FINAL
1Q11 Earnings Release Podcast Script
April 18, 2011

Introduction

Hello, this is Laura Brown, Senior Vice President of Communications and Investor Relations. With me is Bill Chapman, Director of Investor Relations. We are pleased to share with you some information regarding Grainger's first quarter 2011 results via this audio web cast. Please also reference our 2011 first quarter earnings release issued April 18th, 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

Solid sales growth, consistent execution and strong margin expansion was the story for the quarter. This performance was largely driven by past investments in the foundation of our business and proven growth programs. As a result of the strong start to 2011, and an improved forecast for the economy, we have increased and narrowed the ranges for our sales and EPS guidance as referenced in today's earnings release. We now expect sales to grow 7 to 10 percent and are forecasting EPS of $8.10 to $8.60 for the full year 2011. Please note that our guidance reflects a moderation of our gross profit margins and a higher level of investment spending over the remainder of the year versus the first quarter. At the end of this recording we'll talk more about our revised guidance and our assumptions.

We'll start with total company results, and then dig deeper into our segments. Company sales increased 13 percent versus the 2010 first quarter. We had an extra selling day this quarter versus 2010, so sales on a daily basis grew 11 percent. Operating earnings increased 44 percent, while net earnings increased 59 percent. As highlighted in our release, earnings per share of $2.18 for the quarter is an all-time company record and represents a 66 percent increase versus 2010.

As a reminder, the 2010 first quarter included two unusual non-cash items, which resulted in a net negative impact of 7 cents per share. Additional details can be found in the first quarter earnings releases for 2011 and 2010. To simplify our analysis of the quarter, we are primarily using "as reported" numbers for 2010, unless otherwise noted.

In a few moments we'll take a closer look at sales results for the quarter; let's now walk down the operating section of the income statement. Gross profit margins increased to 44 percent, up 180 basis points versus last year, as we were successful at expanding gross margins in the United States, Canada and our Other Businesses. In general, our size and scale gives us a considerable advantage versus our competitors when it comes to effectively managing product cost inflation. We were largely able to increase prices with the market and ahead of product cost inflation. We'll provide more detail when we review the business by segment.

It is important to note that our gross profit margin follows a fairly consistent seasonal pattern, with generally higher gross margins in the first and fourth quarters than in the second and third quarters. Supplier funding for our annual customer trade show was a major contributor to the 44 percent gross margin in the quarter. This will not repeat this year, which means gross profit margins in the 2011 second quarter will be lower than the first quarter.

Reported company operating margins were up 300 basis points (360 basis points excluding the $10 million benefit in 2010 from the paid time off, or PTO, policy change) to 13.9 percent. This strong performance was driven by the 13 percent sales growth, the 180 basis point improvement in gross profit margins and positive expense leverage. Strong execution in the United States, Canada and the Other Businesses contributed to this exceptional performance.

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 March,
- Second, our operating performance by segment,
- Third, cash generation and capital deployment,
- And finally, we'll wrap up with a discussion of our 2011 guidance and other key items of interest.

Quarterly Sales

As mentioned earlier, daily sales for the company increased 11 percent for the quarter. Daily sales growth by month was as follows: 10 percent in January, 11 percent in February, and 12 percent in March. Of the 11 percent daily sales growth for the quarter, volume contributed 7 percentage points and price added 2 percentage points. Foreign exchange and acquisitions each added another percentage point of growth.

Let's move on to sales by segment. We report two segments, the United States and Canada. Our remaining operations in Japan, Mexico, India, Puerto Rico, China, Colombia and Panama are reported under a grouping titled Other Businesses.

Sales in the United States, which account for about 81 percent of total company revenue, increased 9 percent in the quarter and 7 percent on a daily basis. By month, daily sales in the United States were up 6 percent in January, 8 percent in February and 8 percent in March. The 7 percent daily sales growth for the quarter consisted of 5 percent volume growth and 2 percentage points of price realization.

Now we'll cover our sales performance by customer end market in the United States. We believe that increasing our product line and expanding customer sales coverage is enabling the company to grow faster than the economy and to gain additional market share. As a result, sales to every customer end-market we serve in the United States, including Government, were positive in the quarter as follows:

- Heavy manufacturing was up in the high teens;
- Reseller was up in the mid-teens;
- Light manufacturing was up in the high single digits;
- Commercial and Retail was up in the mid single digits; and
- Government and Contractors were up in the low single digits.

Now let's turn our attention to the Canadian business. Sales in Canada represent about 13 percent of total company revenues. For the quarter, sales in Canada increased 25 percent in U.S. dollars and 18 percent in local currency. On a daily basis in Canadian dollars, sales were up 17 percent for the quarter and were up 18 percent in January, 16 percent in February and 16 percent in March. The 17 percent daily sales growth in the quarter consisted of 10 percent volume growth, 4 percentage points from acquisitions, 2 percentage points from price and 1 percentage point from sales of seasonal products. From a customer standpoint, sales growth in Canada was driven by strength in the agriculture and mining, oil and gas, forestry, government and heavy manufacturing customer end-markets. We are very pleased that our Canadian team has been able to continue to aggressively grow this business, primarily by gaining market share.

Let's conclude our review of sales for the quarter by looking at the Other Businesses. Again, this group includes our operations in Japan, Mexico, India, Puerto Rico, China, Colombia and Panama and currently represents about 6 percent of total company sales. Sales for this group increased 44 percent, primarily the result of strong growth in Japan and Mexico, coupled with the sales of our business in Colombia, acquired in June of 2010. Although smaller in size, the remaining businesses within this group also delivered strong sales growth in the quarter.

March Sales

Earlier in the quarter, we reported sales results for January and February and shared some information regarding sales performance in the month. Let's now take a closer look at March. There were 23 selling days in March of 2011 and 2010. Total company sales were up 12 percent on a daily basis in March versus March of 2010. The 12 percent growth consisted of 8 percent volume growth, 2 percentage points from price inflation, 1 percentage point from acquisitions and 1 percentage point from foreign exchange.

In the United States, March daily sales were up 8 percent. This growth consisted of 6 percentage points of volume along with 2 percentage points from price. Consistent with the quarter, we saw positive daily sales growth in March to each of our U.S. customer end-markets as follows:

- Heavy Manufacturing was up in the low twenties;
- Reseller was up in the high single digits;
- Light Manufacturing and Retail were up in the low double digits;
- Commercial and Contractor were up in the mid-single digits; and
- Government was up in the low single digits.

Daily sales in Canada for March increased 22 percent in U.S. dollars, up 16 percent in local currency. The 16 percent daily sales growth consisted of 9 percent volume, 4 percent from acquisitions, 2 percent from price and 1 percentage point from sales of seasonal products. Customers in the heavy manufacturing, agriculture and mining, transportation, forestry and government end-markets accounted for the largest increases in sales growth.

Sales for our Other Businesses increased 43 percent in March, primarily the result of strong growth in Japan and Mexico, along with sales for our business in Colombia. Consistent with the quarter, the remaining businesses within this group also delivered strong sales growth in March.

On a separate note, we have received a number of questions from investors about MonotaRO, our business in Japan, following the devastating earthquake and tsunami on March 11th. We are happy to report that all local team members are safe and that our facility located in Osaka, southwest of Tokyo, was not damaged. Investors are asking how these events have challenged our business. From what we can tell today, there are 2 offsetting forces that will influence our near-term sales performance in Japan; the disruption to the industrial economy and the surge in demand for emergency supplies like batteries, flashlights and construction products. We report Japan sales on a 1 month lag and will have more to share when we report sales for April.

April Sales

Sales growth in the month of April is off to a good start, although we expect some moderation around the Easter holiday. That being said, we should end the month near the high end of our updated 2011 sales growth guidance of 7 to 10 percent.

Now I would like to turn the discussion over to Bill Chapman.

Operating Performance:

Thanks Laura.

Since we have already covered company operating performance, let's jump right into performance by segment.

Reported operating earnings in the United States increased 27 percent versus the 2010 first quarter and operating margin increased 240 basis points (300 basis points excluding PTO in 2010) to 16.7 percent. This performance was driven by 9 percent sales growth, a higher gross profit margin and positive expense leverage. Gross profit margins in the United States increased 180 basis points. The gross margin expansion was primarily due to effective product cost management and the ability to raise prices with the market and ahead of product cost increases. Positive operating expense leverage also contributed to the strong performance in the United States as operating expenses increased 7 percent.

Let's move on to our business in Canada. At the end of the 2010 fourth quarter, we shared with you the plan for improving performance. I'm happy to report that we made nice progress in the 2011 first quarter, as operating earnings increased 279 percent versus the prior year. Strong sales growth, coupled with higher gross margins and tight cost controls, contributed to operating margins jumping 660 basis points to 9.9 percent. The gross margin expansion was driven by a number of factors including product cost deflation tied to the tailwind created by the strength of the Canadian dollar. Improved customer mix, along with a price increase and less price discounting, contributed to the growth in gross profit margins. Operating expenses increased at a slower rate than sales, due to cost management measures and easy comparisons versus the 2010 first quarter when expense growth was fueled by sponsorship of the Winter Olympics and an increase in sales commissions tied to strong sales growth to large customers.

Operating performance for our Other Businesses improved versus a year ago, the result of our focus on improving growth and operating results. This group posted operating earnings of $6.4 million for the quarter versus breakeven a year ago. Strong operating performance in Japan and Mexico contributed to improved results for this group.

Other

The effective tax rate for the quarter was 39.1 percent versus 45.1 percent in 2010 due to the write-down of the deferred tax asset triggered by the new healthcare legislation. Excluding this charge in 2010, the effective rate would have been 39.3 percent.

Cash Flow

Lastly, let's take a look at cash flow for the quarter. Operating cash flow was $118 million versus $113 million in 2010. Cash generation did not grow as rapidly as earnings due to large cash payments for the company's retirement program and the annual management incentive program that took place in the quarter. As a point of reference, there was a minimal incentive compensation payment in the first quarter of 2010.

We used the cash generated during the quarter to invest in the business and return $89 million to shareholders through share repurchase and dividends. Capital expenditures for the quarter were $33 million. We paid dividends of $38 million and bought back 376,000 shares of stock. The company has approximately 7.7 million shares remaining on its share repurchase authorization.

2011 Guidance

As reported in our first quarter earnings release, we raised and narrowed both sales and earnings guidance for the full year 2011. We now expect sales growth in the range of 7 to 10 percent and EPS in the range of $8.10 to $8.60.

Our improved outlook is being driven by better top and bottom-line performance, particularly weighted to the front part of the year. So, let's look at the underlying elements of our revised expectations:

- First, demand patterns thus far in 2011 are stronger than what we had originally estimated back in November when we first issued guidance. In fact, Consensus Forecasts – USA® is now estimating Industrial Production to grow 4.9 percent for full year 2011 versus 3.8 percent growth forecasted back in November.
- Second, we expect that our size and scale should continue to serve us well as we manage product cost inflation and have some ability to change prices with the market as needed. However, as Laura explained earlier, gross profit margins in the second and third quarters of 2011 will most likely follow our normal pattern of being below the 2011 first quarter.
- Third, our investments in proven growth drivers, such as new sales representatives, eCommerce and advertising will begin in the second quarter and accelerate throughout the year. At our November Analyst Meeting, we communicated our desire to invest more aggressively in the business, commensurate with sales and earnings growth. Our first quarter results offer a compelling argument to reinvest further in programs to gain share.
- Fourth, our international businesses have posted improved performance, which we expect to continue.
- Finally, the improved gross margins and higher expected sales volumes, which enable us to better leverage our higher operating expenses, should contribute to operating margin expansion for the year. Our EPS guidance implies roughly 120 to 160 basis points of operating margin expansion for

the full year over the 11.5 percent in 2010, adjusted for the PTO benefit. Keep in mind that our full year expectations for margin expansion are less than the 360 basis point improvement posted in the 2011 first quarter due to:

1. Not having any more additional selling days versus the prior year, as we did in the first quarter;
2. Tougher sales comparisons as we hit the anniversary of the Gulf of Mexico oil spill in the second quarter;
3. Some moderation in gross profit margin expansion tied to large customer mix and modest price erosion;
4. Higher spending, primarily on growth initiatives such as additional sales representatives, eCommerce, advertising and related product services; and
5. Incremental costs associated with the opening of the new distribution center in Northern California in the 2011 fourth quarter and a project to extend our U.S. SAP platform across our remaining operations in the Americas.

More detail about the difference between first quarter 2011 sales growth and the remainder of the year can be found on the Exhibit at the end of the podcast script.

To summarize, we are very excited about our performance in the quarter and the opportunities going forward to gain share in this large and consolidating market. Never before have businesses and institutions been so focused on driving productivity and cost savings, and we look forward to helping our customers with these initiatives given our broad array of MRO products and services.

Conclusion

Thank you for your interest in Grainger. Please mark your calendar for our shareholders' meeting on Wednesday, April 27 and the release of April sales on Wednesday, May 11th. If you have any questions, please do not hesitate to contact Laura Brown at 847.535.0409 or me at 847.535.0881.

Exhibit

2011 Sales Growth Bridge

	Q1 Actual	**Year Estimate**
Economy/Share Gain	7%	7%
Oil Spill Sales	0%	(1)%
Price	2%	1 – 2%
Organic Sales (daily)	**9%**	**7 – 8%**
Sales Days	2%	0%
F/X	1%	0 – 1%
Acquisitions	1%	0 – 1%
Company Sales (reported)	**13%**	**7 – 10%**