

# Financial Update

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# 2013 Guidance

	<b>LOW</b>	<b>HIGH</b>
<b>Sales \$B</b>	<b>\$ 9.4</b>	<b>\$ 9.5</b>
<b>EPS</b>	<b>\$11.45</b>	<b>\$11.65</b>
<b>Sales growth</b>	<b>5%</b>	<b>6%</b>
<b>EPS growth</b>	<b>10%</b>	<b>12%</b>
<b>Op Margin %</b>	<b>14.2%</b>	<b>14.4%</b>
<b>Op Margin expansion</b>	<b>40</b> bps	<b>60</b> bps

Note: excludes unusual items as reported by the company in its quarterly earnings releases

Strong operating margin expansion and EPS growth for full year 2013

# 4Q 2013 Guidance

	<b>LOW</b>	<b>HIGH</b>
<b>Sales \$B</b>	<b>\$ 2.4</b>	<b>\$ 2.4</b>
<b>EPS</b>	<b>\$ 2.53</b>	<b>\$ 2.73</b>
<b>Sales growth</b>	<b>6%</b>	<b>8%</b>
<b>EPS growth</b>	<b>5%</b>	<b>13%</b>
<b>Op Margin %</b>	<b>12.5%</b>	<b>13.2%</b>
<b>Op Margin expansion</b>	<b>(20) bps</b>	<b>50 bps</b>

Note: excludes unusual items as reported by the company in its quarterly earnings releases

Strong sales growth, with margin dilution from acquisitions

# 2014 Guidance

# Economic Assumptions

<u>Real</u>	2014	2013
<b>U.S. MRO Market</b>	<b>0.3% to 5.3% (2.9% avg)</b>	<b>0.5%</b>
U.S. Business Investment	1.1% to 10.3% (5.7% avg)	2.0%
U.S. Exports	0.8% to 6.9% (4.0% avg)	0.9%
<b>U.S. Industrial Production</b>	<b>1.8% to 4.7% (3.0% avg)</b>	<b>2.3%</b>
<b>CANADA GDP</b>	<b>2.3%</b>	<b>1.7%</b>
<b>EUROZONE GDP</b>	<b>0.9%</b>	<b>-0.3%</b>
<b>MEXICO GDP</b>	<b>3.6%</b>	<b>1.6%</b>
<b>JAPAN GDP</b>	<b>1.7%</b>	<b>1.9%</b>

Sources: "Consensus Forecasts - U.S.A." publication October 2013.

U.S. MRO Market: internal Grainger economic forecast as of October 2013, based on data points provided by Global Insights.

2014 economic projections show improvement over 2013

# Sales Growth Drivers

	<b>2014E</b>	<b>2013E</b>
<b>Economy/Share Gain</b>	4% - 8%	4%
<b>Price</b>	1%	1%
<b>Organic Sales</b>	5% - 9%	5%
<b>F/X</b>	0%	-1%
<b>Acquisitions</b>	1%	2%
<b>Company Sales</b>	6% - 10%	6%

Note: 2013E reflects midpoint of guidance range

Low end organic comparable to 2013, high end assumes stronger economy & share gains

# 2014 Guidance by Segment

	U.S. *		CANADA		OTHER BUS	
	LOW	HIGH	LOW	HIGH	LOW	HIGH
Sales growth	4%	8%	2%	6%	14%	19%
Op Margin %	18.1%	18.4%	11.2%	11.5%	3.2%	3.5%
Op Margin % vs PY	15	45 bps	(50)	(20) bps	0	35 bps

\* Organic - excludes E&R acquisition

Strong margin growth in the U.S., investment increases in Canada & Other Businesses

# 2014 Guidance

	<b>ORGANIC *</b>	
	<b>LOW</b>	<b>HIGH</b>
<b>Sales \$B</b>	<b>\$9.9</b>	<b>\$10.3</b>
<b>EPS</b>	<b>\$12.23</b>	<b>\$12.98</b>
<b>Sales growth</b>	<b>5%</b>	<b>9%</b>
<b>EPS growth</b>	<b>6%</b>	<b>13%</b>
<b>Op Margin %</b>	<b>14.5%</b>	<b>14.8%</b>
<b>Op Margin % vs PY</b>	<b>15</b> bps	<b>45</b> bps

\* *excludes E&R acquisition*

Margin expansion consistent with long term goal of 30-60 bps per year, before programs



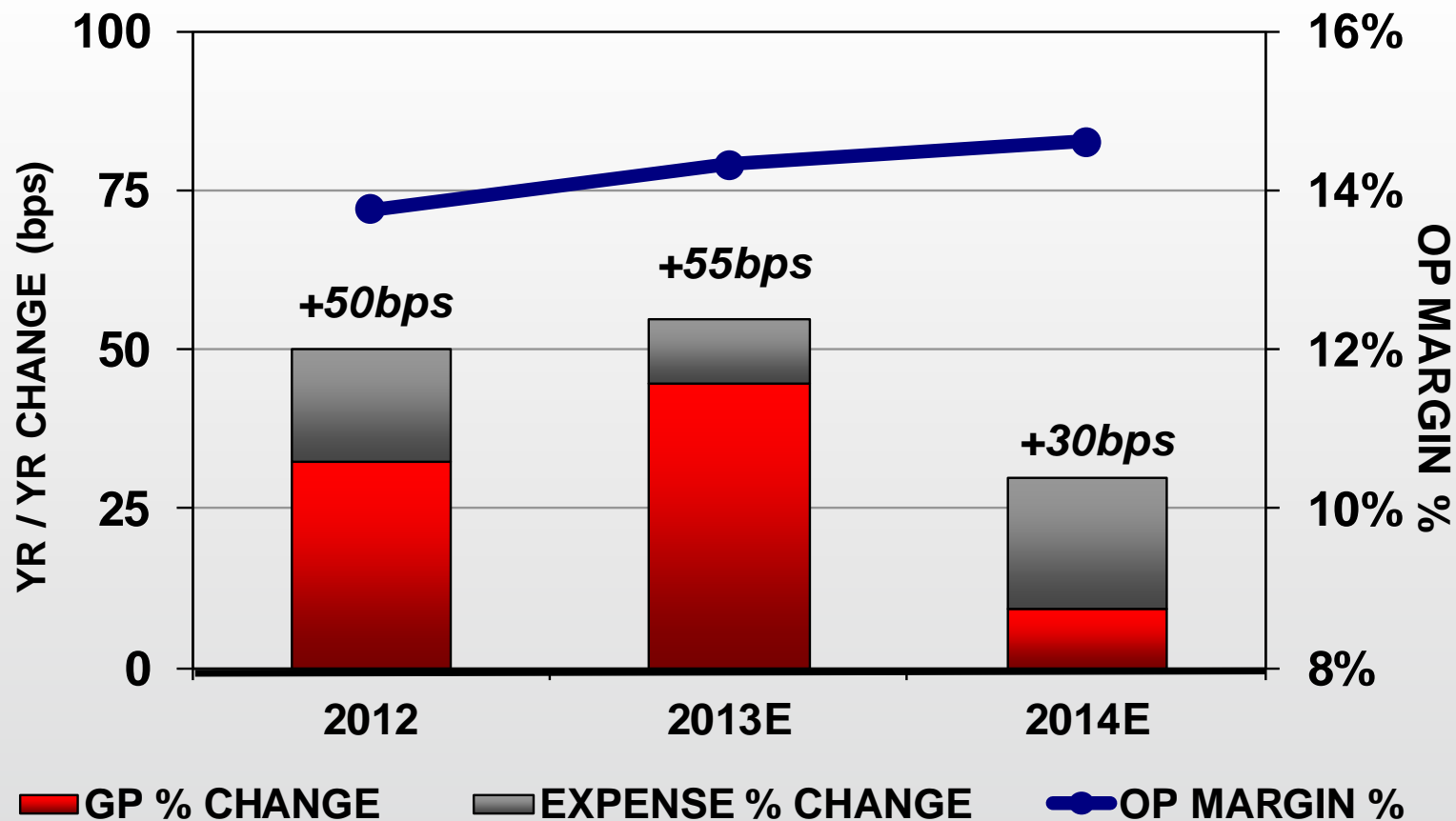
# 2014 Guidance

	ORGANIC *		TOTAL COMPANY	
	LOW	HIGH	LOW	HIGH
Sales \$B	\$9.9	\$10.3	\$ 10.1	\$ 10.4
EPS	\$12.23	\$12.98	\$12.25	\$13.00
Sales growth	5%	9%	6%	10%
EPS growth	6%	13%	6%	13%
Op Margin %	14.5%	14.8%	14.3%	14.6%
Op Margin % vs PY	15 bps	45 bps	0 bps	30 bps

\* excludes E&R acquisition

Double digit sales and EPS growth at high end of range

# Operating Margin % and Drivers

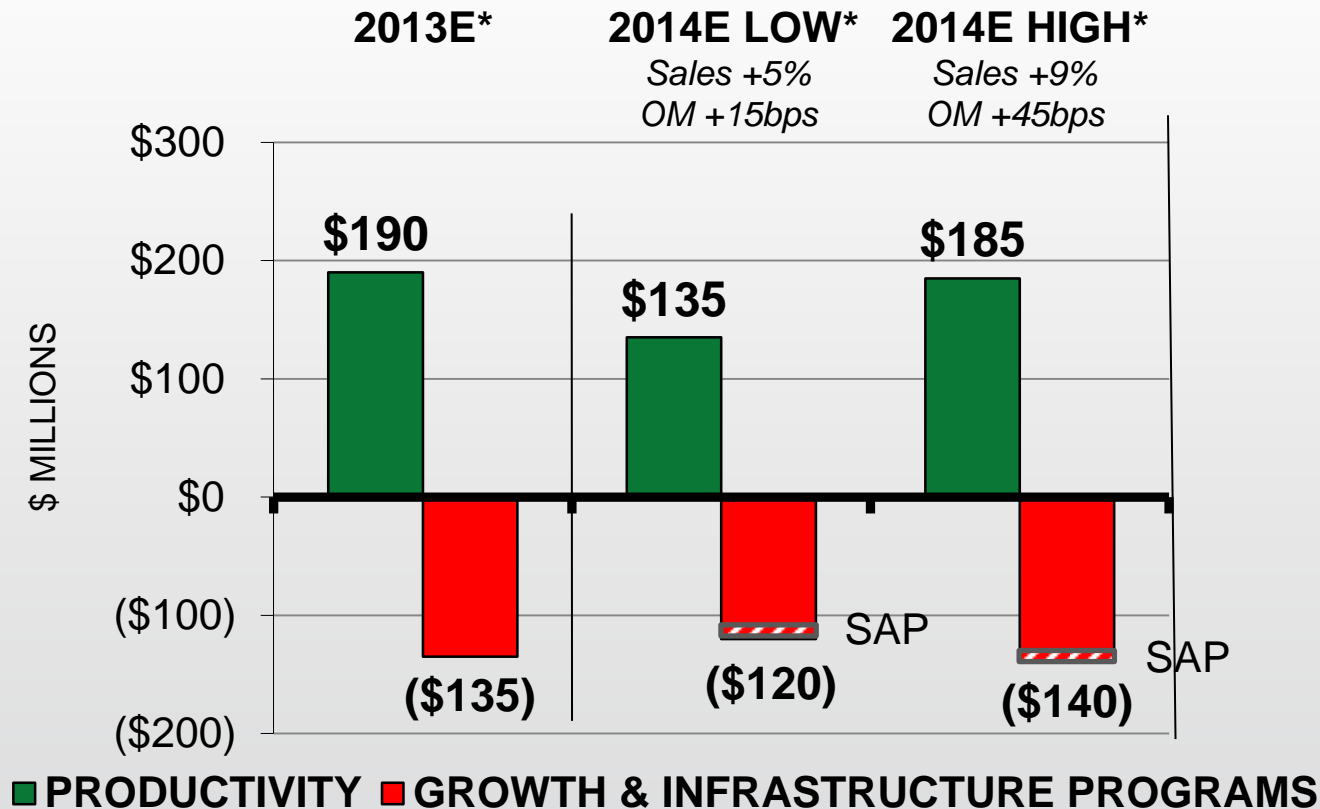


Note: 2013 and 2014 are organic and are midpoints of guidance ranges

Both GP% expansion and expense productivity drive continued op margin expansion

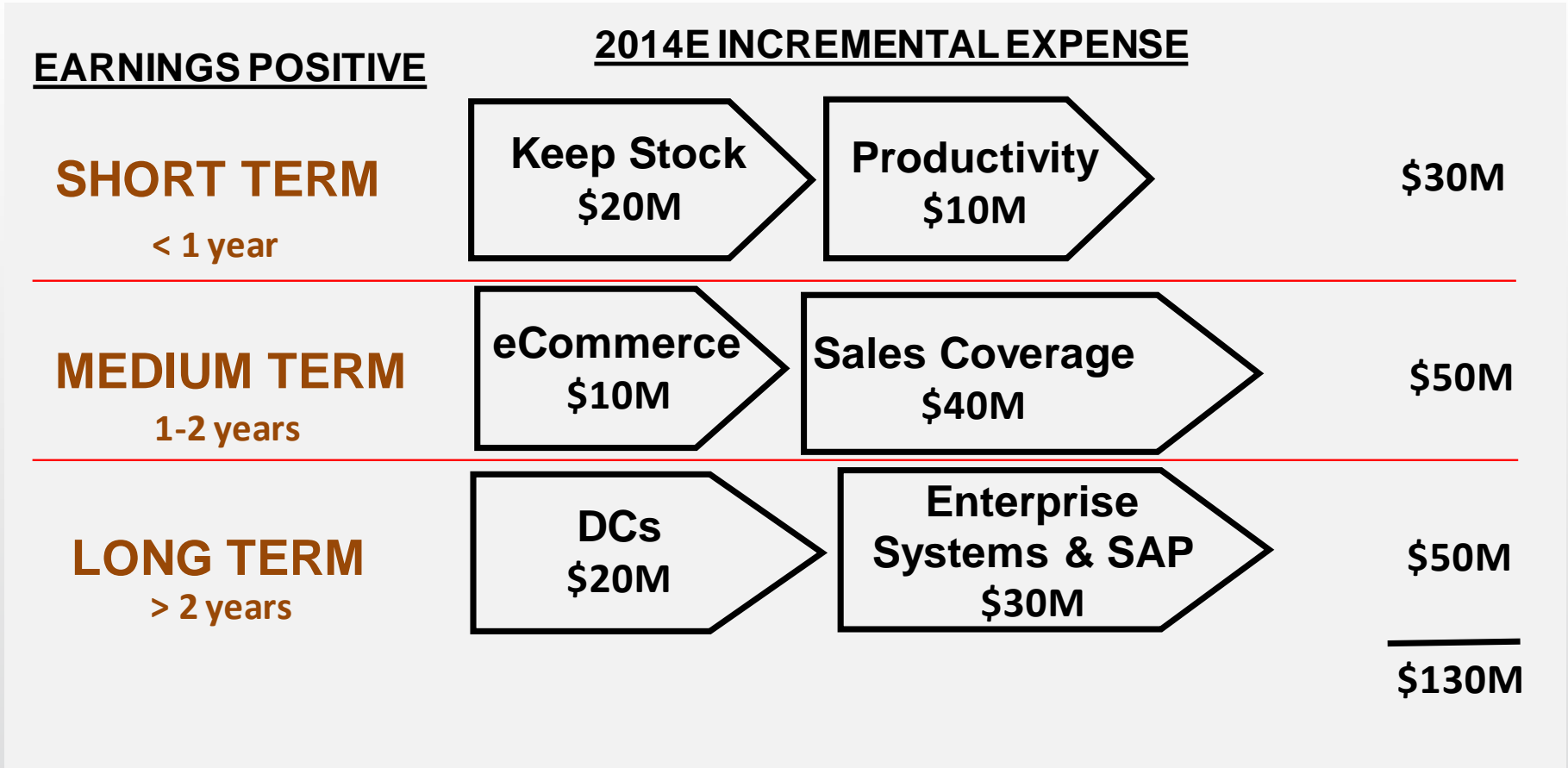
# Productivity vs. Programs

## INCREMENTAL YEAR-OVER-YEAR PRODUCTIVITY & PROGRAM EXPENSE



Productivity continues to fund programs

# Growth & Infrastructure Programs



Portfolio balanced between short, medium, and long term

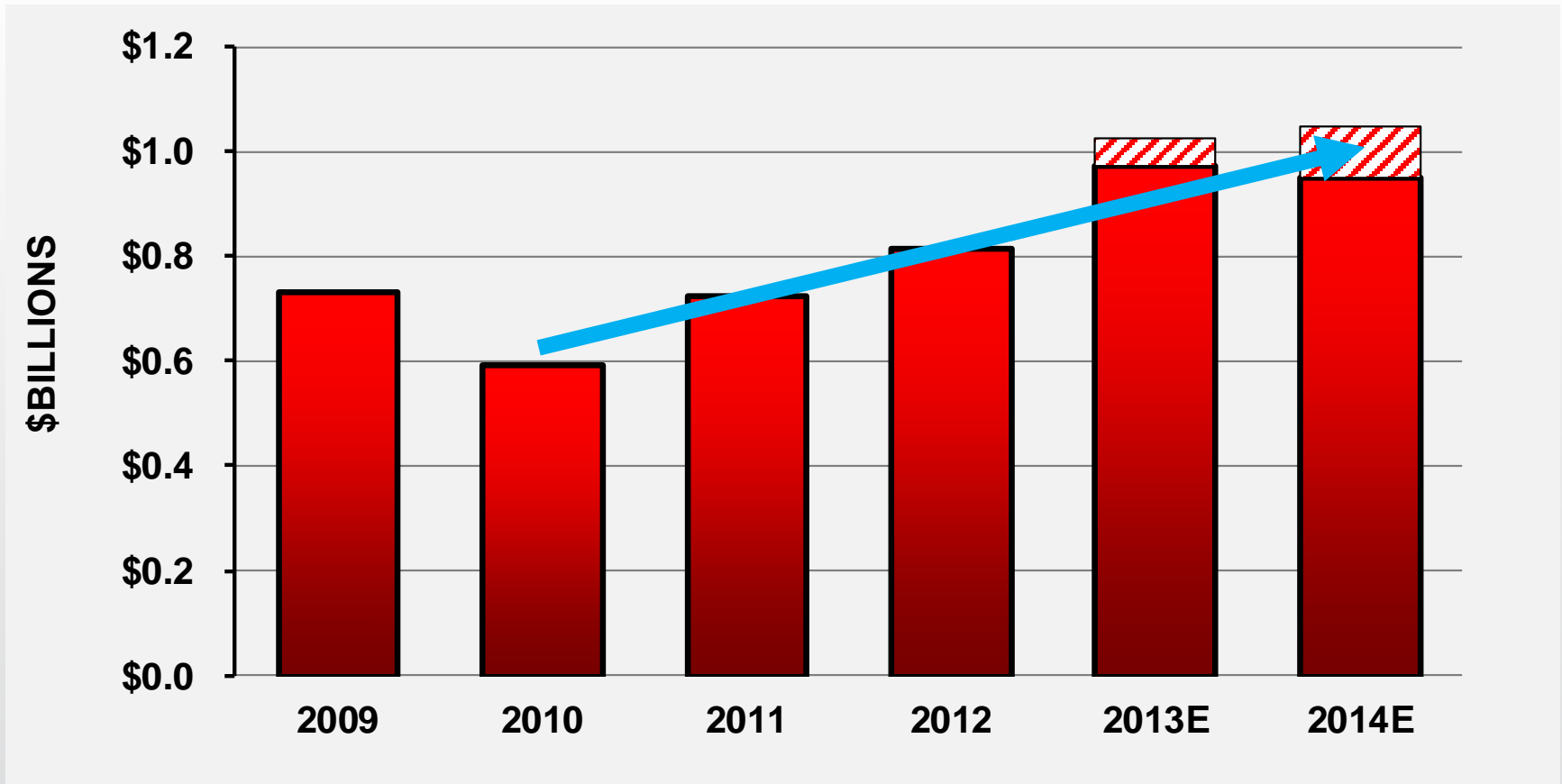
# Long Term Operating Margins

	<b>2014E</b>	<b>2017E</b>	<b>2019E</b>
<b>U.S.</b>	<b>18% - 18%</b>	<b>18% - 19%</b>	<b>19% - 20%</b>
<b>Canada</b>	<b>11% - 12%</b>	<b>11% - 12%</b>	<b>12% - 13%</b>
<b>Other</b>	<b>3% - 4%</b>	<b>4% - 7%</b>	<b>7% - 9%</b>
<b>Company</b>	<b>14% - 15%</b>	<b>15% - 16%</b>	<b>16% - 17%</b>

Company op margin expansion 30-60 bps per year, on high single digit organic sales growth

# Cash Flow & Balance Sheet

# Cash Flow from Operations



Strong cash flow continues

# Cash Flow Guidance

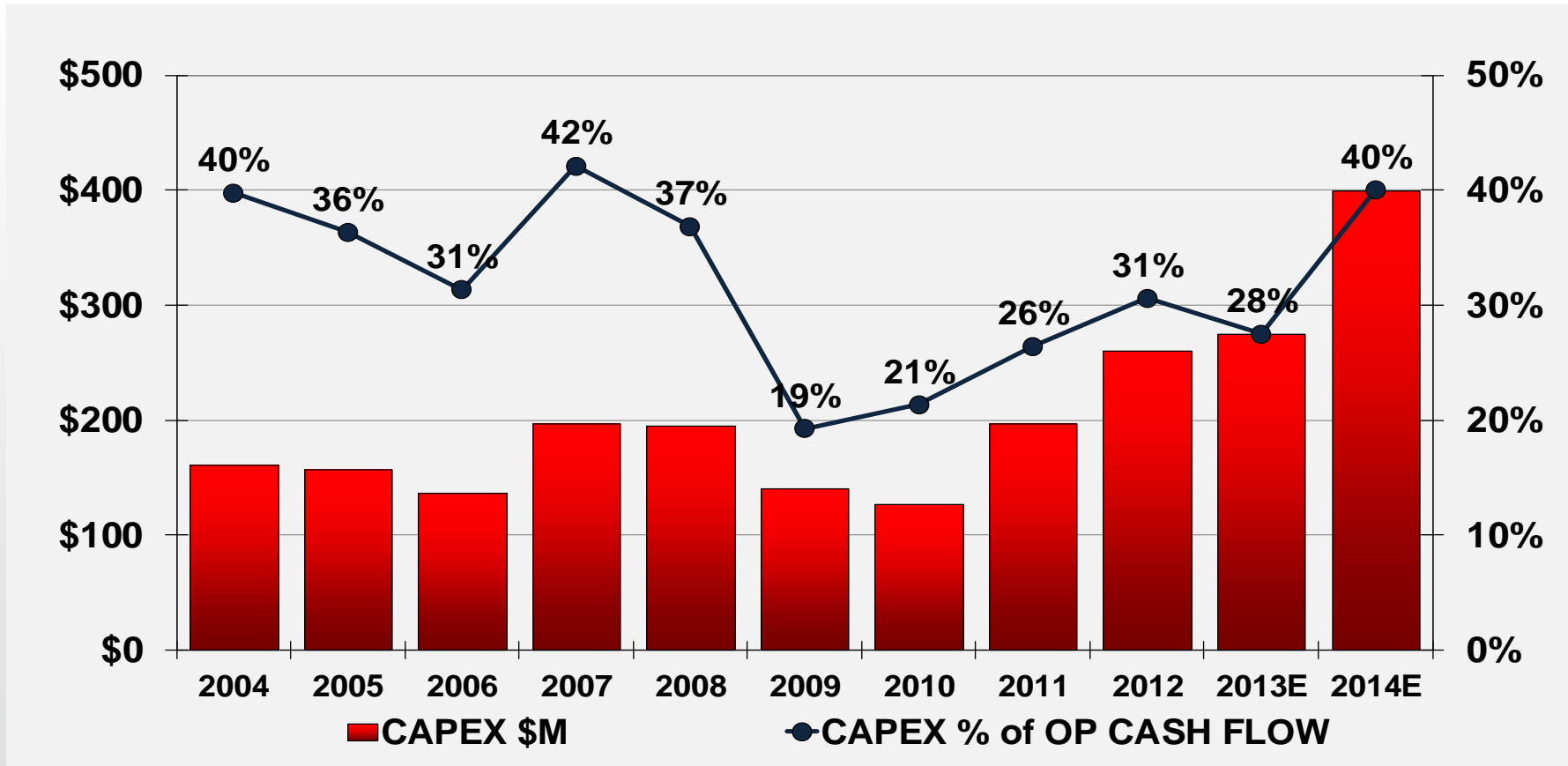
<u>Millions of Dollars</u>	<u>2014E</u>	<u>2013E</u>
Cash Flow from Operations	\$950 - \$1050	\$975 - \$1025
Capital Expenditures (gross)	375 - 425	250 - 300
% of Cash Flow (midpoint)	~40%	~28%
Share Repurchase	350 - 400	350 - 400
Dividends	\$270 - \$290	\$250

*Depreciation & amortization: 2014 \$185-\$205; 2013 \$180-\$190*

Strong cash returns to shareholders, even with step-up in 2014 capital spending



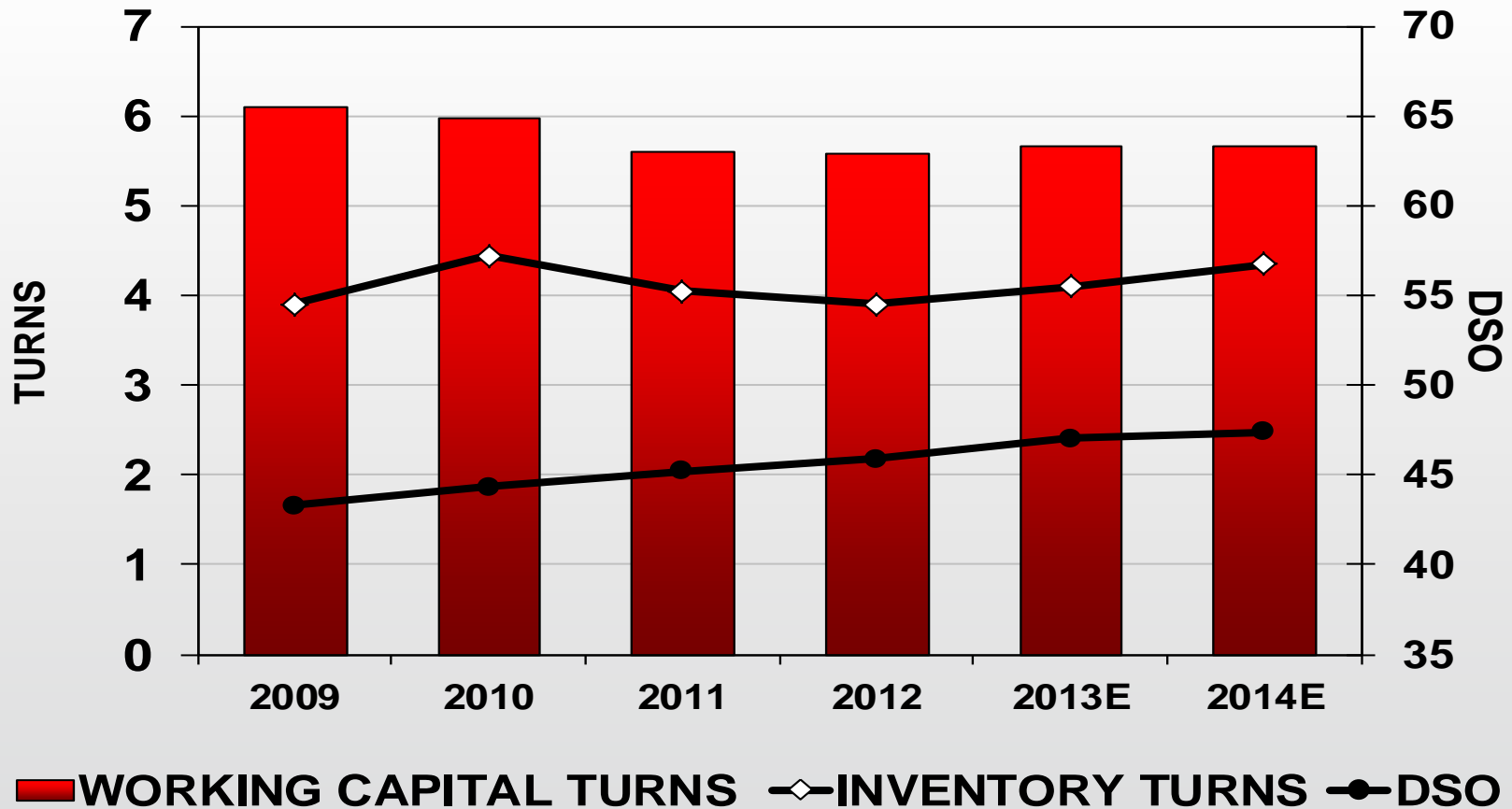
# Capital Spending Trend



Note: 2013 and 2014 are midpoints of guidance ranges

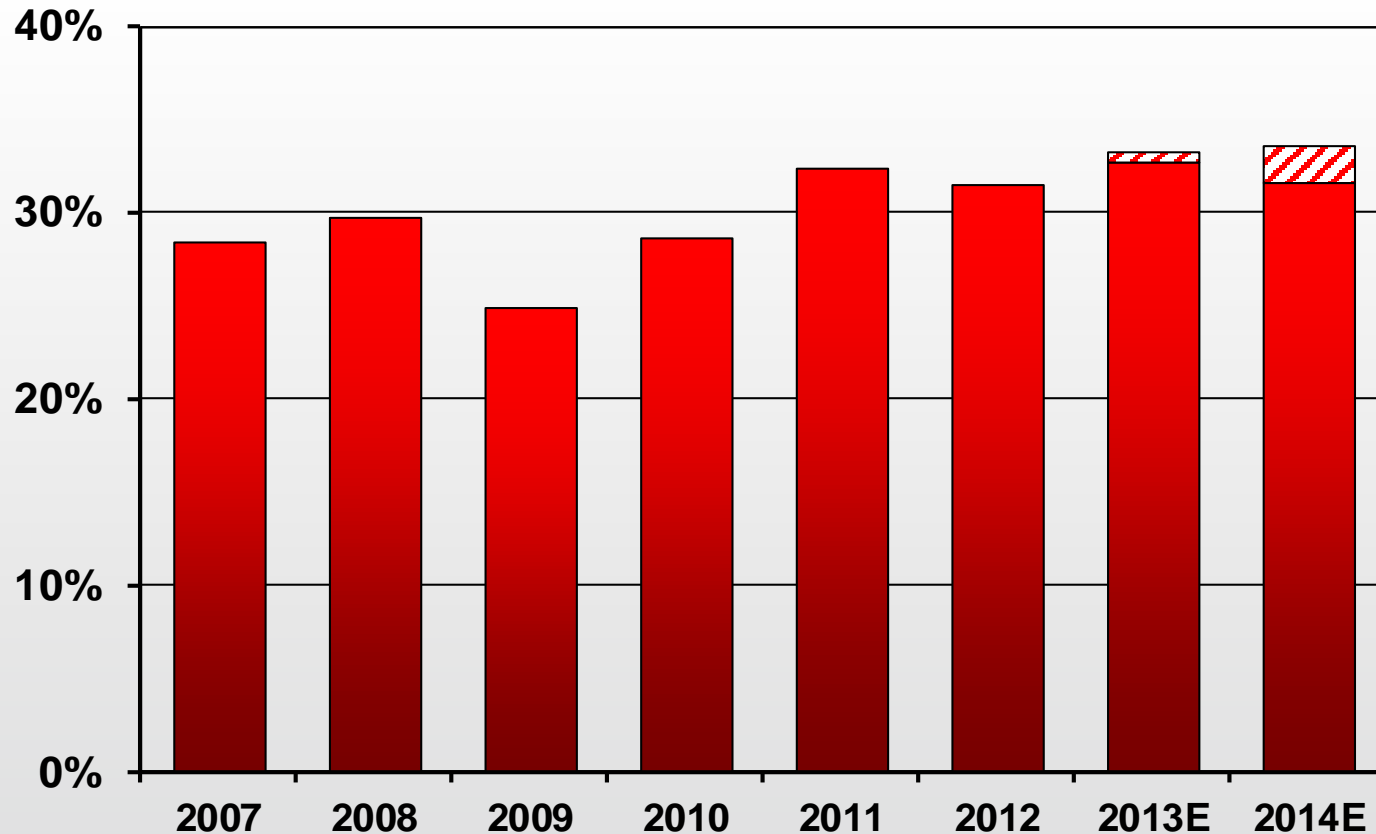
Capital spending averages near one-third of operating cash flow

# Working Capital Turns



Working capital turns remain on trend

# ROIC



Note: excludes unusual items as reported by the company in its quarterly press releases

Continued strong ROIC, even with capital and program investment increases

# Cash & Capital Strategy

## Cash

- Maintain \$300M cash balance +/- \$100M
- Increase dividend  $\geq$  earnings growth
- Reinvest one-third of cash flow in CAPEX
- Remaining cash for share repurchase and acquisitions

## Capital

- Fund smaller acquisitions (< 5% assets or < \$300M) with cash
- Fund larger acquisitions with long term debt
- Maintain tier 1 CP rating, strong “A” the floor, \$1.5B - \$2.0B debt capacity

# Summary: Near Term

## 2013

- Strong performance, despite a weak economy

## 2014

- Double digit sales and EPS growth at high end of guidance range, solid leverage at midpoint
- Productivity continues to fund significant growth and infrastructure increases
- Strong working capital management and ROIC

# Summary: Long Term

## TARGETING:

- High single digit organic sales growth
- 30-60 bps average annual operating margin expansion
- Top quartile shareholder returns
- Two-thirds of operating cash flow returned to shareholders

Grainger uniquely positioned for strong long term growth, operating leverage and ROIC

# Appendix

# Operating Margin % Drivers

	<u>2014E</u> <i>Midpoint</i>	<u>2013E</u> <i>Midpoint</i>	
<b>Selling Price Mix</b>	<b>(50)</b> bps	<b>(53)</b>	bps
<b>Acquisitions</b>	<b>(23)</b>	<b>(30)</b>	
<b>Private Label</b>	<b>21</b>	<b>21</b>	
<b>International Businesses</b>	<b>7</b>	<b>27</b>	
<b>Price/Cost Leverage</b>	<b>32</b>	<b>50</b>	
<b>Gross Profit</b>	<b>(13)</b>	<b>15</b>	
<b>OPEX Productivity</b>	<b>151</b>	<b>145</b>	
<b>Acquisitions</b>	<b>7</b>	<b>25</b>	
<b>Growth Spending</b>	<b>(130)</b>	<b>(135)</b>	
<b>Expense</b>	<b>28</b>	<b>35</b>	
<b>Operating Margin</b>	<b>15</b> bps	<b>50</b>	bps

Productivity more than offsets increased program investments and selling price mix



# Total Shareholder Return (TSR)

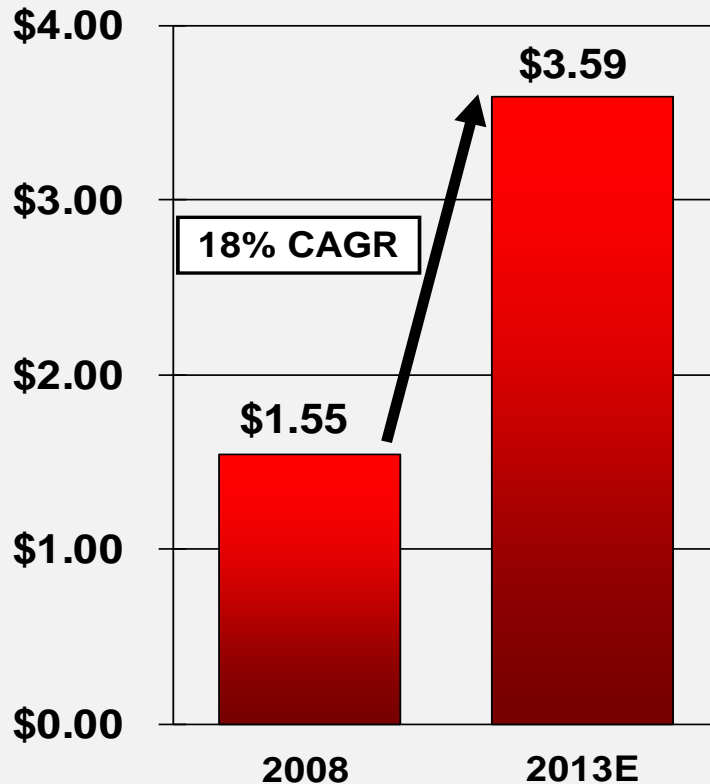
	<u>2014E</u>
<b>Sales</b>	<b>8%</b>
<b>Op Margin</b>	<b>1%</b>
<b>Op Earnings</b>	<b>9%</b>
<b>Tax Rate &amp; Shares</b>	<b>0%</b>
<b>EPS</b>	<b>9%</b>
<b>Dividend Yield</b>	<b>2%</b>
<b>TSR</b>	<b>11%</b>
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<b>Op Margin expansion</b>	<b>15</b> bps

Note: data shown is midpoint of guidance

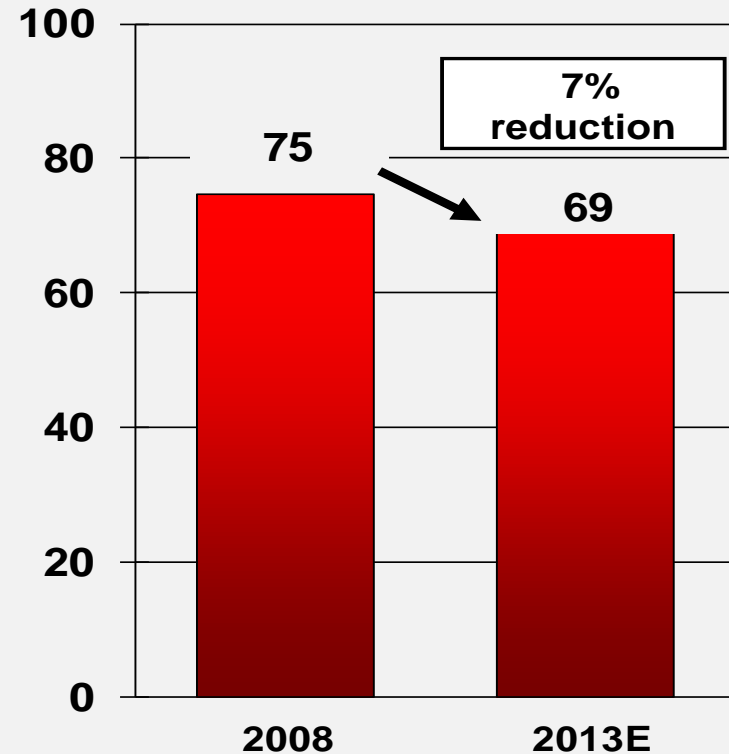
Continued double digit TSR, driven by sales, op margin and dividend yield

# Dividends & Shares Outstanding

**DIVIDENDS PER SHARE**



**SHARES OUTSTANDING  
(Millions)**



2013 is the 42nd consecutive year of increased dividends; GWW is among an elite 3% of S&P 500 companies that have increased its dividend each year for more than four decades

# Sales Days & Sales Growth Rate

<u>Sales Days</u>	<u>Q1</u>	<u>Q2</u>	<u>Q3</u>	<u>Q4</u>	<u>FULL YEAR</u>
2014 Sales Days	63	64	64	64	255
2013 Sales Days	63	64	64	64	255
2014 vs 2013	-	-	-	-	-
2012 Sales Days	64	64	63	64	255
2013 vs 2012	(1)	-	1	-	-

<u>2013E Sales (reported)</u>	<u>Q1A</u>	<u>Q2A</u>	<u>Q3A</u>	<u>Q4E</u>	<u>FY-E</u>
Variance % to Prior Year	4%	6%	5%	6% - 8%	5 - 6%

## Effective Tax Rate

2014 estimate: 37.5% to 37.9%