2015 Annual Shareholders Meeting
Remarks of Jim Ryan
April 29, 2015

Good morning. I'm Jim Ryan, Grainger's Chairman, President and Chief Executive Officer. Welcome to our annual shareholders meeting. Before I begin this part of today's meeting, I'd like to call your attention to our forward-looking statement.

For almost 90 years Grainger has made our products and services accessible in the most convenient ways for professional customers. When Bill Grainger began this business he believed that *"providing products of the best quality... service of the highest standards...taking care of the workforce... and supporting the community"* was the best way to run a business. Today we still share that idea of how to succeed, it's a simple concept and it works.

Grainger has done well because we've built a strong foundation; we have a business that customers rely on; and team members who are committed to service. We've also done well because we've been able to adapt and stay ahead of our customers' needs. At the same time we've remained committed to building a healthy company for the long run, and, one that is a great place to work.

Staying true to Bill Grainger's formula in today's world can be a big challenge, but it's also one of our biggest opportunities. Holding on to our principles and achieving near term results, while keeping a long-term view, was more difficult this past year. But I believe it has put us in a strong position for the future and we are energized by the opportunity ahead.

So let's walk through our 2014 performance and talk about the year. Grainger's total company sales grew 6 percent to $10 billion dollars. Reported net income increased 1 percent and earnings per share were up 3 percent, to $11.45. In 2014 we had challenges from the global economy. But tough times are a time for action and here is what we did: we improved our cost position and continued to aggressively invest in the business. As we have shared with you in the past, we manage for the long term.

This long-term focus has paid off. Over the past five years we have delivered a 23.4 percent average annual total shareholder return. For that same period our cumulative total shareholder return was 186 percent. This performance places Grainger in the top quartile among companies in the S&P 500.

On April 16th, we reported our 2015 first quarter results. For the quarter sales were up 2 percent; net earnings declined 3 percent to $211 million, and earnings per share of $3.07

were flat versus the 2014 quarter. It was a challenging quarter with headwinds from the strong U.S. dollar and the continued weakness in the oil and gas sector in North America. Both are putting pressure on the U.S. manufacturing sector, Grainger's largest end market.

Even with this pressure, there are sectors of our business that are showing strong performance. We are encouraged by the growth we achieved with large companies and think there are significant opportunities for Grainger to serve this market when others are pulling back.

As a result we now plan to add approximately 400 new sales representatives in the United States in 2015 which is two times the original number announced in late 2014. We also continue to be pleased with the growth we are seeing in our single channel online businesses and will continue to invest in them for the long term. Moving forward we continue to see the same headwinds we have been seeing since last year. As we reported in our first quarter earnings release, we lowered our 2015 sales and earnings per share guidance.

There are several factors contributing to this change: We have lower expectations for macroeconomic growth due to the weakness in the oil and gas prices in North America; and, the effect of the strong U.S. dollar on our customers, especially those who export; and, we will see additional expense in the near term from our increased investment in sales representatives which will benefit sales in the years to come. As a result, we now expect 1 to 4 percent sales growth and earnings per share of $12.25 to $12.95.

So as we manage through a tough environment in 2015, we expect to gain market share, and will continue to build a business that grows and competes over the long run. We know that we are most successful in markets with high GDP per capita and they present our biggest opportunity. Those markets are where we are focused.

Our top priority is in North America where businesses value the products, services and solutions we deliver through both our multichannel businesses in the United States, Canada and Mexico, and through our online business, Zoro.

Over the years we've seen our customers' purchasing behaviors change dramatically. Our foresight, relationships, and infrastructure have enabled us to respond and capture market share when this happens. We know that larger more complex businesses are looking for a supplier that can bring more products, services and solutions to their places of business. Capabilities such as inventory solutions, technical support, sales reps and eCommerce have become core to what these customers expect as they rely more heavily on their suppliers.

Across the United States, Canada and Mexico, much of our growth is being driven by the large customers who rely on our multichannel model to more efficiently manage their MRO needs. We know how to grow with these customers. The investments we continued to make in 2014 in eCommerce, KeepStock, and sellers has helped us gain more share.

In 2014, we also continued to invest, and realize strong growth with our single channel online businesses in Japan, the United States and Europe. They have great internet capabilities and don't use branches or sellers. These businesses are geared toward customers with less-complex MRO needs which tend to be smaller businesses. MonotaRO, our business in Japan is our most mature online business and performed very well in 2014. We've been able to take advantage of MonotaRO's expertise and understanding of the less complex customer as we continue to grow our Zoro business in the U.S.

In 2014, sales from MonotaRO and Zoro grew almost 40 percent to $600 million despite a 9% decline in the Yen versus the U.S. dollar. Combined we expect them to reach $1 billion in revenue by 2016. Given the very strong growth with this customer segment in Japan and the U.S., we launched Zoro Europe in Germany last year. Early indications are very positive.

As I mentioned earlier, balancing the need for short term performance with a goal of long term success is challenging. In 2014, this prompted some tough decisions as we addressed several of our underperforming international businesses. Recognizing the complexity and time involved in building a scalable and profitable broadline business in Brazil, we made the decision to shut down our operations there.

In China, we re-focused our efforts last year. Over the years this business has struggled to meet our expectations. We are encouraged by their targeted efforts to grow with small customers through inside sales and eCommerce. We expect this business to break even this year.

In Europe, Fabory is more focused on executing in its core fastener business and we've been aggressive in cutting costs to help us get back on a path of profitable growth. In 2014, we restructured this business and closed shops. But we also positioned it for growth by improving sales processes and eCommerce capabilities. We expect Fabory to breakeven this year.

Regardless of where we operate, we know that a strong infrastructure comprised of an advanced supply chain, flexible systems, and great service is essential to our success. This requires the discipline to invest, year in and year out. Doing so, ultimately gives us more capacity and greater flexibility in serving customers. It differentiates us in the marketplace and keeps us the market leader.

In North America we began work on a new distribution center in New Jersey. When complete this facility will have the highest throughput of any building in our network. We also completed our new distribution center outside Toronto early this year. Both of these buildings more than double our storage and throughput capacity in their respective regions.

From a systems perspective we are extending our United States SAP system to Canada and Mexico. We expect to go live later this year and are excited about the significant service and productivity benefits we will realize over the long term with a single North American platform.

Another highlight from the year that strengthened our offering in Canada was the acquisition of WFS Enterprises, Inc. This Ontario-based distributor is helping us better serve manufacturing customers in eastern Canada through an even stronger focus on safety and metalworking. Along with the last 6 acquisitions we've made in Eastern Canada in recent years, WFS is an example of how we've used acquisitions to grow and create geographic diversification. This is even more important given the oil and gas softness in Western Canada.

As you can see, this past year was one that required us to take a thorough look at where and how we operate. We also had to be thoughtful about how we best position this business to fulfill its mission to customers, team members, communities and shareholders.

We know that to continue to grow we have to be able to invest both in our foundation and in the offerings and capabilities that help serve our customers. We continue to grow with large and single channel online customers and this is a great thing, but these sales are at lower gross profit margins. This combined with a historically low inflationary environment makes generating productivity even more important.

In 2014, we took a very aggressive approach to improve our cost structure and profitability to fund continued investment. In addition to ongoing productivity improvements in the supply chain and our back-office functions, this past year we initiated efforts to improve productivity across the business. This included improving our own indirect procurement, improving the profitability of our KeepStock offering and getting continued cost leverage from our U.S. branch network. These productivity improvements are helping fund additional sales representatives, more inventory management installations, and our infrastructure improvements.

We have a responsibility to ensure the company, and the promise of its legacy, are to be here not just for us, but for the people who follow us and those who follow them. Part of doing this is keeping Grainger a great place to work.

We also took a thoughtful look at our benefits offering in the United States. We are getting input from thousands of teammates on how our benefits programs can be more responsive to their most important needs. We will continue to have benefits programs that are representative of a destination employer while remaining cost competitive.

Taking into account the first three months of the year and looking ahead, it's apparent that we will continue to operate in an uncertain economic environment. Continued low inflation, a struggling oil and gas industry in North America and unfavorable exchange rates will continue to challenge us and our industry in 2015.

But, we are resilient -- we know how to adapt and thrive in these environments where others fail. We intend to continue to lead this industry by staying focused on driving growth, generating productivity, investing in our foundation, and, providing top returns to you, our shareholders. We will make the tough decisions for both the short and long term while holding on to Bill Grainger's core principles.

Our commitment to providing top returns to shareholders is driven by our ability to generate strong cash flow. Over the past 5 years, we have generated more than $4.1 billion in operating cash flow. Of this, we have returned two thirds 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. Since 1984, we have had an active share repurchase program through which we have bought back more than 42 percent of the shares outstanding.

To further demonstrate our confidence in our business and our strategy, and our commitment to you, on April 16, we announced plans to permanently change our capital structure by taking on debt and buying back $3 billion in stock over the next three years. This represents approximately 18% of today's market capitalization. We expect to fund the share repurchase with a combination of internally generated cash and $1.8B in new, permanent debt.

With the change to our capital structure we maintain flexibility for organic or acquisitive growth. We also maintain our strong credit rating as now one of only 8 non-financial, publicly traded U.S. companies rated AA.

As I hope you can see, we are committed to creating shareholder value and strongly believe in the strategy we have in place for future growth. A great indicator of the strength of this business is our consistent track record of increasing 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 $1.17 per share, up 8 percent versus the previous quarterly dividend. This is the 44th consecutive year of increased dividends and a testament to the Board's confidence in our strategy and their commitment to you, our shareholders.

In closing, I want to reinforce that while a lot has changed over the years since Grainger was founded, you should feel good knowing that the core of what makes this place work hasn't. 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.

We are coming from a position of strength and know how to succeed in even the most challenging environments. We have the right strategy, the most recognized and respected brand in the business, and the best people. Thank you for being part of Grainger and thank you for joining us today.