Grainger Financial Update 2011 and 2012

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2011 and 2012 Guidance Summary

Guidance Ranges	2011	2012
Sales Growth vs PY	11% - 12%	10% - 14%
Sales w/o Acquisitions	9% - 10%	6% - 10%
EPS	$8.85 - $9.00	$9.90 - $10.65

- 2011 guidance range increased on the low end by $0.05 and unchanged at the high end as sales upside is offset by increased growth investments
- 2011 guidance excludes $14M - $18M expense ($0.12 - $ 0.15 EPS reduction) from closing U.S. branches in 4Q11
- 2012 guidance anticipates continued double digit sales and EPS growth with 1Q12 similar to 4Q11 and sequentially improving through the year
- Actions that deliver 200 bps Op Margin improvement in 2011 to 13.5% are sustainable with another 50 - 80 bps in 2012 (excluding acquisitions)

2011 Sales Estimate

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	4Q EST	YEAR EST
Economy/Share Gain	7% - 8%	7% - 8%
Price	2%	2%
Organic Sales (daily)	9% - 10%	9% - 10%
Oil Spill Sales	(2)%	(1)%
F/X, Sales Days	1%	1%
Acquisitions	4%	2%
Company Sales	12% - 13%	11% - 12%
Company (excluding Acquisitions)	*8% - 9%*	*9% - 10%*

- Consistent organic growth @ 9-10%, excluding 2010 oil spill sales
- Acquisitions primarily Fabory, no new acquisitions/dispositions in guidance

2011 Guidance – 4Q

	TOTAL COMPANY EST		* ORGANIC EST	
	LOW	HIGH	LOW	HIGH
Sales $B	$ 2.0	$ 2.1	$ 1.9	$ 2.0
EPS	$1.94	$ 2.09	$ 1.96	$ 2.11
Sales growth	12%	13%	7%	8%
EPS growth	8%	17%	9%	18%
Op Margin %	11.3%	11.7%	12.0%	12.4%
Op Margin % vs PY	0 bps	40 bps	70 bps	110 bps

** Organic - excludes foreign exchange and acquisition*

- **4Q Op Margin below YTD on growth program spend, DC start-up, lower sales volume (seasonality), COGS inflation and Int'l/acquisition mix**
- **Fabory negative 2-3 cents EPS on weaker economy, negative margin mix**

2011 Guidance – Full Year

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	TOTAL COMPANY EST		*ORGANIC EST	
	LOW	HIGH	LOW	HIGH
Sales $B	$ 8.0	$ 8.1	$ 7.8	$ 7.9
EPS	$ 8.85	$ 9.00	$ 8.79	$ 8.94
Sales growth	11%	12%	8%	9%
EPS growth	30%	32%	29%	31%
Op Margin %	13.2%	13.3%	13.4%	13.6%
Op Margin % vs PY	170 bps	180 bps	190 bps	210 bps

** Organic - excludes foreign exchange and acquisition*

- **Three years Op Margin expansion in one year**
- **Acquisitions/FX minimal impact for the year**

2012 Guidance

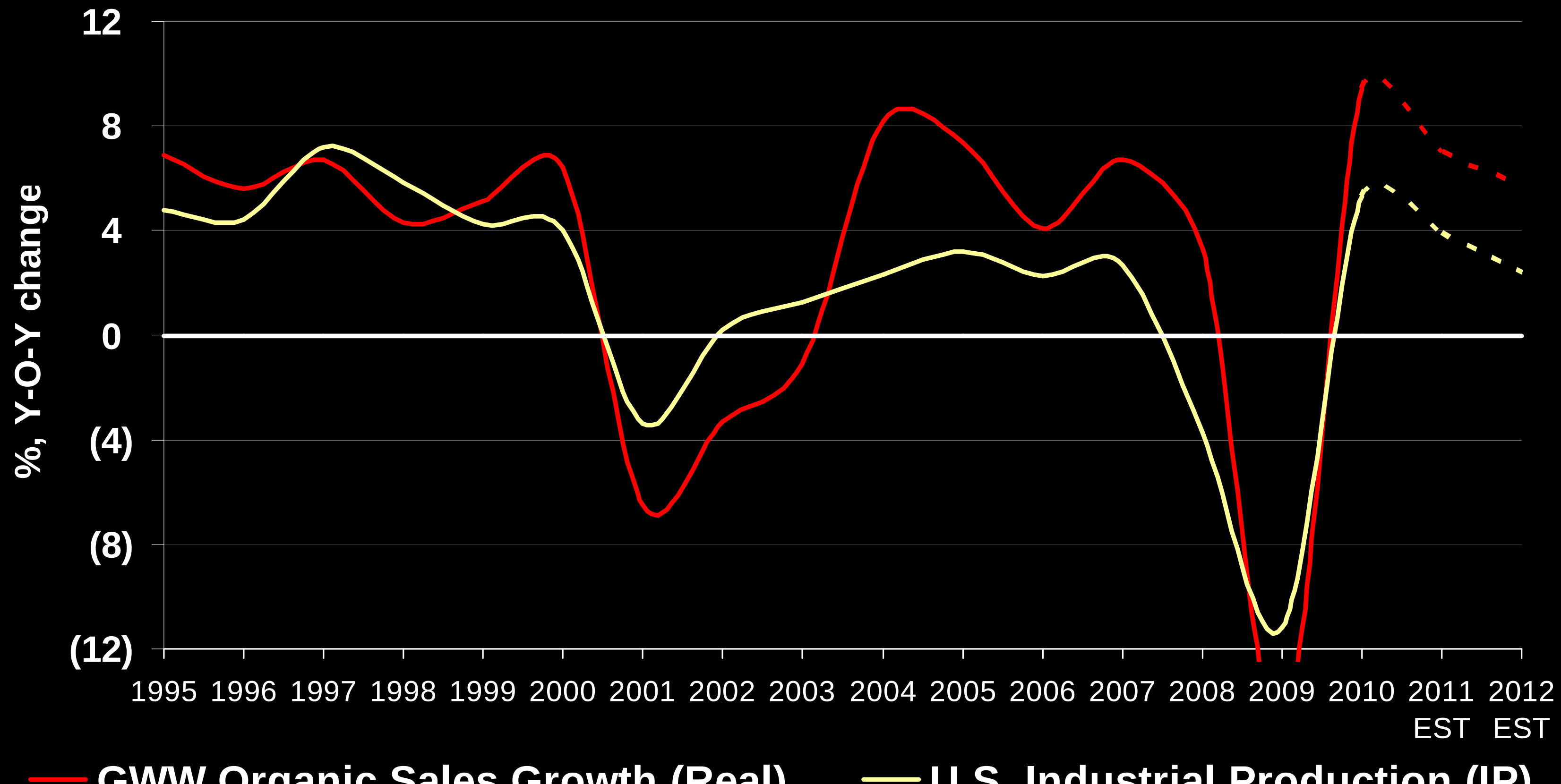
Economic Assumptions

	2012	2011
U.S. INDUSTRIAL PRODUCTION	-0.8% *to* 4.2% (2.4% avg)	3.8%
CANADA GDP	2.0%	2.3%
EUROZONE GDP	0.6%	1.6%
MEXICO GDP	3.4%	3.8%
JAPAN GDP	2.2%	-0.5%

Source: Consensus Forecasts - U.S.A. October 2011 (range is only available for U.S.)

Low indices and wide range reflects uncertainty in 2012 economy

Sales Growth vs Industrial Production



2011-12 Sales & Industrial Production growth shown are at the mid-point of the guidance range

Grainger continues to gain share in 2012, outpacing Industrial Production

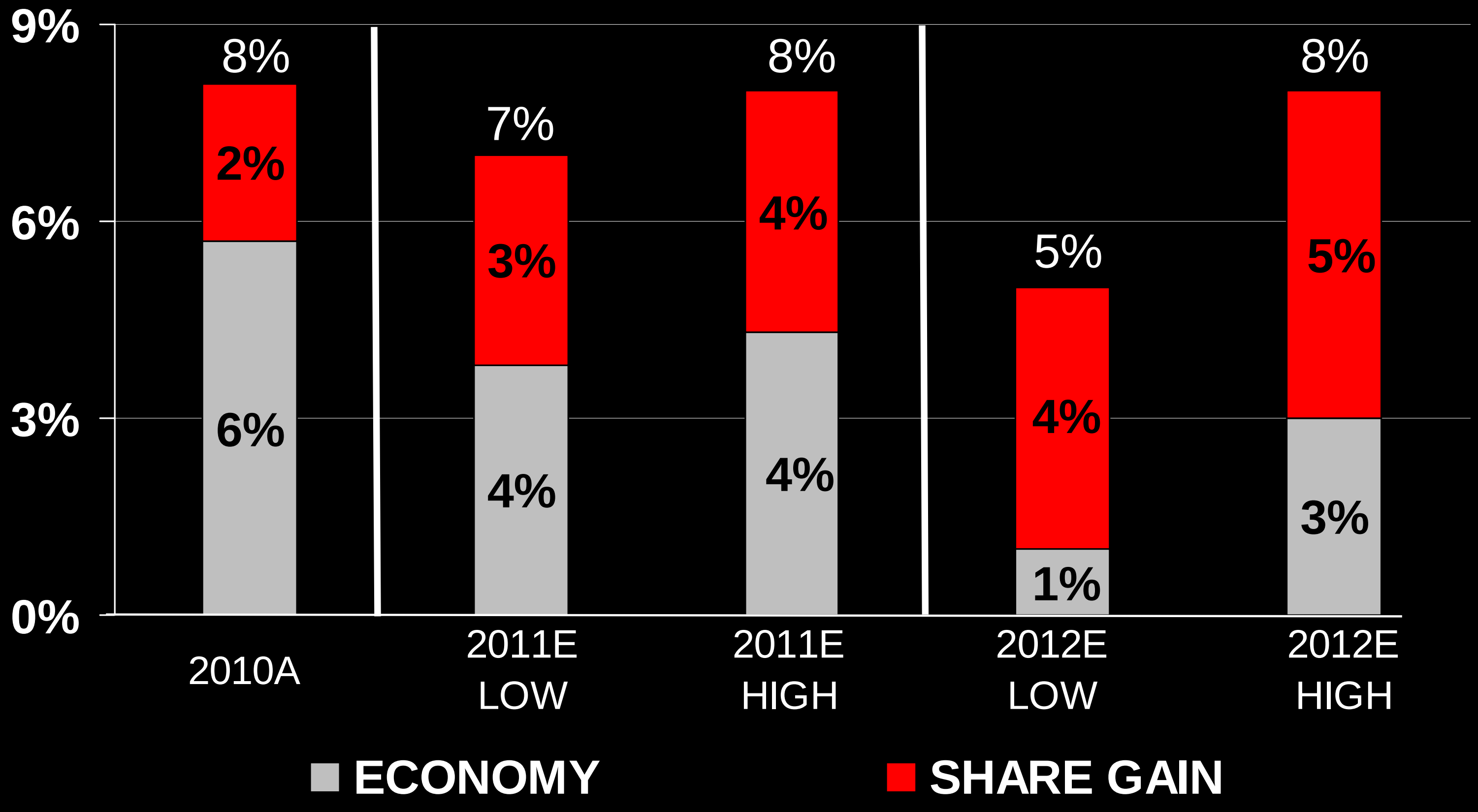
Sales Growth Estimates

	2012E	2011E
Economy/Share Gain	5% - 8%	7% - 8%
Price	2% - 3%	2%
Organic Sales (daily)	7% - 11%	9% - 10%
Oil Spill Sales	0%	(1)%
F/X, Sales Days	0%	1%
Acquisitions	3%	2%
Company Sales	10% - 14%	11% - 12%
** Company w/o Acquisitions*	*6% - 10%*	*9% - 10%*

** Rounding causes 1% difference between Company vs without acquisition for 2012*

- **2012 organic sales range reflects economic uncertainty and growth investment upside**
- **Acquisition impact is Fabory, no new acquisitions/dispositions in guidance**

Real Growth: Economy & Share Gain



Growth mix shifting to share gain due to growth programs & weaker economy

2012 Share Growth Drivers

Shorter Term

- Product Line Expansion, Inventory Services, Media

Medium Term

- Additional Sales Reps., eCommerce

Longer Term

- DC's, Americas SAP

4% - 5% estimated share gain driven by 2012 growth initiatives and momentum from prior year investments

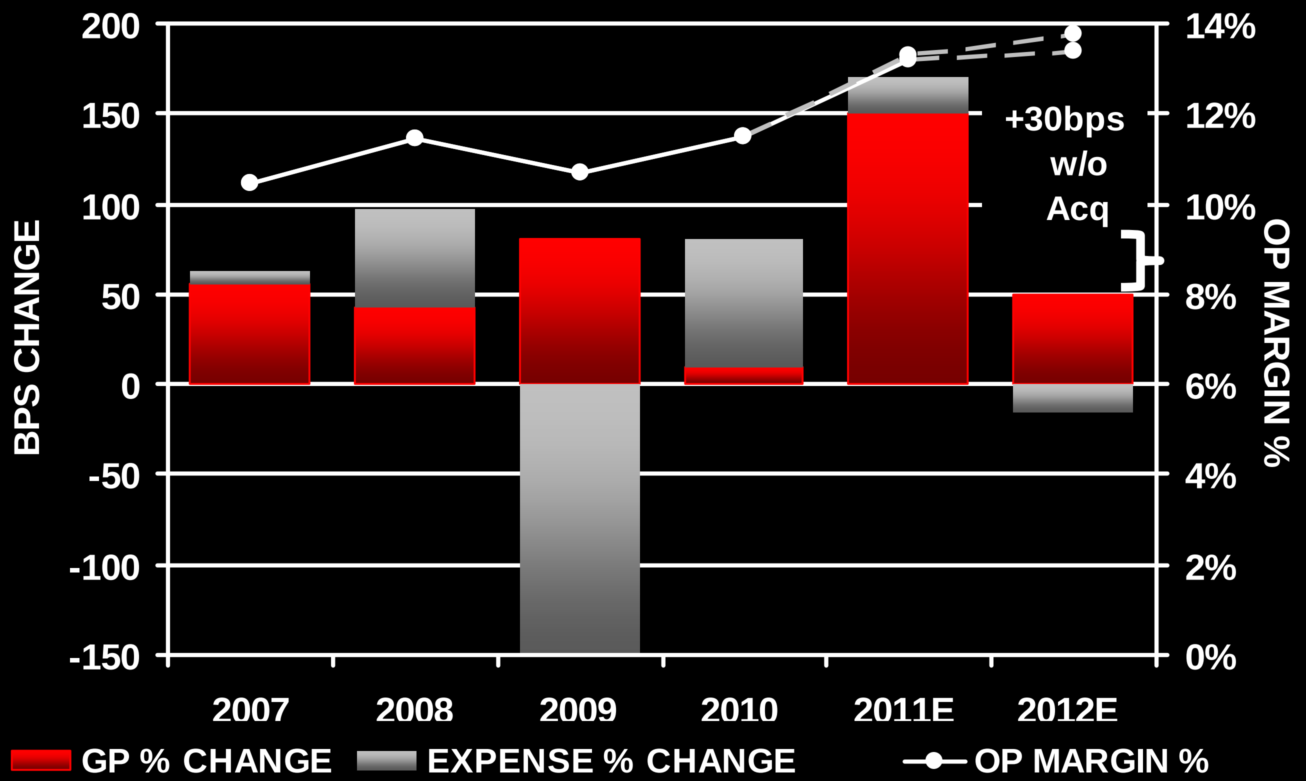
2012 Guidance – Full Year

	TOTAL COMPANY EST LOW	TOTAL COMPANY EST HIGH	*ORGANIC EST LOW	*ORGANIC EST HIGH
Sales $B	$ 8.8	$ 9.2	$ 8.4	$ 8.8
EPS	$9.90	$10.65	$ 9.86	$10.61
Sales growth	10%	14%	6%	10%
EPS growth	11%	19%	10%	19%
Op Margin %	13.4%	13.7%	13.9%	14.2%
Op Margin expansion	20 bps	50 bps	50 bps	80 bps

* *Organic - excludes foreign exchange and acquisition*

- **2012 reflects higher sales growth and continued Op Margin expansion as productivity offsets growth investment ramp up and acquisition mix**
- **Organic sales growth and Op Margin leverage remain strong**

2012 Operating Margin % Trend



2011-12 GP% & Expense bps changes shown are at the mid-point of the guidance range

2012 organic Op Margin @ 50-80 bps, similar to 2007, 2008, 2010

2012 Operating Margin % Drivers

	MID POINT	
2011 Estimate	**13.2%**	
Productivity	**140**	***bps***
Growth Programs	**(75)**	
Acquisitions	**(30)**	***bps***
2012 Estimate	**13.6%**	

Growth programs includes Sales Reps, Inventory Services, Mass Media, eCommerce, new DC's and Americas SAP

Productivity on high organic growth partially offset by growth programs & acquisitions

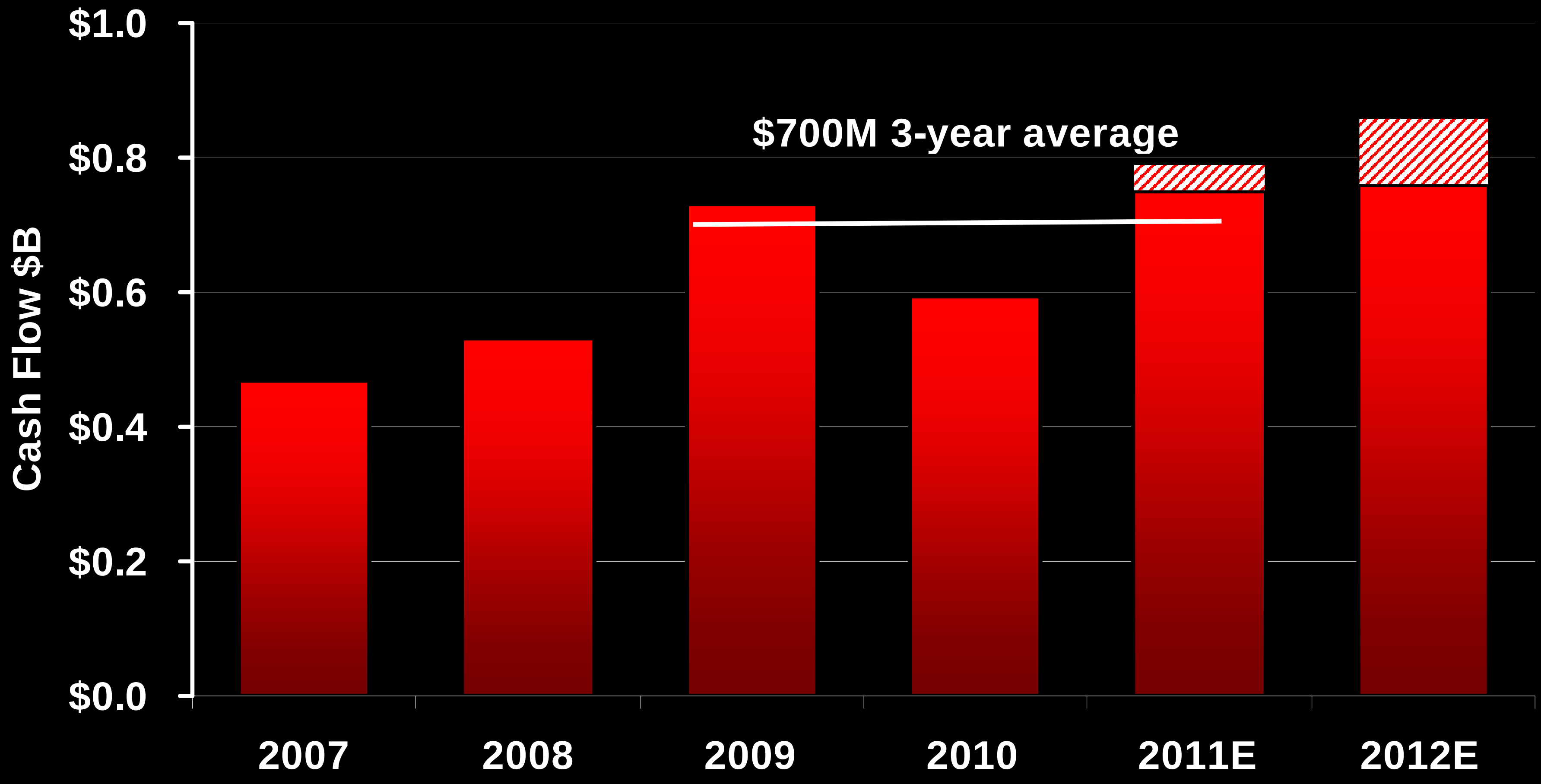
Operating Margin Expansion Drivers

	2012E Mid-point		2011E Mid-point	
Price/Cost Leverage	**55**	bps	**140**	bps
Customer Mix / Acquisitions	**(20)**		**(5)**	
Private Label	**15**		**15**	
Gross Profit	**50**		**150**	
Operating Expense Leverage	**45**		**45**	
Acquisitions	**(60)**		**(20)**	
Expense	**(15)**		**25**	
Operating Margin	**35**	bps	**175**	bps

2011 product cost leverage, pricing analytics and discipline, seller incentives carry over to 2012, partially offset by large customer mix

Cash Flow & Balance Sheet

Cash Flow from Operations



2012 Cash Flow 1.5x 5-years ago, despite large Supply Chain investments

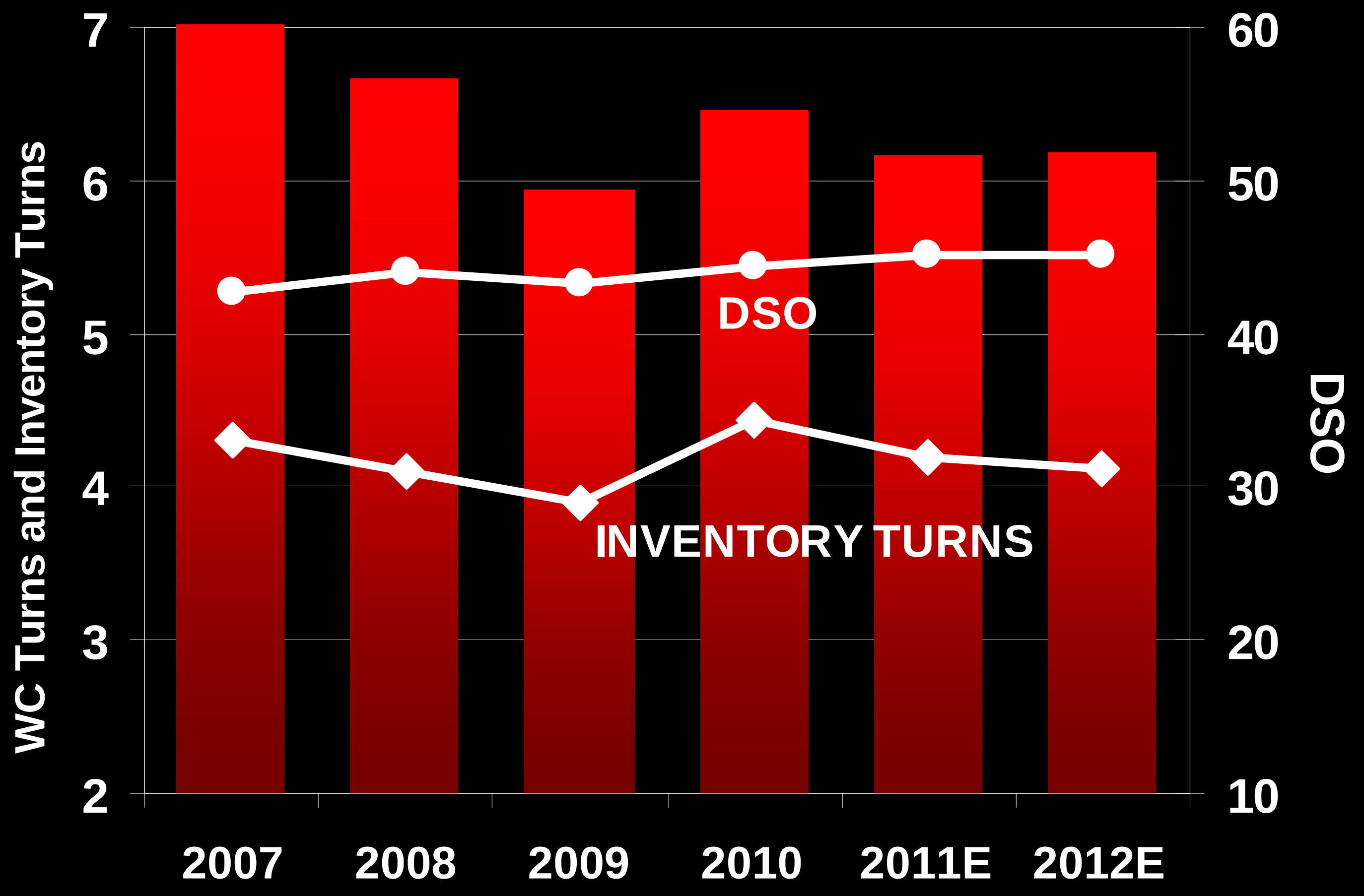
Cash Flow Guidance (in Millions)

	2011E	2012E
Cash Flow from Operations	**$750 - $790**	**$760 - $860**
Capital Expenditures (gross)	**190 - 210**	**200 - 225**
% of Cash Flow	**~26%**	**~26%**
Share Repurchase/Acquisitions	**~500**	**360 - 420**
Dividends	**~175**	**200 - 215**

- Depreciation & amortization $130-$150

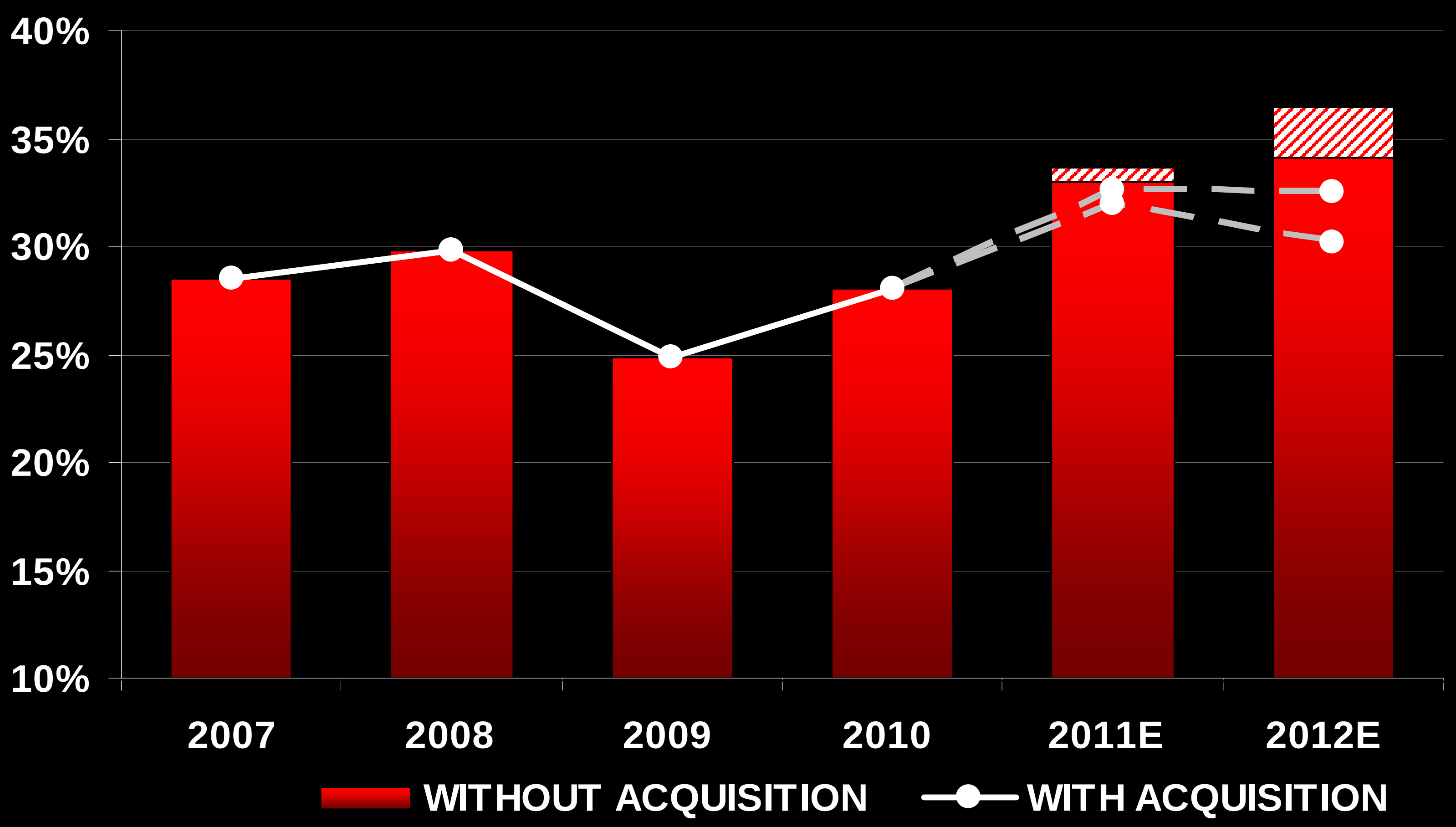
DC expansion drives CAPEX, lower 2012 starting cash drives lower share repurchase

Working Capital Turns



Working Capital Turns remain flat despite Supply Chain investments and Int'l growth

ROIC



Continued strong ROIC expansion as organic earnings growth exceeds asset growth

Cash & Capital Strategy

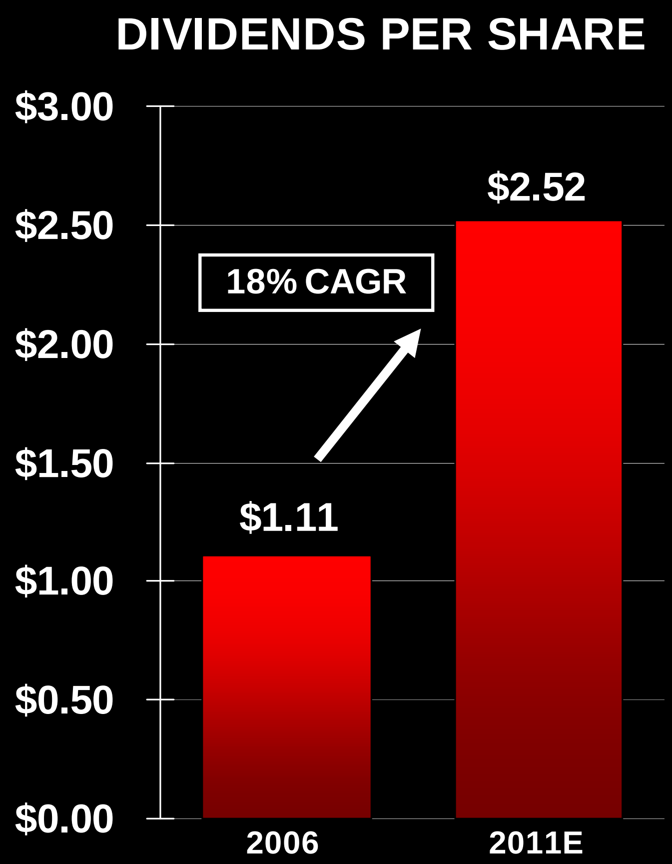
Cash

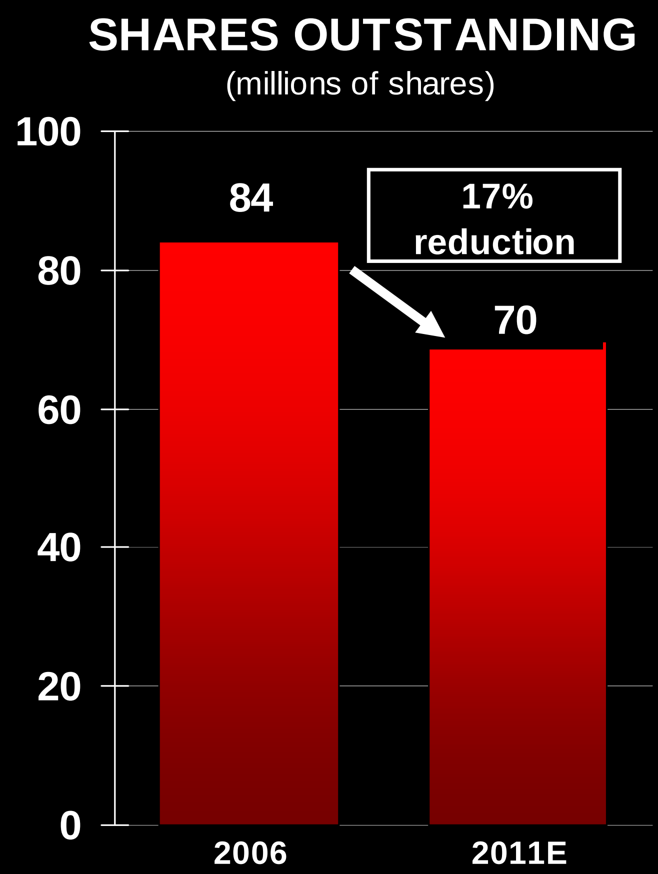
- Maintain $300M cash balance +/- $100M
- Increase dividend $\geq$ earnings growth over the next 3 – 5 years
- Reinvest 20% - 30% of Operating Cash in CAPEX
- Remaining cash for new growth initiatives, share repurchase, debt reduction

Capital

- Smaller acquisitions < 10% GWW assets – use cash on hand (e.g. Fabory)
- Larger acquisitions - fund with long term debt
- Maintain tier 1 CP rating, strong "A" the floor, $1.5B - $2.0B debt capacity

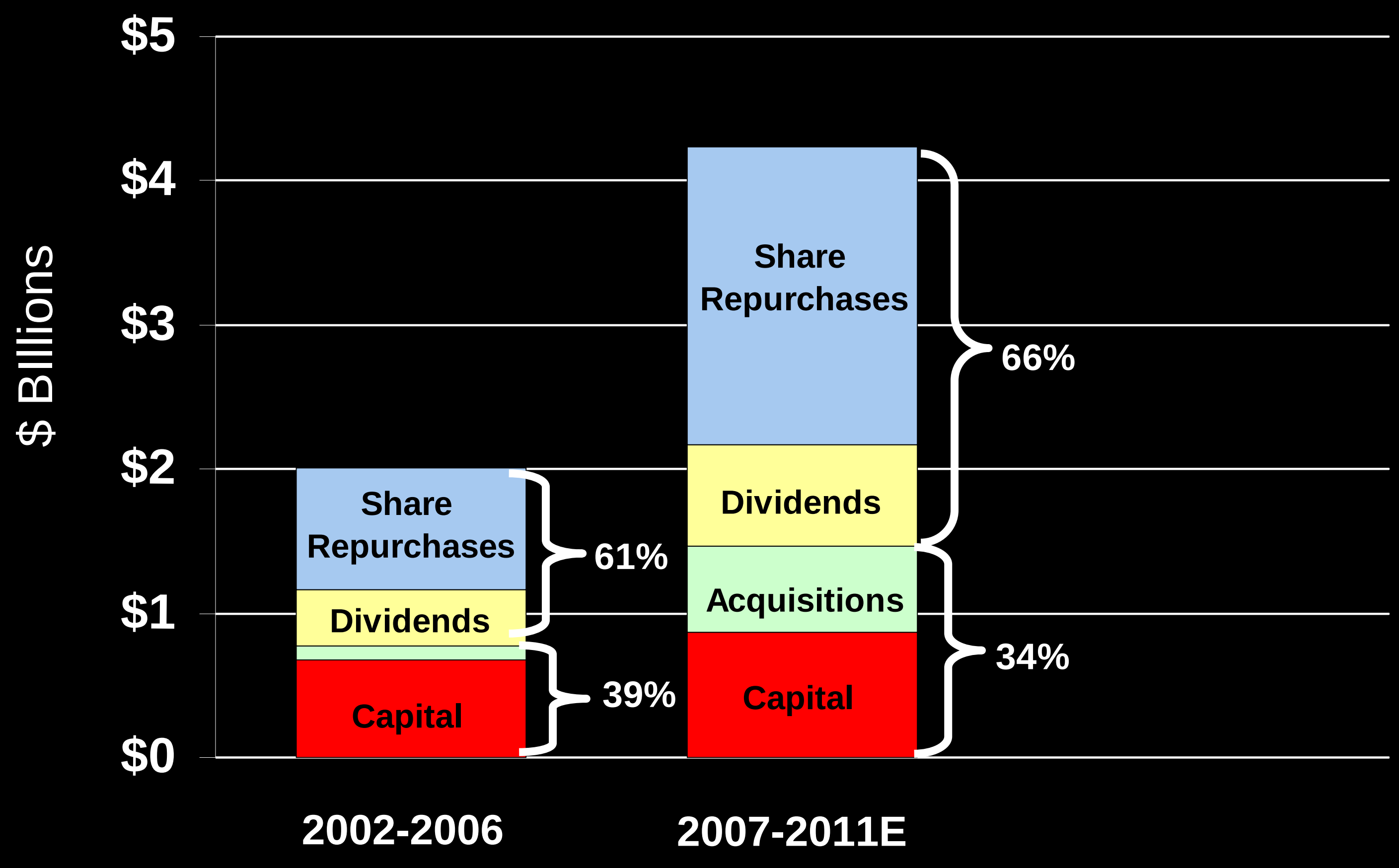
Dividends & Shares Outstanding





- **2011 is the 40th consecutive year of increased dividends**
- **Share repurchases since 2006 have netted a positive 69% return, 5-year CAGR 22%**

Cash Deployment



Returning more capital to shareholders

Financial Projections

Total Shareholder Return (TSR)

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	Annual Growth Estimate		
	2012 *Organic	2012 Company	5-yr. CAGR 2006-2011E
Sales	8%	12%	7%
Op Margin	6%	3%	6%
Op Earnings	14%	15%	13%
Share Repurch./Taxes	2%	2%	3%
EPS	16%	17%	16%
Dividend Yield	2%	2%	2%
TSR	18%	19%	18%
Net Working Assets	8%	18%	8%
Op Margin bps vs PY	65 bps	35 bps	63 bps

** Organic - excludes foreign exchange and acquisition*

- **2012 Total Company, organic mid-points and 5 yr. CAGR ~ 18% TSR**
- **Acquisition adds sales, negative Op Margin mix, higher NWA as asset base is folded in**

Operating Margin Estimate: Next 3 - 5 years

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	Current View	Last Year
U.S.	17% - 18%	16% - 17%
Canada	9% - 11%	9% - 11%
Other	5% - 8%	4% - 7%
Company	15% - 17%	14% - 16%

- High growth of lower margin Int'l businesses limits company Op Margin expansion
- Canada margin upside limited by SAP & DC network expansion

Appendix

EPS Guidance Adjustments

	(D, E)	(A, B)		(A, B, C)	
		4Q11 Est.		2011 Est.	
	2010 A	Low	High	Low	High
EPS Reported	$ 6.93	$ 1.85	$ 2.03	$ 8.89	$ 9.07
Adjustments	$ (0.13)	$ 0.09	$ 0.06	$ (0.04)	$ (0.07)
EPS Normalized	$ 6.80	$ 1.94	$ 2.09	$ 8.85	$ 9.00

New Item

A. 2011 excludes $14M - $18M operating cost ($0.12 - $0.15 EPS) reduction from closing U.S branches in 4Q11.

Previously Reported

B. 2011 EPS excludes a non-operating gain of $5M after-tax ($0.07 per share) from the sale of the company's minority ownership interest position in MRO Korea, which was announced on October 11, 2011.

C. 2011 EPS excludes a non-operating benefit of $0.12 per share from the settlement of tax examinations related to 2007 and 2008.

D. 2010 Operating Margin and EPS exclude a benefit of $33M pre-tax ($0.28 per share) for a change in the paid time-off policy.

E. 2010 EPS excludes a non-cash charge of $11M (-$0.15 per share) to write down a deferred income tax asset following the passage of the 2010 healthcare legislation.

Sales Days

	Q1	Q2	Q3	Q4	TOTAL YEAR
2012 Sales Days	64	64	63	64	255
2011 Sales Days	64	64	64	63	255

2012 Effective Tax Rate estimate 37.9%