Executive Compensation Practices Fact Sheet
APRIL 2019

CEO Pay Ratio is below S&P 500 median		
1.	**2018 CEO pay ratio is 155:1**	**Yes**
	• Calculation includes: base, bonus, long-term incentives, health and wellness benefits, and retirement profit sharing contribution. • Median S&P 500 CEO pay ratio is ~163:1. • Median CEO pay ratio for companies with $5-15B in revenue is ~160:1. • Grainger is at the 47th percentile of S&P 500 CEO pay ratios.	
2.	**CEO salary is no more than 2 ½ times salary of next highest paid named executive officer**	**Yes**

Grainger aligns management compensation with shareholder interests through pay for performance philosophy		
1.	**Executive compensation is tied to performance; numeric criteria are disclosed**	**Yes**
	• Compensation philosophy: to attract and retain the best people and provide performance-based incentives that encourage them to achieve results that create long-term shareholder value. • Executive pay is linked to performance and structured to reward annual and long-term Company performance while discouraging excessive risk taking by using 2 key metrics: (1) return on invested capital (ROIC) and (2) daily sales growth. o ROIC reflects how effectively management uses Company assets and is generally defined by the Company as operating earnings divided by net working assets. o Year-over-year daily sales growth is determined by year-over-year results. o M&A activity during the year is not included in these calculations. o 2018 highlights: ▪ short-term financial results exceeded expectations; therefore, the payout for the annual bonus program was above target; ▪ long-term results for the three-year 2016 Performance Share cycle met profitability expectations, therefore payout approximated target; ▪ Company changed the long-term incentive mix for awards to 50% stock options and 50% performance restricted stock units (PRSUs) from 50% stock options and 50% performance shares; and ▪ NEO compensation includes: base salary, short-term incentives, long-term equity incentives (stock options, PRSUs), and a performance-based retirement vehicle.	
2.	**No payout if pre-determined performance thresholds not satisfied**	**Yes**
	• 2018 financial results exceeded expectations; therefore, annual bonus payments were 135% of Target. • Long-term performance share program met profitability expectations; therefore, payout approximated Target and settled at 97% of Target.	

3.	**Base Salary**	**No**
	• Base salaries for the Company's NEOs were, on average, ~14% above the market median. • Base salary increases for NEOs (excluding CEO) reviewed and approved by the Chairman/ CEO before they are presented to the CCOB; then, CCOB reviews recommendations with the independent compensation consultant and makes a recommendation to the Board for Board approval. • CEO's compensation is determined by independent directors of the Board with assistance from the CCOB and its independent compensation consultant.	
4.	**Annual Cash Incentives (Company Management Incentive Program)**	**Yes**
	• Provide variable compensation to encourage executives to achieve annual results that create shareholder value without encouraging excessive risk taking. • Receive short-term, cash-based incentives if the Company meets predetermined sales growth and ROIC objectives. • Framework aligns with Company strategy and balances sales growth with profitability, efficiency, expense management, and asset management. • Acquisitions and divestitures not included in the calculation of sales growth or ROIC.	
5.	**Long-Term Equity Incentives**	**Yes**
	• Long-term incentives for NEOs: 50% stock options and 50% PRSUs. • Target number of shares provided for stock options and PRSU awards is designed to approximate an economic value that targets the median of the compensation comparator group for comparable jobs. • Compensation Committee annually establishes the target value of the award based on the executive's position. The actual award may be adjusted up or down to reflect individual performance. • Stock options – 10-year term, 3-year vesting. Directly link management's and shareholders' interests by tying a substantial portion of long-term incentives to stock price appreciation. Stock option repricing is not permitted under any of the Company's equity incentive plans. • PRSU program – NEOs receive payout if Company meets predetermined ROIC metric over a three-year cycle. Actual number of shares paid to an NEO will be either 0% or 100% of the target number of PRSUs awarded. Compensation Committee with independent compensation consultant and management perform a thorough analysis in setting the financial measures and goals for a three-year performance cycle. • No dividends paid on PRSUs.	
6.	**Other Key Benefits**	**Yes**
	• Other components of NEO compensation are substantially similar to those available for most of the Company's other employees – e.g., same health and welfare benefits; same performance-based profit-sharing contribution methodology that is applied to the U.S.-based employees. • Profit sharing plan is primary Company-sponsored retirement vehicle for U.S.-based employees, including NEOs. o Company contributes a minimum of 8% of payroll to the plan and provides employees beyond this amount only if achieve threshold return on capital.	

Grainger has stringent Stock Ownership Guidelines to align Board and management interests with shareholder interests		
1.	**Ownership Guidelines**	**Yes**
	• Required stock ownership for directors and executives creates alignment with shareholders. **OFFICERS** • Chairman and CEO must own at least 6x base salary • Other NEOs must own at least 3x base salary • 3 years to comply from date of appointment • All NEOs are currently in compliance with ownership guidelines **DIRECTORS** • Within 5 years of Board appointment, a director must own shares or share equivalents (e.g., DSUs) of at least 5x the annual Board cash retainer fee (i.e., 5 x \$100K = \$500K). • All directors are currently in compliance with ownership guidelines.	
The Company has the ability to claw back incentive compensation		
1.	**Recoupment “Claw Back” Policies**	**Yes**
	• Company has contractual recoupment rights applicable to cash and stock incentive compensation in the event of fraud, criminal misconduct, materially inaccurate financial statements, conduct that violates Company policy, misconduct that causes or is discovered to have caused damage or injury to the Company’s property or reputation or violations of non-competition or non-solicitation agreements, or in the event an Executive receives any amount in excess of what the Executive should have received for any reason. • Recovery for materially inaccurate financial results extends back for the period covered by the financial statements (i.e., 3 years).	

Grainger has “double trigger” Change in Control Agreements limited to 10 executives		
1.	**Change in Control Agreements**	**Yes**
	• **Equity Plans** – under the Company’s 2015 Incentive Plan, “double-trigger” vesting provisions apply to all equity awards (i.e., both a change in control occurs and a participant is involuntarily terminated within one year of the change in control). • **Change in Control Agreements (CIC Agreements)** o The Company has 2x Change in Control Agreements with NEOs and certain other senior executives. ▪ The Company has limited the total number of positions eligible for CIC Agreements to 10. o CIC Agreements have double-trigger arrangements. o Upon triggering, executives are entitled to benefits that include a lump-sum payment equal to 2x the sum of (1) annual salary, (2) target annual incentive, and (3) in connection with the Company’s non-contributory profit sharing plan, a percentage of annual salary and annual incentive equal to the average percentage of covered compensation contributed by the Company under the plan for the last 3 fiscal years.	

AVERAGE TOTAL DIRECTOR ANNUAL COMPENSATION OF $250,000 ESTIMATED AT COMPANY'S PEER GROUP MEDIAN BY CCOB'S INDEPENDENT CONSULTANT		
1.	**Average total director compensation is within the Company's peer group median.**	**Yes**
	• In 2018-2019, the Company's average total director compensation is $250,000, which Deloitte Consulting estimated to be at approximately the Company's peer group median.	
2.	**Annual Cash Retainers**	**Yes**
	• Board = $100,000 • Audit Committee chair retainer = $20,000 • Compensation Committee chair retainer = $15,000 • Board Affairs and Nominating Committee chair retainer = $10,000 • Lead Director retainer = $25,000 • Directors also may defer any of the above retainers and meeting fees to a deferred stock unit account.	
3.	**Annual Deferred Stock Unit Grant**	**Yes**
	• All non-employee directors receive an annual deferred stock unit grant worth $145,000. • The 2018 deferred stock unit grant is equal to $145,000 divided by $192.13 (the 200-day average stock price through January 31, 2018), that is, 755 deferred units for 2018-2019. • The methodology is the same calculation used for equity awards to Grainger executives. • The deferred stock units are settled in shares upon termination of service as a director.	
4.	**Matching Gift Program**	**Yes**
	• As with Grainger's Matching Gift Program offered to employees, each director is eligible for a 3 to 1 matching gift contribution by the Company, not to exceed $7,500 per annum.	
5.	**Grainger Employee Discount Program**	**Yes**
	• As with the Grainger's Employee Discount Program offered to employees, each director is eligible for discounts on product purchases.	