**W.W. Grainger, Inc.**
**2016 Annual Meeting of Shareholders**
**April 27, 2016**

**Remarks of Jim Ryan, Chairman, President and Chief Executive Officer and DG Macpherson, Chief Operating Officer**

Good morning. Welcome to our annual shareholders meeting. DG Macpherson and I will provide an overview of the current state of Grainger's business and our direction for 2016 and beyond.

This past year was tough for our industry and for Grainger. We continue to compete in a challenging industrial economy with historically low inflation, rapidly declining oil prices and a strong U.S. dollar. We have not seen the confluence of these three things in the industrial economy in recent memory, if ever.

This industry down cycle is driving predictable changes in how our customers are behaving. They are intensely focused on reducing cost and are very conservative with new spending. Clearly, down economic cycles are challenging for <u>everyone</u> in the industry. But what gives me confidence is that not everyone has what Grainger has... our size, our experience, our financial strength, our people, our suppliers, and our commitment to service.

In 2015 we remained focused on gaining market share by providing more highly differentiated service. We made strong moves and invested in our business in ways that will benefit Grainger, our customers, our team members and our shareholders for years to come.

So let's review our 2015 performance. Grainger's total company sales of $10 billion dollars were flat versus 2014. Reported net earnings decreased 4 percent and earnings per share were up 1 percent to $11.58. 2015 was a year of more than holding our own in a very tough economy. We gained market share and took strong action to better position our company for the future. We continued to build a foundation for long term growth and strengthened our ability to grow through new channels and in new markets. At the same time, we adapted to changing customer behaviors and improved our own cost of doing business.

Four months into the year, we remain focused on these actions amid what continues to be a challenging industrial economic environment. On April 18th, we reported our 2016 first quarter results. For the quarter, sales were $2.5 billion dollars, up 3 percent; net earnings were down 12 percent to $187 million, and earnings per share of $2.98 were down 3 percent versus the 2015 first quarter. Revenue and share gains are tracking as we expected given the tough economic environment. In the U.S. we are encouraged by the share gains we are seeing with large and small businesses, but continue to be challenged with medium-sized customers.

We continued to see price and gross margin pressure this past quarter driven primarily by the low inflation economic environment and faster growth from lower gross margin customers. But at the same time, we did a good job reducing our operating expenses to offset some of the gross margin decline. Our earnings per share performance benefited from a lower share count driven by our progress on the $3 billion dollar repurchase program announced last year.

Despite the current short-term uncertainty, we will continue to invest in the business to drive long term results. We are also adapting our business for the significant changes we are seeing in the industry and the world around us. The competitive landscape is continuing to evolve and we are operating in a market that is getting much more dynamic. Some of the most compelling changes in this industry are being driven by macro trends in the world around us. These trends will extend well beyond any single economic cycle.

These trends are real, they are evolving faster than ever before, and are shaping how our customers want to do business. The world we operate in is different than it was a year ago, and drastically different than five years ago. Customers today have more information and options than ever before. At Grainger, we are driven to know them well enough to anticipate their needs, give them the best products, information and services, and, deliver in a way that works best for them.

Increasingly, customers want to do business online and onsite at their operations. As a result, we are experiencing less traffic in our branches and on the phone and more orders are being placed through Internet enabled technology and fulfilled through our distribution centers and services like our KeepStock inventory management services. We expect about 50 percent of our revenue to come through our ecommerce channels in 2016.

These changes that we are seeing in customer behavior don’t happen very often and when they do, it can be both a threat and an opportunity. For Grainger we are treating it as an opportunity. We believe these shifts will benefit us over the long haul and in fact they already are. We have built a business platform that is very responsive, and is actually helping to drive some of these changes in purchase behavior.

One of Grainger's advantages lies in the data and information generated by 140,000 customer orders and hundreds of thousands of web and mobile visits to our sites every day. This is insight that <u>nobody</u> else has about customer behaviors and it's <u>specific</u> to our industry. It is enabling us to think differently and inform how we adjust our model to grow faster.

As the world around us, our customers and our own business change, we believe there are great opportunities to redefine how we will lead in the future. This is largely about serving customers on their own terms.

In the U.S., our large and medium customers have different needs. We are addressing this by creating dedicated sales and marketing teams to ensure we capitalize on our strength with large customers, and build a more compelling offer for medium customers. We know that the middle market has distinct characteristics that require a more tailored approach. This past year we established a team focused solely on building a better coverage and pricing strategy to target this segment. By understanding the unique characteristics of different customer segments we can continue to build our business for how our customers think, how they buy and how they act.

We also made a bold step in 2015 with our single channel online model. Given the very strong success we've seen with our online businesses in Japan and the United States, we established a leading position in the United Kingdom MRO market with the acquisition of Cromwell Group Limited. This acquisition is very exciting as it brings together Cromwell's product strength and customer relationships with Grainger's expertise in supply chain and eCommerce. Just last month we launched a new Cromwell website that will accelerate growth in this business.

We believe we have a tremendous opportunity to improve how we deliver an effortless customer experience and accelerate growth by tailoring our services to customers of all sizes, and all industries. As we do this we need an infrastructure that has the ability to not only run our business today, but enables success going forward. For more than a decade we've been investing in the foundation of what makes great service possible -- our product offering, supply chain, systems, eCommerce platform, and of course our people.

We recently completed the work to bring our core North American businesses up on one SAP platform by extending our U.S. systems to Mexico and Canada. Our Mexico business went live last fall and our Canada business successfully completed their installation in February of this year. Having one common platform provides us better data visibility across our businesses in the Americas. This visibility coupled with strong delivery capability will allow us to dramatically improve service in Canada and Mexico. This past year we continued to enhance our distribution network in the United States with the construction of a new 1.3 million square-foot facility in New Jersey to serve the Northeast region. This is more than double the size of our existing Northeast DC. This will be our largest and most technologically advanced distribution center. We're very excited about the capabilities going into this building and how these will contribute to even better service in this area of the country beginning later this year.

Understanding that the investments we make today are designed to support our business in the future as well, we also began work on a new distribution center outside of Tokyo, Japan, to accommodate the strong growth of MonotaRO, our single channel online business. With more than 40% of our total company sales coming through online channels in 2015, we took a meaningful look at better aligning our business with how customers want to buy, and we rebalanced some of our investments.

As a result, in 2015 we closed 49 branches in the United States, 16 in Canada and 16 at Fabory in Europe. We also announced plans to close approximately 55 more branches in the United States this year. While these decisions are never easy, they were the right decisions for our business today and for the future. We believe that branches will continue to be part of how we serve because they provide critical products in time sensitive situations and reliable services for local customers.

Finally, in Canada, we continued to see improvements to the service we can provide as a result of the new Toronto distribution center which opened in early 2015. Despite a very challenging Canadian economic environment, we remain committed to making investments that will enable improved service, productivity and efficiency as we position this business for the future.

Grainger's ability to adapt and stay ahead has set us apart for decades. We have the financial strength and the discipline to invest in the ways customers want to be served now and in the future. Focusing our investments and priorities to best serve our customers, create a great environment for our team members and generate profitable returns for our shareholders guides how we run our business.

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 billion dollars in cash from operations. In general, we returned about two thirds of our cash from operations to our shareholders in the form of dividends and share repurchases. 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 reduced shares outstanding by 46 percent.

A great indicator of the strength of this business is our consistent track record of increasing dividends.  Grainger stands out among an elite group of S&P 500 companies that have increased their dividends each year for more than four decades. Earlier today, the Board of Directors voted to increase the quarterly dividend to $1.22 per share, up 4 percent versus the previous quarterly dividend.  This is the 45th consecutive year of increased dividends and reinforces Grainger's commitment to its shareholders.

In closing I want you to know how optimistic we are about our future. Grainger has never been in a stronger position to serve customers and define the future of great service in the MRO industry.   We are a strong company and committed to setting new standards for service and leading this industry in an even bigger way.  Thank you for being part of Grainger.

---