

2014 Annual Shareholders Meeting
Remarks of Jim Ryan
April 30, 2014

Good morning. I'm Jim Ryan, Grainger's Chairman, President and Chief Executive Officer. Welcome to our annual shareholders meeting.

Across the globe, more than two million businesses rely on Grainger to help them maintain safe, productive and efficient operations. Since our founding, this company has prided itself on serving the professional customer better than anyone else.

Our experience in this industry, and strong customer relationships give us unique insight. We understand what products and services are important to businesses, and we understand their operations and how they want to buy. We know that when parts break or operations stop, it costs our customers both time and money. This company is built around having the broadest product and service offering in the industry, and, we are committed to helping our customers get their jobs done every day.

In 2013, we delivered strong performance by helping our customers simplify their businesses and become more productive. Our sales for the year 2013, increased 5 percent to \$9.4 billion dollars. Reported net earnings increased 16 percent and earnings per share were up 17 percent, to \$11.13.

Total shareholder return in 2013 was 28.1 percent. Over the past five years we have delivered a 28.7 percent average annual total shareholder return. This puts us in the top quartile among S&P 500 companies. Our five-year cumulative total return is 253 percent compared to a 128 percent return for the S&P 500.

Most recently on April 16th, we reported our 2014 first quarter results. We had a solid first quarter with reported sales up 5 percent. Net earnings for the quarter increased 2

percent to \$217 million. And earnings per share were up 4 percent to \$3.07, a record for the quarter.

We're off to a good start for the year and I am confident in our plans for 2014 and beyond. Over the next several minutes I'd like to share more with you about the investments we are making and how we intend to extend our competitive position.

We continue to operate in a highly fragmented market and our customer relationships have never been more important. How customers buy is defining the capabilities distributors need to compete in this industry. Knowing and understanding millions of businesses across multiple industries and markets give us tremendous insight.

Take for instance a food processing plant that employs more than four hundred people and a family owned pizza shop. These two businesses buy similar products to keep their operations running, but their purchasing behaviors are significantly different because of their size and complexity. These behaviors are driving how we think about our business.

Grainger's traditional business, or multi-channel model, is used extensively by large and medium sized businesses. In North America we set the standard for the multi-channel model. We deliver a broad assortment of products with exceptional service. We do this through branches and distribution centers, sales representatives, ecommerce sites and a full set of services like inventory management. We have tailored this model based on the needs of customers who have more complex operations and service requirements. Most of these businesses have been charged with mandates to improve productivity. They need to improve working capital management and reduce the time and costs associated with purchasing MRO supplies. We know how to help.

At the other end of the spectrum is our online model. We began developing this model through our relationship with MonotaRO in Japan which has been very successful. We now operate similar businesses in the U.S. and Canada through Zoro. The online

model is targeted directly at smaller customers who require fewer services. These customers often combine their business and personal shopping. We are seeing great success with these businesses in Japan and the U.S. and plan to extend this model to other geographies.

Regardless of how we go to market, having a rock solid foundation ensures the best service to our customers. Two components of our foundation are our supply chain and information systems. They enable us to generate economies of scale and drive competitive advantage. We have continued to invest in the infrastructure of the business and 2013 was no exception. In the U.S., we completed the transition from our previous distribution center in Niles, Illinois, to our new distribution center in Minooka, Illinois. The Minooka facility has the capacity to stock and dispense more than 500,000 products and is driving improved efficiency and productivity through increased automation. In Canada, we're on track to open our 500,000 square foot distribution center in the Toronto area in 2015. We also continued work on designing and building improved information systems for our businesses in Canada and Mexico to make sure we have flawless customer service.

In 2013, we also generated more scale across the business in areas like purchasing. We launched an initiative to improve our global offering and strengthen our cost position with fasteners. Pulling on the expertise of our Fabory team in Europe, this initiative is another method to manage product cost.

Driving scale and improving productivity enables us to continue to make investments that create shareholder value. Over the past several years we have rigorously invested in capabilities that we know drive growth.

We made great progress on our growth investments in 2013. Here are a few areas I'd like to highlight ---

First, sales coverage. We know that relationships are essential in this business. They help us reach more customers and improve coverage of existing customers. Over the past year we added more than 200 sales representatives across North America contributing to top line growth.

Next, inventory management services. For many of our customers, we can help them improve productivity through more effective management of their inventory. Through our Keepstock program we bring the expertise to help customers reduce their carrying costs. In 2013, we surpassed more than 60,000 installations.

Third, ecommerce continues to change the landscape in this industry. Last year, ecommerce sales surpassed \$3 billion dollars and represented 33 percent of total company sales. Our new web platform in the United States, a new Spanish language website and innovative new mobile solutions like our iPad application helped to drive this growth.

Next, having a broad product offering is essential to our growth and helps our customers consolidate their purchases. In 2013, we increased our Grainger.com product line to 1.2 million products. We also leveraged our cross border capabilities and extended an additional 200,000 products to our Canadian offering.

Rounding out our growth investments in 2013 were two acquisitions in the United States that are driving greater value for our manufacturing customers. E&R Industrial strengthens our metalworking offering; and, the Safety Solutions business brings a unique safety footwear program, complementing our strong offering in this important category.

Going forward we will continue to invest in the capabilities that set us apart in the marketplace and this includes investing in our people.

We have more than 23,000 dedicated, talented and hardworking team members who are driven to deliver the best service. This company is home to both seasoned industry experts and new team members with different experiences and innovative perspectives. It's exciting to be part of Grainger.

To conclude our business update I want to call special attention to our Corporate Social Responsibility work. We know that how we operate is as important as the products and services we provide. Over the past several years we have developed programs in four key areas including business practices, people, communities and sustainability. As highlighted by our most recent Corporate Social Responsibility report, we've made good progress in identifying the standards by which we will hold ourselves accountable and where we can make the greatest impact.

We are committed to being a good steward of the environment and Grainger is setting the standard for sustainable facilities in our industry. In 2013, our LEED certified facilities encompassed more than 3.7 million square feet and we extended our Carbon Disclosure reporting to include our businesses in Canada and Mexico.

Equally as important is the commitment we make to our local communities. In 2013, we completed our \$3 million dollar grant to the American Red Cross for the launch of Volunteer Connection. This innovative, online volunteer management system will enable the Red Cross to more efficiently recruit and deploy volunteers in times of disaster.

At Grainger, we know that our customers rely on us as a trusted partner, our team members expect us to be a good employer, our communities respect us, and you, our shareholders, trust that we will deliver strong returns.

Our commitment to providing top returns to shareholders is driven by our ability to generate strong cash flows. Over the past 5 years, we have generated more than \$3.8 billion dollars in operating cash flow. Of this, we have returned about 60% back to

our shareholders in the form of dividends and share repurchase. The balance we reinvest in the business to provide the best service for our customers.

Through our active share repurchase program we have reduced our shares outstanding by 5 percent over the past five years. Since 1983 we have bought back more than 40 percent of the shares outstanding.

Earlier today, the Board of Directors voted to replenish our share repurchase authorization. We now have authority to purchase up to 10 million shares of the company's outstanding common stock.

For many years Grainger has distinguished itself through its strong dividends. The company stands out among an elite group of the S&P 500 companies that have increased its dividend each year for more than four decades.

Earlier today, the Board of Directors voted to increase the quarterly dividend to \$1.08 per share, up 16 percent versus the previous quarterly dividend. This is the 43rd consecutive year of increased dividends and a testament to the Board's confidence in our strategy and their commitment to you, our shareholders.

This is an exciting time in our industry and the opportunities ahead are energizing. Grainger is a healthy, strong business and serves the professional MRO customer better than anyone else. We have the best team in the business and the right strategy. Our focus is on extending our market position and driving the consolidation of this industry. We have a long-term view of our business and we intend to win.