

Driving Growth and Shareholder Value

Grainger has three long-term financial goals that investors can use to measure the company’s success in growing the business, improving profitability and driving shareholder value:

- Grow sales by 7 to 10 percent over a business cycle
- Attain operating margins of 10 to 12 percent
- Provide attractive returns on invested capital greater than 20 percent

Here’s how the company did against those goals in 2006, alongside its anticipated performance for 2007:

	Long-term Goals	2006	2007 Guidance
Sales	7 to 10%	Up 6.5%	7 to 10%
Operating Margins	10.0 to 12.0%	9.8%	10.0 to 10.5%
ROIC*	>20%	26.4%	>20%

To grow sales, Grainger is:

- Implementing a market expansion program in the top U.S. metropolitan markets (see pages 6 and 7). This program delivered 1 to 2 percentage points to the company’s overall sales growth in 2006 and is expected to contribute 3 to 4 percentage points in 2007.
- Expanding the product line offered by the U.S. Branch-based Business over several years (see page 7). In 2006, the company added some 43,000 new products, its largest addition ever. With the inclusion of 25,000 more items in 2007, the program is expected to add 1 to 2 percentage points to Grainger’s sales growth for the year.
- Continuing to search for bolt-on acquisitions for Lab Safety Supply (LSS) to increase its customer reach (see page 8). In 2006, LSS acquired three businesses: Rand Materials Handling Equipment, Professional Inspection Equipment and Construction Book Express.
- Expanding geographically in Mexico, a multiyear project to capture share (see page 10). In 2006, the company opened two new branches and plans to open several more during 2007, including a master branch to handle shipping to the Yucatán Peninsula.
- Creating a distribution presence in Shanghai, China (see page 11), having opened a 120,000-square-foot master branch/distribution center and a will-call express location in 2006. In 2007, Grainger plans to add more express locations within Shanghai, while reaching out to customers in cities close enough to be served by the Shanghai distribution center.



To improve profitability, Grainger is:

- Planning to enhance operating performance in Canada so that the business meets the company’s return requirements (see page 9). Acklands – Grainger expects to strengthen its supply chain, increase its overall product offering and improve gross profit margins.
- Planning to increase the percentage of product Grainger sells that is globally sourced (see page 13) by adding new products, increasing market penetration in Mexico and Canada and sourcing items from more countries. Globally sourced products are competitively priced and carry more attractive gross profit margins and currently represent 7 percent of sales.

In addition, Grainger’s SAP system should continue to yield productivity gains. By maintaining operating expenses while growing sales and improving gross profit margins, operating margins should continue to rise. This, combined with proper management of net working assets, should allow Grainger to again reach its target for return on invested capital.

Grainger is positioned to deliver attractive growth and increased shareholder value, building on its reputation for integrity, unparalleled service, innovation and technology.

* For a definition of ROIC, see page 16.