W.W. Grainger, Inc.

2017 Annual Meeting of Shareholders

April 26, 2017

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

I'm delighted to be with you today and honored to serve as Chief Executive Officer of Grainger. 2017 is our 90th year in business. It's an important milestone and a time to reflect on our progress over the years and the opportunities that lie ahead. I'm grateful to Jim and the board for their mentorship and support in preparing me for this responsibility. I'm incredibly excited about our future.

Speaking of the future and before I move ahead with this part of today's meeting, I'd like to call your attention to our forward-looking statement.

Now let's begin with a brief video. *(VIDEO)*

This video captures who we are so perfectly. This particular story was from Fort McMurray Canada, which happens to be the location of our largest branch in the company; but it could have been any of our facilities, anywhere in the world. Our team members care deeply for our customers and are driven by their spirit to serve. <u>It's who we are</u>.

2016 was a challenging year both for industrial distributors and for Grainger. The industrial economy was hampered by a soft demand environment, further complicated by a lack of inflation, which put pressure on our revenue and gross margins. In addition, as has been the trend for several years, customers continued to shift to digital channels. Grainger has been ahead of this trend for some time, however online price transparency further increased pressure on pricing and margins.

Let's take a look at our 2016 performance. Grainger's total company sales of $10.1 billion were up 2 percent versus 2015. Reported earnings per share were down 15 percent to $9.87. We generated $1.0 billion in cash from operations with free cash flow of $774 million, up 23 percent from 2015. And, we continued to return cash to shareholders in the form of 3.6 million of shares repurchased for $790 million and $303 million in dividends paid.

In 2016 we took strong action to better position our company for the future. We strengthened the value we deliver to our customers and effectively managed expenses while identifying opportunities to improve our long-term competitiveness.

In 2016 we made progress against our strategy to provide unique value to different customers and an effortless customer experience. Several examples include:

- In our U.S. Business:
    - We further aligned the large customer sales force to focus on specific end markets and implemented a Customer Relationship Management (CRM) system to improve effectiveness and efficiency

    - We launched our inside sales team focused on medium-size customers
    - We executed pricing changes to attract and acquire new customers and to capture a higher share of wallet with existing customers, and
    - We opened our 1.4 million square foot distribution center in the Northeast.
- In Canada we focused on positioning the business to return to profitable growth
    - We implemented and stabilized an ERP system and replaced disparate legacy systems,
    - We launched Direct-To-Customer (or DTC) shipping – moving from 8 percent DTC to more than 50 percent in less than one year, and
    - We centralized functions, closed branches and restructured the workforce.
- In our other businesses, we made significant progress with our eCommerce offering through our single channel online model.
    - The single channel model businesses grew by 35 percent to $1 billion in sales in 2016, operating margin improved by 100 basis points, and the business acquired 1 million new customers
    - We also narrowed the focus for our international businesses to geographies with a high GDP per capita and a developed infrastructure.
- We were also diligent in continuing to reduce our cost structure in 2016 including:

    - Optimizing our branch network through the closure of 69 branches across the U.S. and Canada, and
    - Focusing on continuous improvement throughout our supply chain network.

Last week, we reported our 2017 first quarter results.

Sales were up 1 percent in the first quarter, with volume up 5 percent, offset primarily by price deflation. Our gross profit and operating margin were affected by the pricing actions, which we will discuss in a few minutes. Before I do that, I'd like to walk through performance of our businesses and conclude with the United States.

Our Other Businesses continued their strong performance with sales growth of 12 percent including a 3 percent headwind from foreign exchange, and operating margin improved by 140 basis points. Our online businesses delivered sales growth of 23 percent.

In Canada, sales increased 4 percent, 1 percent in local currency. This is the first quarter of positive sales growth since oil prices collapsed in the fourth quarter of 2014. While we are not satisfied with our financial performance, service levels have stabilized and pricing actions are underway.

- For contract customers we are implementing price increases to offset currency-related product cost inflation.
- For noncontract customers we are introducing market based pricing, similar to that in the United States.

Based on continued service improvements, planned pricing actions and strong cost actions, we plan to breakeven in Canada as we exit 2017.

In the U.S., our results were really about the strategic pricing actions we're taking. Sales were down 1percent, driven by volume growth of 4 percent, offset by price. Price also negatively affected our gross profit margin and our operating margin in the quarter

So, let's talk about pricing. Our price structure has been a barrier to growth across the business. We took action in the quarter to lay the foundation for sustainable share gains and new customer acquisition.

1. In January we adjusted list prices to support large customers consolidating their purchases; that resulted in some list prices going up and some going down. More prices decreased than increased and these lower prices flowed through the discount structure in most of our large contracts.
2. In early February, we introduced web pricing for 450,000 sku's, which is essentially market based pricing.
3. And we continued to negotiate large customer contracts with the updated pricing structure, a process we started in the fourth quarter of 2015.

Our initial results from the pricing actions have been positive:

1. We saw stronger than expected price elasticity on list price changes, in both directions

2. For customers who opted into our web pricing program, volume increased in the mid-single digits, reversing the double digit decline we had been experiencing. Keep in mind this is off a third of our assortment and a small customer base.
3. For contract customers where we have implemented pricing changes for their spot buy purchases, results are also encouraging. Total volume growth has improved from 4 percent to 9 percent growth.

Overall, we’ve seen customers buying at their new price points versus requesting quotes, which affirms that more relevant pricing simplifies the process and makes Grainger easier to do business with.

The volume trend we saw in the first quarter is a good proof point of how our pricing actions are yielding positive results.

Given this performance, we decided to accelerate our pricing actions planned for 2018, into the third quarter of 2017. We will introduce web prices on our entire assortment of SKUs and eliminate the opt-in requirement, and we will accelerate large customer contract negotiations. This will allow us to more aggressively market digitally.

Most importantly, we will eliminate a significant barrier for our customers. While we won’t have the lowest price in the market, we will be competitive which will be very attractive for our customers given our industry-leading supply chain and service model.

We lowered our 2017 guidance to reflect the positive customer response to our pricing actions in the first quarter, and our decision to accelerate our pricing actions into the third quarter of this year. On the day of our announcement, there was significant selling pressure on our stock due to missing expectations for the quarter and lowering our guidance for the year. While this is a challenging process, we are convinced this is the right thing to do for the long-term success of the business.

Our expectation is that the pricing acceleration will allow us to change our trajectory and also get back to our long-term operating margin guidance by 2019. To do that, we will have to grow faster and continue on the cost leverage path we've been on for the last several years. I think we can make good on these plans, now that price isn't a barrier to our growth.

Switching over to cash deployment, Grainger has a track record of generating strong cash flow through the ups and downs of economic cycles. From 2012 to 2016, we generated approximately $4.7B in operating cash and returned 68 percent of cash deployed to shareholders in the form of dividends and share repurchases.

In 2016 alone, Grainger returned $1.1 billion in cash to shareholders in the form of dividends and share repurchases.

Continuing with our solid track record of increasing dividends, earlier today, the Board of Directors voted to increase the quarterly dividend to $1.28 per share, up 5 percent versus the previous quarterly dividend.

This is the 46th consecutive year of increased dividends and reinforces Grainger's commitment to its shareholders. Grainger paid $303 million in dividends in 2016 and has a strong track record of increasing dividends.

Finally, last year, Grainger repurchased 3.6 million shares of stock for $790 million. And, we intend to repurchase approximately $600 million worth of stock in 2017.

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.

Safe Harbor Statement

All statements in this communication, other than those relating to historical facts, are "forward-looking statements." These forward-looking statements are not guarantees of future performance and are subject to a number of assumptions, risks and uncertainties, many of which are beyond our control, which could cause actual results to differ materially from such statements. These statements include, but are not limited to, statements about future strategic plans and future financial and operating results. Important factors that could cause actual results to differ materially from our expectations include, among others: higher product costs or other expenses; a major loss of customers; loss or disruption of source of supply; increased competitive pricing pressures; failure to develop or implement new technologies or business strategies; the implementation, timing and results of our strategic pricing initiatives and other responses to market pressures; the outcome of pending and future litigation or governmental or regulatory proceedings, including with respect to wage and hour, anti-bribery and corruption, environmental, advertising, privacy and cybersecurity matters; investigations, inquiries, audits and changes in laws and regulations; disruption of information technology or data security systems; general industry or market conditions; general global economic conditions; currency exchange rate fluctuations; market volatility; commodity price volatility; labor shortages; facilities disruptions or shutdowns; higher fuel costs or disruptions in transportation services; natural and other catastrophes; unanticipated weather conditions; loss of key members of management; our ability to operate, integrate and leverage acquired businesses; changes in credit ratings; changes in effective tax rates and other factors which can be found in our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q, which are available on our Investor Relations website. Forward-looking statements are given only as of the date of this communication and we disclaim any obligation to update or revise any forward-looking statement, whether as a result of new information, future events or otherwise, except as required by law.