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FINAL

3Q12 Earnings Release Podcast Script
October 16, 2012

Introduction

Hello, this is Laura Brown, Senior Vice President of Communications and Investor Relations. With me is Bill Chapman, Senior Director of Investor Relations. We will share with you some information regarding Grainger's third quarter 2012 results via this audio web cast. Please also reference our 2012 third quarter earnings release issued today, October 16th, in addition to other information available on our Investor Relations website, to supplement this web cast.

Before we begin, please remember that certain statements and projections of future results made in the press release and in this web cast constitute forward-looking information. These statements are based on current market conditions and competitive and regulatory expectations and involve risk and uncertainty. Please see our Form 10-K for a discussion of factors that relate to forward-looking statements.

Company Results Summary

Before I discuss the quarter, I'd like to first highlight the $0.66 per share reserve for the expected settlement with the U.S. Department of Justice (DOJ), which includes the following two parts:

1. First, a $70 million pre-tax charge for the proposed settlement in principle with the DOJ over the interpretation of contract language signed more than 10 years ago with the General Services Administration (GSA) and the U.S. Postal Service.
2. And second, a $6 million pre-tax reserve related to tax, freight and miscellaneous billings for these customers.

We are close to having this long-standing dispute behind us. It is important to note that the proposed settlement does not contain any admission of wrong doing by the company and avoids costly and lengthy litigation. The GSA contract dates back to 1999 and the government remains one of our larger customer end markets. As a case in point, throughout the multi-year audit, the government continued to buy from Grainger, and in fact, increased its purchasing during that time. In 2011 alone, our sales to the GSA and the U.S. Postal Service totaled approximately $200 million. Additional information regarding this case can be found in the earnings release issued on October 16th along with previously filed 10-Qs and 10-Ks.

Please note that the following analysis and commentary for the remainder of the podcast excludes the effect of the $0.66 charge. From a segment presentation standpoint, the entire charge is recorded in the United States segment.

We'll start with total company results and then take a closer look at our segments. Performance for the quarter was driven by sales growth and market share gains, coupled with strong gross margin expansion. Company sales increased 8 percent versus the 2011 third quarter. We had 63 selling days in the quarter, one less than the previous year, which cost us approximately $33 to $38 million of revenue growth. Sales growth on a daily basis increased 10 percent. Operating earnings increased 9 percent, while net earnings increased 11 percent. Earnings per share, excluding the $0.66 charge, were $2.81 for the quarter, representing an increase of 12 percent versus the 2011 third quarter. It is important to note that 1 less selling day represented approximately $0.05 to $0.10 per share in lower earnings on an incremental basis. With fewer selling days, only expenses that are truly variable are avoided, while fixed and semi-variable costs must be absorbed by a lower sales base.

In a few moments we'll analyze our sales results for the quarter. Let's now walk down the operating section of the income statement. Gross profit margins increased 40 basis points to 43.6 percent versus 43.2 percent in 2011. Our purchasing scale enables us to manage price changes in line with the market and ahead of product cost inflation. We'll provide more detail when we review the business by segment.

Company operating margin increased 20 basis points to 14.5 percent versus 14.3 percent a year ago. This improvement was driven by solid sales growth and gross margin expansion. Operating expenses grew 9 percent, including $19 million in incremental growth-related spending in the quarter and inclusion of operating expenses in Europe and Brazil, which we acquired since the start of the 2011 third quarter.

Let's now focus on performance drivers during the quarter. In doing so, we'll cover the following topics:

- First, sales by segment in the quarter and the month of September,
- Second, operating performance by segment,
- Third, cash generation and capital deployment,
- And finally, we'll wrap up with a discussion of our revised 2012 guidance.

Quarterly Sales

As mentioned earlier, company sales for the quarter increased 8 percent on a reported basis and 10 percent on a daily basis. Daily sales growth by month was as follows: 11 percent in July, 10 percent in August, and 9 percent in September. The 10 percent daily sales growth for the quarter included 3 percentage points from acquisitions and a 1 percentage point decline from unfavorable foreign exchange. We reached the anniversary of the acquisition of the business in Europe on August 31st. Accordingly, the quarter includes 2 months of incremental sales and operating results. On an organic basis, which excludes acquisitions and foreign exchange, daily sales for the quarter increased 8 percent with 4 percentage points from volume and 4 percentage points from price. Daily organic sales growth by month was as follows: 8 percent in July, 7 percent in August, and 8 percent in September.

Let's move on to sales by segment. We report two segments, the United States and Canada. Our remaining operations in Asia, Europe and Latin America are reported under a grouping titled Other Businesses.

Sales in the United States, which account for 77 percent of total company revenue, increased 4 percent in the quarter, 5 percent on a daily basis. The 5 percent sales growth consisted of 4 percent from price and 1 percent from volume. Daily sales in the United States increased 6 percent in July, 4 percent in August and 6 percent in September.

Let's review sales performance by customer end market in the United States. Our growth drivers, which include increasing our product line, expanding customer sales coverage, enhancing our eCommerce capabilities and increasing our inventory management solutions, are enabling Grainger to serve customers more effectively in the following end markets in the United States. Here is the sales performance for each respective customer end market in the quarter:

- Light and Heavy Manufacturing were up in the high single digits;
- Commercial and Government were up in the mid-single digits;
- Retail was up in the low single digits; and
- Natural Resources, Reseller and Contractors were down in the low single digits.

Now let's turn our attention to the Canadian business. Sales in Canada represent 12 percent of total company revenues. For the quarter, sales in Canada increased 10 percent in U.S. dollars and 11 percent in local currency. On a daily basis, sales in local currency increased 13 percent consisting of 11 percent volume growth and 2 percentage points from price. By month, daily sales in Canadian dollars increased 16 percent in July, 13 percent in August and 11 percent in September. From a customer standpoint, sales performance in Canada was driven by strong growth in the western provinces, led by the Commercial, Oil & Gas, Forestry, Contractor and Utilities end markets.

Let's conclude our discussion of sales for the quarter by looking at the Other Businesses. Again, this group includes our operations in Asia, Europe and Latin America and currently represents about 11 percent of total company sales. Sales for this group increased 54 percent, which consisted of a 39 percentage point contribution from the acquired businesses in Europe and Brazil, 24 percentage points from volume led by strong growth in Japan and Mexico, partially offset by a 9 percentage point decline from unfavorable foreign exchange.

September Sales

Earlier in the quarter, we reported sales results for July and August and shared some information regarding performance in those months. Let's now take a look at September. There were 19 selling days in September of 2012 versus 21 days in the same month of 2011. Total company sales increased 9 percent on a daily basis in September of 2012 versus September of 2011. The daily sales growth in September included 1 percentage point from the business acquired in Brazil. Organic sales increased 8 percent on a daily basis consisting of 4 percent volume growth and 4 percentage points from price inflation.

In the United States, September daily sales increased 6 percent. This growth consisted of 4 percentage points from price and 2 percentage points from volume. September customer end market performance in the United States was as follows:

- Government, Heavy and Light Manufacturing were up in the high-single digits;
- Commercial was up in the mid-single digits;
- Retail was up in the low-single digits; and
- Natural Resources, Reseller and Contractor were down in the low-single digits.

As we shared with our August sales release, the fiscal year end for the Federal Government ended in September. Thanks to our strong relationships with many of these government agencies, coupled with the value of the service we provide, we enjoyed a strong finish to the month of September. This level of growth to the Government was achieved despite a decline in sales to the U.S. Postal Service related to its aggressive restructuring program. And as noted above, despite the lengthy government audit, we have continued to grow our business relationship with the Government.

Daily sales in Canada for September increased 14 percent in U.S. dollars, up 11 percent in local currency. The 11 percent local currency daily sales growth consisted of 10 percentage points from volume and 1 percentage point from price. Similar to the quarter, sales growth in Canada was driven by strong performance in the Commercial, Oil & Gas, Contractor and Utilities end markets.

Daily sales for our Other Businesses increased 25 percent in September, consisting of 6 percentage points from acquisitions, 24 percentage points from volume, partially offset by a negative 5 percentage points from unfavorable foreign exchange.

October Sales

Daily sales growth to date in October is currently trending slightly below the 8 percent organic daily growth posted in the third quarter. Now I would like to turn the discussion over to Bill Chapman.

Operating Performance

Thanks Laura.

Since we have already analyzed company operating performance, let's jump right into performance by reporting segment. Again, we have excluded the $0.66 per share charge described at the beginning of this podcast. Operating earnings in the United States increased 7 percent versus the 2011 third quarter and the U.S. operating margin increased 50 basis points to 18.2 percent. This performance was driven by 4 percent sales growth and higher gross margins. Gross profit margins for the quarter increased 50 basis points driven by price increases exceeding cost inflation, partially offset by unfavorable customer mix. Operating expenses increased in line with the sales increase and were primarily driven by $19 million in incremental growth-related spending on areas such as new sales representatives, eCommerce and advertising.

Let's move on to our business in Canada. Operating earnings increased 37 percent versus the prior year, up 38 percent in local currency. Strong sales growth, coupled with higher gross profit margins and positive expense leverage contributed to operating margins increasing 240 basis points to 12.5 percent. Gross margins increased 140 basis points, with roughly two-thirds of the expansion coming from the timing of supplier rebates and advertising credits.

Operating performance for our Other Businesses declined versus a year ago, posting operating earnings of $9 million for the quarter versus $11 million in 2011. Strong performance improvement in Japan and Mexico was partially offset by losses from the acquired business in Europe and Brazil, along with losses at some of our start-up businesses in developing markets. The operating loss in Europe was primarily driven by lower sales tied to the economy and lower gross profit margins related to unfavorable customer mix. Contributing to the loss in Europe were adjustments tied to the completion of the purchase price allocation. In Brazil, continued investments in expanding the sales force and product offering contributed to a small operating loss from this newly acquired business.

Other

Below the operating line, interest expense, net of interest income, was $4 million in the 2012 third quarter versus $2 million in the 2011 third quarter. This increase was primarily due to higher average debt outstanding and higher average interest rates in 2012 versus 2011. In addition, interest expense adjustments related to capital leases for the acquired business in Europe also contributed to the increase in 2012.

The effective tax rate for the 2012 third quarter was 37.1 percent versus 38.7 percent in 2011. The lower rate was primarily due to higher earnings in foreign jurisdictions with lower tax rates and a lower blended state tax rate. As a reminder, we continue to expect the effective tax rate for the full year 2012 to be in the range of 37.4 to 37.7 percent.

Cash Flow

Lastly, let's take a look at cash flow for the quarter. Operating cash flow was $338 million versus $251 million in 2011. We used the cash generated during the quarter to invest in the business and return cash to shareholders through share repurchase and dividends. Capital expenditures for the quarter were $59 million versus $47 million in 2011. We paid dividends of $57 million in the quarter, reflecting the 21 percent increase in the quarterly dividend announced in April of this year. In addition, we bought back 421,000 shares of stock for $85 million and ended the quarter with 5.6 million shares remaining on our share repurchase authorization. In total, we returned $142 million to shareholders in the quarter.

2012 Guidance

On July 18th, 2012 in our 2nd quarter earnings podcast, we indicated that if economic growth slows and/or the dollar continues to strengthen, the lower end of our sales range is more probable than the higher end. As reported in our 2012 third quarter earnings release, we slightly lowered and narrowed our 2012 sales guidance to a new range of 11 to 12 percent growth. At the same time, we reiterated our 2012 earnings per share guidance of $10.50 to $10.80. Let's look more closely at the underlying elements of our current expectations:

- First, we are forecasting daily sales growth of 6 to 9 percent in the Fourth quarter. While we gain an extra selling day in the 2012 fourth quarter versus the 2011 quarter, the holiday calendar will be working against us in December. Both Christmas and New Year's Day fall on Tuesdays. So we will be open for business on Monday, December 24th and Monday, December 31st, but are forecasting a minimal sales contribution on either day.
- Second, our gross profit margin for the fourth quarter should approximate the 43.6 percent reported for the 2012 third quarter.
- Third, we are forecasting strong operating margin expansion in the 2012 fourth quarter as we lap heavy investment spending in the prior year quarter. The absolute level of spending should be on par with growth spending in the 2012 third quarter and relatively small on an incremental basis versus the fourth quarter of 2011.
- Fourth, while our business in Canada posted strong performance in the 2012 third quarter, we are forecasting more moderate sales growth and margin expansion in the 2012 fourth quarter. Going forward, we will be investing in the foundational elements of the business, namely supply chain and information technology to support the impressive growth of this $1 billion business. In addition, we will also begin to invest in growth drivers to accelerate market share gains, primarily in eastern Canada, which represents nearly 70 percent of the country's market opportunity.
- Fifth, the performance of our Other Businesses should continue to be driven primarily by Japan and Mexico. Conversely, we expect both Europe and Brazil to be slightly dilutive in the 2012 fourth quarter.
- Sixth, we expect foreign exchange to be a slight headwind on both the top and bottom lines in the fourth quarter.
- Finally, our 2012 guidance assumes an effective tax rate of 37.4 to 37.7 percent for the full year.

Conclusion

In conclusion, we remain confident in our strategy to gain share and extend our leadership position in the large and fragmented MRO market. We will continue to invest in what matters to our customers; more products and services, more sales coverage and enhanced eCommerce capabilities to provide outstanding customer service. At the same time, we will continue to drive margin expansion by growing our private label program and harvesting productivity through our continuous improvement programs, all with the objective of delivering solid returns to shareholders.

Thank you for your interest in Grainger. Please mark your calendar for the release of October sales on Monday, November 12th and our Annual Analyst Meeting on November 14th. If you have any questions, please do not hesitate to contact Laura Brown at 847.535.0409 or me at 847.535.0881.

Exhibit 1

2012 Sales and EPS Guidance History

Date	Event	Sales	EPS*	Midpoint*
11/16/11	Analyst Meeting	10% to 14%	$9.90 to $10.65	$10.27
1/25/12	4Q11 Earnings	10% to 14%	$9.90 to $10.65	$10.27
4/17/12	1Q12 Earnings	12% to 14%	$10.40 to $10.80	$10.60
7/18/12	2Q12 Earnings	12% to 14%	$10.50 to $10.80	$10.65
10/16/12	3Q12 Earnings	11% to 12%	$10.50 to $10.80	$10.65

*Note: 2012 EPS guidance excludes the $0.66 charge announced on 10/16/12.

Exhibit 2

2012 Guidance

	October 16, 2012			July 18, 2012			2011 Actual
Sales ($B)	**$ 8.9**	**-**	**$9.0**	**$ 9.1**	**-**	**$9.2**	**$8.1**
V% vs. prior yr.	**11%**	**-**	**12%**	**12%**	**-**	**14%**	**12%**
Op Margin	**13.9%**	**-**	**14.1%**	**13.8%**	**-**	**13.9%**	**13.3%**
bps vs. prior yr.	60	**-**	80	50	**-**	65	**175**
EPS	**$10.50**	**-**	**$10.80**	**$10.50**	**-**	**$10.80**	**$9.04**
	1.5x	**-**	**1.7x**	**1.3x**	**-**	**1.4x**	**2.6x**

Notes:

a. 2012 excludes a $0.66 per share charge in 3Q12 for reserves related to settlement with the DOJ.

b. 2011 actual excludes a $0.03 per share net gain from the following items: a $0.12 gain related to a tax settlement in 2Q11, a $0.07 gain from the sale of the business in Korea in 4Q11, and a $0.16 charge related to branch closures in 4Q11.

Exhibit 3

Selling Days: 2012 vs. 2011

Year	1Q	2Q	3Q	4Q	Total
2012	64	64	63	64**	255
2011	64	64	64	63	255
Diff	0	0	-1*	+1	0

*In 3Q12 one selling day represents approximately $33 to $38 million in sales and approximately $0.05 to $0.10 in earnings per share on an incremental basis.

**The 64 selling days in 4Q12 include Monday, December 24th and Monday, December 31st, which are expected to contribute minimal sales given their proximity to major holidays.