



To Our Shareholders:

At Grainger, we strive to understand and solve the unique needs of maintenance, repair and operating (MRO) professionals. This past year marked our 90th year of helping our customers keep their operations running and their people safe. We worked hard to earn the trust of our customers and were honored to help them recover and rebuild from devastating natural disasters. We were also there to support our communities during these challenging times.

In 2017, we took action to become more relevant to our customers and to compete more aggressively in the market by investing in our digital platform, adjusting our pricing to be more competitive in the United States and resetting our business model in Canada. We also launched a comprehensive effort to remove \$150–\$210 million of cost from the business through 2019. We remain on track with our revenue, volume and expense management goals and have fortified a solid foundation for growth.

Our 2017 highlights include:

- Company sales of \$10.4 billion, up 3 percent from 2016.
- Volume growth of 8 percent versus 2016.
- Reported earnings per share of \$10.02, up 2 percent from 2016. On an adjusted basis, earnings per share were \$11.46, down 1 percent versus 2016.
- Cash generated from operations of \$1.1 billion with free cash flow of \$940 million, up 3 percent from 2016.
- Cash returned to shareholders of \$910 million in the form of approximately 3.0 million shares repurchased for \$605 million and \$304 million in dividends paid.

Grainger competes in mature economies where we have a leading position. We leverage our scale in these markets by competing with two distinct business models. The first, the multichannel model, is characterized by high-touch solutions to meet complex customer needs. This includes a stocked assortment of high-quality, industrial products as well as the support of Grainger sellers, branch associates and customer service agents all possessing strong technical knowledge. The Grainger business in the United States, Acklands–Grainger in Canada and Cromwell in the United Kingdom all compete with this model. The second, the single channel model, is characterized by a very broad assortment of products across all categories, competitive pricing and a simple customer experience. Our MonotaRO business in Japan and Zoro companies in the United States, Germany and the United Kingdom compete with this model.

In 2017, we took significant steps to create even more value for customers of the multichannel offer. In the United States, we instituted competitive pricing that helped drive significant volume growth with both large and midsize customers who previously saw pricing as a barrier to our value. We also improved our digital capabilities and executed our sales and services model to create value for customers. In Canada, we launched a reset of the business to ensure its long-term profitability and growth. At Cromwell, we added supply chain capacity and invested in improved digital solutions for customers.

In the single channel model, we continued to see great growth and profitability expansion in 2017. These businesses continue to focus on developing an “endless” assortment, acquiring new customers effectively and delivering a strong customer experience at a low cost.

Grainger’s strong eCommerce capabilities, advantaged supply chain network and robust IT systems enable growth with existing and new customers at the best cost across the multichannel and single channel models. We continued to make investments in these areas in 2017, including the launch of Gamut, an innovative new website focused on providing the absolute best product search capabilities in our space. We also broke ground on a new distribution center in Louisville, Kentucky, scheduled to open in 2020.

Our 2018 priorities directly support our customers, team members and shareholders:

- Leverage our Gamut and Grainger.com capabilities to build the best digital solution in our market.
- Execute on our sales and services model to create unique value for our customers.
- Improve our industry-leading order transaction process to support customers and team members.
- Complete the reset of our Canadian business.
- Ensure each business in the international portfolio drives profitable growth.
- Continue to grow our single channel model while expanding margins.
- Execute on our cost reduction targets.
- Improve our team member experience and leader development to drive team member engagement.

By executing these priorities, we expect to generate attractive returns for our shareholders and deliver a great experience for our customers and team members.

Every day, Grainger team members build relationships and expand our reputation as a trusted partner to the hardworking people who keep the economy growing. Customers of different sizes and industries trust Grainger. We will continue to work hard to earn that trust by delivering value and operating with the highest ethics and integrity. I’m honored by the accolades and recognition we received in 2017 for such work, including our inclusion in the Dow Jones Sustainability Index and our first-place category rank in *Fortune*’s “World’s Most Admired Companies” for the fifth consecutive year.

I’m proud of what the Grainger team has accomplished and how our work in 2017 helped create a solid foundation for us to create value and accelerate our growth in 2018. Our plan moving forward is to have consistent, steady execution focused on those things that matter to our customers. That is how we achieve our goals and win in the marketplace.



D.G. Macpherson
Chairman and Chief Executive Officer

February 26, 2018