W.W. Grainger, Inc.
2018 Annual Meeting of Shareholders
April 25, 2018

Remarks of DG Macpherson, Chairman and Chief Executive Officer

Before I move ahead with this part of today's meeting, as a reminder, some of our comments today may be forward-looking based on our current view of future events. Actual results may differ materially as a result of various risks and uncertainties, including those detailed in our SEC filings.

2017 was an important year for Grainger. We took action to become more relevant to our customers and to compete more aggressively in the market. We worked hard to earn the trust of our customers by delivering value and were honored to help them recover and rebuild from devastating natural disasters.

Let's take a look at our 2017 performance. Grainger's total company sales of $10.4 billion were up 3 percent versus 2016. Reported earnings per share were up 2 percent to $10.02. On an adjusted basis, earnings per share were $11.46, down 1 percent versus 2016. We generated $1.1 billion in cash from operations, up 10 percent from 2016. And, we returned $910 million in cash to shareholders in the form of share repurchases and dividends.

We executed our strategic priorities to provide unique value to our customers and an effortless customer experience. Several examples include:

- In our U.S. Business:
    - We implemented a significant change to our pricing structure. Pricing was a barrier to our growth with both large and midsize customers. This was a very complex change. It required hard work and collaboration by all our team members to execute, and the results show clearly in the numbers. Our performance accelerated through the back half of 2017, and we saw that momentum continue into this year.
    - In 2017 we also launched an R&D website, called Gamut, with a new way of thinking about product search. Given the positive early customer feedback, we are combining the capabilities of Gamut with those of our industry leading website, Grainger.com, to create the most powerful industrial website in the market.
- In Canada, we laid the foundation for a complete business reset, which began in late 2017. We are improving our service to customers through more consistent direct to customer shipping. We are reducing Canada's cost structure through branch reductions and the creation of North American centers of excellence. And, we are increasing our profitability through price increases and more relevant large customer solutions. Though it is still early in the reset, we are starting to see the benefits of this work in our results.

- Within our Other Businesses,

- Our single channel online businesses grew by 20 percent to $1.3 billion in sales, operating margin improved by 90 basis points, and the business acquired more than 1 million new customers in 2017.
- We also continued to narrow the focus for our international businesses to geographies with a high GDP per capita and a developed infrastructure.

Finally, we were diligent in continuing to reduce our cost structure in 2017. We announced a plan to take $150 to $210 million of cost out of the business in 2018 and 2019, and we continue to make good progress on that plan.

Last week, we reported our 2018 first quarter results. This is the summary of both our reported and adjusted results.

In general, our performance in the quarter was better than expectations. Sales were up 9 percent, and reported earnings per share were up 39 percent to $4.07. On an adjusted basis, earnings per share were $4.18, up 45 percent versus the prior year. Let's walk through the performance of our businesses starting with Other Businesses and concluding with the United States.

Our Other Businesses continued their strong performance with sales growth of 18 percent. Our online businesses continued to drive strong sales growth and profitability, and our international businesses contributed to operating margin expansion in the quarter.

In Canada, sales were down 2%, and down 6% in local currency. We introduced price increases in the fourth quarter of last year. As a result, price was up 7% in the quarter. Volume was down 13% due to planned price increases and branch closures. As we've talked about before, this is going to be a smaller but more profitable business when we're through with the reset. Operating margin was better than expected in the quarter, due primarily to a higher GP rate and cost management.

Everything that we've seen so far in Canada tells us we're on the right path.

In the U.S., both the volume response to our pricing actions and the demand environment were better than we expected. Sales were up 8%, and operating margin was better than expected in the quarter as expense leverage on 9% volume growth more than offset the GP rate decline.

We're continuing to see that our value proposition resonates with both large and midsize customers when we remove pricing as a barrier. Our customers are starting to trust that our prices are relevant and better understand the value we provide.

- U.S. Large volume increased 7% versus the prior year, above expectations.
- U.S. midsize volume also exceeded expectations, with growth of 30% over the prior year.

What's also encouraging is we're starting to see increased traffic in our branches and our sales reps are having more value-based conversations with customers which solidifies our relationships. We remain optimistic for the U.S. business in 2018.

As a result of our performance in Q1 and our confidence going forward, on April 19, we raised our guidance expectations for the full year.
We now expect sales growth of 5 to 8% versus 3 to 7% previously.
We expect adjusted operating earnings growth of 6 to 14% versus -2 to 6% previously. And, we expect adjusted EPS of $14.30 to $15.30 versus $12.95 to $14.15 previously.

Switching over to cash deployment, Grainger has a track record of generating strong cash flow through the ups and downs of economic cycles. From 2013 to 2017, we generated more than $5 billion in operating cash and returned approximately 70 percent of that cash to shareholders in the form of dividends and share repurchases.

In 2017, Grainger repurchased 3 million shares of stock for $605 million. From 2013 to 2017, our average share count declined by 18%.

Finally, Grainger paid $304 million in dividends in 2017. Continuing with our solid track record of increasing dividends, earlier today, the Board of Directors voted to increase the quarterly dividend to $1.36 per share, up 6 percent versus the previous quarterly dividend.

This is the 47th consecutive year of increased dividends and reinforces Grainger's commitment to its shareholders.

We are a strong company, 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 forward-looking 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 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; the implementation, timing and success of our strategic pricing initiatives; 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.