GRAINGER

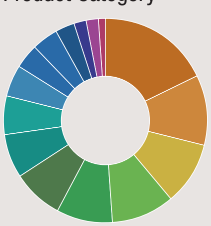
W.W. Grainger, Inc. is a broad line, business-to-business distributor of maintenance, repair and operating (MRO) supplies and other related products and services. **More than 3 million businesses and institutions** worldwide rely on Grainger for products in categories such as safety, material handling and metalworking, along with services like inventory management and technical support. These customers represent a broad collection of **industries including commercial, government, healthcare and manufacturing.** They place orders online, on mobile devices, through sales representatives, over the phone and at local branches. **Approximately 5,200 suppliers** provide Grainger with **1.7 million products stocked** in the company's distribution centers (DCs) and branches worldwide. Grainger employs nearly 25,000 team members across the globe. For more information on Grainger, visit www.grainger.com/investor.

2017 SALES

Customer Category

16%	Heavy Manufacturing	**8%**	Contractor
16%	Other	**6%**	Transportation
14%	Commercial	**5%**	Natural Resources
14%	Government	**5%**	Retail/Wholesale
12%	Light Manufacturing	**4%**	Reseller

Product Category



18%	Safety and Security	**6%**	HVAC
11%	Material Handling	**5%**	Electrical
10%	Metalworking	**4%**	Lighting
10%	Other	**4%**	Power Tools
9%	Cleaning and Maintenance	**3%**	Fluid Power
8%	Pumps, Plumbing and Test Equipment	**2%**	Power Transmission
7%	Hand Tools	**2%**	Specialty Brands
		1%	Motors

GEOGRAPHIC OVERVIEW (As of December 31, 2017)

	MRO MARKET SIZE[1]	MARKET SHARE	BRANCHES	DISTRIBUTION CENTERS (DCS)	APPROXIMATE NUMBER OF CUSTOMERS SERVED
UNITED STATES Includes: Grainger Industrial Supply, E&R Industrial, Imperial Supplies, Zoro U.S.[3]	~ $127 billion	6 percent	284[2]	16	1,870,000
CANADA Includes: Acklands–Grainger Inc., WFS Enterprises Inc.	~ $11 billion	7 percent	91	6	56,000
LATIN AMERICA Dominican Republic, Mexico, Panama, Peru, Puerto Rico[4]	~ $14 billion	< 2 percent	26	2	47,000
ASIA					
MonotaRO: Japan	~ $42 billion	~ 2 percent	0	3	1,119,000
China	~ $99 billion	< 1 percent	0	1	9,000
EUROPE					
Cromwell: United Kingdom[5]	~ $15 billion	2 percent	55	1	134,000
Fabory: Belgium, Czech Republic, France, Hungary, The Netherlands, Poland, Portugal, Romania, Slovakia, Spain	~ $37 billion	~ 1 percent	44	2	82,000
Zoro Europe: Germany	~ $32 billion	< 1 percent	0	0	210,000
TOTAL	~ $377 billion[1]	3 percent	500	31	> 3,500,000

1 Estimated MRO market size where Grainger has operations. The total worldwide MRO market is estimated at approximately $570 billion.
2 Comprised of 251 stand-alone branches, 31 onsite branches and 2 will-call express locations.
3 For financial reporting purposes, Zoro U.S. is reported in Other Businesses.
4 Although Puerto Rico is a U.S. territory, the company manages this business as part of Latin America.
5 Cromwell also has operations in Europe, Africa and Asia, representing approximately 12 percent of its revenue.

FORWARD-LOOKING STATEMENTS

All statements in this Fact Book, other than those relating to historical facts, are "forward-looking statements." These forward-looking statements are not guarantees of future performance or results and are subject to risks and uncertainties, 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 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 success of our strategic pricing initiatives; the outcome of pending and future litigation or governmental or regulatory proceedings; anti-bribery and corruption, environmental, advertising, privacy and cybersecurity matters; investigations, 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; Grainger's ability to operate, integrate and leverage acquired businesses; changes in credit ratings; and changes in effective tax rates and other factors, all of which can be found in the company's filings with the Securities and Exchange Commission, including the company's most recent periodic report filed on Form 10-K for the year ended December 31, 2017, which is also available on the company's Investor Relations website.

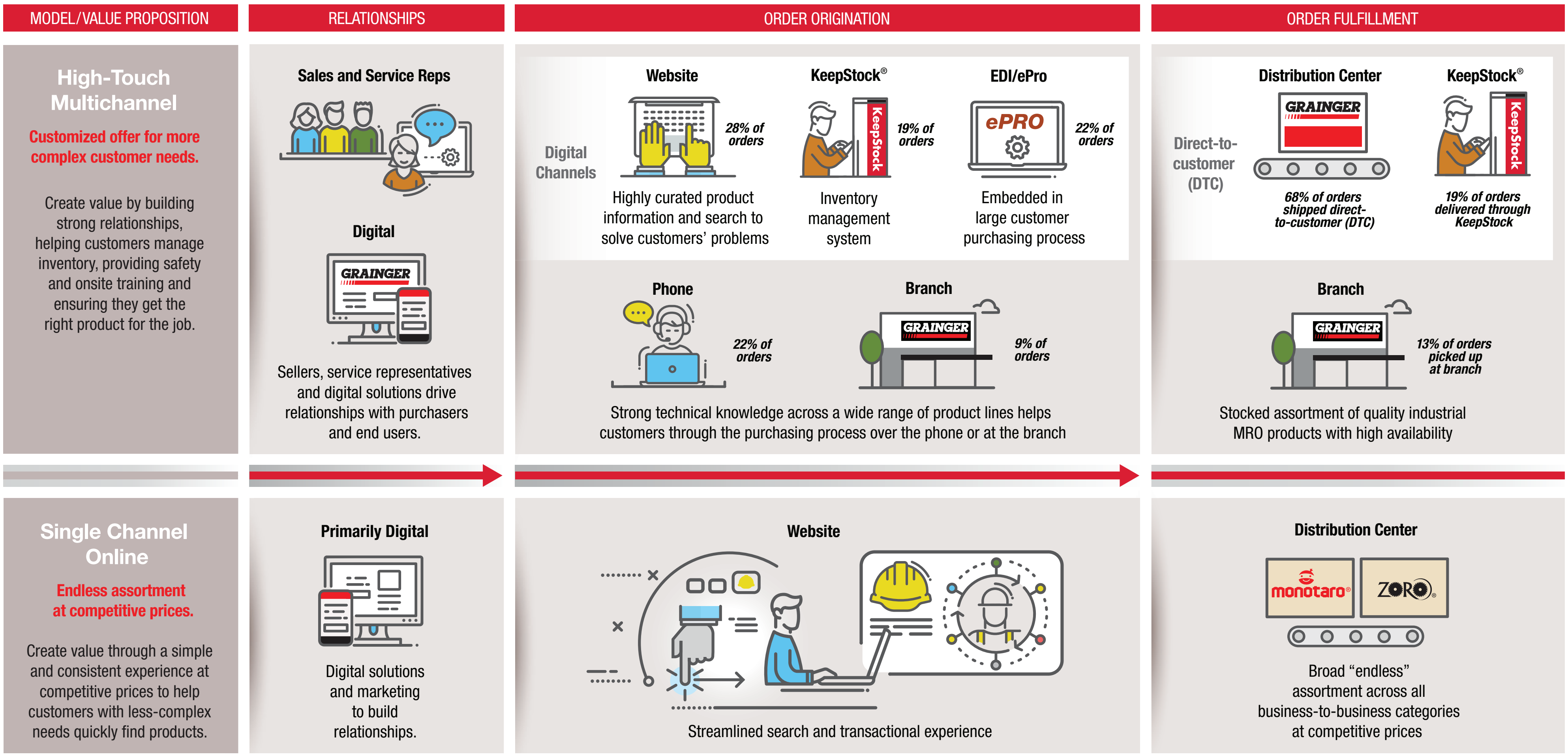
Caution should be taken not to place undue reliance on the company's forward-looking statements. The company undertakes no obligation to update any of its forward-looking statements, except as required by law.

STRATEGY

In the large and fragmented MRO industry, Grainger holds an advantaged position with its supply chain infrastructure, broad in-stock product offering and deep customer relationships.

The global MRO market is approximately $570 billion. The most attractive geographies for Grainger are those with high GDP per capita and a developed infrastructure. **Grainger's strategy is concentrated on growth in North America, Europe and Asia.** Each of these core markets has strong growth characteristics: the market is large and the competition is highly fragmented.

Over the past few years, Grainger has seen a shift in market dynamics across the MRO landscape. Digital solutions are becoming omnipresent, value-added relationships and services drive customer loyalty and analytics are required to prove value. There are a number of ways to go to market in this environment. **Grainger competes with two models, the high-touch multichannel model and the endless assortment, or single channel, model** (see graphic below). Competing with these two models allows Grainger to leverage its scale and advantaged supply chain to meet the changing needs of its customers.



NOTE: MULTICHANNEL ORDER ORIGINATION DATA IS FOR THE U.S. BUSINESS AND EXCLUDES ZORO U.S.

PORTFOLIO AND STRATEGIC IMPERATIVES

Grainger's high-touch multichannel model includes its U.S., Canada and International businesses. The single channel online model includes the Zoro brand in the United States, United Kingdom and Germany, and MonotaRO in Japan. Each business has a specific set of strategic imperatives focused on creating unique value for customers.

(As of December 31, 2017)			PORTFOLIO PERFORMANCE					STRATEGIC IMPERATIVES		
				Organic Growth[1]		Adjusted[2]				
			Revenue	Revenue Growth	Volume Growth	Operating Margin	ROIC	Create Unique Value		
High-Touch Multichannel	U.S.	Large	$6.2B	1%	4%	~15%[4]	40%	Build advantaged MRO solutions Execute high-value sales and service solutions	Deliver an effortless end-to-end customer experience	Improve the cost structure
High-Touch Multichannel	U.S.	Medium	$0.9B	(1%)	9%			Complete the pricing actions, grow midsize business		
High-Touch Multichannel	Canada		$0.8B	3%	3%	~(5%)	(7%)	Execute complete business model reset		
High-Touch Multichannel	International[3]		$0.9B	7%	7%	~1%	<5%	Drive profitable growth		
Single Channel Online			$1.3B	20%	20%	~10%	~50%[5]	Drive growth through product assortment expansion and customer acquisition		
TOTAL COMPANY[6]			**$10.4B**	**3%**	**8%**	**11.1%**	**25%**			

[1] Organic growth excludes acquisitions, divestitures and foreign exchange. Organic revenue growth is not on daily basis. [2] **Please see page 11 for non-GAAP reconciliation.** [3] International includes Cromwell, Fabory, Mexico, China and Latin America. [4] U.S. segment operating margin. [5] ROIC shown is for MonotaRO, which serves as a proxy for the overall single channel business. [6] Total company also includes Specialty Brands, eliminations and unallocated expenses.

U.S. | 2017 revenue $7.1 billion: Imperative – Growth. The U.S. business is a strong and profitable business. Grainger is focused on growing share with the Grainger brand in the U.S. through the following initiatives:

- **Building advantaged MRO solutions:** Grainger is building its broad assortment, product and customer expertise and digital capabilities into a competitive advantage. The company already has the industry's largest website through Grainger.com, and in 2017 Grainger launched Gamut.com — a development effort focused on providing an optimal search experience through highly curated product information and in-depth customer knowledge. Going forward, the company will take the best of both sites to create an optimal digital experience for customers.
- **Executing high-value sales and service solutions:** Grainger has an advantage in serving complex businesses and will continue to build upon its offer to these customers through its sales and service model. (Read more on page 4).
- **Accelerating progress with the pricing strategy and midsize customer growth:** In 2017, Grainger initiated pricing changes in the U.S. The changes included offering more competitive pricing on all web SKUs. In 2018, Grainger will complete the pricing actions and market more aggressively to accelerate growth. (Read more on page 6).

CANADA | 2017 revenue $0.8 billion: Imperative – Profitability. Grainger is resetting the business in Canada for profitability. This complete business model reset, which began in late 2017, will take 18 to 24 months to complete. (Read more on page 7).

INTERNATIONAL | 2017 revenue $0.9 billion: Imperative – Growth and Profitability. In 2017, Grainger narrowed its international exposure to the highest return opportunities. In 2018, the company is focused on growing its current international locations profitably. (Read more on page 7).

SINGLE CHANNEL ONLINE | 2017 revenue $1.3 billion: Imperative – Growth. Grainger's single channel online businesses, MonotaRO and Zoro, will continue their focus on strong sales growth and increasing margin by expanding their product assortments and innovating around customer acquisition. (Read more on page 8).

Across the business, Grainger is **creating an effortless customer experience** by delivering flawlessly on every transaction while **improving the cost structure**. The goal is simple — ensure Grainger's investments create the most impact for customers. In 2018 and 2019, Grainger plans to take a combined $150 to $210 million of cost out of the business. (Read more on page 9).

NOTE: TOTAL COMPANY REVENUE OF $10.4 BILLION ALSO INCLUDES SPECIALTY BRANDS IN THE U.S. SUCH AS E&R INDUSTRIAL AND IMPERIAL SUPPLIES.

Value Proposition and Sales and Service Model

Grainger's differentiated high-touch, multichannel approach resonates with customers in the United States. Grainger is able to scale its offer to U.S. customers through its consultative sales and service model.

CREATING VALUE FOR U.S. CUSTOMERS

ADVANTAGED MRO SOLUTIONS
— Broad assortment of high-quality products
— Deep product expertise and customer knowledge
— Best-in-class digital experiences

CONSULTATIVE SALES AND SERVICE MODEL
— Help customers manage inventory and reduce costs
— Solve most pressing customer problems
— Offer technical support, safety training and other services

FLAWLESS ORDER TO CASH PROCESS
— Order origination to best suit customer needs
— High percentage of orders stocked, shipped complete and delivered quickly
— No-hassle invoicing and returns process

DEFINING U.S. LARGE AND MEDIUM CUSTOMERS (As of December 31, 2017)

2017 Revenue (MRO potential in $/year)	Multisite/Contract	Single-site/Noncontract
> $60K	~$4.3B	~$1.0B
$10–$60K	~$0.7B	~$0.6B
< $10K	~$0.2B	~$0.3B

U.S. LARGE ~$6.2B in revenue
U.S. MEDIUM ~$0.9B in revenue

Grainger defines its U.S. business by two elements: 1) whether or not a customer has a contract and 2) the size of the customer site. U.S. Large customers tend to be more complex and require services at their place of business. **The U.S. Large market is estimated at approximately $75 billion and Grainger has roughly 8 percent share.**

U.S. Medium, or midsize, customers tend to be less complex than large customers and want a purchasing experience that gives them peace of mind that their immediate business problems will be solved. **The U.S. Medium market is estimated at approximately $50 billion and Grainger has roughly 2 percent share.**

BUILDING RELATIONSHIPS THROUGH THE CONSULTATIVE SALES AND SERVICE MODEL

Sales Force *(LARGE AND MEDIUM)*

Outside sales force
- > 2,700 professionals
- Focus on large customers with more complex purchasing requirements
- Form in-person relationships

Inside sales force
- > 400 professionals
- Focus on making more frequent contact with larger number of medium customers at lower cost per contact
- Form relationships over the phone

KeepStock *(LARGE AND MEDIUM)*

- KeepStock inventory management solutions include onsite branches, vendor-managed inventory (VMI), customer-managed inventory (CMI) and vending
- Sales through KeepStock were ~11 percent of U.S. revenue in 2017[1]
- Grainger provided KeepStock services to ~20,000 customers in 2017
- In 2018, Grainger will expand the KeepStock offering through a new CMI interface and a store room management offer (managed MRO)

EDI/ePro *(LARGE)*

- Large customers with sophisticated purchasing platforms use eProcurement to communicate directly with Grainger.com
- The direct connection provides a simple and efficient ordering experience for customers
- Sales through eProcurement were ~20 percent of U.S. revenue in 2017 and were up approximately 14 percent from 2016

Technical Support *(LARGE AND MEDIUM)*

- Trained specialists consult with customers on technical product needs
- Customers place significant value on the technical support they receive from Grainger

[1] In March 2018, Grainger refined its process for stratifying channel revenue, a management reporting metric. As a result, in 2017 U.S. KeepStock sales were 11 percent and U.S. digital sales were 60 percent of core U.S. sales respectively

NOTE: DATA ON PAGE IS FOR THE CORE U.S. BUSINESS WHICH EXCLUDES ZORO U.S. AND SPECIALTY BRANDS.

MULTICHANNEL: U.S. BUSINESS | Creating an Effortless End-to-End Experience

Providing a great customer experience is the foundation of Grainger's standing as a distribution leader and a key lever in accelerating profitable growth. Grainger's U.S. supply chain network executes more than 100,000 transactions a day, and the company works tirelessly to ensure orders are executed flawlessly, from origination to fulfillment.

ORDER ORIGINATION
Line Mix 2017

28%	22%	19%	22%	9%
Website	EDI/ePro	KeepStock®	Phone	Branch

ORDER FULFILLMENT
Line Mix 2017

68%	19%	13%
Ship	KeepStock®	Pickup at Branch

DIGITAL CHANNELS

(Website, EDI/ePro and KeepStock) Sixty-nine percent of orders and ~60 percent of revenue in the United States originated through a digital channel in 2017.[1] Grainger was ranked the **10th largest eCommerce retailer in North America** by *Internet Retailer* in April 2017, based on sales generated through its digital channels.

- Websites such as Grainger.com are the company's **largest origination channel at 28 percent.**
  - Grainger.com is the **largest industrial MRO site in the U.S.**[2]
  - The site had **more than 10 million visitors in 2017,** up 10 percent from 2016.
  - Grainger launched a new website called Gamut.com in 2017. Gamut leverages highly curated product information and deep customer knowledge to create an effortless search experience for customers.
  - Grainger will combine Gamut's capabilities with Grainger.com with the goal of building the best industrial distribution website in the space.
- Other digital channels include Grainger's KeepStock inventory management system and eProcurement. Together these two channels represent **more than 40 percent of all U.S. orders.**

PHONE

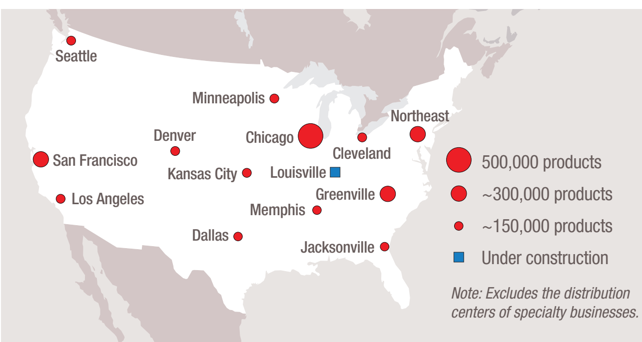
Twenty-two percent of orders in the U.S. originate over the phone.

- In 2017, Grainger began consolidating its network of **150 contact centers into three national locations** in Janesville, Wisc.; Waterloo, Iowa; and Phoenix, Ariz. The company expects to complete this work in 2018. These changes have already led to more effective and cost-efficient customer service.

BRANCH

Grainger's **U.S. branch network includes 251 locations** and profitably grows revenue. Four distinct customer types visit Grainger branches each day:

- **On-the-go:** Broad geographic coverage makes it easier for on-the-go customers to drop by any branch and get what they need, when and where they need it.
- **Near a branch:** Many customers prefer to pick up on the same day versus having the product shipped.
- **Emergencies:** Local inventory allows Grainger to provide same-day service for customers' emergency needs.
- **Product expertise:** Branch staff members are well-versed in Grainger products and can provide technical or search-and-select support.



SUPPLY CHAIN

Grainger has made significant investments in its distribution center network to ensure optimum capacity and increased automation in response to the need for on-demand delivery of products, information and services.

- Grainger has invested in new and improved DCs in California, Illinois and New Jersey and significantly expanded its DC in South Carolina.
- In 2016, Grainger **opened a new ~1.3 million-square-foot DC in New Jersey.**
- In 2017, Grainger purchased land for a new DC in Louisville, Ky. Construction of the facility began in 2017 and the building is expected to be up and running in 2020.

This robust DC network allows Grainger to **manage nearly 650,000 stocked SKUs** in the United States and also ship most orders complete with next-day delivery. Availability, the percent of time a product is in stock when and where the customer needs it, has remained at very high levels even as Grainger expanded its product line, creating a strong service experience.

[1] In March 2018, Grainger refined its process for stratifying channel revenue, a management reporting metric. As a result, in 2017 U.S. KeepStock sales were 11 percent and U.S. digital sales were 60 percent of core U.S. sales respectively.

[2] Based on data compiled by *Internet Retailer* in 2017.

NOTE: DATA ON PAGE IS FOR THE CORE U.S. BUSINESS WHICH EXCLUDES ZORO U.S. AND SPECIALTY BRANDS.

MULTICHANNEL: U.S. BUSINESS Pricing

While customers value Grainger's product breadth and delivery capabilities, sales and service model and technical support, the historic pricing structure was impeding growth and profitability with the Grainger brand in the U.S. for several years.

In 2017, Grainger initiated changes that resulted in more competitive pricing for all customers. The pricing actions in 2017 involved two initiatives: **1) Grainger introduced more competitive pricing on all of its 1.5 million online SKUs in the U.S. and 2) Grainger began transitioning contract customers to a new structure with better pricing on more products. After the pricing changes, all noncontract business (Large and Medium) had access to competitive pricing.** The pricing actions lifted the barrier to growth with the Grainger brand in the U.S. In 2018, Grainger will accelerate volume growth and market share gains by leveraging additional investments in marketing with a goal to further penetrate existing customers, re-engage lapsed customers and acquire new customers.

2017 Pricing Actions

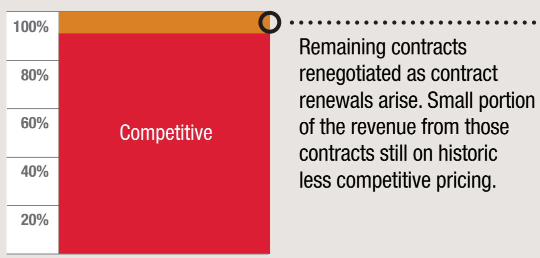
Prior to the pricing actions, ~40 percent of U.S. business was at less competitive prices. In 2017, Grainger reset its pricing structure to remove a significant barrier to growth with the Grainger brand.

1. Introduced web pricing on all 1.5 million SKUs available online (occurred on August 1, 2017).

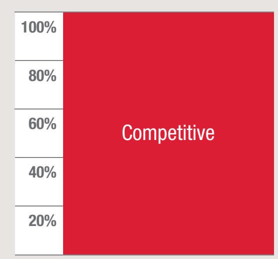
2. Renegotiated large customer contracts such that infrequently purchased items are more competitively priced. Eighty percent of contract revenue was transitioned by the end of 2017.

After the pricing changes, all noncontract business (Large and Medium) had access to competitive pricing and a majority of contract customers were transitioned to a new structure with better pricing on more products.

U.S. LARGE CUSTOMERS
2017 Revenue $6.2 B



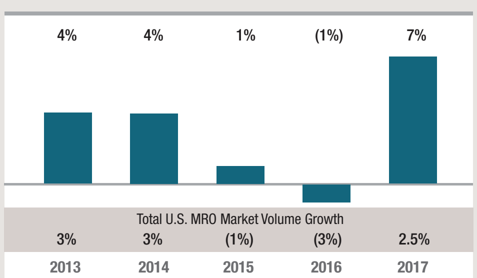
U.S. MEDIUM CUSTOMERS
2017 Revenue $0.9 B



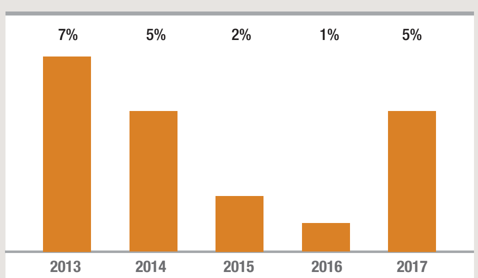
The Results

The pricing changes drove significant volume growth in 2017 and allowed Grainger to build stronger relationships with customers.

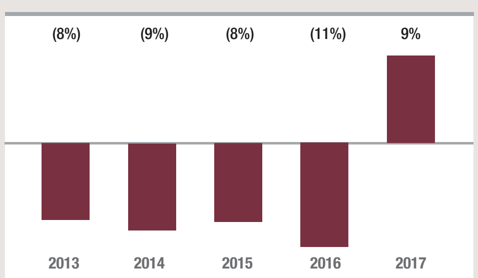
U.S. BUSINESS DAILY VOLUME GROWTH[1]



U.S. LARGE DAILY VOLUME GROWTH[2]



U.S. MEDIUM DAILY VOLUME GROWTH[2]



[1] Total volume growth on $8 billion of U.S. segment revenue including specialty brands and intercompany sales. U.S. segment volume excludes seasonal sales, the impact of weather, intercompany sales and holiday timing.
[2] For U.S. Large and U.S. Medium volume, total product COGS dollars used as a proxy for volume (excludes freight, rebates and other adjustments).

MULTICHANNEL: CANADA

Acklands–Grainger Inc. (AGI), with 2017 revenue of $800 million, is the leader in a growing, scale-sensitive market. The business is in the midst of a complete business model reset and is expected to return to profitability in 2019.

AGI has been historically concentrated in Western Canada and closely aligned to a number of natural resource segments. As those segments experienced significant slow-downs in the last few years, compounded by unfavorable changes in foreign-exchange rates, the business struggled with profitability.

In late 2017, the company began taking action to reset the business model to reflect the new market realities and establish a platform that supports profitable growth across a more diverse set of customer segments. **The reset is expected to take 18 to 24 months to complete and generate $50–$70 million in cost savings.** AGI is expected to return to profitability in 2019.

CANADA BUSINESS MODEL RESET

Margin management	■ Gross margin optimization through market-price increases, reworking suboptimal contracts and cost improvements	Improve order origination	■ Consolidate customer service into contact centers ■ Enhance eCommerce capabilities
Optimize branch network	■ Close 100+ branches over 2017 and 2018 ■ Retain 30–35 branches in high-density markets	Optimize fulfillment cost and services	■ Improve DTC service for in-country assortment ■ Expand offering by leveraging U.S. assortment
Develop North America Centers of Excellence	■ Leverage U.S. processes, technology and best practices to create scale	Diversify the customer base	■ Stronger focus on customers in Eastern provinces

MULTICHANNEL: INTERNATIONAL

Grainger's operations outside of the U.S. and Canada include businesses in Western Europe, Mexico, Asia and Latin America. Revenue for Grainger's international businesses totaled $900 million in 2017. The primary businesses in the international portfolio include:

CROMWELL

Cromwell, Grainger's multichannel business in the United Kingdom, offers industrial customers a broad product line through 55 branches, a large distribution center and several online options. In 2017 Cromwell represented more than one-third of the international portfolio's revenue.

2017 Accomplishments:

- Completed the automation of DC and installed warehouse management system to improve capacity and productivity
- Strengthened online presence and set more competitive pricing

2018 Priorities:

- Continue to improve customer experience and drive growth through onsite execution

FABORY

With operations in 11 countries in Europe, 44 branches and more than 300,000 fastener SKUs and other related MRO products, Netherlands-based Fabory is known as Europe's specialist in quality fasteners and related products and solutions.

2017 Accomplishments:

- Achieved strong sales and volume growth
- Executed a reorganization to accelerate path to profitability
- Reorganization initiatives included branch closures in low-traffic areas and a reduction in support roles

2018 Priorities:

- Drive profitable growth

MEXICO

Grainger Mexico, a business with 19 branches, 2 DCs and approximately 250 salespeople, serves the needs of local customers and U.S. accounts that have locations across North America.

2017 Accomplishments:

- Grew 16 percent in local currency
- Growth driven by strategic initiatives focused on forming deeper relationships with customers including investments in eCommerce, increased expertise in product categories and local sourcing

2018 Priorities:

- Continue to drive strong growth by executing its customer-experience-based strategies

SINGLE CHANNEL: ONLINE BUSINESSES

In 2017, Grainger continued to see strong growth and profitability expansion from its single channel online businesses. These businesses serve customers through a broad MRO product offering and a streamlined search and transactional experience.

In 2017, **single channel revenue grew by 20 percent to $1.3 billion**, and the businesses acquired more than 1 million new customers. In addition to strong revenue growth, **operating margin for the single channel businesses improved by 90 basis points in 2017.** The primary businesses in the single channel online portfolio include MonotaRO in Japan and Zoro in the U.S. In 2018, the single channel businesses are expected to continue their strong growth through product assortment expansion and new approaches to customer acquisition. The MonotaRO and Zoro teams work together to develop and execute best practices across the businesses, including sharing customer acquisition strategies. Grainger expects combined operating margin for **MonotaRO and Zoro U.S. to reach 11 percent by 2019**.

monotaro®

Grainger's most mature single channel business, MonotaRO in Japan, has grown to be **a $800 million company in 2017. Grainger has a majority interest in MonotaRO**, which was built to serve small businesses within **Japan's $42 billion MRO market.**

Behind MonotaRO's success is a robust customer segmentation and data analytics capability that helps conceive, develop and deploy customer offers. As a result, MonotaRO has created a loyal customer following. To accommodate its strong growth, **MonotaRO opened a 600,000 square-foot DC in the Tokyo area in 2017**.

$800 million	22%	13%	500,000	13 million (300,000 stocked)
2017 Revenue	Sales Growth Versus 2016	2017 Operating Earnings	Customers Acquired in 2017	Product Offering SKUs

ZORO®

Zoro U.S. launched in 2011 to serve the small business market in the United States. **Zoro U.S. offers competitive pricing, simplified transactions, an easy-to-use website and convenient payment options.** The combination of an expansive product offering, a simplified process, reliable delivery and both digital and traditional marketing strategies has helped Zoro U.S. rapidly expand its customer base.

Zoro U.S. fulfills customer orders through the same supply chain used by Grainger's core U.S. business. **In 2018, Zoro U.S. will focus on expanding its assortment to continue its strong growth trajectory**.

$500 million	18%	8%	900,000	1.8 million (650,000 stocked)
2017 Revenue	Sales Growth Versus 2016	2017 Operating Earnings	Customers Acquired in 2017	Product Offering SKUs

CREATING SHAREHOLDER VALUE

Through the ups and downs of economic cycles, Grainger has delivered strong long-term returns to shareholders. The company took action in 2017 to remain an attractive option for shareholder capital in 2018 and beyond.

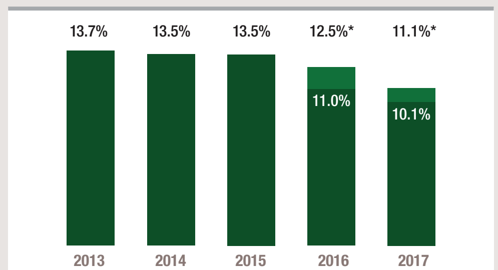
Grainger manages its business for the long term. The company's goal is to accelerate revenue and volume growth while improving the cost structure. **In 2019, Grainger is targeting total company adjusted operating margin performance of 12–13 percent**, driven by mid-single-digit sales growth and improved expense productivity (see non-GAAP reconciliation on page 11).

To drive topline growth, **Grainger reset its U.S. pricing structure in 2017 on all of its 1.5 million online products.** The U.S. pricing reset is already driving strong revenue and volume performance with the Grainger brand (read more on page 4) and at incremental margins that are accretive to the company average. Another significant driver of topline growth is **the single channel online businesses, which have grown revenue at a compound annual rate of 27 percent over the past three years.**

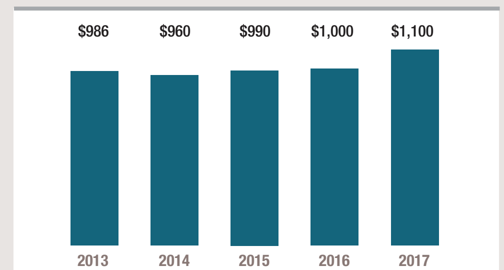
The company has been on a path to improve its cost structure for the past several years by instilling a continuous improvement mindset into its culture. **In 2017, Grainger announced a comprehensive effort to remove $150 million to $210 million of cost from the business through 2019**, net of digital investments. **Ninety to $120 million of the cost takeout** is expected to come from activities in the U.S. Business, such as continuous improvement and flexible fulfillment in the supply chain, the contact center network consolidation, sales efficiencies and real estate and other support model changes. Grainger expects **$50 to $70 million of the cost takeout** to come from its efforts to return the business in Canada to profitability (read more on page 7). The remaining $10 to $20 million of cost takeout will come primarily from the International businesses. Grainger's goal is simple — to spend on initiatives that create the most value for customers.

SALES
Dollars in billions

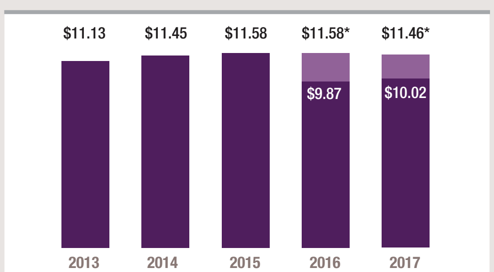
OPERATING MARGIN
Percent



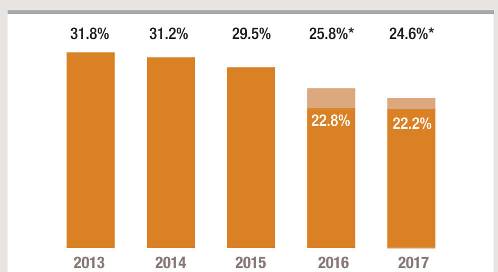
CASH FLOW FROM OPERATIONS
Dollars in millions



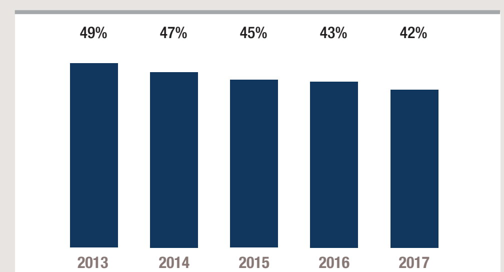
EARNINGS PER SHARE – DILUTED[1]
Dollars



ROIC[1]
Percent



U.S. ADJUSTED EXPENSE TO COGS[1]
Percent



One metric Grainger uses to measure productivity in the U.S. is expense to COGS. Grainger has consistently improved productivity in the U.S. over the past several years and expects this trend to continue in 2018 and 2019.

* Lower number represents reported figure; upper number represents adjusted figure.

[1] For a reconciliation of non-GAAP measures and ROIC definition see "Financial Definitions and Non-GAAP Reconciliation" on page 11.

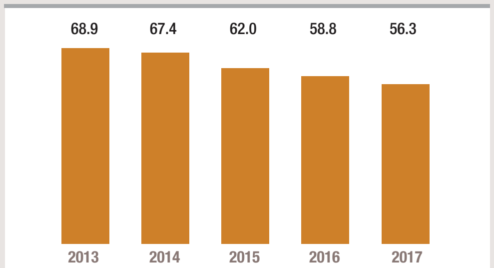
CREATING SHAREHOLDER VALUE

Cash Flow, Capital Structure and Capital Deployment

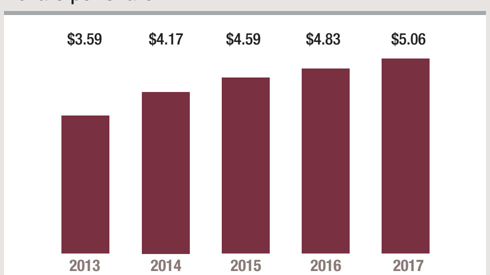
Grainger's business model generates strong cash flow through economic cycles. In 2017, the company reported **cash flow from operations of $1.1 billion.** Grainger's priorities for uses of cash are investment in the business, paying down debt, dividends and share repurchases. In 2017, **Grainger returned $910 million in cash to shareholders** in the form of dividends and share repurchases. The company **repurchased approximately 3 million shares** of stock for $605 million and **paid $304 million in dividends**. Grainger is proud of its 46-year track record of increasing its dividend. The company is among only 3 percent of S&P 500 companies that have increased their dividend each year for more than four decades.

Grainger's strong cash flow generation allows it to maintain a liquidity position that provides flexibility in funding working capital needs and long-term cash requirements. In 2017, Grainger completed its $1.8 billion long-term debt issuance program, which began in 2015. Along with $1.1 billion of cash from operations, the three-year plan resulted in $2.8 billion in share repurchases. As a result, **average share count decreased nearly 17 percent from 2014 to 2017.**

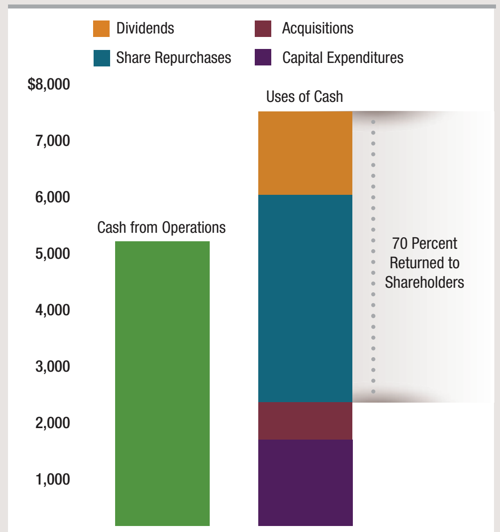
SHARES OUTSTANDING (at year end)
Millions of shares



DIVIDENDS PAID
Dollars per share



CASH GENERATION/DEPLOYMENT (2013–2017)
Dollars in millions



In 2017, Grainger returned $910 million in cash to shareholders in the form of dividends and share repurchases. The company repurchased approximately 3 million shares of stock for $605 million and paid $304 million in dividends.

In 2018, Grainger will benefit from a lower tax rate as a result of new U.S. tax legislation. Grainger's corporate tax rate is expected to drop from 36 percent to 24.5 percent at the midpoint in 2018, resulting in a $2.15 benefit to EPS. The lower tax rate is anticipated to result in an increase in operating cash flow in 2018. Grainger expects to utilize the excess cash to make investments in its digital platform and repurchase additional shares, reflecting its confidence in the strategy going forward.

SOCIAL RESPONSIBILITY

CORPORATE SOCIAL RESPONSIBILITY

Grainger's imperatives to **help its team members grow and succeed** and **be a responsible steward** solidify its commitments to customers, communities and team members.

The company built its CSR strategy around four pillars that define its values as a corporate citizen:

SUSTAINING OUR ENVIRONMENT

- On target to reduce emissions intensity 33 percent by 2020

SERVING OUR COMMUNITIES

- Celebrated Grainger's 90th anniversary in 2017 with 2,000 team members serving 8,800 volunteer hours

VALUING OUR PEOPLE

- Continued to outpace the industry average with team member safety
- Recognized as a 2017 Best Place to Work for Disability Inclusion on the Disability Equality Index (DEI)

OPERATING RESPONSIBLY

- Created a CSR Advisory Council that includes senior-level executives who provide guidance on CSR initiatives

To read more about Grainger's corporate social responsibility program, please visit www.GraingerCSR.com.

FINANCIAL DEFINITIONS AND NON-GAAP RECONCILIATION

The company supplements GAAP financial information with certain non-GAAP measures, including adjusted operating earnings, adjusted net earnings and adjusted diluted earnings per share. Adjusted measures exclude items noted below that may not be indicative of core operating results and provide a better baseline for analyzing trends in the underlying business.

	TWELVE MONTHS ENDED DECEMBER 31,	
	2017	2016
Operating earnings reported	$1,048,662	$1,119,497
Restructuring (United States)	44,121	33,904
Branch gains (United States)	(32,863)	(18,236)
Other (gains)/charges (United States)	(4,510)	45,555
Restructuring (Canada)	39,287	14,998
Inventory reserve adjustment (Canada)	—	9,847
Restructuring (Other Businesses)	55,020	—
Other charges (Other Businesses)	—	52,318
Restructuring (Unallocated expense)	10,593	8,947
Subtotal	111,648	147,333
Operating earnings adjusted	$1,160,310	$1,266,830

	TWELVE MONTHS ENDED DECEMBER 31,	
	2017	2016
Net earnings reported	$585,730	$605,928
Restructuring (United States)	30,352	21,234
Branch gains (United States)	(20,620)	(11,421)
Other (gains)/charges (United States)	(2,830)	28,531
Restructuring (Canada)	30,390	11,085
Inventory reserve adjustment (Canada)	—	7,278
Restructuring (Other Businesses)	55,324	—
Other charges (Other Businesses)	—	52,318
Restructuring (Unallocated expense)	6,647	5,603
U.S. tax legislation	(3,250)	—
Discrete tax items	(12,123)	(9,378)
Subtotal	83,890	105,250
Net earnings adjusted	$669,620	$711,178

	TWELVE MONTHS ENDED DECEMBER 31,	
	2017	2016
Diluted earnings per share reported	$10.02	$ 9.87
Pretax adjustments:		
Restructuring (United States)	0.76	0.56
Branch gains (United States)	(0.56)	(0.30)
Other (gains)/charges (United States)	(0.08)	0.74
Restructuring (Canada)	0.67	0.25
Inventory reserve adjustment (Canada)	—	0.16
Restructuring (Other Businesses)	0.94	—
Other charges (Other Businesses)	—	0.85
Restructuring (Unallocated expense)	0.18	0.15
Total pretax adjustments	1.91	2.41
Tax effect[1]	(0.21)	(0.55)
U.S. tax legislation[2]	(0.06)	—
Discrete tax items	(0.20)	(0.15)
Total, net of tax	1.44	1.71
Diluted earnings per share adjusted	$11.46	$11.58

[1] The tax impact of adjustments is calculated based on the income tax rate in each applicable jurisdiction, subject to deductibility limitations and the company's ability to realize the associated tax benefits.

[2] U.S. tax legislation reflects 2017 impact of the benefit of remeasurement of deferred taxes, partially offset by one-time deemed repatriation tax.

NOTE ON ROIC

ROIC has been calculated using a 5-point (quarterly) average for net working assets to provide greater transparency. Net working assets are working assets minus working liabilities defined as follows: working assets equal total assets less cash equivalents (non-operating cash), deferred taxes and investments in unconsolidated entities, plus the LIFO reserve. Working liabilities are the sum of trade payables, accrued compensation and benefits, accrued contributions to employees' profit sharing plans and accrued expenses.

COMPANY INFORMATION

Headquarters
W.W. Grainger, Inc.
100 Grainger Parkway
Lake Forest, IL 60045-5201
847.535.1000
www.grainger.com

Annual Meeting
The 2018 Annual Meeting of Shareholders will be held at the company's headquarters in Lake Forest, Illinois, at 10:00 a.m. CDT on Wednesday, April 25, 2018.

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Media Relations Contact
Joseph A. Micucci
Senior Director, External Affairs
847.535.0879

Transfer Agent, Registrar and Dividend Disbursing Agent
Instructions and inquiries regarding transfers, certificates, changes of title or address, lost or missing dividend checks, consolidation of accounts and elimination of multiple mailings should be directed to:

First Class/Registered/Certified Mail:
Computershare Investor Services
PO Box 505000, Louisville, KY 40233-5000
800.446.2617

Courier Services:
Computershare Investor Services
462 South 4th Street Suite 1600, Louisville, KY 40202

Auditors
Ernst & Young LLP,
155 North Wacker Drive, Chicago, IL 60606-1787

Trademarks

HISTORICAL FINANCIAL SUMMARY

	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Financial Summary ($000)											
Net sales	$10,424,858	$10,137,204	$9,973,384	$9,964,953	$9,437,758	$8,950,045	$8,078,185	$7,182,158	$6,221,991	$6,850,032	$6,418,014
Earnings before income taxes	935,324	1,019,058	1,250,705	1,334,386	1,287,599	1,117,789	1,051,527	853,778	707,337	773,218	681,861
Income taxes	312,881	386,220	465,531	522,090	479,850	418,940	385,115	340,196	276,565	297,863	261,741
Net earnings attributable to W.W. Grainger, Inc.	585,730	605,928	768,996	801,729	797,036	689,881	658,423	510,865	430,466	475,355	420,120
Working capital	1,668,832	1,722,487	1,794,371	1,697,487	1,621,103	1,603,748	1,438,375	1,162,318	1,026,690	1,064,094	1,021,663
Additions to property, buildings and equipment and capitalized software	237,283	284,249	373,868	387,390	272,145	249,860	196,942	127,124	142,414	194,975	197,423
Depreciation and amortization	240,144	222,645	206,841	190,171	164,902	145,612	137,211	137,793	140,974	135,137	127,882
Current assets	3,205,989	3,020,229	3,048,642	2,967,549	3,044,285	2,900,640	2,694,900	2,238,071	2,131,515	2,144,109	1,800,817
Total assets	5,804,254	5,694,307	5,857,755	5,283,049	5,266,328	5,014,598	4,716,062	3,904,377	3,726,332	3,515,417	3,094,028
Shareholders' equity	1,827,733	1,905,768	2,352,714	3,284,101	3,326,836	3,117,366	2,724,279	2,287,670	2,227,199	2,033,805	2,098,108
Cash dividends paid	304,473	302,971	306,474	291,395	255,466	220,077	180,527	152,338	134,684	121,504	113,093
Long-term debt (less current maturities)	2,248,036	1,840,946	1,388,414	403,333	445,513	467,048	175,055	420,446	437,500	488,228	4,895
Per Share ($)											
Earnings – basic	10.07	9.94	11.69	11.59	11.31	9.71	9.26	7.05	5.70	6.07	5.01
Earnings – diluted	10.02	9.87	11.58	11.45	11.13	9.52	9.07	6.93	5.62	5.97	4.91
Cash dividends paid	5.06	4.83	4.59	4.17	3.59	3.06	2.52	2.08	1.78	1.55	1.34
Book value	32.45	32.41	43.50	48.70	48.32	44.87	38.94	32.97	30.81	27.20	26.40
Year-end stock price	236.25	232.25	202.59	254.89	255.42	202.37	187.19	138.11	96.83	78.84	87.52
Ratios											
Percent of return on average shareholders' equity	31.4	28.5	27.3	24.3	24.7	23.6	26.3	22.6	20.2	23.0	19.7
Percent of return on average total capitalization	14.0	14.6	19.0	21.0	21.4	20.5	22.2	18.7	16.4	20.3	19.2
Earnings before income taxes as a percent of net sales	9.0	10.1	12.5	13.4	13.6	12.5	13.0	11.9	11.4	11.3	10.6
Earnings as a percent of net sales	5.6	6.0	7.7	8.0	8.4	7.7	8.1	7.1	6.9	6.9	6.6
Cash dividends paid as a percent of net earnings	52.0	50.0	39.9	36.3	32.1	31.9	27.4	29.8	31.3	25.6	26.9
Total debt as a percent of total capitalization	56.2	54.1	45.8	12.8	14.0	15.3	15.9	17.8	19.1	20.7	5.0
Current assets as a percent of total assets	55.2	53.0	52.0	56.2	57.8	57.8	57.1	57.3	57.2	61.0	58.2
Current assets to current liabilities	2.1	1.9	1.7	2.4	2.5	2.7	1.9	2.6	2.7	2.8	2.2
Average inventory turnover – FIFO	3.3	3.1	3.1	3.1	3.0	2.8	3.0	3.1	2.7	2.9	3.1
Average inventory turnover – LIFO	4.5	4.3	4.1	4.2	4.1	3.9	4.0	4.4	3.8	4.1	4.3
Other Data											
Average number of shares outstanding – basic	57,674,977	60,430,892	65,156,864	68,334,322	69,455,507	69,811,881	69,690,854	70,836,945	73,786,346	76,579,856	82,403,958
Average number of shares outstanding – diluted	57,983,167	60,839,930	65,765,121	69,205,744	70,576,432	71,181,733	71,176,158	72,138,858	74,891,852	77,887,620	84,173,381
Number of employees	24,733	25,636	25,766	23,622	23,741	22,413	21,446	18,596	18,006	18,334	18,036
Number of outside sales representatives	4,452	4,785	4,778	4,907	4,479	4,157	4,029	3,079	2,845	2,433	2,386
Number of branches	500	598	668	681	709	715	711	607	612	617	610
Number of products in the Grainger® catalog issued February 1	365,000	383,000	452,000	590,000	570,000	410,000	354,000	307,000	233,000	183,000	139,000

Note: See the company's current and prior years' Annual Report on Form 10-K for changes in accounting and other adjustments.