Q1 2018 Earnings Call

W.W. Grainger, Inc.

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April 19, 2018

Safe Harbor Statement and Non-GAAP Financial Measures

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.

Additional information relating to certain non-GAAP financial measures referred to in this presentation, including adjusted operating earnings, adjusted segment operating earnings, adjusted net earnings and adjusted diluted earnings per share, is available in the appendix to this presentation and our most recent earnings release.

DG Macpherson

Chairman and Chief Executive Officer

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Q1 2018 Reported Results – Total Company

($ in millions)		Q1 2018		Q1 2017	% vs. PY
Sales	$	2,766	$	2,541	9%
GP		1,092		1,019	7%
Op Expense		757		727	4%
Op Earnings	$	335	$	293	14%
EPS	**$**	**4.07**	**$**	**2.93**	**39%**

(% of sales)	Q1 2018	Q1 2017	bps vs. PY
GP Margin	39.5%	40.1%	(60)
Op Expense	27.4%	28.6%	(120)
Op Margin	12.1%	11.5%	60

- Reported results included restructuring items that had an $8 million charge to operating earnings and a $0.11 negative impact to EPS
- The remaining slides reference adjusted results, which exclude items outlined on page 2 of the earnings release

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Q1 2018 Adjusted Results – Total Company

($ in millions)	Q1 2018	Q1 2017	% vs. PY
Sales	$ 2,766	$ 2,541	9%
GP	1,091	1,019	7%
Op Expense	749	732	2%
Op Earnings	$ 343	$ 287	19%
EPS	**$ 4.18**	**$ 2.88**	**45%**

(% of sales)	Q1 2018	Q1 2017	bps vs. PY
GP Margin	39.5%	40.1%	(60)
Op Expense	27.1%	28.8%	(170)
Op Margin	12.4%	11.3%	110

- Sales up 9% vs. prior year
  - Volume up 8%, seasonal sales up 1%, offset by 1% decline due to Techni-Tool divestiture
  - Price down 1%
  - FX favorability of 2%
- Normalized GP rate declined 30 bps (adjusted for revenue recognition change and national sales meeting timing, see appendix)
- GP rate better than expected driven by U.S. volume mix, price/cost spread and Canada price increases
- OpEx rate declined 120 bps (adjusted for revenue recognition change, see appendix)

Note: Sales days were the same in Q1 2018 and Q1 2017. Reference slide 26 for GAAP vs. non-GAAP reconciliation.

Q1 2018 Adjusted Results – Other Businesses

($ in millions)	**Q1 2018**	**Q1 2017**	**% vs. PY**
Sales	$ 588	$ 497	18%
Op Earnings	$ 38	$ 32	19%

(% of sales)	**Q1 2018**	**Q1 2017**	**bps vs. PY**
Op Margin	6.4%	6.3%	10

- Sales up 18% vs. prior year
  - Price and volume up 12%
  - FX favorability of 6%
- Performance driven by 24% sales growth for single channel businesses, which continue to be a profitable growth driver
- International portfolio improving margins

Note: Single channel businesses include all Zoro businesses and MonotaRO in Japan. International portfolio includes Cromwell, Fabory, Mexico, other Latin America businesses and China. Reference slide 26 for GAAP vs. non-GAAP reconciliation.

Q1 2018 Adjusted Results – Canada

(USD in millions)	Q1 2018	Q1 2017	% vs. PY
Sales	$ 182	$ 186	-2%
Op Earnings	$ -9	$ -16	41%

(% of sales)	Q1 2018	Q1 2017	bps vs. PY
Op Margin	-5.1%	-8.4%	330

- Sales down 2% vs. prior year, down 6% in local currency
  - Price up 7%
  - Volume down 13%
- Local currency operating expenses down 8% due to branch closures and cost reductions
- Operating margin better than expected due primarily to a higher GP rate as a result of market-based price increases and cost management

Note: Reference slide 26 for GAAP vs. non-GAAP reconciliation.

Q1 2018 Adjusted Results – United States

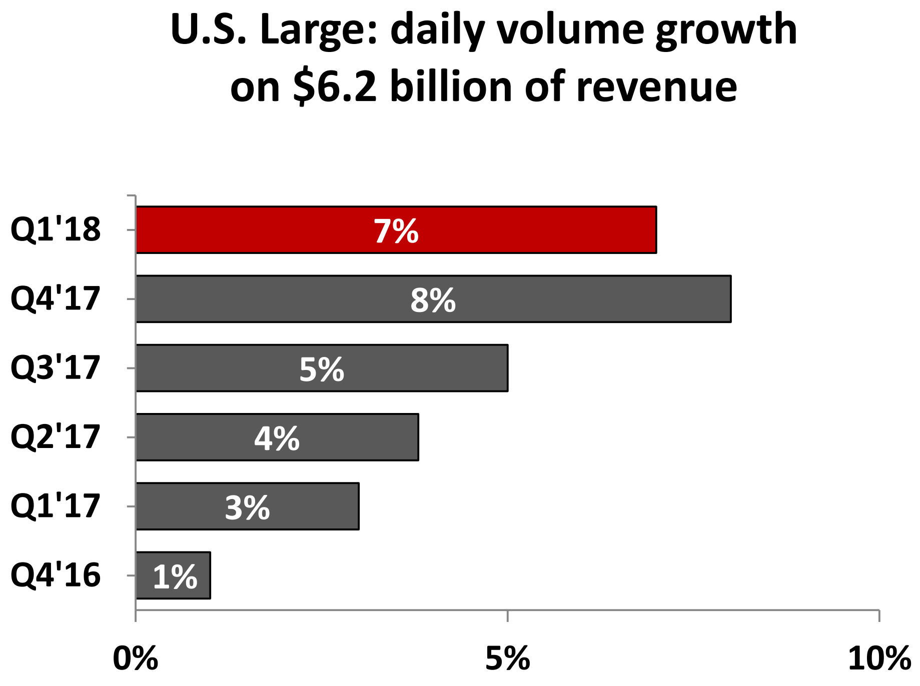
($ in millions)	**Q1 2018**	**Q1 2017**	**% vs. PY**
Sales	$ 2,108	$ 1,953	8%
Op Earnings	$ 352	$ 303	16%

(% of sales)	**Q1 2018**	**Q1 2017**	**bps vs. PY**
Op Margin	16.7%	15.5%	120

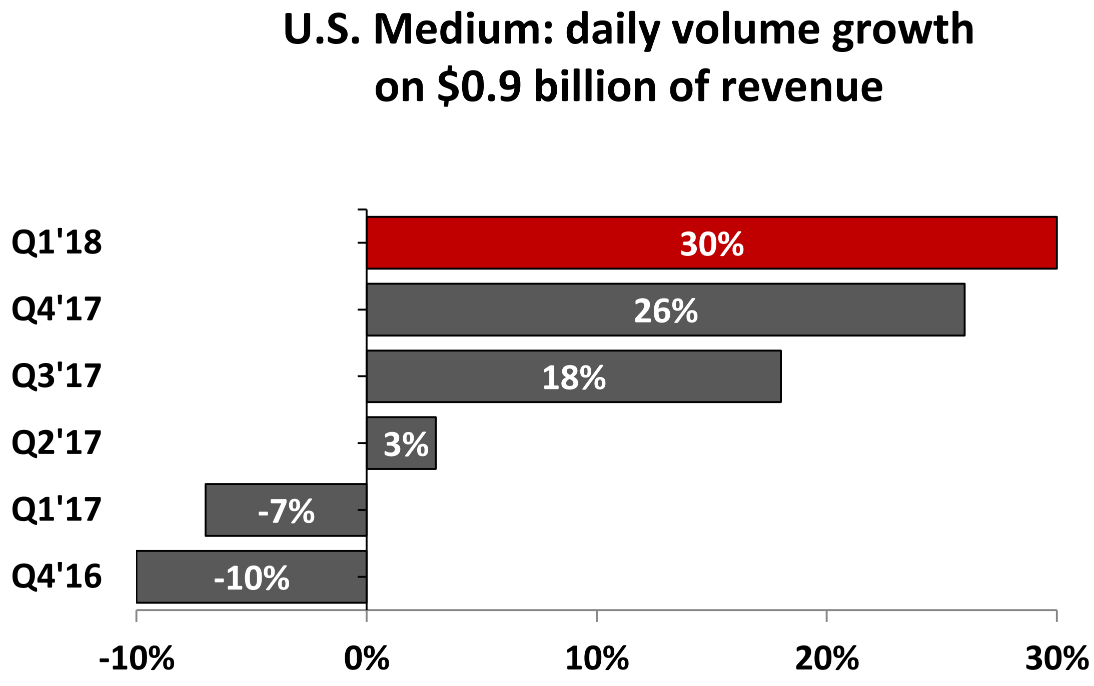
- Sales up 8% vs. prior year
  - Volume up 9%, intercompany sales up 1%, seasonal sales up 1%, partially offset by 1% decline due to Techni-Tool divestiture
  - Price down 2%
- Normalized GP rate declined 60 bps (adjusted for revenue recognition change and national sales meeting timing, see appendix)
- Operating expenses were up 2% on 9% volume growth (adjusted for revenue recognition change, see appendix)
- Operating margin better than expected as expense leverage more than offset GP rate decline

Note: Reference slide 26 for GAAP vs. non-GAAP reconciliation.

Customer Response to Pricing Reset Remains Strong



- U.S. Large volume growth of 7% in the quarter exceeded expectations
- Continued increase in dollar volume each quarter since Q4’16



- U.S. Medium volume growth of 30% in the quarter exceeded expectations
- Increasing penetration with existing customers and acquiring new customers

Note: U.S. Large revenue of $6.2 billion and U.S. Medium revenue of $0.9 billion as of 12/31/2017.
Total product COGS dollars (excludes freight, rebates and other adjustments) used as a proxy for volume.

Raised 2018 Guidance Ranges

	As of 1/24/2018 2018E	As of 4/19/2018 2018E
Sales *($ billions)*	**$10.7 - $11.2**	**$10.9 - $11.3***
% vs. prior year	3% to 7%	5% to 8%
Op. Earnings	**$1.1 - $1.2**	**$1.2 - $1.3**
% vs. prior year	-2% to 6%	6% to 14%
Op. Margin	**10.5% - 11.1%**	**11.1% - 11.5%**
bps vs. prior year	(60) to 0	10 to 50
EPS	**$12.95 - $14.15**	**$14.30 - $15.30**
% vs. prior year	13% to 24%	25% to 33%

- 2018 revenue now expected to grow 5% to 8% on better price deflation and improved FX
- Strong volume in the U.S. is offset by softer volume in Canada
- Operating margin now expected to be 11.1% to 11.5% on improved GP rate and expense productivity

*Typo corrected at 8:00 a.m. 4/19/2018.

Note: Guidance as of 4/19/2018. Reference slide 26 for GAAP vs. non-GAAP reconciliation. Results for 2017 have been restated due to adoption of *Accounting Standards Update (ASU) 2017-07, Compensation Retirement Benefits (Topic 715)*. See supplement on IR website.

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2018: Q1 Actuals and Full Year Guidance at the Midpoint

	Actuals Q1 2018	Midpoint FY 2018E
Sales *($ billions)*	**$2.8**	**$11.1**
% vs. prior year	9%	6.5%
GP	**39.5%**	**38.3%**
bps vs. prior year	(60)	(110)
normalized	*(30)*	*(60)*
OpEx	**27.1%**	**27.0%**
bps vs. prior year	(170)	(140)
Op. Margin	**12.4%**	**11.3%**
bps vs. prior year	110	30
EPS	**$4.18**	**$14.80**
% vs. prior year	45%	29%

- Expect the strong performance in Q1 to continue throughout the year
- Sales growth rate still expected to slow as we face tougher comps in H2 and some favorability in Q1 does not repeat
- Q1 2018 normalized GP rate was down 30 bps (adjusted for revenue recognition change and national sales meeting timing)
- Will continue to hold Canada expectations consistent with January guidance

Note: Guidance as of 4/19/2018. Reference slide 26 for GAAP vs. non-GAAP reconciliation. Results for 2017 have been restated due to adoption of *Accounting Standards Update (ASU) 2017-07, Compensation Retirement Benefits (Topic 715)*. See supplement on IR website.

January to April 2018E EPS Detail

	As of 1/24/2018 EPS 2018E	Q1 Actuals versus Expectations	Q2-Q4 Estimated	As of 4/19/2018 EPS 2018E
	$13.55			$13.55
Ongoing Favorability		0.20	0.60	0.80
One-off/ Non-Repeating		0.45		0.45
Timing		0.10	(0.10)	-
	$13.55	0.75	0.50	$14.80

Q1 EPS exceeded internal expectations by $0.75:

- $0.20 of U.S. volume and price favorability per quarter will carry through the full year
- $0.45 was one-off in nature and is not expected to repeat:
  - Tax benefit from stock-based awards
  - International business favorability
  - Timing of contract negotiations in the U.S.
  - Change in accounting estimate in the U.S.
- $0.10 was timing related and will reverse in the year

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Note: Guidance as of 4/19/2018. Reference slide 26 for GAAP vs. non-GAAP reconciliation.

2018 U.S. Segment Price/Cost

	As of 1/24/2018 2018E	As of 4/19/2018 2018E
Total Price	**-2.0%**	**-1.5%**
Price Reset	-3.0%	-3.0%
Price Increases/Mix	+1.0%	+1.5%
COGS	-0.5%	-0.5%
Total	**-1.5%**	**-1.0%**

- Pricing reset on track
- Price expected to improve on market-based price increases and better mix
- Expectation of COGS deflation of -0.5% for 2018 remains consistent

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Note: As of 4/19/18.

Closing Remarks

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Q&A

Appendix

2018 Guidance

	LOW	MID-PT	HIGH
Sales ($B)	$10.9	$11.1	$11.3
EPS	$14.30	$14.80	$15.30
Sales growth	5%	6.5%	8%
Op. Earnings growth	6%	10%	14%
EPS growth	25%	29%	33%
Op. Margin	11.1%	11.3%	11.5%
Op. Margin bps vs. PY	10 bps	30 bps	50 bps

- Mid-single digit revenue growth expected on share gains and strong demand environment
- Gross profit rate expected to decline -110 bps at the midpoint (50 bps is revenue recognition accounting change)
- Operating expense to sales expected to improve 140 bps at the midpoint as productivity is partially offset by incremental digital investment
- Expected to result in operating margin improvement of 30 bps at the midpoint vs. 2017 actuals

Note: As of 4/19/2018. Reference slide 26 for GAAP vs. non-GAAP reconciliation.

Q1 2018: Revenue Recognition Change

No impact to operating margin. Reclassification lowers operating expenses and increases cost of goods sold.

Total Company Q1 2018

	Q1 Actuals		Excl. Rev. Rec. Change	
($ billions)	**Q1 2018**	**% vs. PY**	**Q1 2018**	**% vs. PY**
Sales	**$2.8**	**9%**	**$2.8**	**9%**
Gross Profit	1.1	7%	1.1	9%
Expenses	0.7	2%	0.8	4%
Op. Earnings	0.3	19%	0.3	19%
	% of Sales	**bps vs. PY**	**% of Sales**	**bps vs. PY**
GP	39.5%	(60)	39.9%	(10)*
EXP	27.1%	(170)	27.6%	(120)
OM	12.4%	(110)	12.4%	(110)

- New revenue recognition accounting standard reclassifies certain service costs from operating expense to cost of goods sold
- GP rate and operating expenses as a percent of sales lower by 50 bps. No impact to operating margin

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*Note: GP rate normalized for revenue recognition and national sales meeting timing was down ~30 bps.

Q1 2018 Actuals: Revenue Recognition Change – U.S.

No impact to operating margin. Reclassification lowers operating expenses and increases cost of goods sold.

U.S. Segment Q1 2018

	Q1 Actuals		Excl. Rev. Rec. Change	
($ billions)	**Q1 2018**	**% vs. PY**	**Q1 2018**	**% vs. PY**
Sales	**$2.1**	**8%**	**$2.1**	**8%**
Gross Profit	0.9	5%	0.9	7%
Expenses	0.5	-1%	0.5	2%
Op. Earnings	0.4	16%	0.4	16%
% of Sales	**% of Sales**	**bps vs. PY**	**% of Sales**	**bps vs. PY**
GP	40.3%	(95)	40.9%	(35)*
EXP	23.6%	(215)	24.2%	(155)
OM	16.7%	120	16.7%	120

- New revenue recognition accounting standard requires a reclassification of certain service costs from operating expense to cost of goods sold
- Change lowers GP rate and operating expenses as a percent of sales by 60 bps. No impact to operating margin

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*Note: GP rate normalized for revenue recognition and national sales meeting timing was down ~60 bps.

2018 Guidance: Sales Bridge

	Company 2018E		U.S. Segment 2018E	
	1/24/2018	**4/19/2018**	**1/24/2018**	**4/19/2018**
Volume	7.0%	7.0%	6.0%	7.0%
Price	-1.5%	-1.0%	-2.0%	-1.5%
Organic *(Daily)*	**5.5%**	**6.0%**	**4.0%**	**5.5%**
Other[1]	-0.5%	+0.5%	-0.5%	-0.5%
Total	**5.0%**	**6.5%**	**3.5%**	**5.0%**

- Higher volume expectations on strong U.S. market (now 3-4% for year) offset by Canada volume
- Price expected to improve from -1.5% to -1.0% due to less price deflation in the U.S. and Canada price increases
- Other expected to improve due to improved FX
- U.S. price expected to improve from -2.0% to -1.5% due to less price deflation in the U.S. (market-based price increases and mix)

Note: As of 4/19/18. 1. Other includes impact of sales day differences, weather/holiday timing, divestitures, FX and intercompany.

Restructuring Costs and Benefits

($Millions)	Cost '17	Cost '18E	Savings '17	Savings '18E	Savings '19E
U.S.	18	0 - 10	15	45 - 65	45 - 55
Canada	39	40 - 50	13	25 - 35	25 - 35
Colombia	37	0	2	0 - 5	0
Other Business Units	19	0 - 5	3	10 - 15	0
Total	112	40 - 65	33	80 - 120	70 - 90

Restructuring costs and savings averaging a 2-year payback

Note: As of 4/19/2018.

Quarterly Daily Sales

Q1 2018 Daily Sales by Month

Month	Company
January	9%
February	9%
March	9%
Q1	**9%**

Q1 2018 Daily Sales vs. Q1 2017

Drivers	Company	United States	Canada	Other Businesses
Volume	8%	9%	-13%	12%
Price	-1%	-2%	7%	
Foreign exchange	2%	n/a	4%	6%
Seasonal Sales	1%	1%		
Intercompany	n/a	1%		
Divestiture	-1%	-1%		
Change vs. Prior	**9%**	**8%**	**-2%**	**18%**
% of Company Revenue	*100%*	*73%*	*6%*	*21%*

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Note: There were 64 selling days in Q1 2018 and 64 selling days in Q1 2017.

Q1 2018 U.S. Sales By Customer End Market

- Reseller: up Low Double Digits
- Retail: up Low Double Digits
- Heavy Manufacturing: up High Single Digits
- Government: up High Single Digits
- Contractor: up High Single Digits
- Natural Resources: up Mid-Single Digits
- Commercial: up Mid-Single Digits
- Light Manufacturing: up Low Single Digits

Q1 2018 Branch Summary

	First Quarter 2018 Branch Summary				
	Branches 12/31/2017	Opened	Closed	Branches 3/31/2018	Distribution Centers 3/31/2018
United States	284	2	1	285	16
Canada	91	0	17	74	7
Other Businesses					
Fabory	44	0	0	44	2
Mexico	19	0	2	17	2
Cromwell	55	0	2	53	1
China	0	0	0	0	1
Puerto Rico	5	0	0	5	0
Dominican Republic	1	0	0	1	0
Japan	0	0	0	0	3
Peru	1	0	0	1	0
Total Other Businesses	125	0	4	121	9
Total	500	2	22	480	32

Other Notes

Selling Days – 2017 and 2018

Month	2018	2017
1Q	64	64
2Q	64	64
3Q	63	63
4Q	64	63
Full Year	255	254

2018 Event Dates

Event	Date
Q1 Earnings	April 19, 2018
Q2 Earnings	July 18, 2018
Q3 Earnings	October 16, 2018
Analyst Meeting	November 7, 2018
Q4 Earnings	January 24, 2019

Q1 2017 and 2018 GAAP to Non-GAAP Reconciliations

(In thousands of dollars)	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	%
Operating earnings reported	$ 334,830	$ 292,501	14%
Restructuring (United States)	3,101	3,066	
Branch gains (United States)	(7,528)	(9,388)	
Restructuring (Canada)	10,920	1,087	
Restructuring (Other Businesses)	1,175	—	
Restructuring (Unallocated expense)	370	—	
Subtotal	8,038	(5,235)	
Operating earnings adjusted	$ 342,868	$ 287,266	19%

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	%
Segment operating earnings adjusted			
United States	352,077	303,320	
Canada	(9,237)	(15,642)	
Other Businesses	37,597	31,507	
Unallocated expense	(37,569)	(31,919)	
Segment operating earnings adjusted	$ 342,868	$ 287,266	19 %
Company operating margin adjusted	12.4 %	11.3 %	
ROIC* for Company	28.9 %	24.0 %	
ROIC* for United States	46.8 %	38.8 %	
ROIC* for Canada	(7.3)%	(11.5)%	

*Adjusted ROIC is calculated as defined on page 7 of our earnings press release, excluding the items adjusting operating earnings as noted above.

	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017	%
Net earnings reported	$ 231,535	$ 174,744	32%
Restructuring (United States)	2,365	1,919	
Branch gains (United States)	(5,741)	(5,878)	
Restructuring (Canada)	8,330	803	
Restructuring (Other Businesses)	950	—	
Restructuring (Unallocated expense)	282	—	
Subtotal	6,186	(3,156)	
Net earnings adjusted	$ 237,721	$ 171,588	39%
Diluted earnings per share reported	$ 4.07	$ 2.93	39%
Pretax adjustments:			
Restructuring (United Sates)	0.05	0.05	
Branch gains (United States)	(0.13)	(0.16)	
Restructuring (Canada)	0.19	0.02	
Restructuring (Other Businesses)	0.02	—	
Restructuring (Unallocated expense)	0.01	—	
Total pretax adjustments	0.14	(0.09)	
Tax effect (1)	(0.03)	0.04	
Total, net of tax	0.11	(0.05)	
Diluted earnings per share adjusted	$ 4.18	$ 2.88	45%

(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.

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