377, 41,019, and 26,107 shares retained, respectively	127,969	(127,969)	82,241	(82,241)	52,182	(52,182)
Settlement of performance share units – net of 9,746, 16,830, and 6,737 shares retained, respectively	12,507	(12,507)	28,098	(28,098)	14,027	(14,027)
Purchase of treasury shares	(1,633,106)	1,633,106	(1,584,850)	1,584,850	(2,473,093)	2,473,093
Balance at end of period	51,220,205	58,439,014	52,524,391	57,134,828	53,687,528	55,971,691

NOTE 11 - ACCUMULATED OTHER COMPREHENSIVE EARNINGS (LOSSES) (AOCE)

The components of AOCE consisted of the following (in millions of dollars):

	Foreign Currency Translation and Other	Defined Postretirement Benefit Plan	Other Employment-related Benefit Plans	Total	Foreign Currency Translation Attributable to Noncontrolling Interests	AOCE Attributable to W.W. Grainger, Inc.
Balance at January 1, 2019 – net of tax	$ (264)	$ 82	$ (5)	$ (187)	$ (16)	$ (171)
Other comprehensive earnings (loss) before reclassifications – net of tax	25	8	(3)	30	3	27
Amounts reclassified to Net earnings	1	(11)	—	(10)	—	(10)
Net current period activity	$ 26	$ (3)	$ (3)	$ 20	$ 3	$ 17
Balance at December 31, 2019 – net of tax	$ (238)	$ 79	$ (8)	$ (167)	$ (13)	$ (154)
Other comprehensive earnings (loss) before reclassifications – net of tax	36	33	—	69	12	57
Amounts reclassified to Net earnings	47	(11)	—	36	—	36
Net current period activity	$ 83	$ 22	$ —	$ 105	$ 12	$ 93
Balance at December 31, 2020 – net of tax	$ (155)	$ 101	$ (8)	$ (62)	$ (1)	$ (61)
Other comprehensive earnings (loss) before reclassifications – net of tax	(64)	12	2	(50)	(29)	(21)
Amounts reclassified to Net earnings	—	(14)	—	(14)	—	(14)
Net current period activity	(64)	(2)	2	(64)	(29)	(35)
Balance at December 31, 2021 – net of tax	$ (219)	$ 99	$ (6)	$ (126)	$ (30)	$ (96)

NOTE 12 - 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 of its 1.85% Notes and foreign currency fluctuations in connection with its foreign currency-denominated intercompany borrowings. 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 swaps, along with the gain or loss on the hedged item, are recorded in earnings under the same line item, Interest expense, net. The notional amount of the Company's outstanding fair value hedges as of December 31, 2021 and 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 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 December 31, 2021 and 2020 was approximately $34 million.

The effect of the Company's fair value and cash flow hedges on the Consolidated Statement of Earnings for the twelve months ended December 31, 2021 and 2020 is as follows (in millions of dollars):

	For the Years Ended December 31,	
	2021	2020
Total gains or (losses) recognized in earnings by line item in which the effects of fair value and cash flow hedges are recorded:		
Interest expense – net		
Fair value hedge:		
Interest rate contracts:		
Hedged item	$ 20	$ (21)
Derivatives designated as hedging instrument	$ (20)	$ 21
Other – net		
Cash flow hedge:		
Foreign exchange contracts:		
Hedged item	$ —	$ 2
Amount of gains (losses) reclassified from AOCE into earnings:	$ —	$ (2)

The effect of the Company's cash flow hedges on AOCE for the twelve months ended December 31, 2021 and 2020 was not material.

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

		As of December 31,	
		2021	2020
	Balance Sheet Classification	Fair Value and Carrying Amounts	
Cross-currency swap	Other non-current liabilities	$ 2	$ 2
Interest rate swaps	Other assets	$ 1	$ 21

The carrying amount of the liability hedged by the interest rate swaps (Long-term debt), including the cumulative amount of fair value hedging adjustments, as of December 31, 2021 and 2020 amounted to $501 million and $521 million, respectively.

The estimated fair values of the Company's derivative instruments were based on quoted market forward prices, which are classified as Level 2 inputs 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.

NOTE 13 - INCOME TAXES

Earnings (losses) before income taxes by geographical area consisted of the following (in millions of dollars):

	For the Years Ended December 31,		
	2021	2020	2019
U.S.	$ 1,267	$ 1,015	$ 1,226
Foreign	218	(68)	(17)
Total	$ 1,485	$ 947	$ 1,209

Income tax expense consisted of the following (in millions of dollars):

	For the Years Ended December 31,		
	2021	2020	2019
Current income tax expense:			
U.S. Federal	$ 221	$ 119	$ 199
U.S. State	46	28	44
Foreign	81	65	58
Total current	348	212	301
Deferred income tax expense (benefit)	23	(20)	13
Total income tax expense	$ 371	$ 192	$ 314

The income tax effects of temporary differences that gave rise to the net deferred tax asset (liability) as of December 31, 2021 and 2020 were as follows (in millions of dollars):

	As of December 31,	
	2021	2020
Deferred tax assets:		
Inventory	$ —	$ 14
Accrued expenses	152	93
Foreign loss carryforwards	59	45
Accrued employment-related benefits	50	37
Tax credit carryforward	27	25
Other	17	8
Deferred tax assets	305	222
Less valuation allowance	(70)	(53)
Deferred tax assets – net of valuation allowance	$ 235	$ 169
Deferred tax liabilities:		
Property, buildings, equipment and other capital assets	(217)	(145)
Intangibles	(67)	(68)
Inventory	(9)	—
Other	(8)	(10)
Deferred tax liabilities	(301)	(223)
Net deferred tax liability	$ (66)	$ (54)
The net deferred tax asset (liability) is classified as follows:		
Noncurrent assets	$ 14	$ 14
Noncurrent liabilities (foreign)	(80)	(68)
Net deferred tax liability	$ (66)	$ (54)

At December 31, 2021 the Company had $238 million of gross loss carryforwards related to foreign operations. Some of the loss carryforwards may expire at various dates through 2041. The Company has recorded a valuation allowance, which represents a provision for uncertainty as to the realization of the tax benefits of these carryforwards and deferred tax assets that may not be realized.

The Company's valuation allowance changed as follows (in millions of dollars):

	For the Years Ended December 31,	
	2021	2020
Balance at beginning of period	$ (53)	$ (72)
Increases primarily related to foreign NOLs	(8)	(16)
Releases primarily related to foreign NOLs	2	—
Foreign subsidiaries tax impacts due to divestiture	2	39
Tax rate changes	(7)	(1)
Increase related to U.S. foreign tax credits	(3)	(2)
Other changes – net	(3)	(1)
Balance at end of period	$ (70)	$ (53)

A reconciliation of income tax expense with federal income taxes at the statutory rate follows (in millions of dollars):

	For the Years Ended December 31,		
	2021	2020	2019
Federal income tax	$ 312	$ 199	$ 254
State income taxes – net of federal income tax benefit	41	33	36
Foreign rate difference	26	23	25
Foreign subsidiaries tax impacts due to divestiture	—	(61)	—
Change in valuation allowance	7	16	11
Other – net	(15)	(18)	(12)
Income tax expense	$ 371	$ 192	$ 314
Effective tax rate	25.0 %	20.3 %	26.0 %

The changes to the Company's effective tax rate for the year ended December 31, 2021 and 2020 was primarily driven by the absence of tax losses in the Company's investment in Fabory due to the impairment and internal reorganization of the Company's holdings of Fabory in the first quarter of 2020. The Company divested Fabory during the second quarter of 2020.

Foreign Undistributed Earnings

Estimated gross undistributed earnings of foreign subsidiaries at December 31, 2021, amounted to $544 million. The Company considers these undistributed earnings permanently reinvested in its foreign operations and is not recording a deferred tax liability for any foreign withholding taxes on such amounts. If at some future date the Company ceases to be permanently reinvested in its foreign subsidiaries, the Company may be subject to foreign withholding and other taxes on these undistributed earnings and may need to record a deferred tax liability for any outside basis difference in its investments in its foreign subsidiaries.

Tax Uncertainties

The Company recognizes in the financial statements a provision for tax uncertainties, resulting from application of complex tax regulations in multiple tax jurisdictions.

The changes in the liability for tax uncertainties, excluding interest, are as follows (in millions of dollars):

	For the Years Ended December 31,		
	2021	2020	2019
Balance at beginning of year	$ 39	$ 28	$ 37
Additions for tax positions related to the current year	3	23	3
Additions for tax positions of prior years	—	—	1
Reductions for tax positions of prior years	(1)	(2)	(1)
Reductions due to statute lapse	(3)	(10)	(10)
Settlements, audit payments, refunds – net	—	—	(2)
Balance at end of year	$ 38	$ 39	$ 28

The Company classifies the liability for tax uncertainties in deferred income taxes and tax uncertainties. Included in this amount is $4 million at December 31, 2021 and 2020, of tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Any changes in the timing of deductibility of these items would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authorities to an earlier period. Excluding the timing items, the remaining amounts would affect the annual tax rate. In 2021, the changes to tax positions were primarily related to the impact of expiring statutes and current year state and local reserves. In 2020, the changes to tax positions were related generally to the tax losses on the Company's investment in Fabory along with the impact of expiring statutes, the conclusion of audits and audit settlements. Estimated interest and penalties were not material.

The Company regularly undergoes an examination of its federal income tax returns by the Internal Revenue Service. The statute of limitations expired for the Company's 2017 federal tax return while tax years 2018 through 2020 are open. The Company is also subject to audit by state, local and foreign taxing authorities. Tax years 2012-2020 remain subject to state and local audits and 2016-2020 remain subject to foreign audits. The amount of liability associated with the Company's tax uncertainties may change within the next 12 months due to the pending audit activity, expiring statutes or tax payments. A reasonable estimate of such change cannot be made.

NOTE 14 - SEGMENT INFORMATION

Effective January 1, 2021, Grainger's two reportable segments are High-Touch Solutions N.A. and Endless Assortment. The remaining international high-touch solutions businesses, which includes the Cromwell business, as well as the Fabory and China businesses in the periods prior to their divestitures in the second and third quarter of 2020, respectively, are classified as Other to reconcile to consolidated results. These businesses individually and in the aggregate do not meet the criteria of a reportable segment.

Also, effective January 1, 2021, the Company updated its reporting and accounting policies for corporate cost and intersegment sales transactions. Corporate costs are allocated to each reportable segment based on benefits received. Additionally, intersegment sales transactions, which are sales between Grainger businesses in separate reportable segments, are eliminated within the segment to present only the impact of sales to external customers. Service fees for intersegment sales from the High-Touch Solutions N.A. segment to the Endless Assortment segment are included in SG&A.

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

	2021		2020 [(1)]		2019 [(1)]	
	Net sales	Operating earnings (losses)	Net sales	Operating earnings (losses)	Net sales	Operating earnings (losses)
High-Touch Solutions N.A.	$ 10,186	1,334	9,221	1,182	9,036	1,278
Endless Assortment	2,576	232	2,178	166	1,836	122
Other	260	(19)	398	(329)	614	(138)
Total Company	$ 13,022	$ 1,547	$ 11,797	$ 1,019	$ 11,486	$ 1,262

[(1)] Effective January 1, 2021, segment results for the years ended December 31, 2020 and 2019 were recast to reflect the Company's re-segmentation.

	2021	2020 [(1)]	2019 [(1)]
Depreciation and amortization:			
High-Touch Solutions N.A.	148	$ 143	$ 186
Endless Assortment	22	17	14
Other	3	9	10
Total consolidated depreciation and amortization	$ 173	$ 169	$ 210

[(1)] Effective January 1, 2021, segment results for the years ended December 31, 2020 and 2019 were recast to reflect the Company's re-segmentation.

Depreciation and amortization presented above includes depreciation of long-lived assets and amortization of capitalized software and ROU assets. Long-lived assets consist of property, buildings and equipment.

Following is revenue by geographic location (in millions of dollars):

	2021	2020	2019
Revenue by geographic location:			
United States	10,236	9,200	8,865
Japan	1,705	1,436	1,188
Canada	560	494	539
Other foreign countries	521	667	894
	$ 13,022	$ 11,797	$ 11,486

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. Assets for reportable segments are not disclosed as such information is not regularly reviewed by the Company's Chief Operating Decision Maker.

NOTE 15 - 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 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 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.

Item 9: Changes in and Disagreements with Accountants on Accounting and Financial Disclosure
None.

Item 9A: Controls and Procedures

Evaluation of Disclosures and Controls

The Company, under the supervision and with the participation of its management, including the Chief Executive Officer and the Chief Financial Officer, evaluated the effectiveness of the design and operation of Grainger's disclosure controls and procedures pursuant to Rule 13a-15 of the Securities Exchange Act of 1934, as amended (Exchange Act). 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.

Management's Annual Report on Internal Control Over Financial Reporting

The management of W.W. Grainger, Inc. (Grainger) is responsible for establishing and maintaining adequate internal control over financial reporting. Grainger's internal control system was designed to provide reasonable assurance to Grainger's management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements under all potential conditions. Therefore, effective internal control over financial reporting provides only reasonable, and not absolute, assurance with respect to the preparation and presentation of financial statements.

Grainger's management assessed the effectiveness of Grainger's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). Based on its assessment under that framework and the criteria established therein, Grainger's management concluded that Grainger's internal control over financial reporting was effective as of December 31, 2021.

Ernst & Young LLP, an independent registered public accounting firm, has audited Grainger's internal control over financial reporting as of December 31, 2021, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting

There were no changes to Grainger's internal control over financial reporting for the quarter ending December 31, 2021 that have materially affected, or are reasonably likely to materially affect, Grainger's internal control over financial reporting.

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of
W.W. Grainger, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited W.W. Grainger, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, W.W Grainger, Inc. and Subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2021 and 2020, the related consolidated statements of earnings, comprehensive earnings, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated February 23, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Chicago, Illinois
February 23, 2022

Item 9B: Other Information

None.

Item 9C: Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

None.

PART III

Item 10: Directors, Executive Officers and Corporate Governance

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 27, 2022, under the captions “Board Qualifications, Attributes, Skills and Background,” “Annual Election of Directors,” “Candidates for Board Membership,” “Director Nominees’ Experience and Qualifications,” “Audit Committee,” and “Board Affairs and Nominating Committee.” Information required by this item regarding executive officers of Grainger is set forth in Part I, Item 1, under the caption “Information about our Executive Officers.”

Grainger has adopted a code of ethics that applies to its principal executive officer, principal financial officer and principal accounting officer and controller. This code of ethics is part of Grainger’s Business Conduct Guidelines for directors, officers and employees, which is available free of charge through Grainger’s website at invest.grainger.com. A copy of the Business Conduct Guidelines is also available in print without charge to any person upon request to Grainger's Corporate Secretary. Grainger intends to disclose on its website any amendment to any provision of the Business Conduct Guidelines that relates to any element of the definition of “code of ethics” enumerated in Item 406(b) of Regulation S-K under the Exchange Act and any waiver from any such provision granted to Grainger’s principal executive officer, principal financial officer, principal accounting officer and controller or persons performing similar functions. Grainger has also adopted Operating Principles for the Board of Directors, which are available on its website and are available in print to any person who requests them.

Item 11: Executive Compensation

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 27, 2022, under the captions “Director Compensation,” “Compensation Discussion and Analysis,” “Compensation Committee,” “Report of the Compensation Committee of the Board” and "Independent Compensation Consultant."

Item 12: Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 27, 2022, under the captions “Ownership of Grainger Stock” and “Equity Compensation Plans.”

Item 13: Certain Relationships and Related Transactions and Director Independence

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 27, 2022, under the captions “Director Independence,” "Annual Election of Directors" and “Transactions with Related Persons.”

Item 14: Principal Accountant Fees and Services

The information required by this item is incorporated by reference to Grainger's proxy statement relating to the annual meeting of shareholders to be held April 27, 2022, under the caption “Audit Fees and Audit Committee Pre-Approval Policies and Procedures.”

PART IV

Item 15: Exhibits and Financial Statements Schedules

(a) Documents filed as part of this Form 10-K

(1) All Financial Statements

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2021, 2020 and 2019

(2) Financial Statement Schedules: the schedules listed in Rule 5-04 of Regulation S-X have been omitted because they are either not applicable or the required information is shown in the Consolidated Financial Statements or notes thereto.

(3) Exhibits Required by Item 601 of Regulation S-K

EXHIBIT INDEX (1)

EXHIBIT NO.	DESCRIPTION
2.1	Share Purchase Agreement, dated as of July 30, 2015, by and among Grainger, GWW UK Holdings Limited, Gregory Family Office Limited and Michael Gregory, incorporated by reference to Exhibit 2.1 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated July 31, 2015.
3.1	Restated Articles of Incorporation, incorporated by reference to Exhibit 3(i) to W.W. Grainger, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 1998.
3.2	By-laws, as amended on March 9, 2017, incorporated by reference to Exhibit 3.1.1 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated March 9, 2017.
4.1	No instruments which define the rights of holders of W.W. Grainger, Inc.’s Industrial Development Revenue Bonds are filed herewith, pursuant to the exemption contained in Regulation S-K, Item 601(b)(4)(iii). W.W. Grainger, Inc. hereby agrees to furnish to the SEC, upon request, a copy of any such instrument.
4.2	Indenture, dated as of June 11, 2015, between W.W. Grainger, Inc. and U.S. Bank National Association, as trustee, incorporated by reference to Exhibit 4.1 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated June 11, 2015.
4.3	First Supplemental Indenture, dated as of June 11, 2015, between W.W. Grainger, Inc. and U.S. Bank National Association, as trustee, and Form of 4.60% Senior Notes due 2045, incorporated by reference to Exhibit 4.2 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated June 11, 2015.
4.4	Second Supplemental Indenture, dated as of May 16, 2016, between W.W. Grainger, Inc., and U.S. Bank National Association, as trustee, incorporated by reference to Exhibit 4.1 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated May 16, 2016.
4.5	Third Supplemental Indenture, dated as of May 22, 2017, between W.W. Grainger, Inc., and U.S. Bank National Association, as trustee, incorporated by reference to Exhibit 4.1 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated May 22, 2017.
4.6	Form of 3.75% Senior Notes due 2046 (included in Exhibit 4.4), incorporated by reference to Exhibit 4.2 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated May 16, 2016.
4.7	Form of 4.20% Senior Notes due 2047 (included in Exhibit 4.5), incorporated by reference to Exhibit 4.2 to W.W. Grainger, Inc.’s Current Report on Form 8-K dated May 22, 2017.
4.8	Description of Registrant's Securities Pursuant to Section 12 of the Securities Exchange Act of 1934.

4.9	Fourth Supplemental Indenture, dated as of February 26, 2020, between W.W. Grainger, Inc., and U.S. Bank National Association, as trustee incorporated by reference to Exhibit 4.1 to W.W. Grainger, Inc.'s Current Report on Form 8-K dated February 21, 2020.
4.10	Form of 1.85% Senior Notes due 2025 (included in Exhibit 4.1), incorporated by reference to Exhibit 4.2 to W.W. Grainger, Inc.'s Current Report on Form 8-K dated February 21, 2020.
10.1	1990 Long-Term Stock Incentive Plan, as amended, incorporated by reference to Exhibit 10(a) to W.W. Grainger, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006.*
10.2	Form of Indemnification Agreement between W.W. Grainger, Inc. and each of its directors and certain of its executive officers, incorporated by reference to Exhibit 10(b)(i) to W.W. Grainger, Inc.’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2009.*
10.3	Frozen Executive Death Benefit Plan, as amended, incorporated by reference to Exhibit 10(b)(v) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2007.*
10.4	First amendment to the Frozen Executive Death Benefit Plan, incorporated by reference to Exhibit 10(b)(v)(1) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2008.*
10.5	Second amendment to the Frozen Executive Death Benefit Plan, incorporated by reference to Exhibit 10(b)(iv)(2) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2009.*
10.6	Supplemental Profit Sharing Plan, as amended, incorporated by reference to Exhibit 10(viii) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2003.*
10.7	Supplemental Profit Sharing Plan II, as amended, incorporated by reference to Exhibit 10(b)(ix) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2007.*
10.8	Voluntary Salary and Incentive Deferral Plan, as amended, incorporated by reference to Exhibit 10(b)(xi) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2007.*
10.9	Summary Description of the Directors Compensation Program incorporated by reference to Exhibit 10.9 to W.W. Grainger, inc.'s Annual Report on Form 10-K for the year ended December 31, 2019.*
10.10	2010 Incentive Plan, incorporated by reference to Exhibit B of W.W. Grainger, Inc.’s Proxy Statement dated March 12, 2010.*
10.11	Form of Stock Option Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xvi) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2009.*
10.12	Form of Stock Option Award and Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xvii) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2009.*
10.13	Summary Description of the Company Management Incentive Program.*
10.14	Incentive Program Recoupment Agreement, incorporated by reference to Exhibit 10(b)(xxv) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2009.*
10.15	Form of Change in Control Employment Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10(b)(xxvii) to W.W. Grainger, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2010.*
10.16	Form of 2015 Performance Share Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.28 to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2015.*
10.17	W.W. Grainger, Inc. 2015 Incentive Plan, incorporated by reference to Exhibit B of W.W. Grainger, Inc.’s Proxy Statement dated March 13, 2015.*
10.18	First Amendment to the W.W. Grainger, Inc. 2015 Incentive Plan, incorporated by reference to 10.1 of W.W. Grainger, Inc.’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.*
10.19	W.W. Grainger, Inc. 2015 Incentive Plan as Amended and Restated Effective October 31, 2018, incorporated by reference to Exhibit 10.1 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2018.*
10.20	Form of Stock Option Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.1 to W.W. Grainger, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.*
10.21	Form of Restricted Stock Unit Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.2 to W.W. Grainger, Inc.’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.*

10.22	Form of 2016 Performance Share Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.3 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2016.*
10.23	Form of Stock Option Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.2 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.*
10.24	Form of Restricted Stock Unit Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.3 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.*
10.25	Form of 2017 Performance Share Award Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.4 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2017.*
10.26	Form of 2018 W.W. Grainger, Inc. 2015 Incentive Plan Stock Option Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.3 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.*
10.27	Form of 2018 W.W. Grainger, Inc. 2015 Incentive Plan Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.4 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.*
10.28	Form of 2018 W.W. Grainger, Inc. 2015 Incentive Plan Performance Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.5 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2018.*
10.29	Form of 2019 W.W. Grainger, Inc. 2015 Stock Incentive Plan Stock Option Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.1 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.*
10.30	Form of 2019 W.W. Grainger, Inc. 2015 Stock Incentive Plan Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.2 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.*
10.31	Form of 2019 W.W. Grainger, Inc. 2015 Stock Incentive Plan Performance Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.3 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2019.*
10.32	Credit Agreement dated as of February 14, 2020, by and among W.W. Grainger, Inc., the lenders party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent, incorporated by reference to Exhibit 10.1 to W.W. Grainger, Inc.'s Current Report on Form 8-K dated February 14, 2020.
10.33	Form of 2020 W.W. Grainger, Inc. 2015 Incentive Plan Restricted Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.1 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.*
10.34	Form of 2020 W.W. Grainger, Inc. 2015 Incentive Plan Performance Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers, incorporated by reference to Exhibit 10.2 to W.W. Grainger, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2020.*
10.35	2022 Form of W.W. Grainger, Inc. 2015 Incentive Plan Performance Stock Unit Agreement between W.W. Grainger, Inc. and certain of its executive officers.*
10.36	W.W. Grainger, Inc. – 2015 Incentive Plan CFO Transition –Restricted Stock Unit Agreement between W.W. Grainger, Inc. and Robert F. O'Keef, Jr. dated January 4, 2021, incorporated by reference to Exhibit 10.39 to W.W. Grainger, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2020.*
21	Subsidiaries of Grainger.
23	Consent of Independent Registered Public Accounting Firm.
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).

(*) Management contract or compensatory plan or arrangement.

(1) Certain instruments defining the rights of holders of long-term debt securities of the Registrant are omitted pursuant to Item 601(b)(4)(iii) of Regulation S-K. The Registrant hereby undertakes to furnish to the SEC, upon request, copies of any such instruments.

Item 16: Form 10-K Summary

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

DATE: February 23, 2022

W.W. GRAINGER, INC.

By: **/s/ D.G. Macpherson**
D.G. Macpherson
Chairman of the Board
and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant on February 23, 2022, in the capacities indicated.

/s/ D.G. Macpherson
D.G. Macpherson
Chairman of the Board
and Chief Executive Officer, Director
(Principal Executive Officer)

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

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

/s/ Brian P. Anderson
Brian P. Anderson
Director

/s/ V. Ann Hailey
V. Ann Hailey
Director

/s/ Katherine D. Jaspon
Katherine D. Jaspon
Director

/s/ Stuart L. Levenick
Stuart L. Levenick
Director

/s/ Neil S. Novich
Neil S. Novich
Director

/s/ E. Scott Santi
E. Scott Santi
Director

W.W. GRAINGER, INC.
Subsidiaries and Affiliated Companies
(as of February 11, 2022)

Subsidiaries (over 50% ownership)

Subsidiary	Jurisdiction
Acklands - Grainger Inc.	Canada
Apex Industrial Limited	Scotland
Bogle and Timms Limited	England & Wales
C.J. Bent & Son Limited	England & Wales
Cromwell Czech Republic s.r.o.	Czech Republic
Cromwell Group (Holdings) Limited	England & Wales
Cromwell Group (International) Limited	England & Wales
Cromwell Industrial Supplies Private Limited	India
Cromwell Logistics Limited	England & Wales
Cromwell SAS	France
Cromwell sp. z.o.o.	Poland
Cromwell Tools (Thailand) Co. Ltd.	Thailand
Cromwell Tools Limited	England & Wales
Cromwell Tools Sdn. Bhd.	Malaysia
Dayton Electric Manufacturing Co.	Illinois
E & R Industrial Sales, Inc.	Michigan
E&R Tooling and Solutions de Mexico, S. de R.L. de C.V.	Mexico
East Midlands Property Developments Limited	England & Wales
Gamut Supply LLC	Delaware
GHC Specialty Brands, LLC	Wisconsin
GMMI LLC	Delaware
Grainger Brasil Comércio e Distribuição Ltda.	Brazil
Grainger Brasil Participações Ltda.	Brazil
Grainger Canada Holdings ULC	Alberta
Grainger Caribe, Inc.	Illinois
Grainger Colombia Holding Company, LLC	Delaware
Grainger Dominicana SRL	Dominican Republic
Grainger Global Holdings, Inc.	Delaware
Grainger Global Online Business Ltd	England and Wales
Grainger Global Trading (Shanghai) Company Limited	People's Republic of China
Grainger Guam L.L.C.	Guam
Grainger Industrial Supply India Private Limited	India
Grainger International Holdings B.V.	Netherlands
Grainger International, Inc.	Illinois
Grainger Management LLC	Illinois
Grainger Mexico LLC	Delaware
Grainger Panama Services S. de R.L.	Panama
Grainger Procurement Company LLC	Illinois
Grainger Registry Services, LLC	Delaware
Grainger Service Holding Company, Inc.	Delaware
Grainger Services International Inc.	Illinois

Grainger Singapore Pte. Ltd.	Singapore
Grainger, S.A. de C.V.	Mexico
GWW UK Holdings Ltd.	England and Wales
Imperial Supplies Holdings, Inc.	Delaware
Imperial Supplies LLC	Delaware
India Pacific Brands	Mauritius
LN Participações Ltda.	Brazil
Merlin Business Software Limited	England & Wales
MonotaRO Co., Ltd.	Japan
Mountain Ventures WWG IV, LLC	Delaware
Mountain Ventures WWG V, LLC	Delaware
Mountain Ventures WWG, LLC	Delaware
MRO Soluciones, S.A. de C.V.	Mexico
NAVIMRO Co., Ltd.	Republic of Korea (South Korea)
Norwell Engineering Limited	England & Wales
PT Cromwell Tools	Indonesia
PT MonotaRO Indonesia	Indonesia
Safety Registry Services, LLC	Delaware
Safety Solutions, Inc.	Ohio
Tooling & Engineering Distributors (TED) Limited	Ireland
Tooling & Engineering Distributors (TED) NI Limited	Northern Ireland
WFS (USA) Ltd.	South Carolina
WFS Holding Company, Inc.	Michigan
WFS Ltd.	Ontario
Windsor Factory Supply Inc.	Michigan
WWG de Mexico, S.A. de C.V.	Mexico
WWG Servicios, S.A. de C.V.	Mexico
WWGH LLC	Delaware
Zoro IP Holdings, LLC	Illinois
Zoro Tools Europe GmbH in Liquidation	Germany
Zoro Tools, Inc.	Delaware
Zoro UK Limited	England & Wales

Subsidiaries (50% and less ownership)

Subsidiary	**Jurisdiction**
IB MonotaRO Private Limited (50%)	India

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-236530) of W.W. Grainger, Inc.

(2) Registration Statement (Form S-3 No. 333-203444) of W.W. Grainger, Inc.

(3) Registration Statement (Form S-3 No. 33-32091 and Post-Effective Amendment No.1) of W.W. Grainger, Inc.

(4) Registration Statement (Form S-8 No. 33-43902) pertaining to the 1990 Long Term Stock Incentive Plan of W.W. Grainger, Inc.

(5) Registration Statement (Form S-8 No. 333-166345) pertaining to the 2010 Incentive Plan of W.W. Grainger, Inc.

(6) Registration Statement (Form S-8 No. 333-203715) pertaining to the 2015 Incentive Plan of W.W. Grainger, Inc.

of our reports dated February 23, 2022, with respect to the consolidated financial statements of W.W. Grainger, Inc. and Subsidiaries and the effectiveness of internal control over financial reporting of W.W. Grainger, Inc. and Subsidiaries included in this Annual Report on Form 10-K of W. W. Grainger, Inc. for the year ended December 31, 2021.

/s/ Ernst & Young LLP

Chicago, Illinois
February 23, 2022

CERTIFICATION ***Exhibit 31.1***

I, D.G. Macpherson, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 23, 2022

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

Exhibit 31.2

CERTIFICATION

I, Deidra C. Merriwether certify that:

1. I have reviewed this Annual Report on Form 10-K 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: February 23, 2022

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

Exhibit 32

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 Annual Report on Form 10-K of W.W. Grainger, Inc. ("Grainger") for the annual period ended December 31, 2021, (the "Report"), D.G. Macpherson, as Chairman of the Board 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 of the Board and
Chief Executive Officer

February 23, 2022

/s/ Deidra C. Merriwether

Deidra C. Merriwether

Senior Vice President and
Chief Financial Officer

February 23, 2022

Historical Financial Summary *(As reported)*

	2021	2020	2019	2018	2017
FINANCIAL SUMMARY ($M)					
Net sales	$13,022	$11,797	$11,486	$11,221	$10,425
Earnings before income taxes	1,485	947	1,209	1,081	936
Income taxes	371	192	314	258	313
Net earnings attributable to W.W. Grainger, Inc.	1,043	695	849	782	586
Working capital	2,455	2,220	2,092	1,898	1,669
Additions to property, buildings and equipment and capitalized software	255	197	221	239	237
Depreciation and amortization	173	169	210	234	241
Current assets	4,011	3,919	3,555	3,557	3,206
Total assets	6,592	6,295	6,005	5,873	5,804
Shareholders' equity	2,160	2,093	2,060	2,093	1,828
Cash dividends paid	357	338	328	316	304
Long-term debt (less current maturities)	2,362	2,389	1,914	2,090	2,248
PER SHARE ($)					
Earnings – basic	19.94	12.88	15.39	13.82	10.07
Earnings – diluted	19.84	12.82	15.32	13.73	10.02
Cash dividends paid	6.39	5.94	5.68	5.36	5.06
Book value	42.17	39.85	38.37	37.47	32.45
Year-end stock price	518.74	408.34	338.52	282.36	236.25
Ratios					
Percent of return on average shareholders' equity	49.0	33.5	40.9	39.9	31.4
Percent of return on average total capitalization	5.7	14.7	18.8	18.1	14.0
Earnings before income taxes as a percent of net sales	11.4	8.0	10.5	9.6	9.0
Earnings as a percent of net sales	8.0	5.9	7.4	7.0	5.6
Cash dividends paid as a percent of net earnings	126.1	48.6	38.6	40.4	52.0
Total debt as a percent of total capitalization	56.2	55.6	54.3	51.5	56.2
Current assets as a percent of total assets	60.9	62.3	59.2	60.6	55.2
Current assets to current liabilities	2.6	2.7	2.1	2.4	2.1
Average inventory turnover – FIFO	3.4	3.3	3.3	3.3	3.3
Average inventory turnover – LIFO	4.6	4.5	4.4	4.6	4.5
OTHER DATA					
Average number of shares outstanding – basic	51,920,631	53,508,750	54,666,045	56,142,604	57,674,977
Average number of shares outstanding – diluted	52,199,386	54,098,335	54,934,069	56,534,185	57,983,167
Number of team members	24,200	23,100	25,300	24,600	24,700
Number of sales representatives	4,053	4,204	4,549	4,620	4,452
Number of branches	391	407	438	457	500
Number of products in the Grainger catalog issued February 1	338,224	345,912	356,625	367,000	365,000

Note: See the Company's current and prior years' Annual Report on Form 10-K for changes in accounting and other adjustments.

Non-GAAP Reconciliations

	Twelve Months Ended December 31, 2021							
	Total Company		High-Touch Solutions N.A.		Endless Assortment		Other	
	$	Operating Margin %	$	Operating Margin %	$	Operating Margin %	$	Operating Margin %
Operating earnings reported	$1,547	11.9%	$1,334	13.1%	$232	9.0%	$(19)	(7.3)%
Operating earnings adjusted	$1,547	11.9%	$1,334	13.1%	$232	9.0%	$(19)	(7.3)%

	Twelve Months Ended December 31, 2021		
	Total Company	High-Touch Solutions N.A.	Endless Assortment
Reported sales	**10.4%**	**10.5%**	**18.3%**
Day impact	0.9%	0.8%	0.9%
Daily sales	11.3%	11.3%	19.2%
Business divestitures[1]	1.4%	—	—
Organic daily sales	12.7%	11.3%	19.2%
Foreign Exchange	(0.3)%	(0.5)%	1.3%
Organic Daily Constant Currency Sales	12.4%	10.8%	20.5%

2021 Adjusted ROIC Reconciliation[2] (in millions of dollars)	Q4 2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	
Adjusted Operating Earnings (A)						**$1,547**
Total Assets	$6,295	$6,333	$6,462	$6,390	$6,592	
Less: Cash Equivalents	322	387	377	161	95	
Less: Deferred and prepaid income taxes	21	14	61	46	46	
Less: Right of Use Asset	210	210	209	202	393	
Plus: LIFO reserves	446	446	450	458	510	
Less: Working Liabilities[3]	1,391	1,436	1,560	1,528	1,490	
Total Net Working Assets (5-point Avg) (B)	$4,797	$4,732	$4,705	$4,911	$5,077	**$4,844**
Adjusted ROIC (A/B)						**31.9%**

[1] Represents the results of the Fabory business (divested on 6/30/2020) and the Grainger China business (divested on 8/21/2020).

[2] The tax impact of adjustments and impairments are calculated based on the income tax rate in each applicable jurisdiction, subject to deductibility limitations and the company's ability to realize the associated tax benefits.

[3] Defined as sum of trade accounts payables, accrued compensation and benefits, retirement savings plan and accrued expenses.

Note: The reconciliations above provide the information necessary to reconcile reported SG&A to adjusted SG&A, therefore no separate reconciliation is provided. See page 28 of the Annual Report for all other reconciliations of non-GAAP measures to their most directly comparable GAAP measures.

Board of Directors

Rodney C. Adkins
Former Senior Vice President of International Business Machines Corporation; President of 3RAM Group LLC
(2, 3*)

Brian P. Anderson
Former Chief Financial Officer of OfficeMax Incorporated and Baxter International, Inc.
(1, 2)

V. Ann Hailey
Former Executive Vice President and Chief Financial Officer of L Brands, Inc. (formerly Limited Brands, Inc.)
(1,* 2)

Katherine D. Jaspon
Chief Financial Officer, Insprire Brands, Inc.
(1, 2)

Stuart L. Levenick
Former Group President of Caterpillar Inc.
(1, 2* †)

D.G. Macpherson
Chairman of the Board and Chief Executive Officer of W.W. Grainger, Inc.

Neil S. Novich
Former Chairman of the Board, President and Chief Executive Officer of Ryerson Inc.
(1, 2)

Beatriz R. Perez
Senior Vice President and Chief Communications, Sustainability, and Strategic Partnerships Officer of The Coca-Cola Company
(2, 3)

Michael J. Roberts
Former Global President and Chief Operating Officer of McDonald's Corporation; Chief Executive Officer and founder of Westside Holdings LLC
(2, 3)

E. Scott Santi
Chairman and Chief Executive Officer of Illinois Tool Works Inc.
(1, 2)

Lucas E. Watson
Former Senior Vice President, Go To Market of Cruise LLC
(2, 3)

Susan Slavik Williams
President, Four Palms Ventures; Director, Mark IV Capital, Inc.; President, The Donald Slavik Family Foundation
(2, 3)

Steven A. White
President, Special Counsel to the CEO, Comcast Cable
(2, 3)

(1) Member of Audit Committee
(2) Member of Board Affairs and Nominating Committee
(3) Member of Compensation Committee
† Lead Director
* Committee Chair

Grainger Leadership Team

D.G. Macpherson
Chairman of the Board and Chief Executive Officer

Kathleen S. Carroll
Senior Vice President and Chief Human Resources Officer

Barry I. Greenhouse
Senior Vice President and President, Global Supply Chain & Customer Experience

John L. Howard
Senior Vice President and General Counsel

Jonny LeRoy
Vice President and Chief Technology Officer

Deidra C. Merriwether
Senior Vice President and Chief Financial Officer

Paige K. Robbins
Senior Vice President and President, Grainger Business Unit

Masaya Suzuki
Managing Director, Endless Assortment Business

Brian Walker
Vice President and Chief Product Officer

Shareholder and Media Information

Company Headquarters
W.W. Grainger, Inc.
100 Grainger Parkway
Lake Forest, Illinois 60045-5201
847.535.1000

Annual Meeting
The 2022 virtual Annual Meeting of Shareholders will be held on April 27, 2022 at 10:00 a.m. CDT. Details can be found at invest.grainger.com.

Auditor
Ernst & Young LLP
155 North Wacker Drive
Chicago, Illinois 60606-1787

Common stock
The Company's common stock is listed on the New York Stock Exchange under the trading symbol GWW.

Transfer Agent, Registrar and Dividend Disbursing Agent
Instructions and inquiries regarding transfers, certificates, changes of title or address, lost or missing dividend checks, consolidation of accounts and elimination of multiple mailings should be directed to:

First Class/Registered/Certified Mail
Computershare Investor Services
PO BOX 505000
Louisville, KY 40233-5000
800.446.2617

Courier Services
Computershare Investor Services
462 South 4th Street Suite 1600
Louisville, KY 40202

As an alternative, online registered shareholder accounts may be accessed at: computershare.com/investor.

Dividend Direct Deposit
Shareholders of record have the opportunity to have their quarterly dividends electronically deposited directly into their checking, money market or savings accounts at financial institutions that participate in the automated clearinghouse system.

Shareholders who are interested in taking advantage of this service or would like more information on the program should contact Computershare.

Investor Relations Contacts
Kyle Bland
Vice President, Investor Relations

Abby Sullivan
Senior Manager, Investor Relations
InvestorRelations@grainger.com

Grainger's Annual Report to Shareholders, Form 10-K, Forms 10-Q, Forms 8-K, proxy statement and other reports filed with the Securities and Exchange Commission, as well as news releases, including quarterly earnings, may be accessed free of charge at the Investor Relations section of the Company's website at invest.grainger.com. For more information, contact Investor Relations at InvestorRelations@grainger.com.

Requests for other Company-related information should be made to Hugo Dubovoy, Jr., Vice President, Corporate Secretary, at the company's headquarters.

Media Relations Contact
Brodie Bertrand
Vice President, Communications & Public Affairs

Grainger Media Relations Hotline
847.535.5678
Media_Relations_Team@grainger.com

Forward-Looking Statements

From time to time in this Annual Report on Form 10-K 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 (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, 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, adaptions to the Company’s controls and procedures required by working remote arrangements, 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; inflation, higher product costs or other expenses, including operational 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, manage 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 commercial disputes, or privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; failure to comply with laws, regulations and standards, including new or stricter environmental laws or regulations; 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; effects of climate change; competition for, or failure to attract, retain, train, motivate and develop 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 and elsewhere in this Form 10-K.

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.

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