

W.W. Grainger, Inc.

William Blair 37th Annual Growth Stock Conference

June 14, 2017

Safe harbor statement and non-GAAP financial measures

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.

Non-GAAP Measures

Additional information relating to certain non-GAAP financial measures referred to in this communication is available in the appendix to this communication.

Topics of discussion

How we win with customers across our focus areas

Changes we're making to gain share and improve profitability

What we're seeing so far

Actions to achieve our 2019 expectations

Our strategic priorities by focus area

	U.S. LARGE 2016 Sales: \$6.1B	U.S. MEDIUM 2016 Sales: \$0.9B	CANADA 2016 Sales: \$0.7B	SINGLE CHANNEL 2016 Sales: \$1.0B	INTERNATIONAL 2016 Sales: \$0.8B
Create unique value for different customers	Grow spot-buy volume via relevant pricing and digital capabilities		Diversify the business	Continue to build the online model	Optimize the portfolio for profitable growth
	Grow with large, complex customers	Re-engage medium customers	Return to profitable growth		
Create an effortless customer experience	Improve the end-to-end customer experience including less complex pricing and enhanced digital capabilities				
Reduce cost	Improve the cost structure throughout the company				
Help each other grow and succeed	Instill leadership behaviors to ensure focus on team member development and engagement				
Be responsible stewards	Maintain highest standards of ethics and integrity				



Note: Total company 2016 revenue of \$10.1 billion also includes specialty brands such as E&R Industrial, Imperial Supplies and Techni-Tool.

U.S. Large – today and tomorrow

Today

U.S. Large: market leader, consistent share gain

- Sales representatives save customers time and money
- eCommerce solutions handle complex purchasing processes
- Value-added services help reduce costs, keep team members safe and manage inventory
- Strong B2B fulfillment capabilities
- Competitive pricing overall, but visible list price turning away spot buy volume

By 2019

U.S. Large: continued share gain

- Same overall model as today with...
 - Improved onsite execution
 - Improved eCommerce capabilities for end users
 - Improved assortment (more items in stock) and delivery performance
 - Simplified pricing to enable consolidation with Grainger

U.S. Large – value proposition bolstered by pricing actions

What large customers say they value

- Product assortment
- Proactive sales model
- Technical support
- Attractive price
- Help managing the business
- Strong fulfillment capabilities

Based on surveys and focus groups in 2016-2017 including a total of 1800+ active MRO customers (not only Grainger customers)

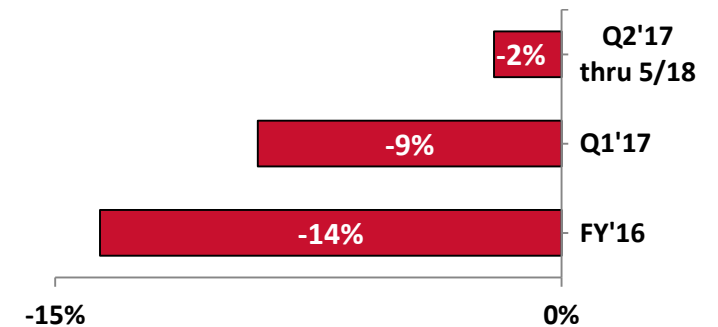
U.S. Large – pricing actions proof points¹

Volume growth in contracts with new pricing since Q4 2015²

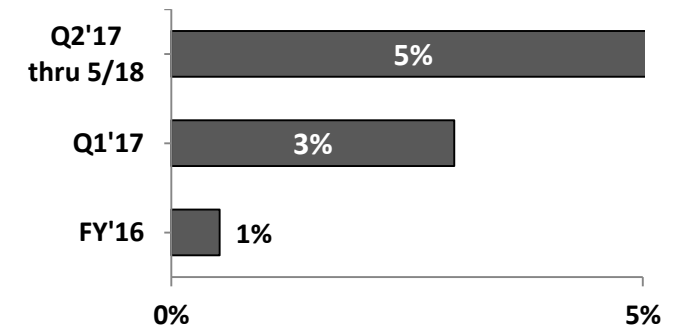
Before modification: volume +4%

After modification: volume +9%

Spot buy volume growth³ (~30% of volume)



Total volume growth on \$6.1 billion of revenue



1. U.S. Large total product COGS dollars (excludes freight, rebates and other adjustments) used as a proxy for volume
2. Approximately 150 contracts signed Q4 2015, representing about \$650 million of annual revenue
3. Less competitive volume as of 12/31/16, primarily spot buy

U.S. Medium – today and tomorrow

Today

U.S. Medium: share loss

- Too few customer touches
- Strong assortment but can be overwhelming
- Grainger website attractive but complex
- Strong B2B fulfillment capabilities
- Visible list price a barrier to retaining existing customers and acquiring new customers

By 2019

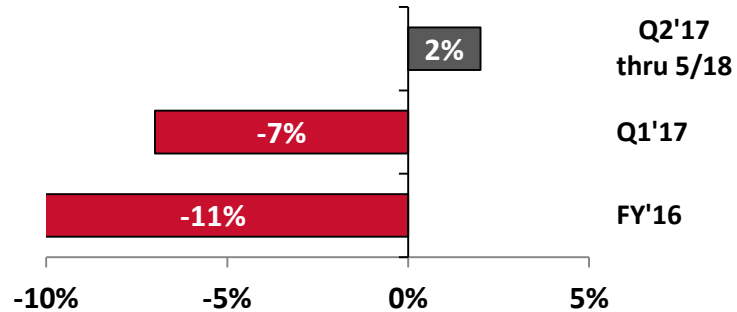
U.S. Medium: share gain

- Reach more customers through digital relationship and inside sales
- Improved assortment (more items in stock) and delivery promise
- Customer segment specific product solutions
- Enhanced digital capabilities
- Competitive pricing opens opportunity; able to acquire customers and grow with Grainger brand

U.S. Medium – pricing actions and volume response

U.S. Medium – pricing actions proof points*

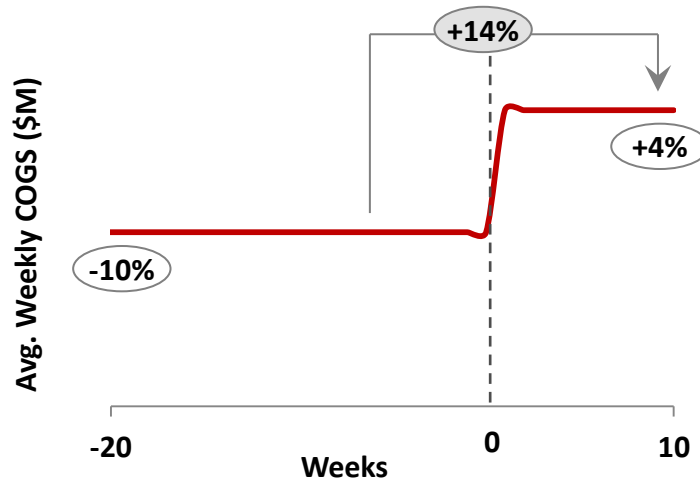
Total volume growth on \$0.9 billion of revenue



Average weekly volume pre and post web opt-in

14% higher average weekly volume from customers opting-in to web price

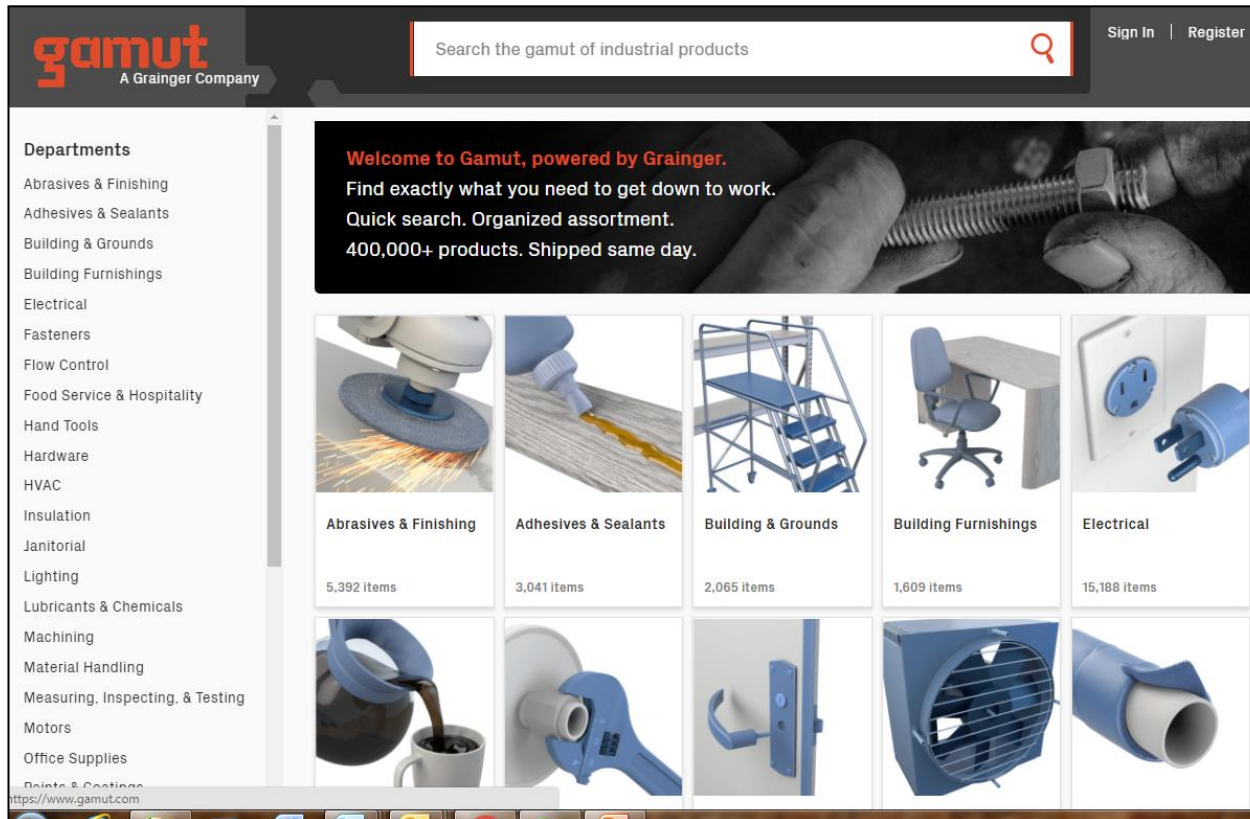
(~10% of Grainger U.S. Medium volume on web pricing)



Pricing actions enable share gain

- U.S. Medium operates in a ~\$50B market; Grainger has ~2% market share
- Currently less than 30% of Grainger U.S. Medium volume is on more competitive pricing (web + Red Pass program)
- For customers on a pricing program, volume increasing double digits through mid-Q2
- Effective August 1, web prices will be available on all 1.5 million SKUs
- Will leverage product assortment, digital marketing and fulfillment to grow

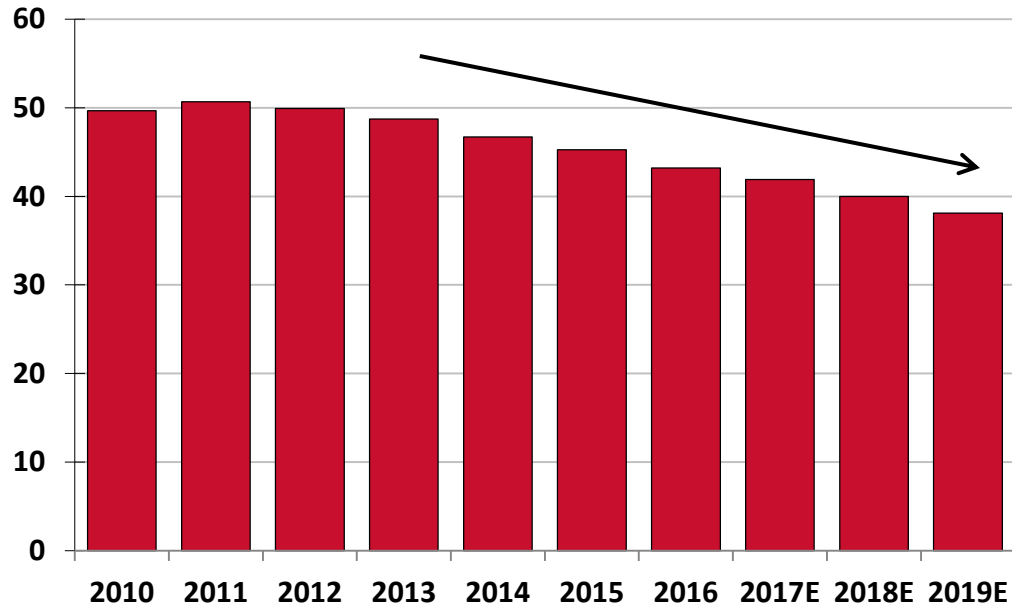
Accelerate digital capabilities – Gamut launch



- **Grainger is ranked 10th largest eCommerce retailer in North America by Internet Retailer**
- Building on digital capability through R&D
 - Curated search experience leveraging technical expertise
 - Useful when customer needs to solve a specific problem
 - New data structures
- Getting customer feedback to refine
- Will be part of Grainger digital offering but too early to say exactly how

U.S. productivity – reduce cost, improve service

U.S. Expense/COGS (%)



Drivers of 2019 productivity

- Continue expense leverage trend
- Emphasis on improving customer experience
- Cost take-out of \$80 - \$95 million across U.S. business and corporate functions
 - Contact center consolidation
 - Volume driven expense efficiency (DC scale)
 - Increase revenue per seller
 - Reduced complexity due to pricing actions (seller/quoting efficiencies)
 - Flexible fulfillment – freight and labor

Demonstrated ability to manage operating expenses and drive productivity

Turn around Canada to deliver sustainable growth

Business challenged in recent years, service stabilizing, major cost structure reset in motion

Focus on returning to profitable growth in 2017

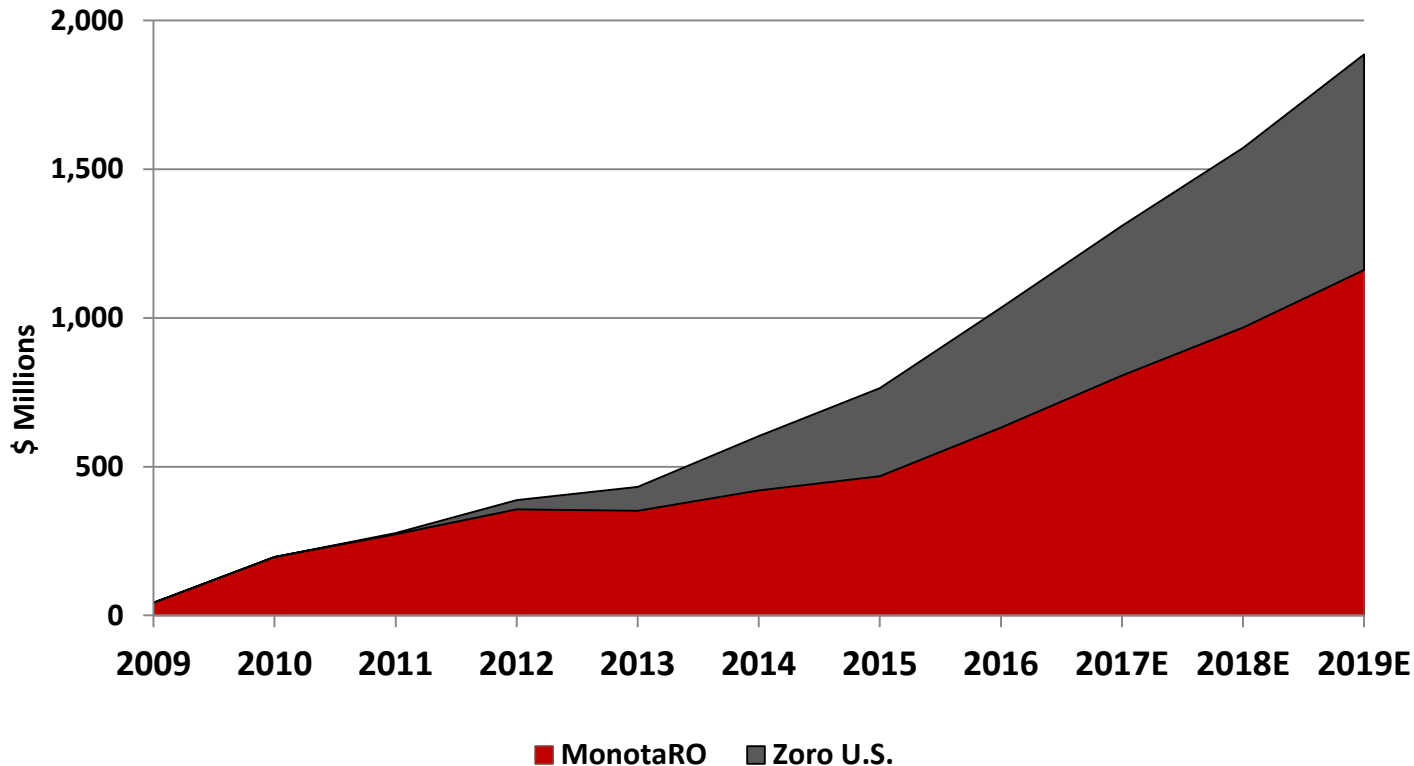
- Stabilized ERP system
- Improved service levels, including direct-to-customer shipping
- Resetting the cost structure
 - Taking \$20 - \$30 million of annualized cost out of the business in 2017
 - Closing 59 of the 144 branches and headcount reductions
- Improving price realization

Building a competitive advantage in Canada

- Customer diversification
- Improved eCommerce capability
- Leverage U.S. assortment to improve margins and provide a better customer experience
- Cross border synergies (i.e. inventory planning and accounts payable)

Single Channel – gaining share with small, leveraging Japan

Zoro U.S. and MonotaRO



- Target small customers in the U.S. through transactional model and digital marketing based on lessons learned from MonotaRO
- Superior assortment and fulfillment capabilities
- Gaining share with small customers in aggregate
- Continued operating margin expansion

Closing remarks

- **Transforming to win in the U.S.**
 - 6-8% volume growth in 2019
 - Operating margin 15-16% in 2019
- **Taking action to reset Canada for profitable growth**
 - Operating margin 2-4% in 2019
- **Other Businesses performing as expected**
 - Operating margin 8-10% in 2019
- **Focused on exceptional customer experience while taking unnecessary cost out**
 - Taking \$100 - \$125 million of cost out of the business



Q&A

Appendix

Price reduction impact on GP% (hypothetical example)

	Prior Year	Current Year	Variance	Change
Sales	\$100.0	\$95.0	-\$5.0	-5.0%
COGS	\$60.0	\$60.0	\$0	
COGS %	60.0%	63.2%	3.2%	
Gross Profit	\$40.0	\$35.0	-\$5.0	
GP%	40.0%	36.8%	-3.2%	-320 bps

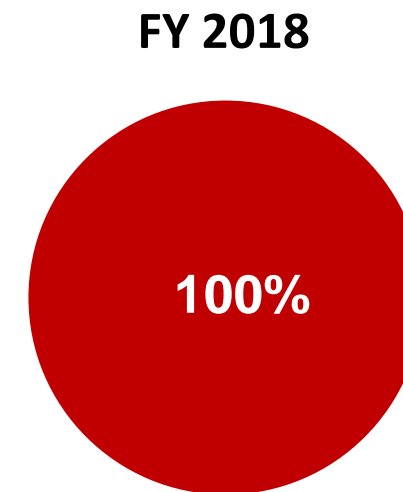
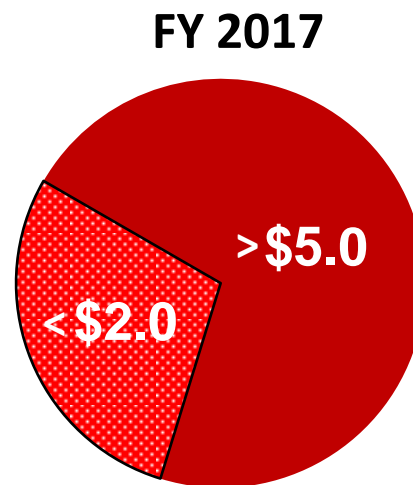
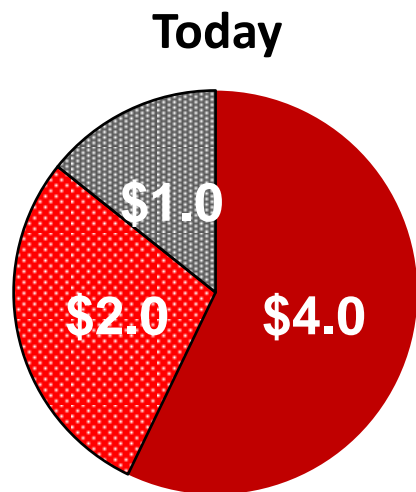
A price reduction of 5% would have a GP% impact of *less than* -500 basis points (all else equal)

2016 results by business

	2016 Revenue	2016 Rev Growth	2016 OE% ¹	2016 ROIC ¹
U.S. Large	\$6.1B	(1%)	15–20%	40–45%
U.S. Medium	\$0.9B	(11%)	25–30%	
Single channel	\$1.0B	~35%	~10%	~50% ²
Canada	\$0.7B	(18%)	(6%)	(7%)
International	\$0.8B	~35% ³	0–5%	<10%
TOTAL COMPANY⁴:	\$10.1B	2%	12.5%	26%

1. OE% and ROIC are on adjusted basis. Please see slides 19-20 for reconciliation. 2. ROIC shown is for MonotaRO, which serves as a proxy for the overall single channel business. 3. International includes Cromwell acquisition in September 2015. 4. Total company also includes specialty brands, eliminations and unallocated expenses.

U.S. Large and Medium pricing actions – effective date



- More Competitive
- Less Competitive: Contract
- Less Competitive: Noncontract

- More competitive
- Less competitive: Contract

- All competitive

Q1 2017 – U.S. Segment

- Price deflation: 4%
- GP margin decline: 190 bps

FY 2017 – U.S. Segment

- Price deflation: 5%
- GP margin decline: 210 bps

FY 2018 – U.S. Segment

- Price deflation: 2%
- GP margin decline: 120 bps

Note: U.S. Segment includes specialty brands and intercompany sales to Zoro.

2016 GAAP to non-GAAP reconciliations

Twelve Months Ended December 31, 2016						
	United States	Canada	Other Business	Unallocated Expenses	Total	%
Operating earnings reported	\$ 1,274,851	\$ (65,362)	\$ 40,684	\$ (130,676)	\$ 1,119,497	(14)%
Restructuring	15,668	14,998	—	8,947	39,613	
Other:					—	
Goodwill and intangible impairment	—	—	52,318	—	52,318	
Unclaimed property contingency	36,375	—	—	—	36,375	
Inventory reserve adjustment	—	9,847	—	—	9,847	
GSA contingency	9,180	—	—	—	9,180	
Subtotal	61,223	24,845	52,318	8,947	147,333	
Operating earnings adjusted	\$ 1,336,074	\$ (40,517)	\$ 93,002	\$ (121,729)	\$ 1,266,830	(6)%

Twelve Months Ended December 31, 2015					
	United States	Canada	Other Business	Unallocated Expenses	Total
Operating earnings reported	\$ 1,371,626	\$ 27,368	\$ 48,051	\$ (146,725)	\$ 1,300,320
Restructuring	34,507	4,183	5,696	965	45,351
Operating earnings adjusted	\$ 1,406,133	\$ 31,551	\$ 53,747	\$ (145,760)	\$ 1,345,671

2016 GAAP to non-GAAP reconciliations

	Twelve Months Ended December 31,		
	2016	2015	%
Segment operating earnings adjusted			
United States	\$ 1,336,074	\$ 1,406,133	
Canada	(40,517)	31,551	
Other Businesses	93,002	53,747	
Unallocated expense	(121,729)	(145,760)	
Segment operating earnings adjusted	<u>\$ 1,266,830</u>	<u>\$ 1,345,671</u>	(6)%
Company operating margin adjusted	12.5 %	13.5%	
ROIC* for Company	25.8 %	29.5%	
ROIC* for United States	42.6 %	46.2%	
ROIC* for Canada	(7.1)%	5.0%	

*Adjusted ROIC is calculated as defined on page 10 of the FY 2016 earnings release, excluding the items adjusting operating earnings as noted above.

	Twelve Months Ended December 31,		
	2016	2015	%
Net earnings reported	\$ 605,928	\$ 768,996	(21)%
Restructuring	26,501	30,111	
Other:			
Goodwill and intangible impairment	52,318	—	
Unclaimed property contingency	22,781	—	
Inventory reserve adjustment	7,278	—	
GSA contingency	5,750	—	
Discrete tax items ¹	(9,378)	(5,984)	
Subtotal	<u>105,250</u>	<u>24,127</u>	
Net earnings adjusted	<u>\$ 711,178</u>	<u>\$ 793,123</u>	(10)%

(1) The tax impact of adjustments is calculated based on the income tax rate in each applicable jurisdiction.

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