GRAINGER

FOR THE ONES WHO GET IT DONE

Annual Analyst Meeting

November 16, 2011

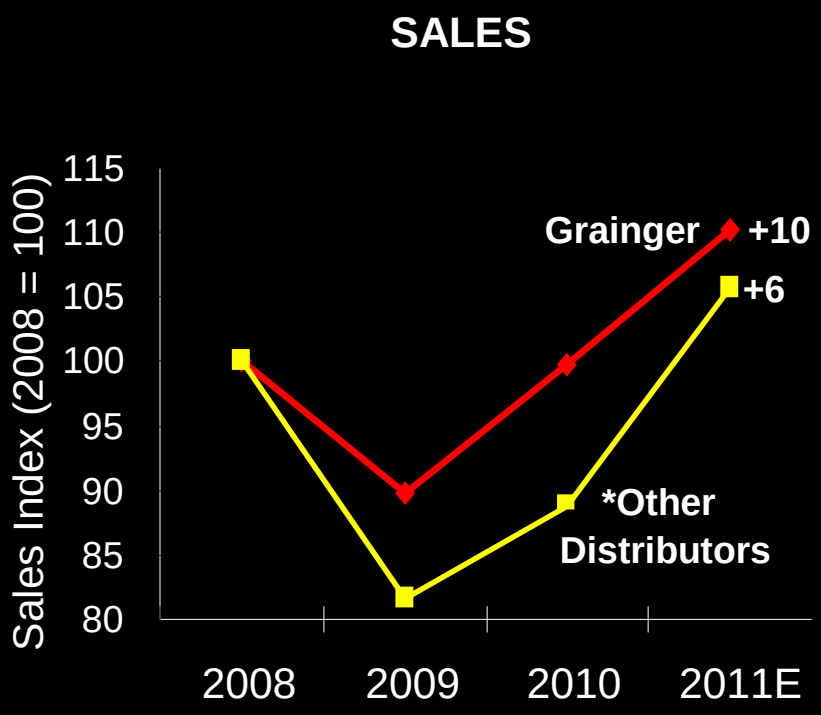
Forward-Looking Statements

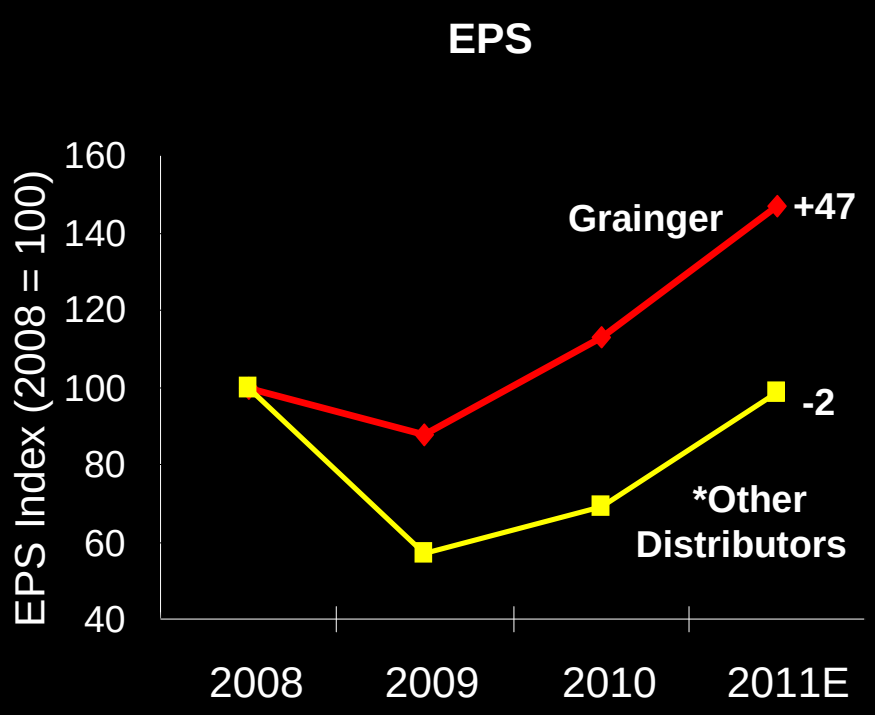
This presentation contains statements that are forward-looking; i.e., not historical facts. The forward-looking statements are based on the company's current expectations, and some of them are subject to risks and uncertainties the outcome of which could result in actual future performance being materially different from the performance indicated. They should be considered in conjunction with the company's most recent annual report, as well as the company's Form 10-K and other reports filed with the Securities and Exchange Commission containing a discussion of the company's business and of various factors that may affect it.

Jim Ryan

Chairman, President and Chief Executive Officer

Strong Performance





**Other Distributors include Fastenal, MSC, Wesco, IBI, AIT.*

Fundamental Industry Changes

- Permanent changes in customer behavior
- Suppliers asked to do more
- Shifting competitive landscape

Our Business

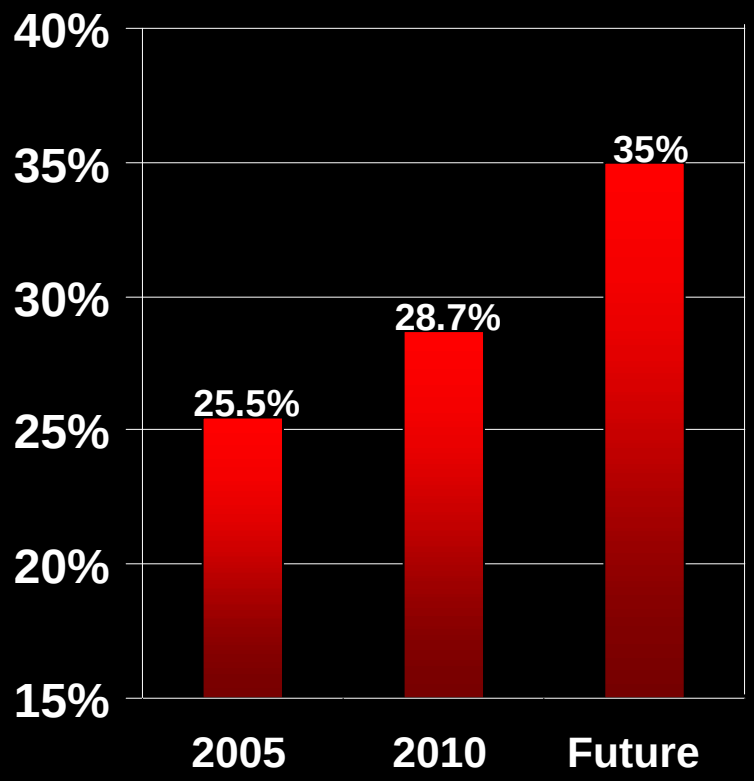
- Strong foundation
- Investing in proven growth drivers
- Expanding margins

Execution

- People
- Process
- Incentives

Strong Capital Stewardship

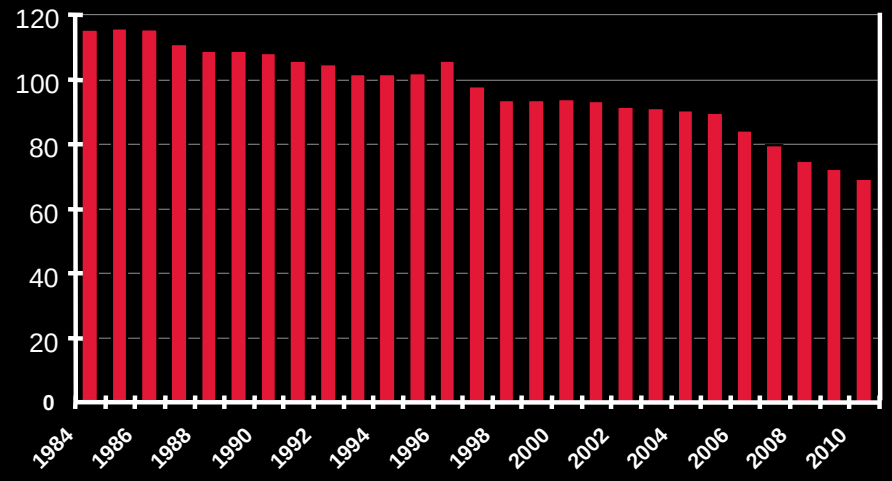
Total Company ROIC



Excluding unusual items
Future = 2014 - 2016

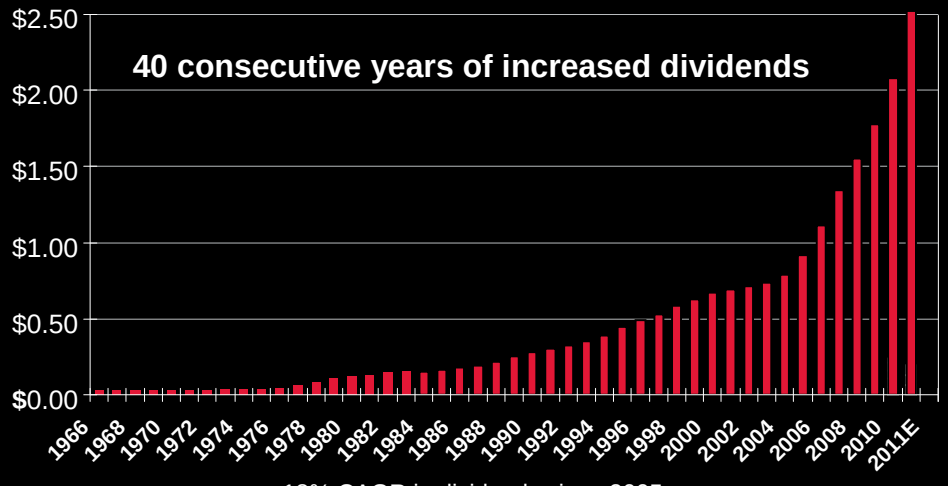
History of Capital Returned

Shares Outstanding (in millions)



Net shares down 40% since inception, 25% in last decade

Dividends Paid Per Share



18% CAGR in dividends since 2005
Note: dividends per share adjusted for splits.

Agenda

Strategic Overview		Jim Ryan
Global Supply Chain		DG Macpherson
International Business		Court Carruthers
U.S. Business		Mike Pulick
eCommerce		Paul Miller
Intermission		
Financial Review and Outlook		Ron Jadin
Q&A		

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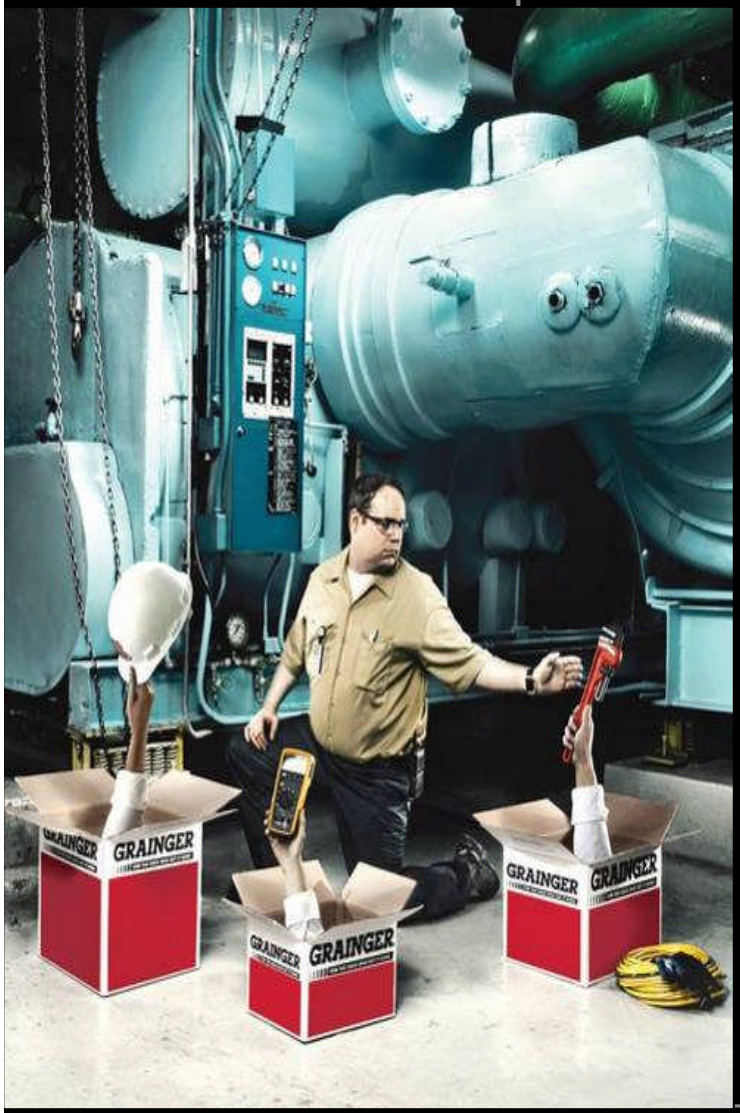
ENSURING A STRONG FOUNDATION

DG Macpherson

Senior Vice President, Global Supply Chain

Product Breadth and Availability



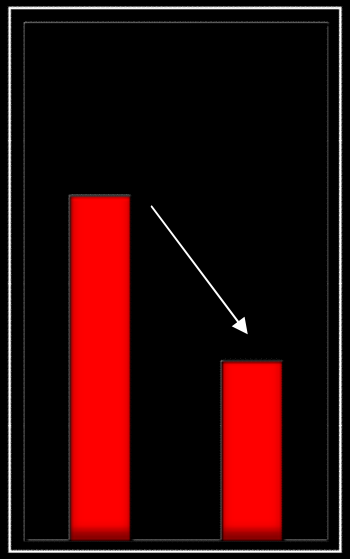
- More products closer to the customer than the competition
- The right assortment and the right network to deliver advantaged service
- Country-specific breadth and availability

DC Network Competitive Advantage

- Improving use of existing space
  - Greenville
  - Monterrey
- Investing in expanded capacity
  - San Francisco
  - Chicago
  - Saskatoon

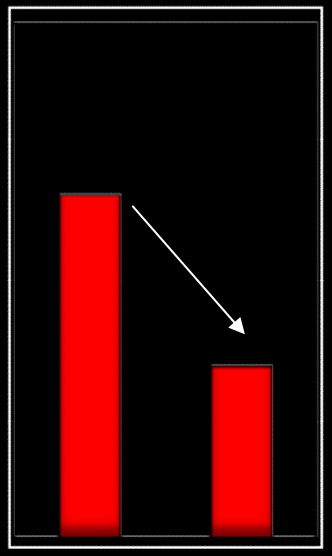
Execution & Continuous Improvement

Order defects



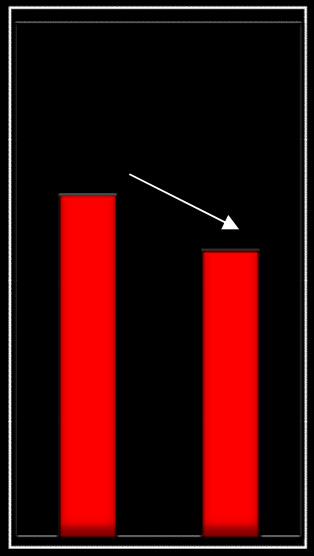
defect rate

Outbound cycle time



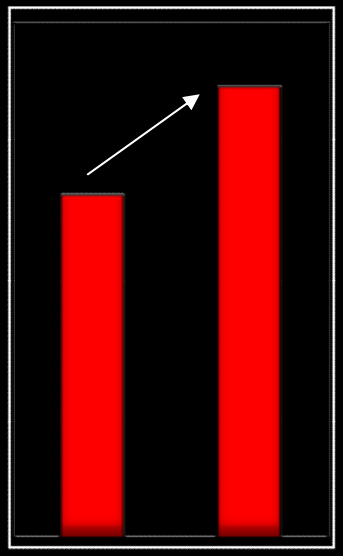
minutes

Packaging costs



$ per line

Productivity



$ per team member

North American DC Network

Global Supply Chain

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- Leveraging scale across all of Grainger's businesses
  - Purchasing power
  - Transportation savings
  - Knowledge sharing
  - Network design

Expanding Margins via Private Label

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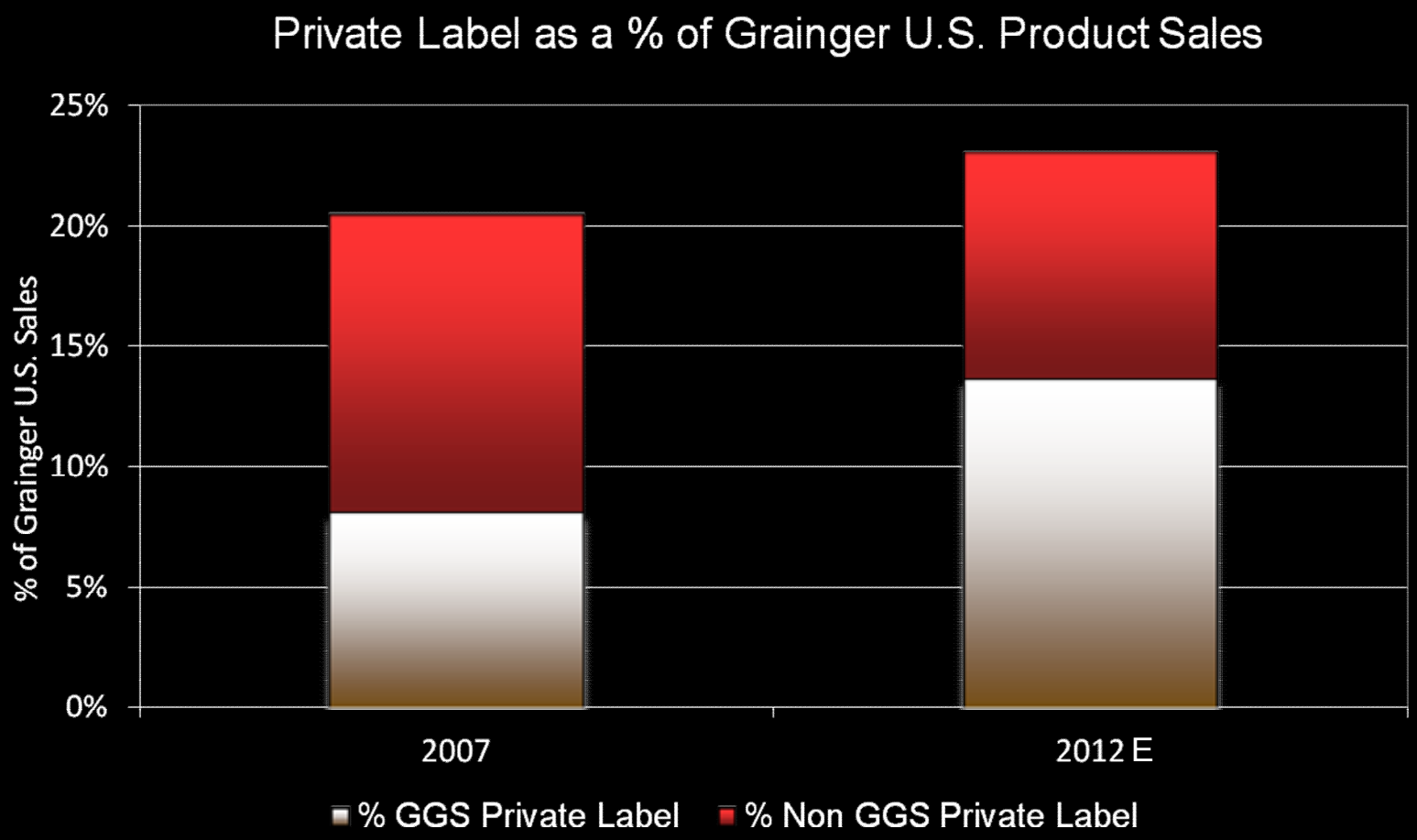
- Increasing private label offer across all businesses

Increasing Globally Sourced Private Label Products



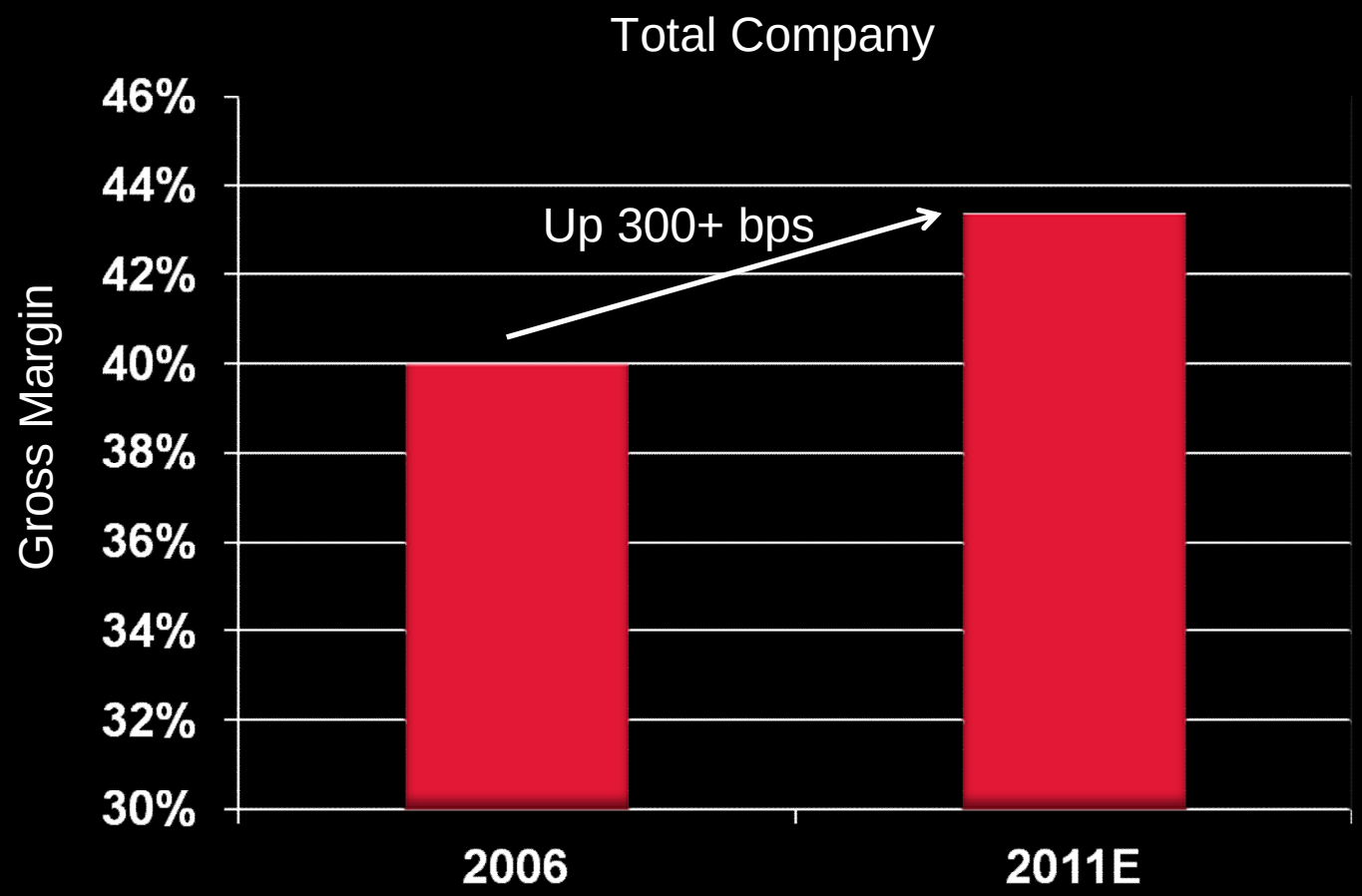
Increasing Global Sourcing Capabilities

- Engineering and quality control resources closer to the source
- Project management resources
- Sourcing capabilities
- Logistics support

Expanding Margins through Purchasing Scale

- Evaluate product lines for assortment and cost improvements
- Indentify opportunities to increase low-cost country sourcing
- Look across portfolio to reduce cost and drive supplier growth

Gross Margin Expansion



Information Technology

- Leveraging technology across borders
  - Inventory and product information systems
  - Migrating to common warehouse systems
- Americas SAP to drive leverage and scalability

Grainger's Foundation

- Product breadth and availability
- Supply chain execution
- Continuous improvement
- Private label and global sourcing
- Purchasing leverage
- Information technology

ACCELERATING GROWTH INTERNATIONALLY

Court Carruthers

Senior Vice President & President, International

International Rationale

- Increase exposure to faster growing markets
- Enhance and leverage global scale
- Support global customers
- Share best practices across businesses

International Progress

2002

Countries: 4
Languages: 3
Continents: 1
International Sales: 10%

2012E

Countries: 21
Languages: 15
Continents: 4
International Sales: 25%

International Priorities

1. Grow sales and earnings in existing markets
   - YTD Sept 2011 Sales +24%* (+32% USD**)
   - YTD Sept 2011 Operating Earnings +151%* (+168% USD**)

2. Expand into new markets in a phased and scalable way

3. Develop infrastructure to support further profitable growth

*Canada and Other Businesses, Constant Currency
** Canada and Other Businesses, USD

Enhance International Profitability

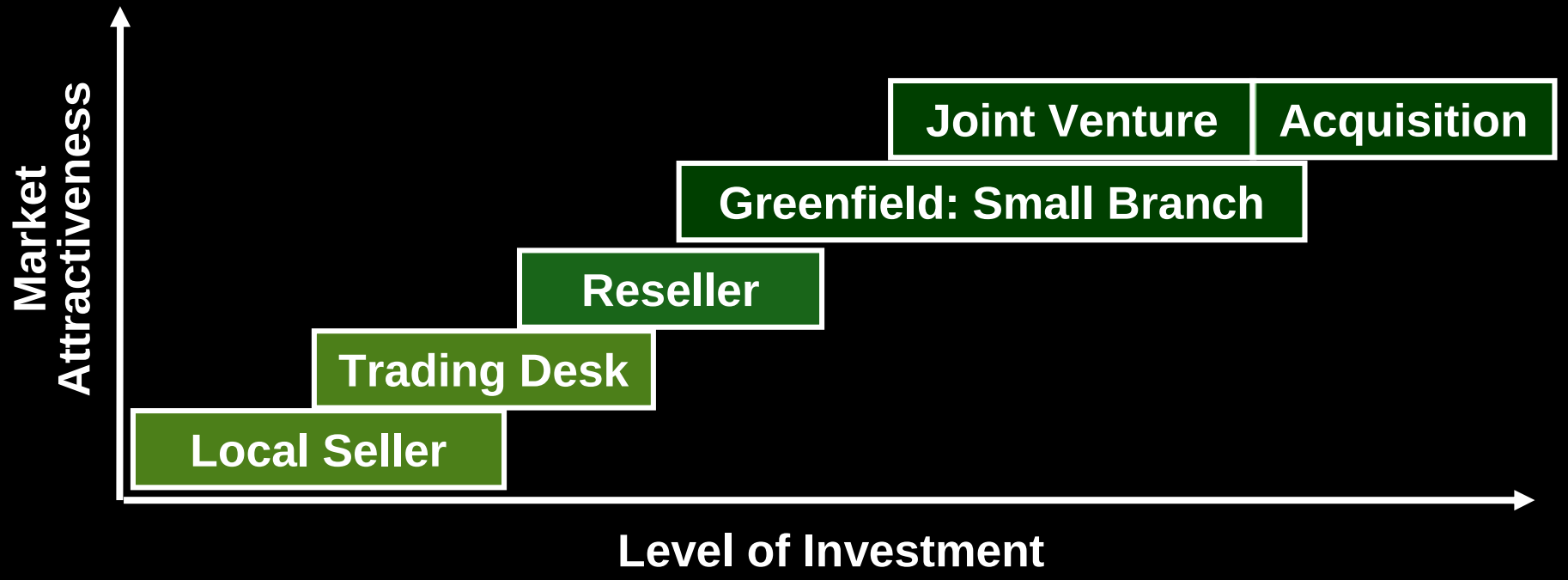
- Portfolio of businesses in different stages of maturity
- Accelerating profitability through:
  - Sales growth
  - Expanding gross margins
  - Building and leveraging scale

Driving Profitable, International Growth

- Product line expansion
- Private label
- eCommerce
- Inventory management solutions
- Local presence

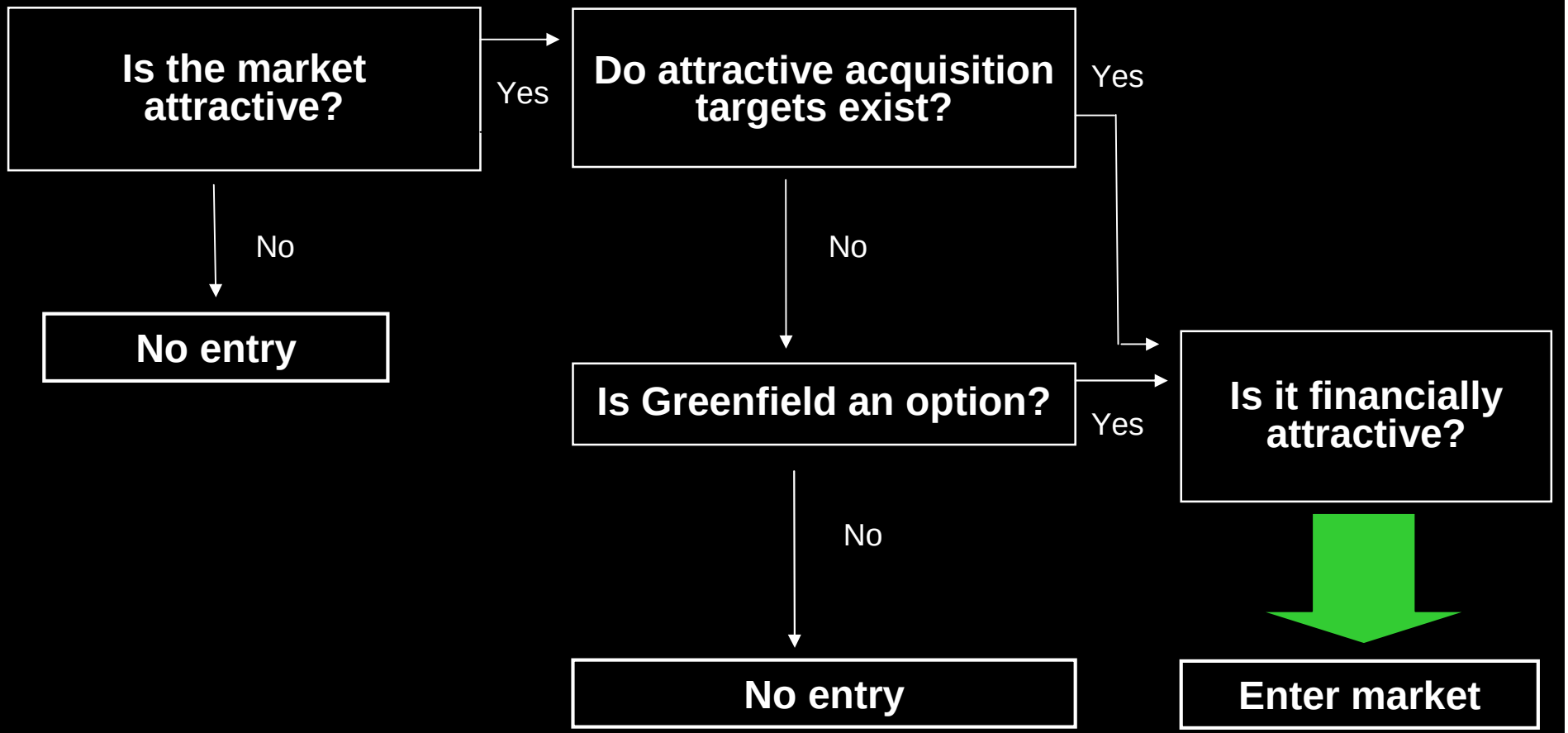
Wroclaw, Poland

Market Entry Continuum



Investment scaled to market based on attractiveness

Market Entry Framework



Global Infrastructure

- Global accounts
- Information technology
- Focus on compliance, reputational standards
- Talent
  - Global perspective and experience
  - Experience to start-up, acquire and grow businesses

Best Practice Sharing

- Supply chain
- eCommerce
- Industry segments
- Product segments

Summary

- Strong growth in sales and earnings
- Continued phased expansion into selected new markets
- Ongoing development of global infrastructure

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GAINING SHARE IN THE U.S.

Mike Pulick

Senior Vice President & President, Grainger U.S.

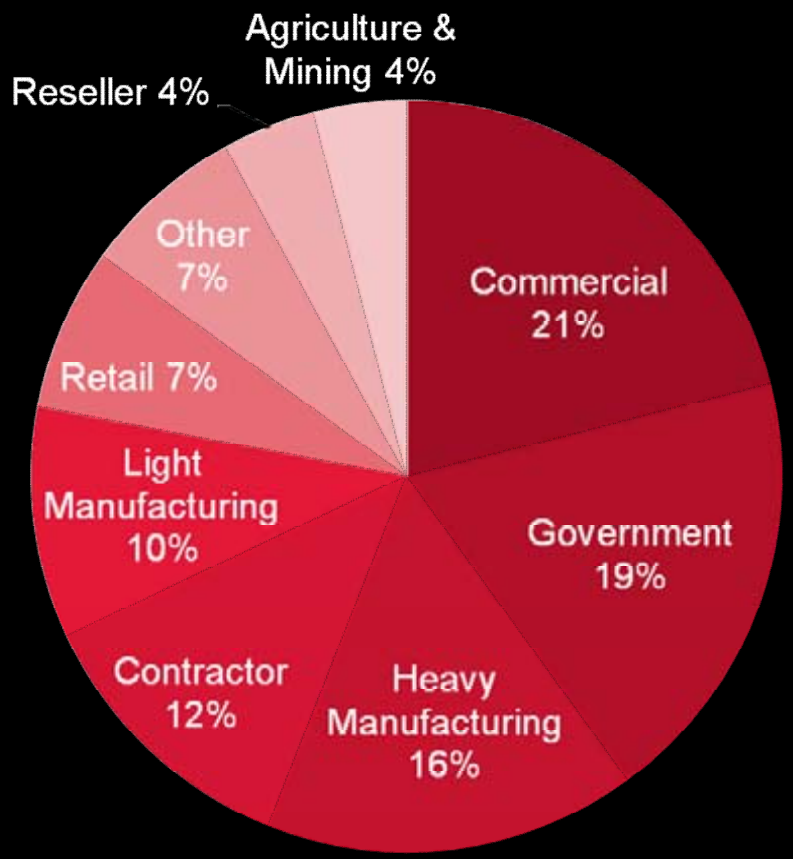
U.S. Performance

Q3 2011 YTD results

- Sales up 8% (11% excluding oil spill)
- Operating earnings up 19% (24% excluding PTO)
- ROIC of 48.7%
- Strong performance in all customer end markets

U.S. Customer End Market Performance

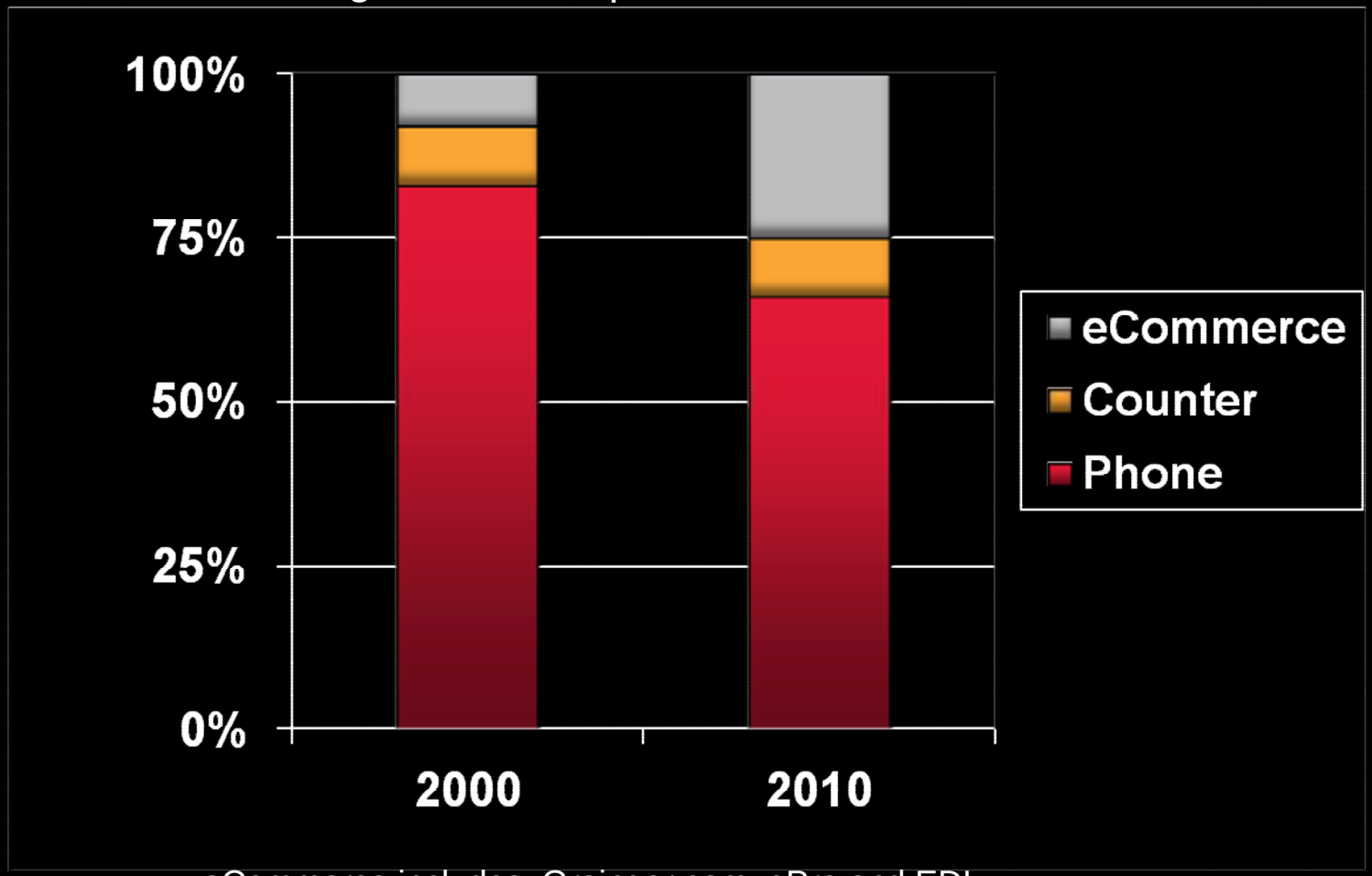
2010 U.S. Sales by End Market



2011 Growth YTD	%
Heavy Manufacturing	+16%
Light Manufacturing	+9%
Commercial	+8%
Retail	+7%
Contractor	+5%
Government	+2%
Reseller	-4%

Channel Migration to eCommerce

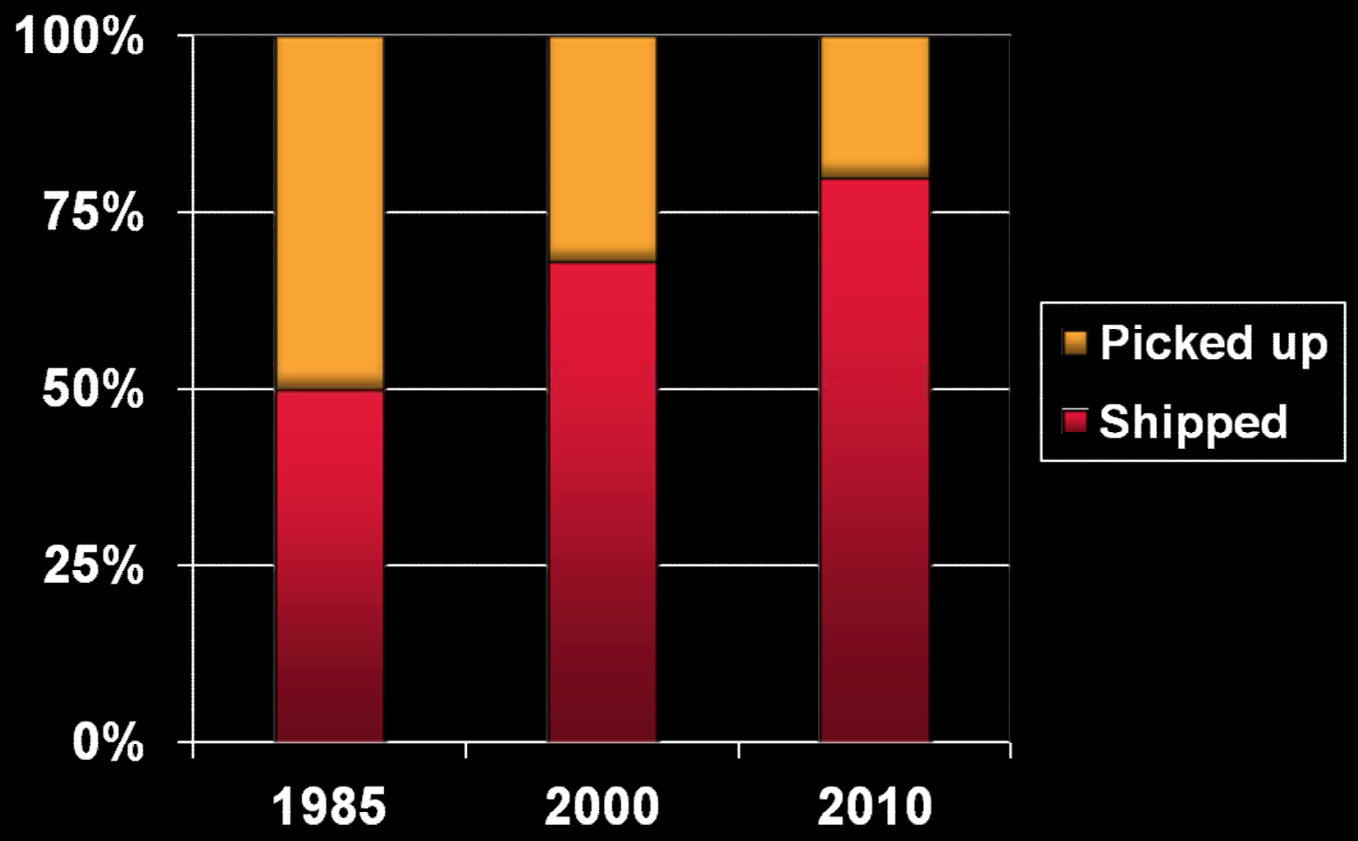
Order origination as a percent of total U.S. sales



eCommerce includes: Grainger.com, ePro and EDI

Order Fulfillment Migration

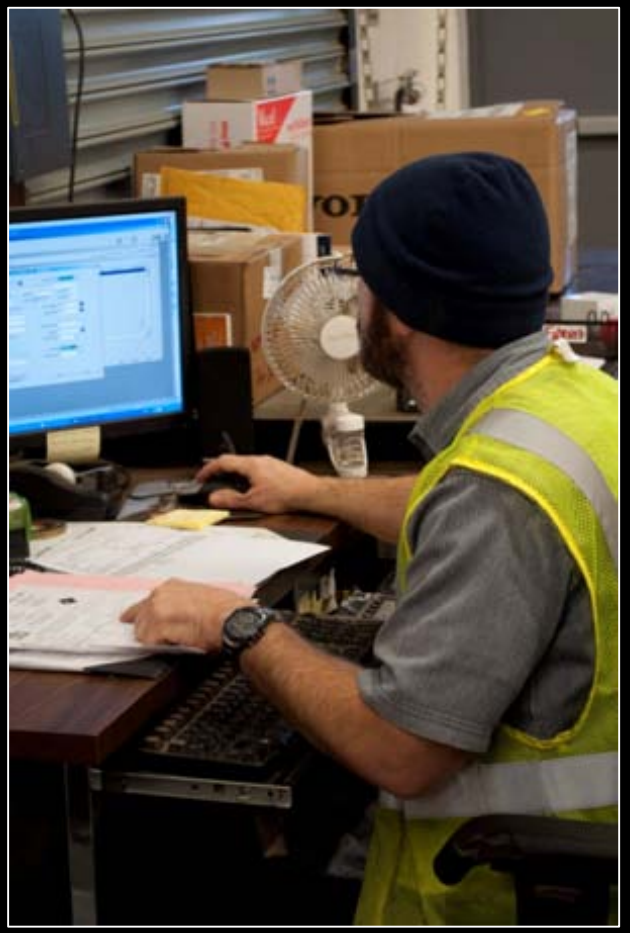
Order fulfillment as a percent of total U.S. sales



Orders picked up at local branch versus shipped direct to customers

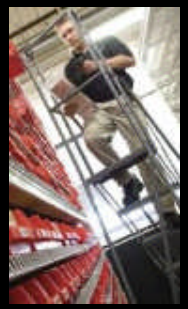
Changing Customer Behavior

- "Bring it to me"
- Increased eCommerce adoption
- Consolidating suppliers
- Multi-channel effect
- Increased focus on productivity and cost reduction



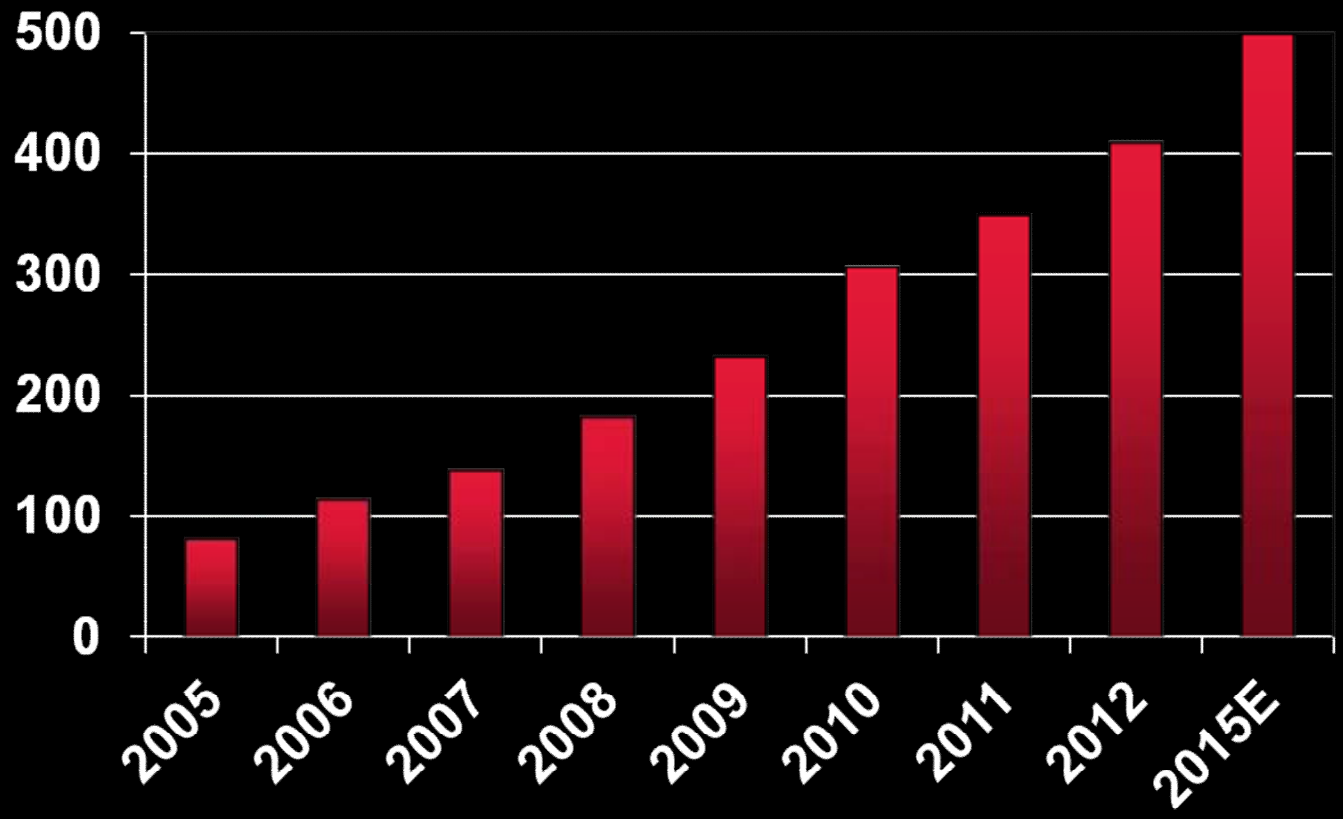
Meeting Customers' Needs

- Adding products
- Educating customers
- Delivering productivity gains



Product Line Expansion

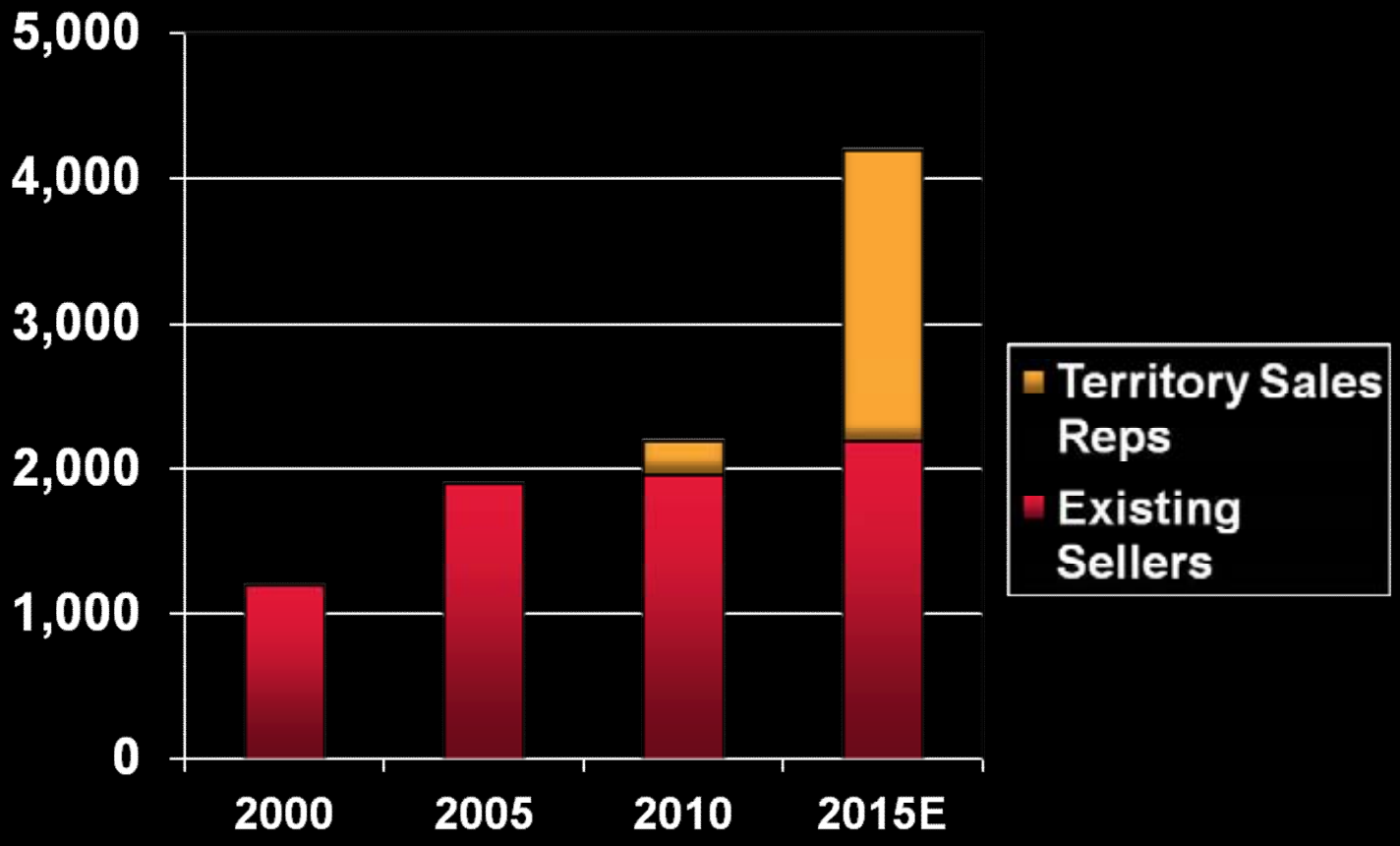
SKUs in U.S. catalog (in thousands)



Order fulfillment rate and inventory turns stable throughout expansion

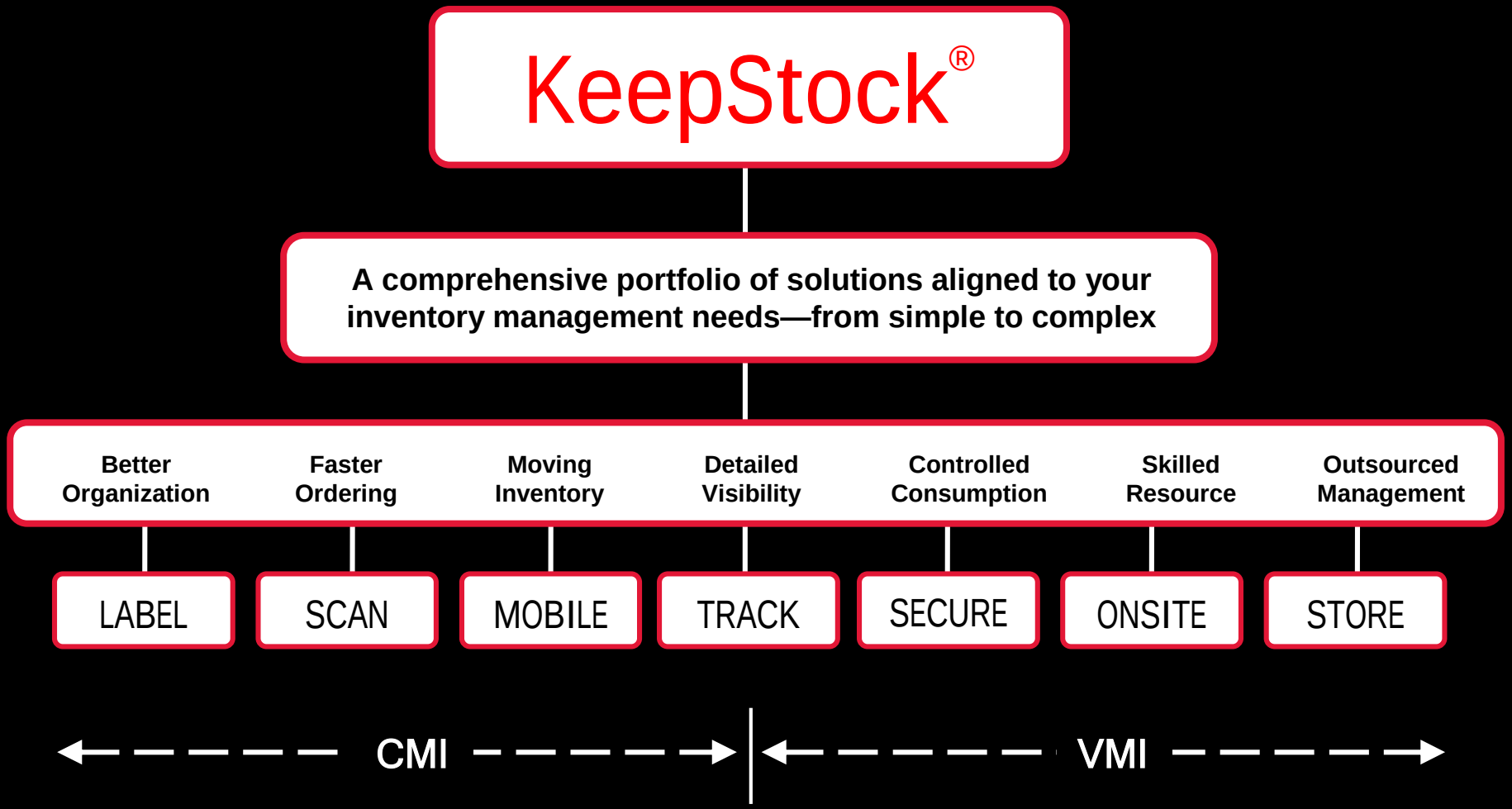
Sales Force Expansion

Total number of U.S. sellers



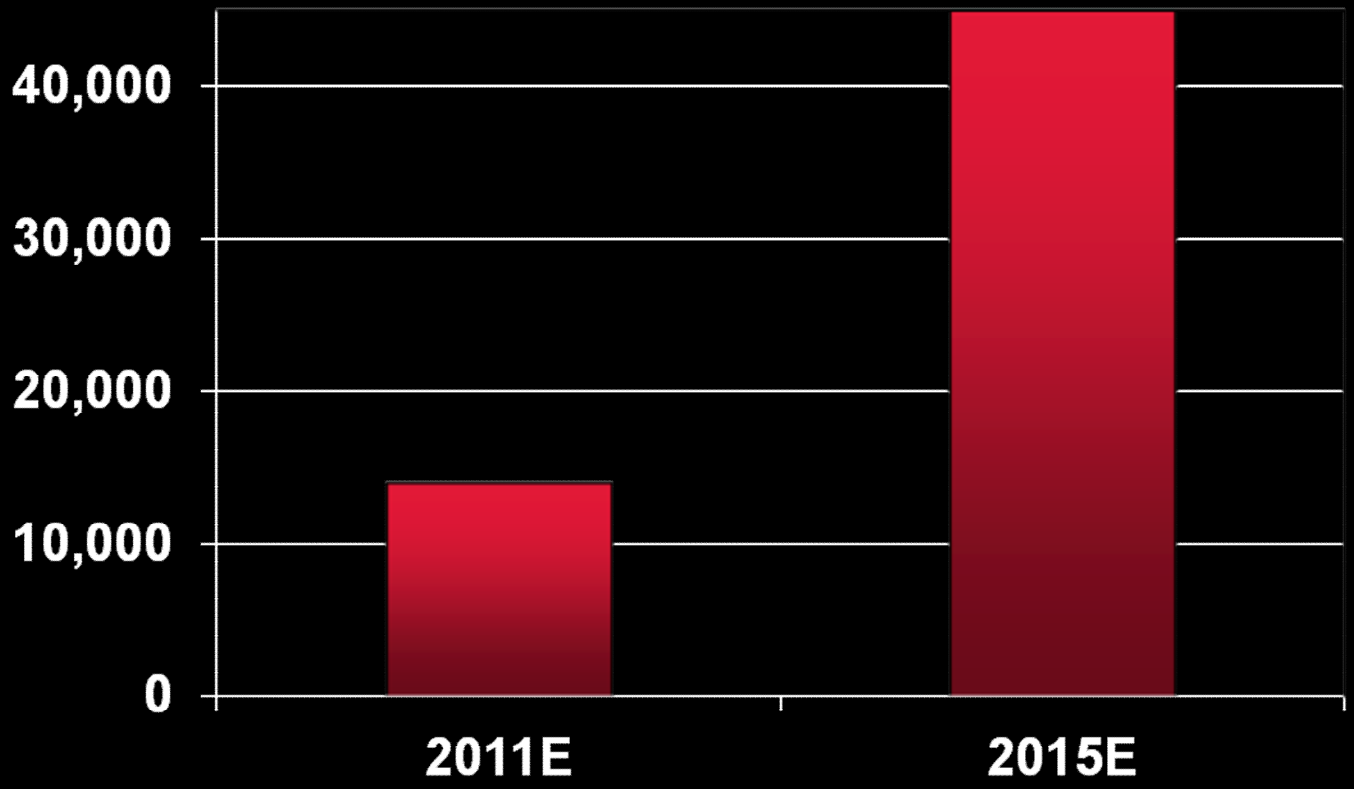
Majority of new hires will be Territory Sales Reps

Grainger's KeepStock® Offering



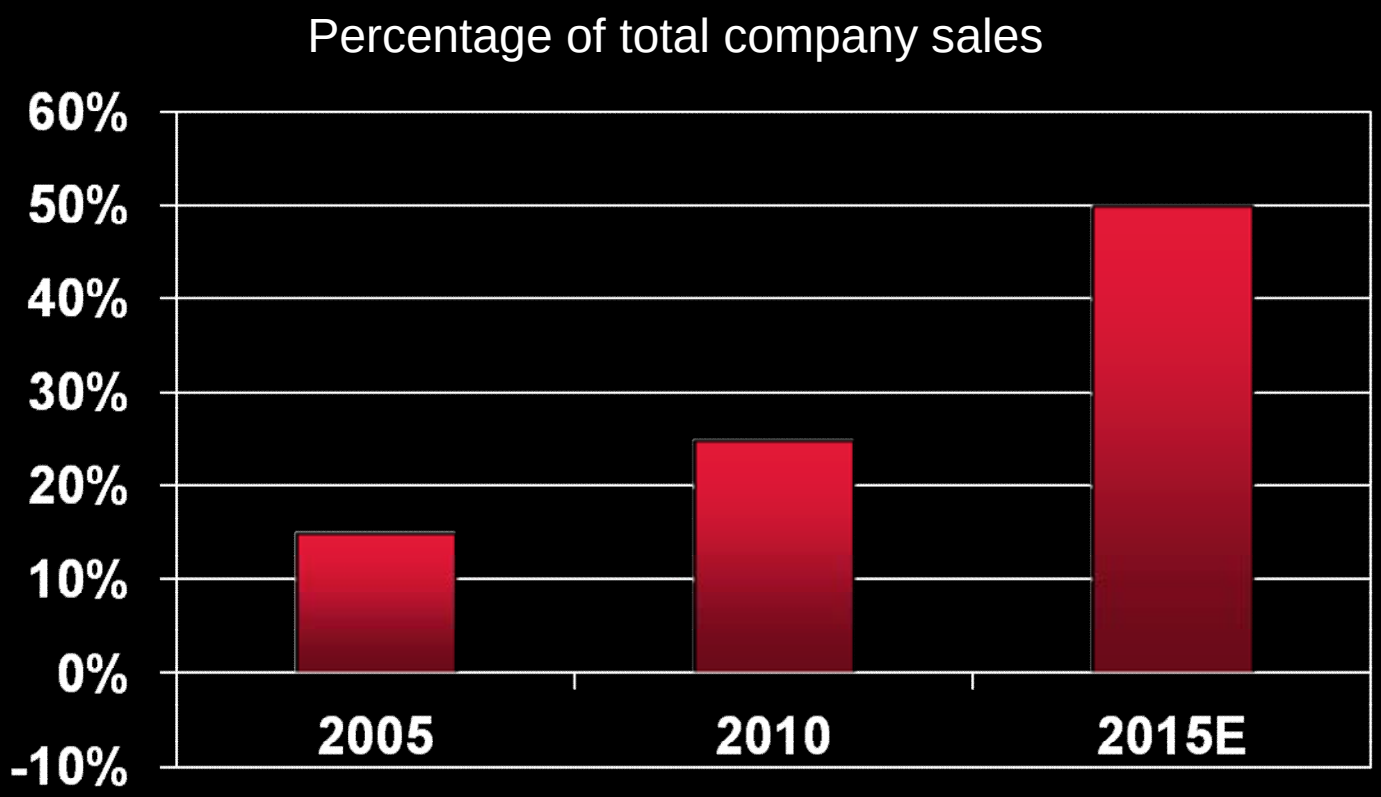
Inventory Management Services

Total U.S. KeepStock® customer accounts



Sales to KeepStock® customers grow 2 – 3X faster

eCommerce Revenue



Most profitable channel growing 2X the rest of the business

U.S. Market Presence Evolution

Historical Approach	Future Approach
Heavy emphasis on local branch presence	Growing presence on the web
Mix of small, medium, large branches	Fewer, bigger branches with greater product breadth
Local inventory key differentiator	Same day delivery and onsite inventory management
Local sales force	More local sellers
Paper catalog	Paper and online catalog, as well as mobile apps
	Mass media
	Product-related services

The Payoff

- Helping more customers improve productivity
- Enhancing relevance by adapting to customers' needs
- Driving strong revenue growth & solid earnings performance
- Gaining market share

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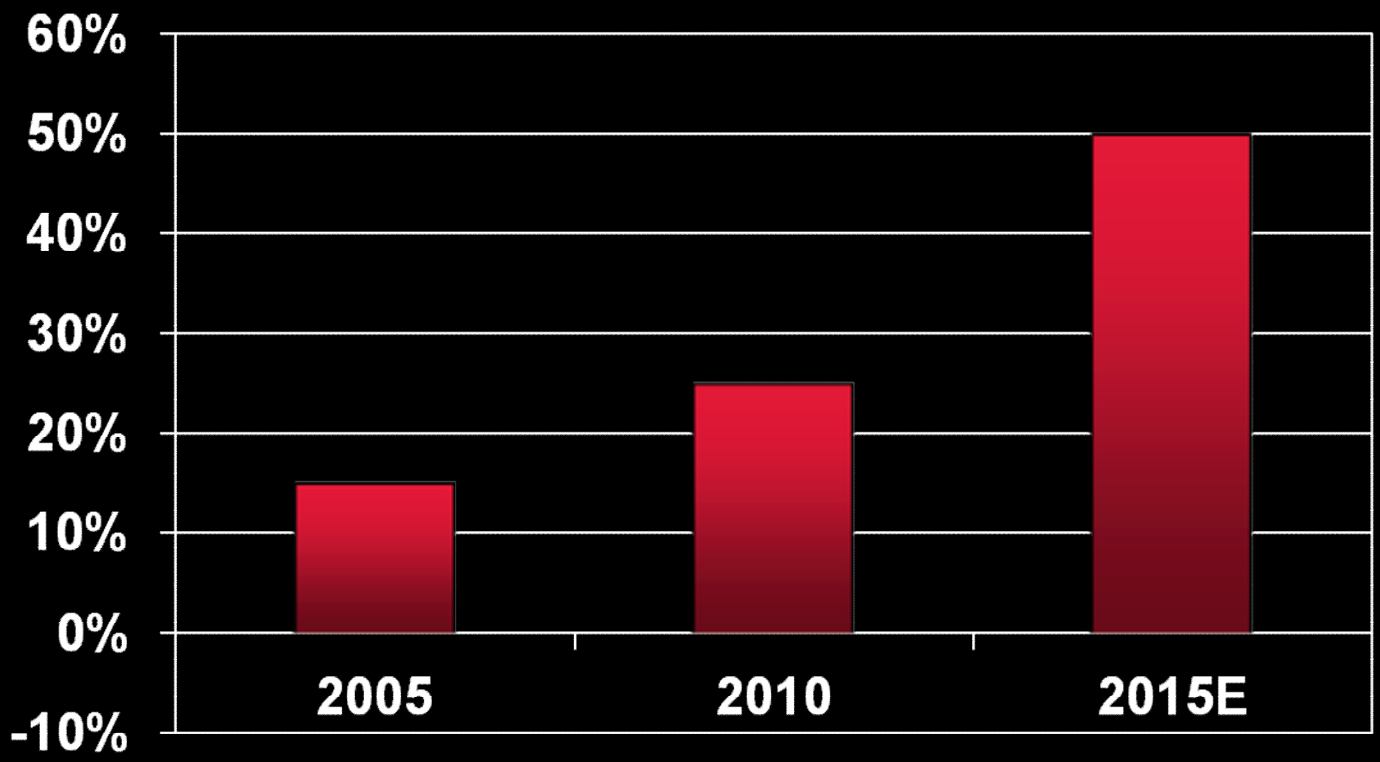
CUSTOMER DRIVEN eCOMMERCE EXPERIENCE

Paul Miller

Vice President, eCommerce

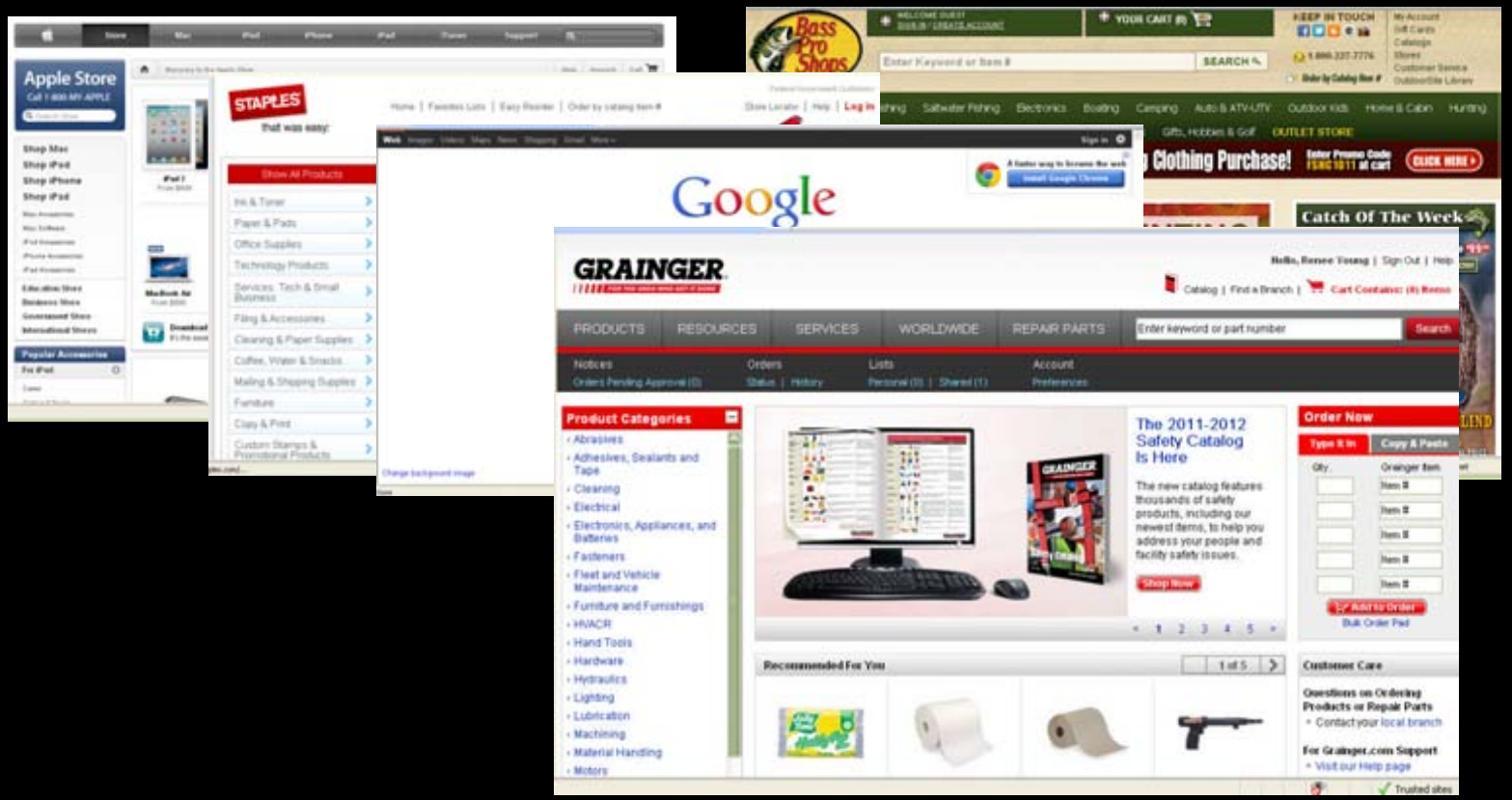
eCommerce

Percentage of total company sales



Most profitable channel, growing 2X the rest of the business

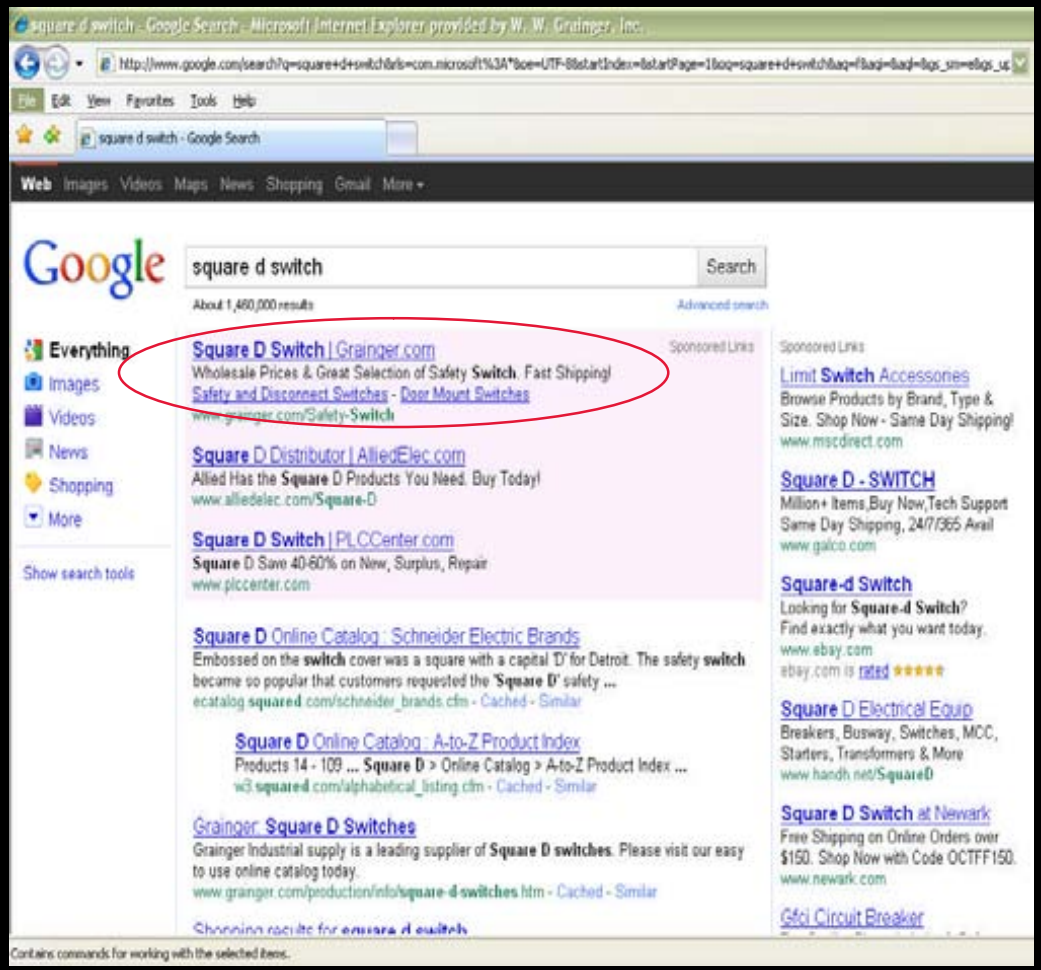
The Lines are Blurring



B to B customers carry their expectations from retail to business

How Customers Find Grainger.com

- Direct load
- Natural search
- Paid search
- Display advertising
- eMail



Creating the Best User Experience

To win with customers and prospects, we are developing an experience influenced by the best-in-class leaders

Web Attribute	Grainger Status	Leading Benchmark
Fast		Google
Uptime		citibank Bank of America CHASE
Ease of use		amazon.com
Personalized experience		mint
Seamless multichannel		Sears
Product recommendations		NETFLIX
Click to Call/Chat		Zappos.com
Product Reviews		STAPLES

= Above Average

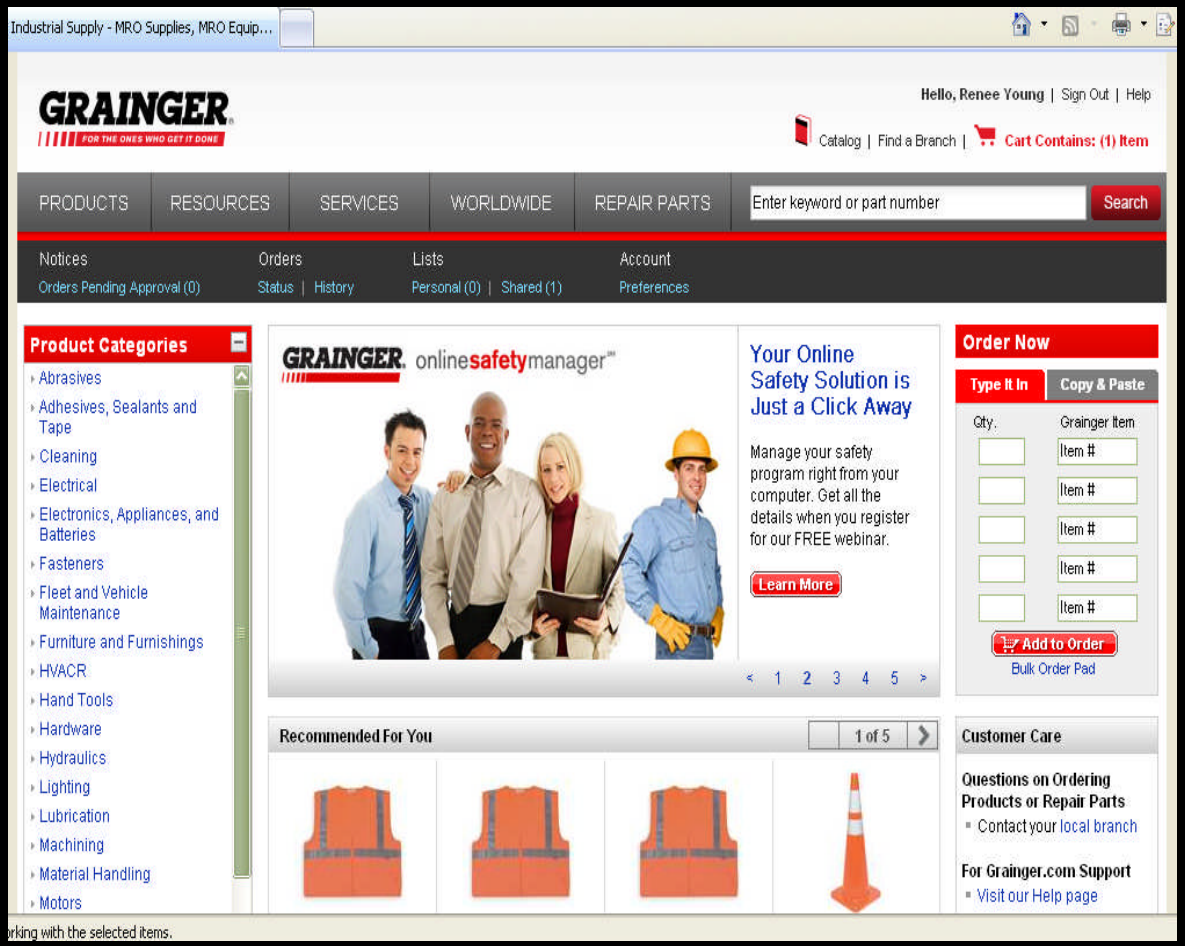
= Average

= Below Average

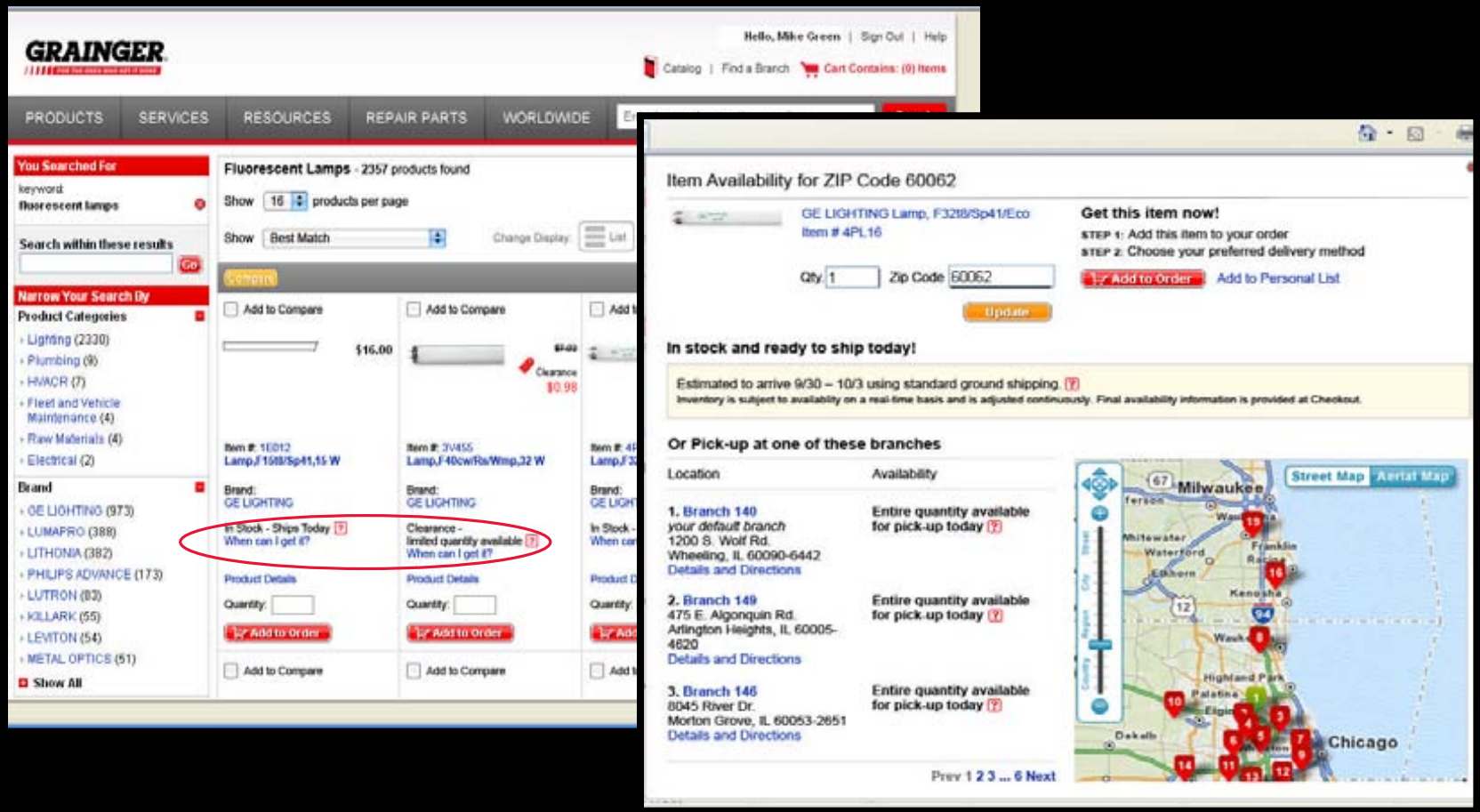
Source: Grainger eCommerce

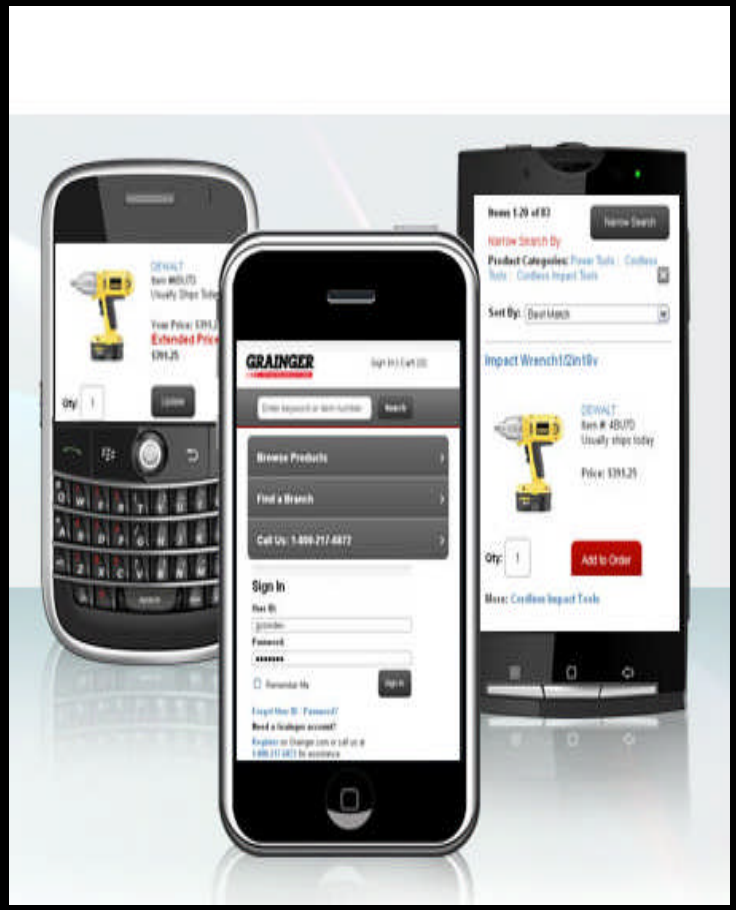
System Change

- New platform
- Staggered migration
- 2012 completion



Real Time Product Availability



Where Customers Do Business

- Mobile site – Q4 2011 launch
- All smartphones