4Q16 Earnings Release Supplement
January 25, 2017

Introduction

The purpose of this earnings supplement is to provide additional information regarding Grainger's fourth quarter 2016 results in addition to the conference call scheduled for January 25, 2017, at 11am Eastern/10am Central to provide greater insight into the fourth quarter accounting adjustments. Additional information is available on our Investor Relations website.

Company Results Summary: 2016

For the full year, company sales of $10.1 billion were up 2 percent versus 2015. Reported net earnings declined 21 percent to $606 million and reported earnings per share decreased 15 percent to $9.87.

The year contained restructuring costs and other charges that lowered reported earnings by $1.71 per share as detailed in the earnings release. In contrast, the year 2015 included restructuring costs that lowered reported earnings by $0.36 per share. To better understand our underlying performance, the analysis and commentary for the remainder of this supplement excludes the effect of these items in 2016 and 2015 unless specifically noted. Additional details regarding these items can be found in the earnings release, posted on the Investor Relations section of our website, and in the exhibits at the end of this earnings supplement.

Excluding charges from 2016 and 2015, company operating earnings decreased 6 percent for the year, while net earnings declined 10 percent. Adjusted earnings per share were $11.58 for the year, representing a 3 percent decline versus $11.94 in 2015. For the year, Grainger returned $1.1 billion in cash to shareholders in the form of share repurchases and dividends. Free cash flow for the year was $774 million versus $631 million in 2015, representing an increase of 23 percent.

Given that this was the final quarter of the year, we want to take a moment to review progress we made in 2016 on the initiatives discussed at our Analyst Day on November 11th, beginning with the U.S. segment.

U.S. Large Customers

During the year, we took several steps to grow with large customers in the United Sates, including:

- Vertically aligning our sales force to provide more customized, segment-specific focus allowing for deeper customer relationships.
- Implementing a new customer relationship management system to help sales representatives be more productive, while better understanding the activities that drive revenue and profitability.
- Expanding the large business development team to include sales representatives that specifically target companies transitioning to a centralized MRO purchasing approach.
- Introducing more competitive pricing for items not under specific contract pricing. We will expand these initiatives further to include additional items and customers later in the year.

U.S. Medium Customers

Moving on to our highly profitable medium customer group, over the past 12 months, we built a more relevant offer centered on improved sales coverage, tailored marketing, merchandising and pricing. In 2016, we achieved the following:

- Opened a new inside sales facility in San Antonio, Texas, and hired 200 inside sales associates calling on roughly 100,000 medium customers.
- Launched a tailored pricing program, Red Pass Plus, which allows qualifying medium customers to receive discounts on a pre-determined set of products.

And in 2017, we plan to reach an additional 50,000 medium-sized customers by hiring more inside sales associates.

Canada

In Canada, we took aggressive actions to position this business for long-term sustainable growth and profitability as follows:

- Reorganized the business to better support the operation and reduce cost.
- Closed 14 branches, reduced the work force by 10 percent and centralized functions.
- Implemented and stabilized SAP, which replaced dozens of legacy systems with a common North American platform.
- Launched direct-to-customer (DTC) shipping, moving from 8 percent DTC to more than 50 percent in December.

These actions should position us for growth in 2017 and get the business to break even by the end of the year.

Single Channel Online Businesses

Finally, within our Other Businesses, we continue to lead the MRO industry with our single channel online model. The businesses of MonotaRO in Japan and Zoro in the United States are high growth, asset-light and serve customers through a streamlined search and transactional experience. This model has proven successful across multiple countries. Achievements for the year included:

- Total single channel revenue grew by 35 percent to $1 billion, with the businesses acquiring more than 1 million new customers across the globe, while operating earnings improved 56 percent.
- MonotaRO in Japan reported sales of $631 million, with an operating margin of 13.1 percent for the year, which was accretive to our company average operating margin.
- Zoro U.S. reported sales of $403 million, with an operating margin of 7.4 percent for the year.

Company Results Summary: 2016 Fourth Quarter

Company sales in the fourth quarter were flat versus the prior year. Reported operating earnings of $174 million declined 31 percent, while reported net earnings of $61 million were down 58 percent and reported earnings per share of $1.01 declined 56 percent. The 2016 fourth quarter contained charges totaling $1.44 after-tax earnings per share.

The 2015 fourth quarter had restructuring costs and tax discrete items of $0.19 per share, which are detailed in that quarter's press release issued on January 26, 2016. Excluding these items in both years, adjusted operating earnings declined 3 percent, while net earnings were down 7 percent. Adjusted earnings per share were $2.45 for the quarter, representing a decline of 2 percent versus the 2015 fourth quarter.

Gross profit margins were 40.1 percent, compared to 40.4 percent in the 2015 fourth quarter due to price deflation exceeding cost deflation and unfavorable customer mix. All of the 2016 fourth quarter adjustments affected operating expenses and tax, and none affected cost of goods sold.

On an adjusted basis, company operating earnings for the quarter declined 3 percent driven by flat sales and lower gross profit margins, partially offset by lower expenses. Company operating margins declined 30 basis points to 11.1 percent for the quarter versus 11.4 percent a year ago.

Quarterly Sales

As mentioned above, company sales for the quarter were flat to the prior year and up 1 percent on a daily basis. We had 63 selling days in the quarter, one fewer than the previous year. The 1 percent daily sales increase consisted of a 1 percentage point increase from volume and 1 percentage point from the timing of holidays, partially offset by a 1 percentage point decline from price.

We report two segments, the United States and Canada. Our remaining operations, located primarily in Europe, Asia and Latin America, are reported under a grouping titled Other Businesses and include results for the single channel online businesses in Japan, the United States and Europe.

Sales in the United States, which accounted for 73 percent of total company revenue in the quarter, declined 1 percent in the fourth quarter versus the prior year and were flat on a daily basis. The daily sales performance was comprised of 1 percentage point from higher intercompany sales to Zoro and 1 percentage point from the timing of holidays, offset by a 1 percentage point decline from price and a 1 percentage point decline from volume.

Sales performance by customer end market in the United States was as follows:

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

We continue to see strong performance with our Government customers, which is a combination of new project wins and further penetration of existing business.

Sales in Canada represented 7 percent of total company revenues in the quarter. For the quarter, sales in Canada declined 11 percent in U.S. dollars. On a daily basis, sales declined 9 percent in U.S. and in local currency. The 9 percent sales decline consisted of a 7 percentage point decrease from volume and a 4 percentage point decrease from price, partially offset by a 1 percentage point contribution from higher sales of seasonal products and 1 percentage point from the favorable timing of holidays. Although volume is still negative, we saw improvement each quarter of 2016. From a geographic standpoint, sales in

Alberta were down about 15 percent in the quarter, whereas sales in all other provinces in aggregate were down 7 percent versus the prior year. All end markets were down versus the prior year.

Other Businesses includes our operations primarily in Europe, Asia and Latin America and currently represents about 20 percent of total company sales. Sales for this group increased 11 percent in the 2016 fourth quarter versus the prior year and 13 percent on a daily basis, composed of volume and price. Organic sales growth in the Other Businesses was primarily driven by strong growth at MonotaRO in Japan and Zoro in the United States.

December Sales

Earlier in the quarter, we reported sales results for October and November and shared some information regarding performance in those months. Let's now take a look at December. There were 21 selling days in December of 2016, one fewer than 2015. Total company daily sales were up 6 percent versus December 2015 and consisted of 4 percentage points from volume, 2 percentage points from the timing of holidays and 1 percentage point from higher sales of seasonal products, partially offset by a 1 percentage point decline from price. The favorable timing of the New Year's holiday, which was recognized on Monday, January 2nd, contributed to the strong finish to the year.

In the United States, December daily sales increased 4 percent driven by 2 percentage points from the timing of holidays, 1 percentage point increase in volume, 1 percentage point from higher intercompany sales to Zoro and 1 percentage point from higher sales of seasonal products, partially offset by a 1 percentage point decline in price. December customer end market performance in the United States was as follows:

- Government was up in the low double digits;
- Commercial was up in the high single digits;

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

Similar to the quarter, the Government business had a strong performance in December. The sub-segments of Commercial Services and Transportation contributed to growth in the Commercial end market. And in December, the Heavy Manufacturing end market was positive on a year-over-year basis for the first time in 2016.

Daily sales in Canada for December increased 7 percent in U.S. dollars and were up 4 percent in local currency. The 4 percent sales increase consisted of 4 percentage points from the timing of holidays, 2 percentage points from volume and 2 percentage points from higher sales of seasonal products, partially offset by a 4 percentage point decline from price. From a geographic standpoint, sales in Alberta were down 1 percent in December, but sales in all other provinces in aggregate were up 7 percent versus the prior year.

Daily sales for the Other Businesses increased 19 percent in December, composed of volume and price. The growth was driven by MonotaRO in Japan and Zoro in the United States.

January Sales

As we move on to January, it is important to recall that December benefited from favorable timing of the New Year's holiday. This appears to have resulted in a one week holiday shift that contributed to a slower start to January, along with a difficult comparison to January of 2016. As a result, our daily sales performance in January to date is slightly negative. Sales in Canada are up against a very difficult comparison in January 2017. Customers in Canada pre-ordered a significant amount of volume in January 2016 in anticipation of the SAP deployment on February 1st.

Operating Performance by Reporting Segment

As a reminder, results in this discussion exclude the restructuring costs and other charges detailed in the earnings press release, which is posted on the Investor Relations section of our website, and in the exhibits at the end of this supplement.

Adjusted operating earnings in the United States decreased 3 percent versus the 2015 fourth quarter driven by lower sales and a lower gross profit margin. Gross profit margins for the quarter decreased 30 basis points as a result of price deflation exceeding cost deflation. Operating expenses declined 1 percent and remained flat as a percent of sales despite lower sales. On an adjusted basis, the U.S. operating margin decreased 30 basis points to 15.8 percent for the quarter versus the fourth quarter of 2015.

Our business in Canada had an adjusted operating loss of $11 million versus operating earnings of $8 million in the 2015 fourth quarter. This decrease was primarily driven by lower sales, lower gross profit margin and negative expense leverage. The gross profit margin in Canada declined 670 basis points versus the prior year due to price deflation versus cost inflation and higher freight costs from the increase in DTC shipping. Further, we intentionally did not raise prices in late 2016, despite the increases in product cost, as we focused on stabilizing the customer experience. Adjusted operating expenses in Canada were down 2 percent.

On an adjusted basis, the Other Businesses had $17 million in operating earnings in the 2016 fourth quarter versus $10 million in the 2015 period. The

63 percent increase in adjusted earnings was primarily driven by better performance from MonotaRO and Zoro.

Other

Other income and expense was a net expense of $29 million in the 2016 fourth quarter versus a net expense of $17 million in the 2015 fourth quarter. This increase was primarily attributable to higher interest expense and losses from the company's second investment in clean energy that began in January 2016.

The effective tax rate in 2016 was 53.0 percent for the quarter and 37.9 percent for the full year. Excluding the effect of the items described above, the adjusted tax rate was 37.1 percent for the quarter and 36.7 percent for the full year, compared to 39.2 percent for the 2015 quarter and 37.6 percent for full year 2015. The company's clean energy investment generated $0.15 per share of earnings for the year. The company is currently projecting a tax rate of 36.0 to 37.0 percent for 2017, unchanged from the prior projection on November 11, 2016.

Cash Flow

Operating cash flow was $333 million versus $254 million in the 2015 quarter. We used the cash generated during the quarter, along with proceeds from debt, to invest in the business and return cash to shareholders through share repurchases and dividends. Gross capital expenditures for the quarter were $71 million versus $121 million in 2015. We paid dividends of $259 million in the quarter, reflecting the 4 percent increase in the quarterly dividend announced in April of 2016. In addition, we bought back 816,000 shares of stock for $177 million and ended the quarter with 5.9 million shares remaining on our share repurchase authorization. In total, we returned $259 million to shareholders in the quarter. Free cash flow for the quarter was $269 million versus $136 million in the prior year.

2017 Guidance

As noted in the earning release, we reiterated our 2017 sales and EPS guidance. The following information is provided to help you better model our 2017 financials. Keep in mind this reflects adjusted results in 2016 as a basis for comparison:

1. Sales.
   a. We continue to expect sales to grow 2 to 6 percent in 2017, as price declines at a slower rate and share losses stabilize in Canada and with medium customers in the United States. For the first quarter, recall that January was the second-strongest month of the year in 2016, with 4 percent sales growth.
   b. Please note that 2017 contains one fewer selling day than 2016. Each quarter contains the same amount of selling days as prior year with the exception of the third quarter, where 2017 has one fewer day than 2016.
2. Gross profit margins.
   a. We expect gross profit margins to be down 40 to 70 basis points for full year 2017 versus the full year 2016, primarily driven by pricing changes in the United States and the mix effect of growth in the single channel.
   b. For the first quarter, we forecast gross profit margins will be down 80 to 130 basis points versus the 2016 first quarter, which will be our toughest gross profit margin quarter comparison in 2017.
3. Operating margin.
   a. For the full year, we expect a similar operating margin to what we guided to in November. Since 2016 was 10 basis points favorable to our guidance, this means operating margin will be down 30 to 80 basis points. The makeup is slightly different as well, with gross margins slightly worse and operating expenses slightly better versus our November guidance.

b. For the first quarter, we forecast operating margins will be down 80 to 130 basis points versus the 2016 first quarter due primarily to lower gross profit margins as mentioned above.

4. Clean energy investment. Our first investment in clean energy resulted in a benefit of $0.09 per share for the year 2015. As explained earlier, the benefit of two clean energy investments in 2016 yielded a $0.15 earnings per share benefit in 2016. We now expect a $0.10 to $0.15 benefit to earnings per share in 2017 from these investments.
5. Earnings per share. As mentioned in our November guidance, we expect earnings per share to be between $11.30 to $12.40 for 2017 driven by higher U.S. sales, improved performance in Canada and continued strong growth with our single channel businesses.

Conclusion

Please mark your calendar for the release of January sales on Monday, February 13. If you have any questions, please do not hesitate to contact Laura Brown, Senior Vice President of Communications and Investor Relations at 847.535.0409, Bill Chapman, Senior Director of Investor Relations at 847.535.0881 or Michael Ferreter, Senior Manager of Investor Relations at 847.535.1439. Thank you for your interest in Grainger.

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Exhibit 1
Reported vs. Adjusted EPS Reconciliation

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2016	**2015**	**%**	**2016**	**2015**	**%**
Diluted earnings per share reported	$ 1.01	$ 2.30	(56)%	$ 9.87	$ 11.58	(15)%
Adjustments, pretax	1.68	0.48		2.41	0.69	
Tax effect (1)	(0.30)	(0.18)		(0.55)	(0.24)	
Discrete tax items	0.06	(0.11)		(0.15)	(0.09)	
Total, net of tax	1.44	0.19		1.71	0.36	
Diluted earnings per share adjusted	$ 2.45	$ 2.49	(2)%	$ 11.58	$ 11.94	(3)%

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

Exhibit 2
2017 Sales Guidance

	January 25, 2017	**November 11, 2016**
Single Channel Share	2% - 3%	2% - 3%
U.S. Multichannel Share	1% - 2%	1% - 2%
Canada/Other Bus. Share	1%	1%
Total Share Gain	4% - 6%	4% - 6%
MRO Market	(1)%- 1%	(1)%- 1%
Market & Share Gain	3% - 7%	3% - 7%
Price	(1)%	(1)%
Organic Growth	2% - 6%	2% - 6%
Acquisitions	0%	0%
Company Sales	2% - 6%	2% - 6%

Note: As of January 25, 2017.

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Exhibit 3
2017 EPS Guidance

	January 25, 2017	November 11, 2016
Sales ($B)	$10.4 - $10.8	$10.4 - $10.8
V% vs. prior yr.	2% - 6%	2% - 6%
Op. Margin	11.7% - 12.2%	11.7% - 12.2%
bps vs. prior yr.	(80) – (30)	(70) - (20)
EPS	$11.30 - $12.40	$11.30 - $12.40

Notes:
(1) As of January 25, 2017.
(2) November 11, 2016, guidance was based on forecast, not actual results.
(3) Excludes restructuring costs and other charges as reported by the company in its quarterly earnings releases.

Exhibit 4
Selling Days: 2017 vs. 2016

Month	2017	2016	Difference
January	21	20	1
February	20	21	-1
March	23	23	0
1Q	**64**	**64**	**0**
April	20	21	-1
May	22	21	1
June	22	22	0
2Q	**64**	**64**	**0**
July	20	20	0
August	23	23	0
September	20	21	-1
3Q	**63**	**64**	**-1**
October	22	21	1
November	21	21	0
December	20	21	-1
4Q	**63**	**63**	**0**
Full Year	**254**	**255**	**-1**

Safe Harbor Statement

All statements in this supplement, other than those relating to historical facts, are “forward-looking statements” based on our current view of the competitive market and the overall environment. Factors that could cause our actual results to differ materially from those statements include, among other risks and uncertainties, a major loss of customers or suppliers, competitive pressures, legal proceedings, changes in laws and regulations, general economic, industry or market conditions, technological or operational disruptions, natural and other catastrophes and other factors that can be found in our filings with the Securities and Exchange Commission, including our most recent Forms 10-K and 10-Q, which are available on our Investor Relations website. We disclaim any obligation to update or revise any forward-looking statement, except as required by law.