W.W. Grainger, Inc.

Standard IR Presentation

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As of July 19, 2017

Safe harbor statement and non-GAAP financial measures

Safe Harbor Statement

All statements in this communication, other than those relating to historical facts, are “forward-looking statements.” These forward-looking statements are not guarantees of future performance and are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such statements. These statements include, but are not limited to, statements about future strategic plans and future financial and operating results. Important factors that could cause actual results to differ materially from our expectations include, among others: higher product costs or other expenses; a major loss of customers; loss or disruption of source of supply; increased competitive pricing pressures; failure to develop or implement new technologies or business strategies; the implementation, timing and results of our strategic pricing initiatives and other 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, privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; disruption of information technology or data security systems; general industry or market conditions; general global economic conditions; currency exchange rate fluctuations; market volatility; commodity price volatility; labor shortages; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; natural and other catastrophes; unanticipated weather conditions; loss of key members of management; our ability to operate, integrate and leverage acquired businesses; changes in credit ratings; changes in effective tax rates and other factors which can be found in our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q, which are available on our Investor Relations website. Forward-looking statements are given only as of the date of this communication and we disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.

Non-GAAP Measures

Additional information relating to certain non-GAAP financial measures referred to in this communication is available in the appendix to this communication.

Who we are

- Leading distributor of MRO products for business
- Founded in 1927; 90 years of service
- 2016 revenues of $10.1 billion
- More than 3 million active customers, average customer invoice >$300
- eCommerce leadership
  - Grainger is ranked 10th largest eCommerce retailer in North America by *Internet Retailer*
  - First commerce-enabled website in the industry (1996)
  - Online-only businesses for small customers (MonotaRO 2000; Zoro 2010)
  - More than 65% of sales originated through digital channels (Grainger.com, KeepStock® and EDI/ePro)
- Strong balance sheet and cash flow generation

Note: *Internet Retailer* report dated April 2017

Our competitive advantage

Grainger's inventory management offering, technical expertise, product breadth and superior fulfillment capabilities are industry leading

- ✓ **Sales Force**: Helps large customers with complex purchasing requirements save time and money
- ✓ **KeepStock®**: Inventory management offering with solutions including onsite branches, CMI/VMI and vending
- ✓ **eProcurement**: Connects Grainger.com directly to customer systems, ensuring the right assortment, workflow and processes for a specific customer
- ✓ **Technical Support**: Customers that require additional expertise can leverage a network of trained specialists
- ✓ **Product Breadth:** Grainger has 1.9 million products available online in the U.S.
- ✓ **Robust DC Network**: In the U.S., Grainger manages more than 700K stocked SKUs and **ships most orders complete with next-day delivery**
- ✓ **Availability:** The percent of time a product is in stock where and when the customer needs it, remains at very high levels even as Grainger has increased its product line seven-fold

Our strategic priorities by focus area

	U.S. LARGE 2016 Sales: $6.1B	U.S. MEDIUM 2016 Sales: $0.9B	CANADA 2016 Sales: $0.7B	SINGLE CHANNEL 2016 Sales: $1.0B	INTERNATIONAL 2016 Sales: $0.8B
Create unique value for different customers	Grow spot-buy volume via relevant pricing and digital capabilities		Diversify the business	Continue to build the online model	Optimize the portfolio for profitable growth
	Grow with large, complex customers	Re-engage medium customers	Return to profitable growth		
Create an effortless customer experience	Improve the end-to-end customer experience including less complex pricing and enhanced digital capabilities				
Reduce cost	Improve the cost structure throughout the company				
Help each other grow and succeed	Instill leadership behaviors to ensure focus on team member development and engagement				
Be responsible stewards	Maintain highest standards of ethics and integrity				

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Note: Total company 2016 revenue of $10.1 billion also includes specialty brands such as E&R Industrial, Imperial Supplies and Techni-Tool.

U.S. Large – today and tomorrow

Today

U.S. Large: market leader, consistent share gain

- Sales representatives save customers time and money
- eCommerce solutions handle complex purchasing processes
- Value-added services help reduce costs, keep team members safe and manage inventory
- Strong B2B fulfillment capabilities
- Competitive pricing overall, but visible list price turning away spot buy volume

By 2019

U.S. Large: <u>continued</u> share gain

- Same overall model as today with...
  - Improved onsite execution
  - Improved eCommerce capabilities for end users
  - Improved assortment (more items in stock) and delivery performance
  - Simplified pricing to enable customers to consolidate MRO spend with Grainger

U.S. Large – value proposition bolstered by pricing actions

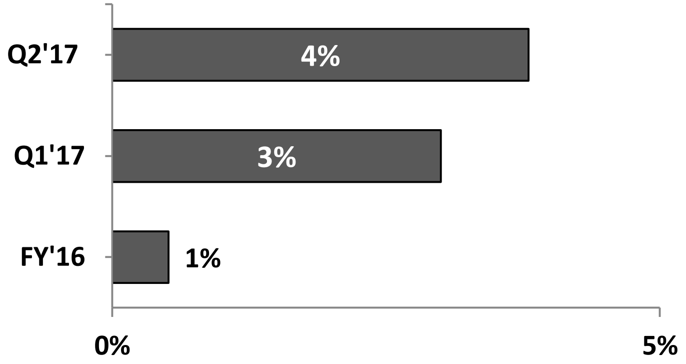
What large customers say they value

- Product assortment
- Proactive sales model
- Technical support
- Attractive price
- Help managing the business
- Strong fulfillment capabilities

Based on surveys and focus groups in 2016-2017 of 1800+ active MRO customers and non-Grainger customers

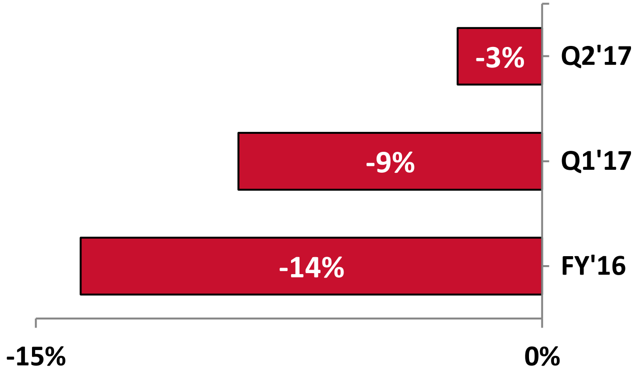
U.S. Large – pricing actions proof points*

Total volume growth on $6.1 billion of revenue



Spot buy volume growth

(~30% of volume)



*U.S. Large total product COGS dollars (excludes freight, rebates and other adjustments) used as a proxy for volume

U.S. Medium – today and tomorrow

Today	By 2019
U.S. Medium: share loss	**U.S. Medium: share <u>gain</u>**

Today

U.S. Medium: share loss

- Too few customer touches
- Strong assortment but can be overwhelming
- Grainger website attractive but complex
- Strong B2B fulfillment capabilities
- Visible list price a barrier to retaining existing customers and acquiring new customers

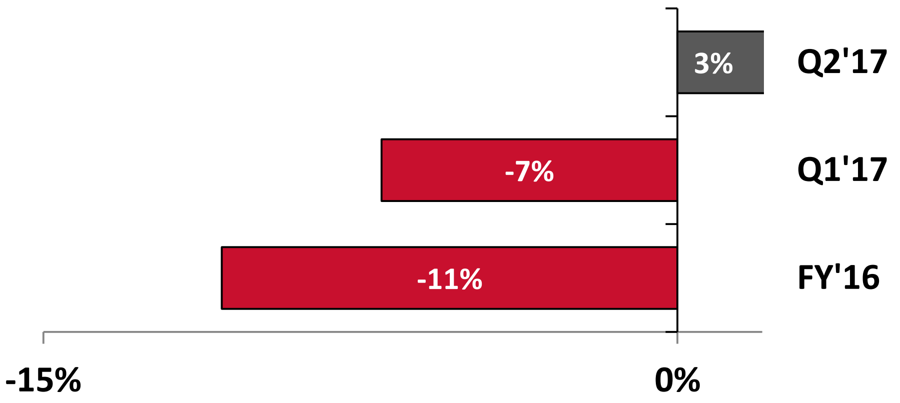
By 2019

U.S. Medium: share gain

- Reach more customers through digital relationship and inside sales
- Improved assortment (more items in stock) and delivery promise
- Customer segment specific product solutions
- Enhanced digital capabilities
- Competitive pricing opens opportunity; able to acquire customers and grow with Grainger brand

U.S. Medium – pricing actions and volume response

U.S. Medium – pricing actions proof points*



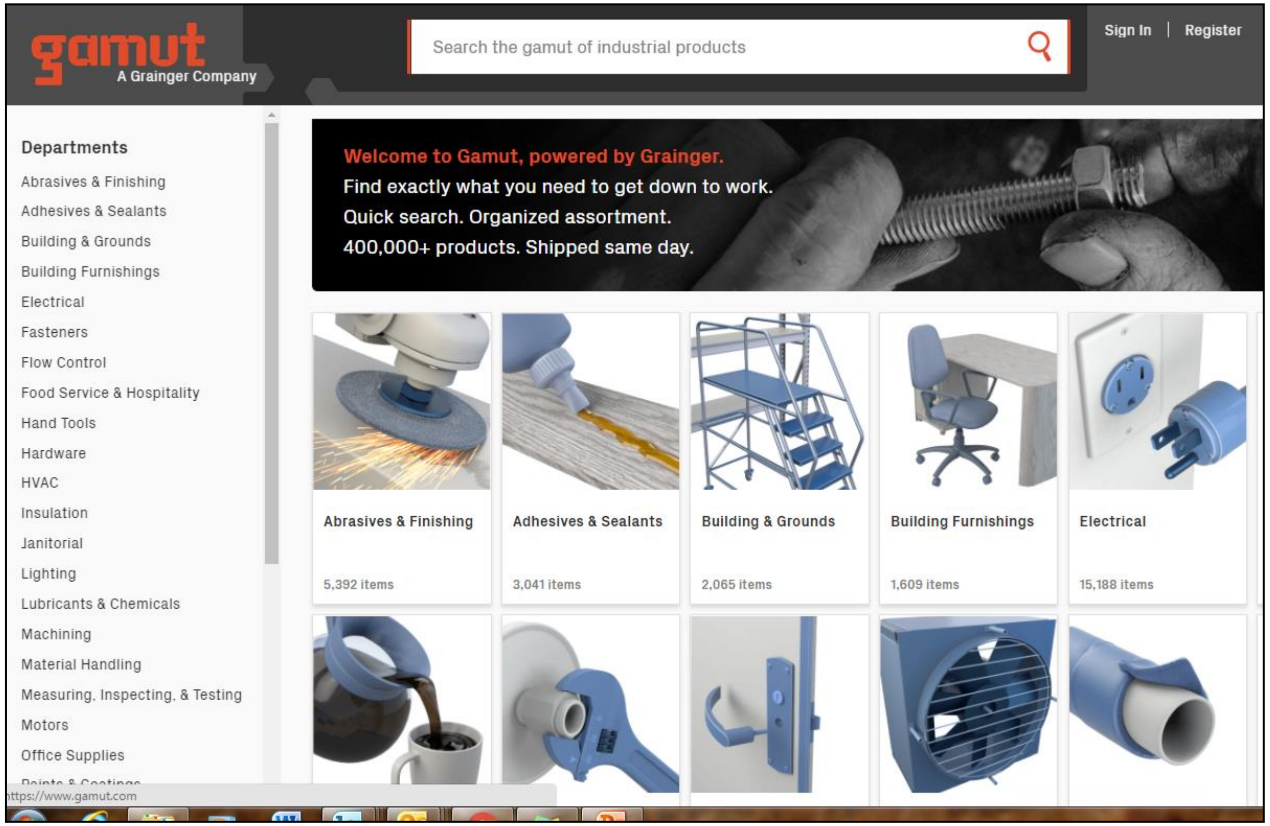
Total volume growth on $0.9 billion of revenue

Pricing actions enable share gain

- ~50% of Medium volume on more competitive pricing (Web or Red Pass)
- Medium Red Pass customers achieving double digit growth year-to-date
- All Medium customer volume will be competitively priced in August
- Launch digital marketing in August to drive Medium customer acquisition

*U.S. Medium product COGS dollars (excludes freight, rebates and accounting adjustments) used as a proxy for volume.

Accelerate digital capabilities – Gamut launch



- **Grainger is ranked 10th largest eCommerce retailer in North America by Internet Retailer**
- Building on digital capability through R&D
  - Curated search experience leveraging technical expertise
  - Useful when customer needs to solve a specific problem
  - New data structures
- Getting customer feedback to refine
- Will be part of Grainger digital offering but too early to say exactly how

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Note: Internet Retailer report dated April 2017

Turn around Canada to deliver sustainable growth

Business challenged in recent years, service stabilizing, major cost structure reset in motion

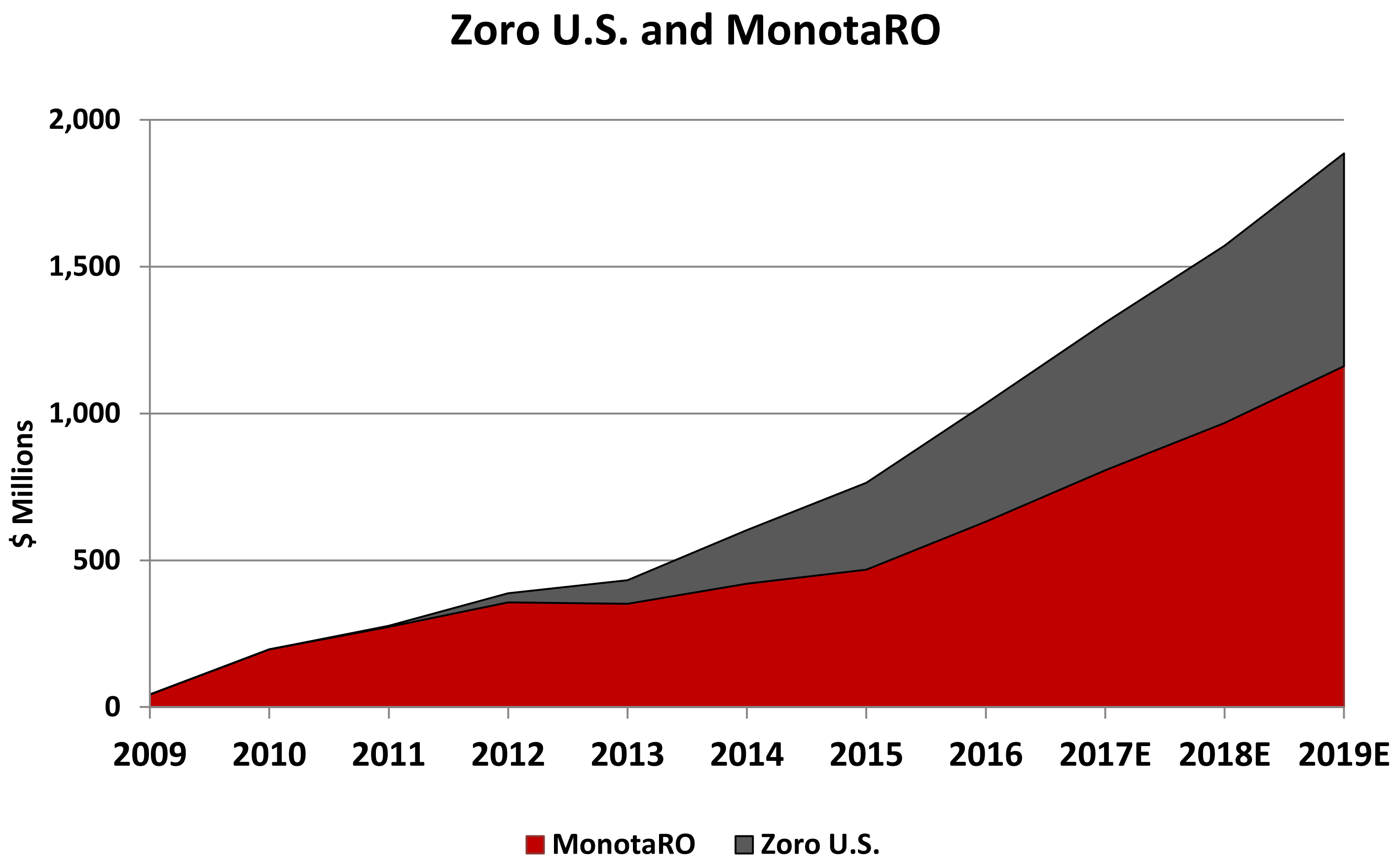
Focus on returning to profitable growth in 2017

- Stabilized ERP system
- Improved service levels, including direct-to-customer shipping
- Resetting the cost structure
  - Taking $20 - $30 million of annualized cost out of the business in 2017
  - Closing 59 of the 144 branches and headcount reductions
- Improving price realization

Building a competitive advantage in Canada

- Customer diversification
- Improved eCommerce capability
- Leverage U.S. assortment to improve margins and provide a better customer experience
- Cross border synergies (i.e. inventory planning and accounts payable)

Single Channel – gaining share with small, leveraging Japan



- Businesses target small customers through transactional model and digital marketing based on lessons learned from MonotaRO
- Superior assortment and fulfillment capabilities
- Gaining share with small customers in aggregate
- Continued operating margin expansion

Expense Management

Drivers of 2019 productivity

- Continue expense leverage trend
- Cost take-out of $100 to $125 million
  - **U.S.: $80 to $95 million (net of marketing investment):**
    - Contact center consolidation
    - Volume driven expense efficiency (DC scale)
    - Reduced complexity due to pricing actions
    - Fulfillment
  - **Canada: $20 to $30 million:**
    - Closing 59 of 144 branches in 2017
  - **International**
    - Colombia business wind-down

U.S. incremental expense: 2017 - 2019

- Assumes 6% to 8% annual volume growth from 2017 to 2019
  - Volume variable expense: +$60 to +$90 million
  - Inflationary expenses: +$80 to +$85 million
  - Cost takeout, net of incremental marketing investment: -$80 to -$95 million

Achieving 2019 expectations

Transforming to win in the U.S. • 6-8% volume growth in 2019 • Operating margin 15-16% in 2019	• U.S. Large sales and service model advantage • Mid-sized customer turnaround driven by digital growth with reasonable pricing • All leveraging advantaged fulfillment and product line
Taking action to reset Canada for profitable growth • Operating margin 2-4% in 2019	• Stabilized ERP system • Improved service levels • Resetting the cost structure • Improving price realization
Other Businesses performing as expected • Operating margin 8-10% in 2019	• Online model continues to drive strong profitable growth • Zoro and MonotaRO drive growth and strong returns in U.S. and Japan • International businesses are focused, profitable and growing
Focused on exceptional customer experience while taking unnecessary cost out	• Improving the customer experience through digital capabilities and less complex pricing • Taking $100 - $125 million of cost out of the business by 2019

Appendix

2017 Guidance (Adjusted)

	Low	Mid	High
Sales *($ billions)*	**$10.2**	**$10.4**	**$10.5**
% vs. prior year	1%	2.5%	4%
GP Margin	**38.8%**	**39.1%**	**39.4%**
bps vs. prior year	(190)	(160)	(130)
Op. Margin	**10.4%**	**10.7%**	**11.2%**
bps vs. prior year	(210)	(170)	(130)
EPS	**$10.00**	**$10.65**	**$11.30**

Note: Reiterating guidance issued on 4/18/2017 as of 7/19/2017. Reference slides 22-23 for GAAP vs. non-GAAP reconciliation.

2017 and 2019 Operating Margin Guidance Remains Unchanged

	2017E	2019E
U.S.	14% - 15%	15% - 16%
Canada	(6)% - (4)%	2% - 4%
Other Businesses	6% - 7%	8 - 10%
Company	**10% - 11%**	**12% - 13%**

2019 Outlook:

- Total company 2019 operating margin guidance unchanged from November 2016 analyst meeting
- U.S. price deflation offset by better mix and continued cost productivity
- Canada volume and pricing improves along with significant cost takeout

Note: Company includes unallocated expenses and eliminations.

Price reduction impact on GP% (hypothetical example)

	Prior Year	Current Year	Variance	Change
Sales	**$100.0**	**$95.0**	**-$5.0**	**-5.0%**
COGS	$60.0	$60.0	$0	
COGS %	60.0%	63.2%	3.2%	
Gross Profit	$40.0	$35.0	-$5.0	
GP%	**40.0%**	**36.8%**	**-3.2%**	**-320 bps**

A price reduction of 5% would have a GP% impact of ***less than*** -500 basis points (all else equal)

2016 results by business

	2016 Revenue	2016 Rev Growth	2016 OE%[1]	2016 ROIC[1]
U.S. Large	$6.1B	(1%)	15–20%	40–45%
U.S. Medium	$0.9B	(11%)	25–30%	
Single channel	$1.0B	~35%	~10%	~50%[2]
Canada	$0.7B	(18%)	(6%)	(7%)
International	$0.8B	~35%[3]	0–5%	<10%
TOTAL COMPANY[4]:	$10.1B	2%	12.5%	26%

1. OE% and ROIC are on adjusted basis. Please see slides 20-21 for reconciliation. 2. ROIC shown is for MonotaRO, which serves as a proxy for the overall single channel business. 3. International includes Cromwell acquisition in September 2015. 4. Total company also includes Specialty Brands, eliminations and unallocated expenses.

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Pricing actions – initial results

Pricing structure was impeding growth and profitability

Actions in Q1 2017	What we saw in Q1 2017
1. Adjusted list prices to support large customers consolidating their purchases (January)	Stronger than anticipated volume response on both frequent and infrequent purchases
2. Introduced new web prices on ~450K SKUs to drive Medium and Large noncontract customer acquisition and growth (February)	Prior to web pricing, volume was declining at double digits and is now up in the mid-single digits for those who opted in (without marketing)
3. Negotiate Large customer contracts to reverse the decline in spot buy business (ongoing)	Prior to contract modifications, customer volume was growing 4%. Post implementation, volume grew 9% for those customers where we have implemented pricing changes

More relevant pricing makes Grainger easier to do business with

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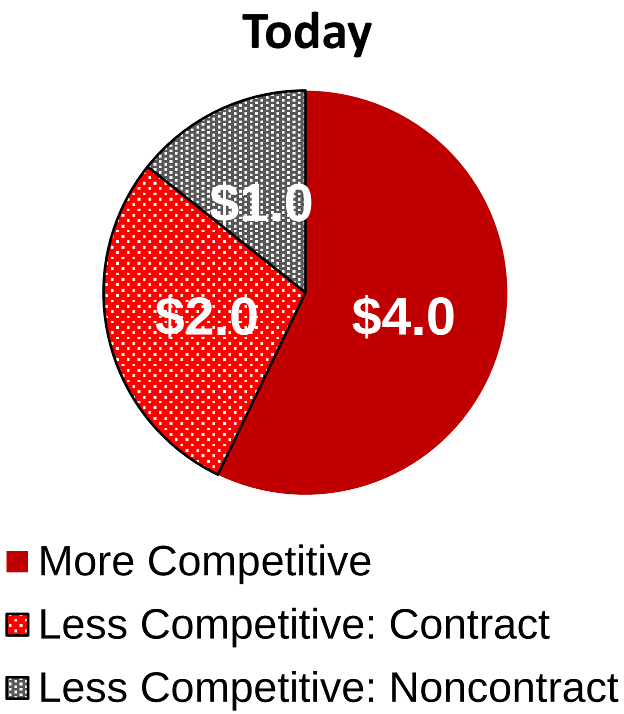
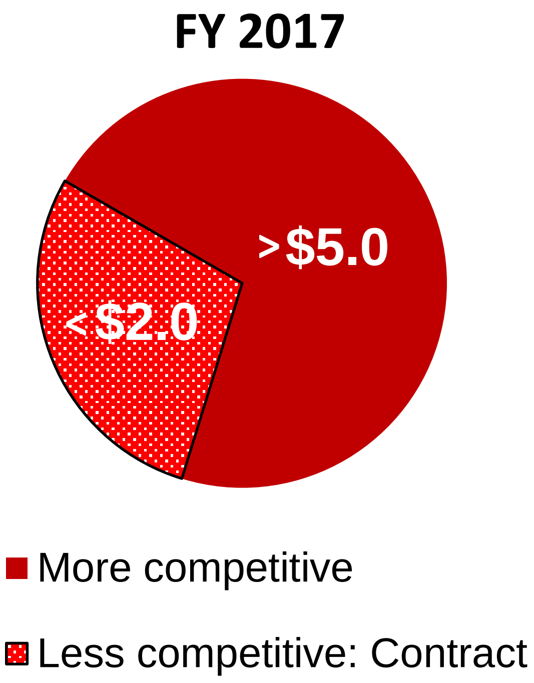
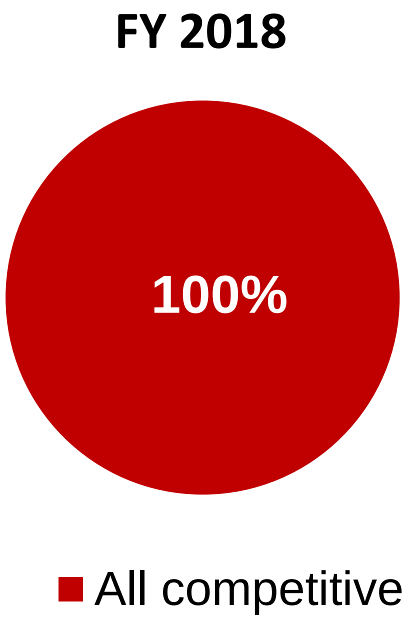
U.S. Large and Medium pricing actions – effective date







Q1 2017 – U.S. Segment
- Price deflation: 4%
- GP margin decline: 190 bps

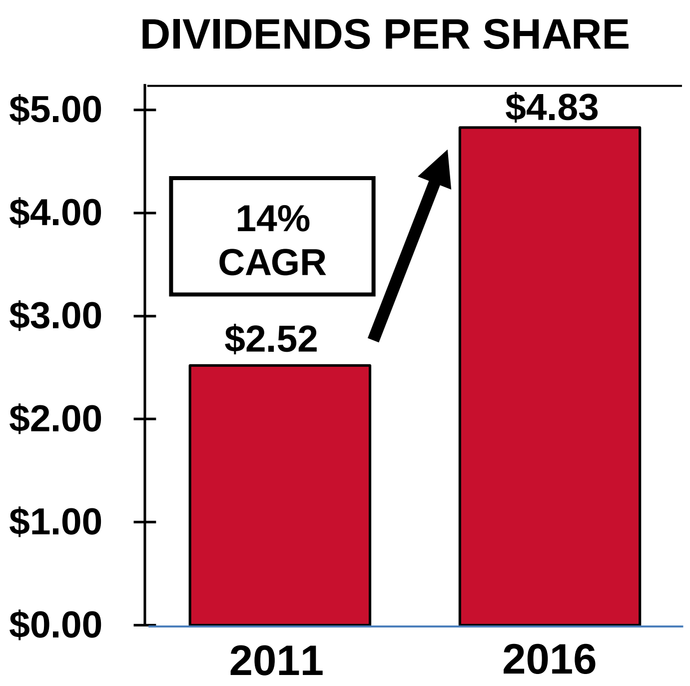
FY 2017 – U.S. Segment
- Price deflation: 5%
- GP margin decline: 210 bps

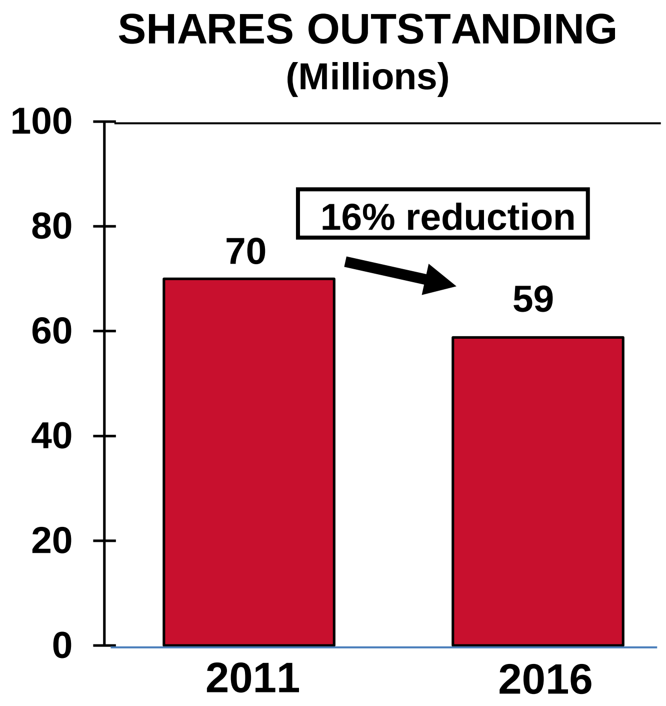
FY 2018 – U.S. Segment
- Price deflation: 2%
- GP margin decline: 120 bps

Note: U.S. Segment includes specialty brands and intercompany sales to Zoro.

All figures in billions of dollars. Price deflation and GP declines driven by 2017 and 2018 price changes and 2018 carryover and completion of contract negotiations. GP margin also reflects favorable customer/product mix and price increases on more competitively priced products in line with inflation.

Dividends and shares outstanding





- In April 2017, Grainger increased its quarterly dividend by 5%, marking its 46th consecutive year of dividend increases (among only 3% of S&P 500 companies)
- Shares outstanding reduction has been accelerated by Grainger's share repurchase program; Grainger plans to repurchase $600M worth of shares in 2017

2016 GAAP to non-GAAP reconciliations

	Twelve Months Ended December 31, 2016					
	United States	Canada	Other Business	Unallocated Expenses	Total	%
Operating earnings reported	$ 1,274,851	$ (65,362)	$ 40,684	$ (130,676)	$ 1,119,497	(14)%
Restructuring	15,668	14,998	—	8,947	39,613	
Other:					—	
Goodwill and intangible impairment	—	—	52,318	—	52,318	
Unclaimed property contingency	36,375	—	—	—	36,375	
Inventory reserve adjustment	—	9,847	—	—	9,847	
GSA contingency	9,180	—	—	—	9,180	
Subtotal	61,223	24,845	52,318	8,947	147,333	
Operating earnings adjusted	$ 1,336,074	$ (40,517)	$ 93,002	$ (121,729)	$ 1,266,830	(6)%

	Twelve Months Ended December 31, 2015				
	United States	Canada	Other Business	Unallocated Expenses	Total
Operating earnings reported	$ 1,371,626	$ 27,368	$ 48,051	$ (146,725)	$ 1,300,320
Restructuring	34,507	4,183	5,696	965	45,351
Operating earnings adjusted	$ 1,406,133	$ 31,551	$ 53,747	$ (145,760)	$ 1,345,671

2016 GAAP to non-GAAP reconciliations

	Twelve Months Ended December 31,		
	2016	2015	%
Segment operating earnings adjusted			
United States	$ 1,336,074	$ 1,406,133	
Canada	(40,517)	31,551	
Other Businesses	93,002	53,747	
Unallocated expense	(121,729)	(145,760)	
Segment operating earnings adjusted	$ 1,266,830	$ 1,345,671	(6)%
Company operating margin adjusted	12.5 %	13.5%	
ROIC* for Company	25.8 %	29.5%	
ROIC* for United States	42.6 %	46.2%	
ROIC* for Canada	(7.1)%	5.0%	

*Adjusted ROIC is calculated as defined on page 10 of the FY 2016 earnings release, excluding the items adjusting operating earnings as noted above.

	Twelve Months Ended December 31,		
	2016	2015	%
Net earnings reported	$ 605,928	$ 768,996	(21)%
Restructuring	26,501	30,111	
Other:			
Goodwill and intangible impairment	52,318	—	
Unclaimed property contingency	22,781		
Inventory reserve adjustment	7,278	—	
GSA contingency	5,750		
Discrete tax items[1]	(9,378)	(5,984)	
Subtotal	105,250	24,127	
Net earnings adjusted	$ 711,178	$ 793,123	(10)%

(1) The tax impact of adjustments is calculated based on the income tax rate in each applicable jurisdiction.

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