

GRAINGER W W INC
Form DEF 14A
March 17, 2016

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material under §240.14a-12

W.W. Grainger, Inc.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.
 - (1) Title of each class of securities to which transaction applies:
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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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W.W. GRAINGER, INC.
100 GRAINGER
PARKWAY
LAKE FOREST, ILLINOIS
60045-5201
(847) 535-1000

March 17, 2016

Dear Grainger Shareholder:

The W.W. Grainger, Inc. 2016 annual meeting of shareholders will be held at our headquarters located at 100 Grainger Parkway, Lake Forest, Illinois (see map overleaf), on Wednesday, April 27, 2016, at 10 A.M. (CDT).

At the meeting we will report on our operations and other matters of current interest. We also will present a slate of nominees for election as directors as well as proposals to ratify the appointment of our independent auditor, and to consider and hold an advisory vote on the compensation of our Named Executive Officers. The Board of Directors and management cordially invite you to attend.

The formal notice of the annual meeting and the proxy statement follow. Whether or not you plan to attend the meeting, please ensure that your shares are represented by giving us your proxy. You can do so by telephone, by Internet, or by signing and dating the enclosed proxy form and returning it promptly in the envelope provided.

Sincerely,

/s/ J. T. RYAN

James T. Ryan
*Chairman of the Board, President
and Chief Executive Officer*

YOUR VOTE IS IMPORTANT

A majority of the outstanding shares entitled to vote on a matter must be represented either in person or by proxy to constitute a quorum for consideration of that matter at the annual meeting of shareholders. If your shares are held by a broker, unless you provide specific voting instructions, your broker will not be able to vote your shares for the election of directors, on the advisory vote related to executive compensation or on other non-routine matters.

Please make sure your shares are voted.

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W.W. GRAINGER, INC.

2016 Annual Meeting of Shareholders
Wednesday, April 27, 2016 10 A.M. (CDT)
Location: W.W. Grainger, Inc.
100 Grainger Parkway
Lake Forest, Illinois 60045-5201
(847) 535-1000

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W.W. GRAINGER, INC.
100 GRAINGER
PARKWAY
LAKE FOREST, ILLINOIS
60045-5201
(847) 535-1000

NOTICE OF

ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD

APRIL 27, 2016

The annual meeting of shareholders of W.W. Grainger, Inc. will be held at its headquarters at 100 Grainger Parkway, Lake Forest, Illinois 60045 (see map on previous page), on April 27, 2016, at 10 A.M. (CDT) for the following purposes:

1. to elect ten directors for the ensuing year;
2. to consider and act upon a proposal to ratify the appointment of Ernst & Young LLP as independent auditor for the year ending December 31, 2016;
3. to consider and hold an advisory vote on the compensation of Grainger's Named Executive Officers; and
4. to transact such other business as may properly come before the meeting and any adjournment thereof.

The Board has fixed the close of business on March 7, 2016, as the record date for the meeting. Shareholders may vote either in person or by proxy.

By order of the Board of Directors.

Hugo Dubovoy, Jr.
Corporate Secretary
Lake Forest, Illinois
March 17, 2016

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 27, 2016

Grainger's Proxy Statement and Annual Report on Form 10-K are available in the 2016 Annual Shareholder Meeting/Proxy Information section of Grainger's website at <http://www.grainger.com/investor> and also may be obtained free of charge on written request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.

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W.W. GRAINGER, INC.

100 Grainger Parkway
Lake Forest, Illinois 60045-5201
(847) 535-1000

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Introduction

What is the purpose of this proxy statement?

This proxy statement relates to the 2016 annual meeting of shareholders of W.W. Grainger, Inc., an Illinois corporation (Grainger or the Company) to be held on April 27, 2016, and any adjournment of that meeting to a later date. It contains information intended to help you make your voting decisions. We are sending the proxy statement to you because Grainger's Board of Directors is soliciting your proxy to vote your shares at the meeting. The proxy statement and other proxy-soliciting materials were first sent or made available to shareholders on or about March 17, 2016.

What matters are scheduled to be presented?

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The election of ten directors;

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A proposal to ratify the appointment of Ernst & Young LLP as Grainger's independent auditor for the year ending December 31, 2016; and

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A proposal to consider and hold an advisory vote on the compensation of Grainger's Named Executive Officers.

Who is entitled to vote?

Holders of shares of common stock outstanding on Grainger's books at the close of business on March 7, 2016, the record date for the meeting, may vote. There were 61,574,328 shares of common stock outstanding on that date.

If my shares are held in street name can my broker vote for me?

Unless you have given specific voting instructions to your broker, your broker cannot vote your shares on the election of directors, on the advisory vote related to executive compensation, or on any non-routine matters.

What is the difference between holding shares as "shareholder of record" and as "beneficial owner"?

If your shares are registered directly in your name with Grainger's transfer agent, Computershare Trust Company, N.A., you are the shareholder of record with respect to those shares and you have the right to instruct us directly how to vote your shares or to vote in person at the meeting.

If your shares are held in street name by a brokerage firm, bank, or other nominee, you are the beneficial owner of the shares. Your nominee is required to vote your shares according to your direction. **If you do not instruct your nominee how you want your shares voted, your shares cannot be voted for the election of directors or on the advisory vote on the compensation of Grainger's Named Executive Officers.** Please contact your brokerage firm, bank, or other nominee with instructions to vote your shares for the election of directors and on other matters to be considered at the meeting.

How many votes do I have?

You have the right to cumulative voting in the election of directors. This means that you have a number of votes in the election equal to the number of shares you own multiplied by the number of directors being elected. You can cast those votes for the nominees as you choose. For example, you may cast all your votes for one nominee or you may apportion your votes among two or more nominees.

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In any matter other than the election of directors, each of your shares is entitled to one vote.

Does Grainger have majority voting for the election of directors with a resignation policy for directors failing to receive the required majority vote?

Yes. As required under Illinois law, directors are elected by the votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote. Moreover, in accordance with the Company's Criteria for Membership on the Board of Directors, any director standing for re-election (including the ten nominees standing for election at the Annual Meeting) who fails to receive the required majority vote is expected to tender his or her resignation for consideration by the Board Affairs and Nominating Committee. The Board Affairs and Nominating Committee will consider the resignation and make a recommendation to the Board of Directors of the Company concerning the acceptance or rejection of the resignation. The Board will then take formal action on the Board Affairs and Nominating Committee's recommendation within 90 days after the results of the director election at the annual meeting are certified. Following the Board's decision on the Board Affairs and Nominating Committee's recommendation, the company will publicly disclose the Board's decision.

What voting standard applies to the ratification of the appointment of independent auditor?

Ratification of the appointment of independent auditor requires the affirmative votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

What voting standard applies to the advisory vote on the compensation of the Named Executive Officers?

Although the shareholders' vote is advisory and therefore non-binding, the vote on the compensation of the Named Executive Officers Grainger's six highest paid officers whose compensation is discussed in the Compensation Discussion and Analysis section of this proxy statement is determined by the votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

How frequently does Grainger conduct an advisory vote on the compensation of its Named Executive Officers?

The Board of Directors has determined to hold an advisory vote on the compensation of the Named Executive Officers at every annual meeting of shareholders.

What if I don't indicate my voting choices?

If Grainger receives your proxy in time to permit its use at the meeting, your shares will be voted in accordance with the instructions you indicate. If we have received your proxy and you have not indicated otherwise, your shares will be voted as recommended by Grainger's Board. Specifically, your shares will be voted, either individually or cumulatively:

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FOR the election of the director nominees;

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FOR the proposal to ratify the appointment of the independent auditor; and

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FOR the approval of the advisory resolution on the compensation of Grainger's Named Executive Officers.

If you are a beneficial owner and the shares you own are held in street name by a brokerage firm, bank, or other nominee **you must specifically instruct your nominee how you want your shares voted for the election of directors and on the advisory resolution on the compensation of Grainger's Named Executive Officers; otherwise your nominee is not allowed to vote your shares.** Please contact your brokerage firm, bank, or other nominee with instructions to vote your shares for the election of directors and on other matters to be considered at the meeting.

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How does discretionary voting apply?

Grainger is not aware of any matter not described in this proxy statement that will be presented for consideration at the meeting. If another matter is properly presented, your shares will be voted on the matter in accordance with the judgment of the person or persons voting the proxy unless your proxy withholds discretionary authority.

May I revoke my proxy?

Yes. You may revoke your proxy at any time before the voting at the meeting. You can do so in one of the following ways:

1. Deliver to Grainger's Corporate Secretary timely written notice that you are revoking your proxy; or
2. Provide to Grainger another proxy with a later date (which can be done by telephone, by Internet, or by signing, dating, and returning a proxy form); or
3. Vote in person at the meeting.

What does it mean if I receive more than one set of proxy materials?

Receiving multiple sets of proxy-soliciting materials generally means that your Grainger shares are held in different names or in different accounts. You must vote all of the proxy requests to ensure that all your shares are voted.

What constitutes a quorum at the meeting?

A majority of the outstanding shares entitled to vote on a matter, whether present in person or by proxy, constitutes a quorum for consideration of that matter at the meeting. A quorum is necessary for valid action to be taken on the matter. Your shares will be present by proxy and count toward the quorum if you give us your proxy by telephone, by Internet, or by signing, dating, and returning a proxy form.

Describe what types of shareholder engagement occurred in 2015.

Grainger has a very expansive shareholder engagement process. We hosted our annual investor day in November with over 125 investors in attendance and several hundred via webcast. In addition, we presented at 12 investor conferences and met with over 500 firms and over 800 unique investors in 2015. Our investor outreach includes both existing and potential shareholders and we ensure that we meet with at least 80% of our largest investors each year. We also met with 90% of our top 15 active investors between January and April prior to our annual shareholder meeting to answer any questions they may have regarding company strategy, results, governance or executive compensation. We plan to follow a similar practice in 2016. Management, including the Chairman/Chief Executive Officer, Chief Financial Officer and the Chief Operating Officer, actively engages with investors throughout the year, in addition to the Investor Relations team.

Who pays the costs of soliciting proxies?

Grainger will pay all the costs of soliciting management proxies. Brokerage firms, custodians, nominees, fiduciaries, and other intermediaries are being asked to forward the proxy-soliciting materials to beneficial owners of Grainger common stock and to obtain their authority to give proxies. Grainger will reimburse these intermediaries for their reasonable expenses.

In addition to mailing proxy-soliciting materials, Grainger's directors, officers, and regular employees may solicit proxies personally, by telephone, or by other means. They will not receive additional compensation for these services, other than normal overtime pay, if applicable. Representatives of Grainger's transfer agent may also solicit proxies. Grainger additionally has employed D.F. King & Co., Inc. to help solicit proxies and will pay that firm approximately \$7,000 for its services, plus reasonable costs and expenses.

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Where can I find the voting results?

We will report the voting results on either a Form 10-Q or on a Form 8-K within four business days after the end of our annual meeting.

How do I submit a shareholder proposal or directly nominate a director at the 2017 annual meeting?

A shareholder who intends to present a proposal at the next annual meeting of shareholders and who wishes the proposal to be included in our proxy statement for that meeting pursuant to Rule 14a-8 under the Securities Exchange Act of 1934, as amended (Exchange Act), must submit the proposal in writing to the Corporate Secretary at the address on the notice of annual meeting accompanying this proxy statement. The proposal must be received no later than November 17, 2016.

Our by-laws require that written notice of proposals intended to be presented by a shareholder at the next annual meeting, but that are not intended for inclusion in our proxy statement for that meeting pursuant to Rule 14a-8, be delivered to the Corporate Secretary at the address on the notice of annual meeting accompanying this proxy statement no earlier than December 28, 2016 and no later than January 27, 2017. Our by-laws also require that written notice of nominees for the election of directors intended to be made by a shareholder at the next annual meeting be delivered to the Corporate Secretary at the address on the notice of annual meeting accompanying this proxy statement by no later than the date set forth in the proxy statement for the preceding annual meeting of shareholders, which in this case is November 17, 2016. To be in proper written form, these notices must set forth the information prescribed in our by-laws. A copy of our by-laws is available in the Governance section of Grainger's website at www.grainger.com/investor or may be obtained free of charge on written request to the Corporate Secretary at the address on the notice of annual meeting accompanying this proxy statement.

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W.W. GRAINGER,
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Directors

Recommending Candidates for Board Membership

The Board Affairs and Nominating Committee recommends candidates for Board membership based on a number of criteria, including ethical standards, judgment, independence and objectivity, strategic perspective, record of accomplishment, business knowledge and experience applicable to Grainger's goals. Suggestions as to candidates are received from members of the Board Affairs and Nominating Committee, other directors, employees, search firms and others, including shareholders.

Any shareholder who would like the Board Affairs and Nominating Committee to consider a candidate for Board membership should send a letter of recommendation containing the name and address of the proposing shareholder and of the proposed candidate and setting forth the business, professional, and educational background of the proposed candidate, as well as a description of any agreement or relationship between the proposing shareholder and proposed candidate. A written consent of the proposed candidate to being identified as a nominee and to serve as a director if elected must also be provided. The communication should be sent by mail or other delivery service to the attention of the Corporate Secretary at Grainger's headquarters.

Director Independence

The Board has adopted "categorical standards" to assist it in making independence determinations of nominees. The categorical standards are intended to help the Board in determining whether certain relationships between nominees and Grainger are "material relationships" for purposes of the New York Stock Exchange (NYSE) independence standards. The categorical standards adopted by the Board have more restrictive thresholds than the NYSE's bright line revenue test for non-independence. The categorical standards adopted by the Board are set forth in Appendix A to this proxy statement and are also available in the Governance section of Grainger's website at www.grainger.com/investor.

In the ordinary course of its operations during 2015, Grainger engaged in various types of transactions with organizations with which Grainger directors are associated in their principal business occupations or otherwise. Specifically, in the ordinary course of its business during 2015, Grainger bought products and/or services from, or sold products and/or services to, companies with which Messrs. Santi and Slavik are or were associated as executive officers or otherwise as of December 31, 2015. In no instance did the total amount of the purchases from or sales to any such company during 2015 represent more than 0.232% of the projected consolidated gross revenues of that company for the year or more than 0.311% of the consolidated gross revenues of Grainger for the year.

In addition, as part of its overall 2015 charitable contributions program, Grainger made donations to tax-exempt organizations with which Messrs. Hall, Novich, Roberts, and Santi serve as officers, directors or trustees. In no instance did the total amount of the contributions to such an organization during 2015 represent more than 0.072% of that organization's projected total receipts for the year.

The Board considered these transactions and donations in assessing the independence of the directors involved against the NYSE's independence standards and Grainger's categorical standards, and determined that none of the directors had any direct or material indirect interest in the transactions and donations. Similar transactions and donations are likely to occur in the future, and are not expected to impair the independence of the directors involved.

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The Board has determined that each of Messrs. Adkins, Anderson, Levenick, Novich, Roberts, Rogers, Santi, and Slavik, and Ms. Hailey has no material relationship with Grainger within the meaning of the NYSE independence standards and Grainger's categorical standards. The other nominee, Mr. Ryan, is a Grainger employee and, accordingly, is not considered "independent." All of the nominees previously were elected by the shareholders at the 2015 annual meeting of shareholders.

Annual Election of Directors

Grainger's directors are elected each year at the annual meeting. As set forth in the Operating Principles for the Board of Directors, Grainger expects all directors and nominees to attend annual meetings. At the 2015 annual meeting, all of the persons serving as directors at the time were in attendance. In addition, all directors attended at least 75% of Board and Committee meetings.

Ten directors, all current Board members, have been nominated by the Board for election at this year's annual meeting of shareholders. While William K. Hall is also a current Board member, he will not be standing for re-election this year in accordance with the Company's Criteria for Membership on the Board of Directors, which provide that an outside director generally will not be nominated after the age of 72. All directors are elected for a one-year term. Each director will therefore serve until the 2017 annual meeting of shareholders or until his or her successor has been qualified and elected. Details concerning the nominees are provided below.

As required under Illinois law, majority voting applies to all Grainger director elections. Accordingly, directors are elected by the votes of a majority of the shares of Grainger common stock represented in person or by proxy at the meeting and entitled to vote. A shareholder directing to withhold authority for re-election of a director will have the same effect as votes against the election of that director. Assuming a quorum is present, broker non-votes will not affect the outcome of the vote. If any of the nominees for director mentioned below should be unavailable for election, a circumstance that is not expected, the person or persons voting your proxy may exercise discretion to vote for a substitute nominee selected by the Board.

Nominees and Director Experience, Qualifications, Attributes, and Skills

The nominees have provided the following information about themselves, including their ages as of March 2016. Each nominee has provided information on his or her relevant background that includes the nominee's experience for at least the past five years.

Grainger's directors and nominees have varied experience, qualifications, attributes, and skills that assist them in providing guidance and oversight to Grainger's management as it operates the business through a network of branches, distribution centers, sales representatives, direct marketing, including catalogs, and a variety of electronic and Internet channels and with more than 25,800 employees in the United States, Canada, Europe, Asia, and Latin America. With 2015 sales of \$10 billion and as a leading broad-line distributor of maintenance, repair and operating supplies and other related products and services in North America and operations in Europe, Asia and Latin America, Grainger has a diverse customer base necessitating depth and breadth of product lines and offerings.

The Board has identified experience, qualifications, attributes, and skills that in light of Grainger's business, structure and challenges are relevant to service on the Board of Directors. The Board considers nominees who have demonstrated integrity and accomplishment in their business and professional careers and who possess the necessary experience, qualifications, attributes, and skills to contribute to the Board and Grainger. In addition, ongoing director education, whether provided by Grainger or by a third party, is important to service on the Board of Directors. Current nominees have engaged in continuing education and other programs to remain current in their particular areas of expertise as well as to further their understanding of corporate governance and in other matters relevant to Grainger.

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The Board believes the experience, qualifications, attributes, and skills of each nominee qualify the nominee for service on the Board of Directors. Each of the current nominees has significant leadership experience in large, multifaceted organizations. This experience includes developing and executing corporate strategy, overseeing operations, and managing risks in organizations similar in size or complexity to Grainger. The summary provided below is not a comprehensive statement of each nominee's background but is provided to describe the primary experience, qualifications, attributes, and skills that led the Board to nominate each individual.

Rodney C. Adkins

Rodney C. Adkins, age 57, is President of 3RAM Group LLC, a privately held company specializing in capital investments, business consulting services and property management. Formerly, Mr. Adkins was Senior Vice President of International Business Machines Corporation (IBM), a leading manufacturer of information technologies, having served in that position from 2007 until 2014. In his over 30-year career with IBM, Mr. Adkins held a number of development and management roles, including Senior Vice President of Corporate Strategy from 2013 to 2014, Senior Vice President of Systems and Technology Group from 2009 to 2013, Senior Vice President of Development & Manufacturing from 2007 to 2009, and Vice President of Development of IBM Systems and Technology Group from 2003 to 2007. He is also a director of Avnet, Inc., where he serves on its audit committee, PPL Corporation, where he serves on its audit committee, and United Parcel Service, Inc., where he chairs the risk committee and is a member of the compensation committee. During the past five years, Mr. Adkins served on the board of directors of Pitney Bowes Inc. Mr. Adkins, an independent director, was first appointed a director of Grainger in July 2014 and is a member of the Compensation Committee and a member of the Board Affairs and Nominating Committee.

Director Qualifications

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Mr. Adkins served as the Senior Vice President of a global information technology and innovation-focused public company and held senior positions responsible for development, management and strategy. Over the course of 30 years with this company, he developed deep product development and brand management experience. He also gained significant experience managing and understanding corporate finance, financial statements and accounting through his many operational roles with the company. Additionally, Mr. Adkins managed the company's supply chain and procurement, giving him direct insight into global trade and supply chains, and the role of distributors in those efforts. Mr. Adkins has extensive experience in corporate governance matters and is a director at three other public companies, in addition to Grainger, and serves on the audit committee of two of them.

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Brian P. Anderson

Brian P. Anderson, age 65, is the former Executive Vice President of Finance and Chief Financial Officer of OfficeMax Incorporated, a distributor of business-to-business and retail office products, having served in that position until January 2005. Prior to assuming this position in 2004, Mr. Anderson was Senior Vice President and Chief Financial Officer of Baxter International Inc., a position he assumed in 1998. He is also a director of A.M. Castle & Co., for which he is Chairman of the Board and a member of the audit committee, as well as a director of James Hardie Industries plc where he chairs the audit committee and serves on the remuneration committee, and PulteGroup, Inc. where he chairs the audit committee and serves on the nominating and governance committee. He is a director and Chairman of The Nemours Foundation, a non-profit children's health organization. Mr. Anderson, an independent director, was first elected a director of Grainger in 1999 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

Director Qualifications

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Mr. Anderson served as the chief financial officer of two public companies, held finance positions including corporate controller and vice president of audit and was an audit partner at an international public accounting firm. As a result, Mr. Anderson has in-depth knowledge of accounting and finance as well as familiarity in risk management and risk assessment and the application of the Committee of Sponsoring Organizations of the Treadway Commission internal controls framework. In addition, while serving as a chief financial officer of one of the two public companies noted above, Mr. Anderson had primary responsibility for the supply chain and logistics of that company. Mr. Anderson also has in-depth experience in corporate governance matters and is the Chairman of the Board of a public company as well as a member of the governance committee of one other public company. In addition, Mr. Anderson serves as the chairman of the audit committees of two public companies and as a member of the audit committees of two other public companies, including Grainger. See "Audit Committee" below for the Board's determination concerning Mr. Anderson's service on more than three public company audit committees.

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V. Ann Hailey

V. Ann Hailey, age 65, is the former President, Chief Executive Officer and Chief Financial Officer of Famous Yard Sale, Inc., an online marketplace for celebrities to connect with their fans by offering items in a virtual yard sale format, having served in that position until March 2014. Formerly, Ms. Hailey served as Chief Financial Officer of Gilt Groupe, an Internet retailer of discount luxury goods from January 2009 until January 2010. Previously she was with Limited Brands, Inc., where she served as Executive Vice President and Chief Financial Officer from 1997 to 2006 and as Executive Vice President, Corporate Development from 2006 to 2007. Prior to joining Limited Brands in 1997, Ms. Hailey was Senior Vice President and Chief Financial Officer of the Pillsbury Company. She is also a director of Realogy Holdings Corp. where she chairs its audit committee and is a member of its nominating and corporate governance and compensation committees, and TD Ameritrade Holdings, Inc., where she serves on its outside independent directors, audit, and risk committees. Ms. Hailey, an independent director, was first elected a director of Grainger in 2006 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

Director Qualifications

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Ms. Hailey has spent her career in consumer businesses and brings key financial and operations experience to the Company. In particular, Ms. Hailey possesses broad expertise in finance, strategic planning, branding and marketing, retail goods and sales and distribution on a global scale. Ms. Hailey's positions as a former chief financial officer, her current and prior service on the audit committees of other companies and as Audit Chair of the Cleveland Federal Reserve Bank and her accounting and financial knowledge, also impart significant expertise to the Board, including an understanding of financial statements, corporate finance, accounting and capital markets. Through her experiences at Gilt Groupe Inc. and Famous Yard Sale, Ms. Hailey has added experience in Internet site development and selling as well as new venture management and funding.

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Stuart L. Levenick

Stuart L. Levenick, age 63, is a retired Group President of Caterpillar Inc., a manufacturer of construction and mining equipment, diesel and natural gas engines, and industrial gas turbines. Prior to assuming that position in 2004, Mr. Levenick served as Vice President, Caterpillar Inc., and Chairman of Shin Caterpillar Mitsubishi Ltd. from 2000 to 2004, and as Vice President, Asia Pacific Division, from 2001 to 2004. He is also a director of Entergy Corporation, where he chairs its finance committee and is a member of its governance and executive committee, and Finning International Inc. Mr. Levenick, an independent director, was first appointed a director of Grainger in 2005, and is the Lead Director, Chair of the Board Affairs and Nominating Committee and a member of the Compensation Committee.

Director Qualifications

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Mr. Levenick has served as the president of a public multinational manufacturing company and has had extensive international operations experience including positions outside the United States in numerous countries for more than 20 years. Mr. Levenick also had operational responsibility for supply chain and logistics and responsibility for the global parts and product support business as well as global marketing of his previous employer. In addition, he had led his former employer's global human resources function and had responsibility for that company's enterprise risk assessment.

Neil S. Novich

Neil S. Novich, age 61, is the former Chairman, President, and Chief Executive Officer and a former director of Ryerson Inc., a major metal distributor and fabricator. Mr. Novich became Ryerson's President and Chief Executive Officer in 1996 and also Chairman in 1999, a position he held through 2007. He is also a director of Analog Devices, Inc., where he chairs the compensation committee, Beacon Roofing Supply, Inc., where he chairs the audit committee, and Hillenbrand, Inc., where he chairs the compensation and management development committee. He is a trustee of The Field Museum of Natural History, and a member of the Visiting Committee to the Physical Sciences Division, University of Chicago. Mr. Novich, an independent director, was first elected a director of Grainger in 1999 and is a member of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

Director Qualifications

§

Mr. Novich has served as the CEO and chairman of the board of a public multinational metal distributor and fabricator, where he was deeply engaged in that company's distribution operations on a domestic and international basis, and also in the leadership development and human resources functions. He was also a consultant for a management consulting firm for over 10 years developing strategies for its clients. As a result, Mr. Novich has in-depth operational experience in supply chain,

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distribution and logistics and experience in developing strategy across a variety of industries. Mr. Novich also serves on the audit committee, the compensation committee, and the compensation and management committee of one or more public companies.

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Michael J. Roberts

Michael J. Roberts, age 65, is the Founder of LYFE Kitchen restaurant. Formerly, he was Global President and Chief Operating Officer of McDonald's Corporation from 2004 to 2006. His previous positions at McDonald's Corporation included Chief Executive Officer McDonald's USA during 2004; President McDonald's USA from 2001 to 2004; and President, West Division McDonald's USA from 1997 to 2001. Mr. Roberts is also a director of CenturyLink, Inc., where he serves on its audit committee. During the past five years, Mr. Roberts served on the board of directors of Qwest Communications International, Inc. and Standard Parking Corporation. Mr. Roberts, an independent director, was first appointed a director of Grainger in 2006 and is Chair of the Compensation Committee and a member of the Board Affairs and Nominating Committee.

Director Qualifications

§

Mr. Roberts served as president and chief operating officer of a public multinational food-service company and in this capacity had extensive management and profit and loss responsibilities. Further, he was responsible for the marketing and international operations of that company. Mr. Roberts also has significant human resources experience and previously served on the compensation committees of two other public companies.

Gary L. Rogers

Gary L. Rogers, age 71, was Vice Chairman of General Electric Company from 2001 until his retirement in December 2003. Previously, Mr. Rogers was Senior Vice President of General Electric Company and President and Chief Executive Officer of GE Plastics from 1992 to 2001. During the past five years, Mr. Rogers served on the board of directors of Rohm and Haas Company. Mr. Rogers, an independent director, was first appointed a director of Grainger in 2004 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

Director Qualifications

§

Mr. Rogers served as president and CEO of a global enterprise with products that served multiple industries and with responsibilities including international operations, global supply chain, distribution and logistics. Mr. Rogers also has a background in finance and accounting serving as part of the corporate audit staff and as division chief financial officer for that same enterprise.

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James T. Ryan

James T. Ryan, age 57, is Chairman of the Board, President and Chief Executive Officer of Grainger, positions assumed in 2009, 2006 and 2008, respectively. Mr. Ryan became Chief Operating Officer and was appointed to Grainger's Board of Directors in 2007. Prior to that, Mr. Ryan served as Group President, a position assumed in 2004. He has served Grainger in increasingly responsible roles since 1980, including Executive Vice President, Marketing, Sales and Service; President, Grainger.com; Vice President, Information Services; and President, Grainger Parts. He is a trustee of the Museum of Science and Industry and Trustee/Vice Chairman of DePaul University. He is also a member of the Civic Committee of the Commercial Club of Chicago, the Economic Club of Chicago, and Business Roundtable.

Director Qualifications

§

Mr. Ryan is the Company's Chairman, President and CEO. He has served Grainger in many capacities over his more than 30 years with the Company including direct responsibility for purchasing and varied management roles in the supply chain operations of the Company. Previously, Mr. Ryan was directly responsible for the sales and marketing of Grainger's United States operations. Mr. Ryan also has extensive experience in strategic planning, development and execution.

E. Scott Santi

E. Scott Santi, age 54, is Chairman and Chief Executive Officer of Illinois Tool Works Inc. (ITW), a worldwide manufacturer and marketer of engineered components and industrial systems and consumables. Mr. Santi was elected Chief Executive Officer of ITW in November 2012, after serving as acting Chief Executive Officer since October 2012, and was elected Chairman in May of 2015. Previously, Mr. Santi served as Vice Chairman of ITW from 2008 to 2012, and Executive Vice President from 2004 until 2008. Mr. Santi, an independent director, was first elected a director of Grainger in 2010 and is Chair of the Audit Committee, an "audit committee financial expert," and a member of the Board Affairs and Nominating Committee.

Director Qualifications

§

Mr. Santi is the CEO of a public manufacturer and marketer of products. Prior to assuming this position, he served in various management roles for the same company including positions requiring significant operational and financial responsibility. During his tenure he has had extensive international responsibility including operating responsibility for a business with annual international revenues of several billion dollars. Mr. Santi has significant experience with mergers and acquisitions and with integrating acquired companies. He has also had significant strategic marketing responsibilities and human resource experience including compensation policy, leadership development and succession planning.

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James D. Slavik

James D. Slavik, age 63, is Chairman and a director of Mark IV Capital, Inc., a private commercial real estate development and investment company that was founded in 1974. Mark IV Capital acquires, invests in, develops and manages commercial real estate projects. Mr. Slavik was named to his current position in 2003, after serving as Mark IV Capital, Inc.'s Chairman and Chief Executive Officer from 1990 to 2003. He also serves on the Advisory Board for the Cove Fund, a seed capital fund affiliated with UCI Applied Innovation (formerly the Institute for Innovation) at the University of California at Irvine (UCI) and is a Founding Director for UCI Applied Innovation. Mr. Slavik is also a director of the Hoag Hospital Foundation and is a member of its investment and nominating committees. Mr. Slavik, an independent director, was first elected a director of Grainger in 1987 and is a member of the Board Affairs and Nominating Committee and the Compensation Committee.

Director Qualifications

§

Mr. Slavik is the chairman of a private commercial real estate development and investment company and was previously that company's CEO. As a result, Mr. Slavik has expansive knowledge in investments, financing and real estate. Mr. Slavik also worked at multiple commercial brokerage companies as an investment properties broker and led the marketing programs for clients' commercial properties.

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The following table highlights specific experience, qualifications, attributes, and skills that the Board considered for each director. A particular director may possess additional experience, qualifications, attributes, or skills even if not expressly indicated below.

Director Experience, Qualifications, Attributes, and Skills	Adkins	Anderson	Hailey	Hall	Levenick	Novich	Roberts	Rogers	Ryan	Santi	Slavik
Operational Experience in the development and implementation of operating plans and business strategy	ü	ü	ü	ü	ü	ü	ü	ü	ü	ü	ü
Finance Possess the knowledge and understanding of finance and financial reporting processes with experience or oversight over the creation or auditing of financial reports	ü	ü	ü	ü	ü	ü	ü	ü	ü	ü	ü
Supply Chain/Logistics Experience in supply chain management encompassing the planning and management of all activities involved in sourcing and procurement, conversion, and all logistics management activities	ü	ü		ü	ü	ü	ü	ü	ü		
Marketing Experience in, or experience in a senior management position responsible for, managing a sales function	ü		ü	ü	ü		ü	ü	ü	ü	ü
Human Resources/Compensation Experience in, or experience in a senior	ü	ü		ü	ü	ü	ü	ü	ü	ü	ü

management
position responsible for,
managing human
resources/
compensation

Leadership

Experience managing at a senior level ü ü ü ü ü ü ü ü ü ü

Governance

Knowledge of corporate governance matters, including through service on other public company boards ü ü ü ü ü ü ü ü ü ü

International

Experience in oversight of a complex global organization ü ü ü ü ü ü ü ü ü

Risk Assessment & Risk Management

Experience overseeing risk management ü ü ü ü ü ü ü ü ü ü

Board Tenure

The Board believes that it has the appropriate mix of relatively new directors and those with longer service to the Company. One longstanding director, Mr. Slavik, is the beneficial owner of approximately 6.2% of the Company's shares as of March 7, 2016. Mr. Slavik's beneficial ownership of Company shares pre-dates Grainger's initial public offering in 1967. As a group, the average tenure of the nominees for election to Grainger's Board of Directors is approximately 12.2 years. The chart below reflects length of service:

Years of Service	1-5	6-11	12-17	25+
Number of Directors	1	6	3	1

Table of Contents**Board Diversity**

One of the primary objectives of Grainger's corporate governance structure is to have a highly functional Board that properly oversees Grainger's strategies and operations. The Board's Criteria for Membership on the Board of Directors (Criteria) list the various characteristics that the Board Affairs and Nominating Committee should consider in reviewing candidates for the Board. In addition to relevant business experience, qualifications, attributes, skills, and the willingness to become involved with Grainger, the Criteria also enumerate personal characteristics that should be considered, including reputation for ethics and integrity, common sense and judgment, independent and objective thought, and the consideration of diverse opinions.

Regarding diversity, the Criteria specify that consideration shall be given to candidates without regard to race, color, religion, gender or national origin. To ensure that the Board benefits from diverse perspectives, it seeks qualified nominees from a variety of backgrounds, including candidates of gender and racial diversity, and in any retained search for Board candidates, Grainger specifies that the Board is seeking candidates with gender and racial diversity. The Board actively reviews diversity recruiting efforts.

Board of Directors and Board Committees

Seven meetings of the Board were held in 2015. Each regular Board meeting included at least one executive session, during which only independent directors were present. In addition, the directors acted once by unanimous written consent during the year.

The Board has three standing committees: Audit, Board Affairs and Nominating, and Compensation. All members of these committees are required to be "independent" directors.

All non-employee directors have been determined to be independent. Committee memberships are shown in the following table:

Independent Directors' Committee Assignments

Name	Audit	Board Affairs and Nominating	Compensation
Rodney C. Adkins		Member	Member
Brian P. Anderson	Member	Member	
V. Ann Hailey	Member	Member	
William K. Hall	Member	Member	
Stuart L. Levenick		Chair	Member
Neil S. Novich	Member	Member	
Michael J. Roberts		Member	Chair
Gary L. Rogers		Member	Member
E. Scott Santi	Chair	Member	
James D. Slavik		Member	Member

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Lead Director

The Operating Principles for the Board of Directors and Grainger's by-laws created the leadership position of Lead Director, to be elected annually by and from the Board's independent directors. Mr. Stuart L. Levenick was elected to serve as Lead Director after the April 2015 annual meeting of shareholders.

Audit Committee

The Audit Committee of the Board (the Audit Committee) met five times in 2015. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the Securities and Exchange Commission (SEC) and listing standards of the NYSE. The Board has also determined that each of Mr. Santi, Chair of the Audit Committee, Mr. Anderson, Mr. Novich, and Ms. Hailey, is an "audit committee financial expert," as that term is defined in the applicable rules of the SEC. Further, in accordance with applicable NYSE listing standards, the Board has considered Mr. Anderson's simultaneous service on the audit committees of more than three public companies, namely the audit committees of Grainger, A.M. Castle & Co., PulteGroup Inc. and James Hardie Industries plc, and has determined that such service will not impair his ability to serve effectively on the Audit Committee.

The Audit Committee assists the Board in its oversight responsibility with respect to Grainger's financial reporting process, Grainger's systems of internal accounting and financial controls, the integrity of Grainger's financial statements, Grainger's compliance with legal and regulatory requirements, the qualifications and independence of Grainger's independent auditor, and the performance of Grainger's internal audit function and independent auditor. It also has oversight responsibilities for various aspects of certain employee benefit plans. Additionally included among the responsibilities of the Audit Committee are the appointment, compensation, retention, and oversight of the independent auditor; the establishment of procedures for the treatment of complaints regarding accounting, internal accounting controls, and auditing matters; and the pre-approval of audit and non-audit services to be provided by the independent auditor. The Audit Committee has the further responsibility to review Grainger's risk assessment and risk management process and policies and to oversee compliance with Grainger's Business Conduct Guidelines.

Board Affairs and Nominating Committee

The Board Affairs and Nominating Committee of the Board (the Board Affairs and Nominating Committee) met five times in 2015. The Board has determined that each of the members of the Board Affairs and Nominating Committee is "independent," as that term is defined in the independence requirements for members of nominating committees contained in the applicable standards of the NYSE.

The Board Affairs and Nominating Committee makes recommendations to the Board regarding the makeup of the Board and its committees, establishes specific criteria by which potential directors shall be qualified, identifies potential nominees, makes recommendations concerning director and nominee independence, reviews transactions between Grainger and related persons (as further discussed below), and evaluates the overall performance of the Board. It also has primary oversight responsibility for corporate governance, including the responsibility to recommend corporate governance principles, recommend Board committee responsibilities and members, evaluate the Board in the area of corporate governance, including the adequacy of the information supplied to the Board and the Board's performance of its oversight responsibilities relative to the management of Grainger, and to recommend retirement, compensation, and other policies applicable to directors; and oversight

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responsibility of corporate citizenship activities to advance the interest of shareholders, including involvement in the communities Grainger serves and promotion of a sustainable environment. Additional responsibilities of the Board Affairs and Nominating Committee are to make initial assessments regarding major issues or proposals and work with the Compensation Committee to review senior management organization and succession.

Compensation Committee

The Compensation Committee of the Board (the Compensation Committee or the Committee) met five times in 2015.

The Committee oversees Grainger's compensation and benefits policies and programs (generally for all employees and specifically with respect to executives), makes executive compensation decisions, and reviews and recommends other compensation matters to be submitted to the Board and/or shareholders for approval. The general responsibilities of the Committee are to oversee that:

- § compensation is aligned to shareholder value creation;
- § compensation, especially senior management compensation, is linked to both personal and Company performance;
- § the Company maintains a market competitive compensation structure that is designed to attract, motivate, develop, and retain key talent who deliver performance that will increase shareholder value;
- § the Company's compensation policies and practices for all employees are designed so as not to encourage inappropriate risk-taking;
- § compensation and benefit policies and practices reflect the highest level of integrity; and
- § all stock and incentive plans are appropriately administered.

The Board has determined that each of the members of the Compensation Committee is "independent," as that term is defined in the independence requirements for members of compensation committees contained in the applicable standards of the SEC and the NYSE.

The Committee annually reviews and approves corporate goals and objectives relevant to CEO compensation, evaluates CEO performance in light of those financial goals and objectives, and, together with the other independent directors (as directed by the Board), determines and approves the CEO's compensation based on this evaluation, in executive session without members of management present, and approves the compensation paid to the most highly compensated executives, the Named Executive Officers (NEOs).

In overseeing the Company's compensation programs, the Committee develops programs based on its own deliberations. It also considers programs and recommendations from its independent compensation consultant, a variety of other compensation and benefits consultants, and management. After a review of the factors prescribed by the SEC and the NYSE, the Committee determined that Deloitte Consulting is an independent advisor under the rules and regulations and has retained Deloitte Consulting as its independent compensation consultant.

The independent compensation consultant is solely hired by and reports directly to the Committee. The Committee's practice is to routinely meet with the independent compensation consultant in executive session, without management present, following each Committee meeting. The Committee has sole authority to retain and terminate the

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independent compensation consultant, including sole authority to approve the consultant's fees. At the Committee's direction, the independent compensation consultant:

- § attends Committee meetings;
- § assists the Committee in evaluating compensation proposals;
- § helps analyze recommendations proposed by management;
- § assists with the design of the structure and metrics for incentive compensation programs;
- § responds to specific compensation-related inquiries, such as determining comparator companies used for compensation studies;
- § conducts or assists in risk reviews of the Company's performance and incentive-based compensation programs; and
- § provides periodic updates on executive competitor trends and developments and undertakes special projects as assigned.

Members of management (including some of the NEOs) assist the Committee in performing its responsibilities by providing recommendations for the design of Grainger's compensation program for its NEOs, other officers, and other employees. Management also recommends salary and award levels, except those related to Mr. Ryan, Chairman of the Board, President and Chief Executive Officer. Mr. Ryan's salary and awards are reviewed by the Committee, together with the other independent directors (as directed by the Board), in executive session without members of management present. On issues of compensation, the independent directors of the Committee, in their sole discretion, determine the appropriate compensation design and level.

The Committee grants equity awards (stock options, restricted stock units (RSUs), and performance shares) to officers and other employees under the 2015 Incentive Plan. The Committee has delegated to management limited authority to grant stock options and RSUs to non-officer employees. Awards under this authority are granted under the terms and conditions that have been approved by the Committee. The pool of shares available to management under this delegation is refreshed annually by the Committee to 20,000 stock options and 35,000 RSUs. The maximum amount that management is authorized to award to any individual is 5,000 stock options and 2,500 RSUs, and to avoid any perception of manipulated timing, all awards are effective the first business day of the month following the award. Information concerning the grants by management is shared with the Committee at its next meeting. The Committee may terminate this delegation of authority at its discretion.

Leadership Structure

The Board has carefully considered its leadership structure and believes that a combined Chairman/Chief Executive Officer position represents the best leadership structure for Grainger.

The Board has strong governance structures and processes in place to ensure the independence of the Board. These established structures and processes, which are reflected in the Operating Principles for the Board of Directors and the various committee charters, provide for the independent directors to exercise authority so that the Board is effective in overseeing critical matters of strategy, operations, and reporting. Important duties performed by the independent directors, either collectively or through committees made up solely of independent directors, are selecting the Chairman and Chief Executive Officer and evaluating his or her performance and the resulting compensation.

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The Board believes that a single individual serving in the combined position of Chairman and Chief Executive Officer provides a useful and effective connection between the Board and Company management to help them act with a common understanding and purpose. This structure assists in the timely flow of relevant information that supports effective Board decision-making.

The Board does not believe that separating the role of the Chairman and Chief Executive Officer would result in strengthening Grainger's corporate governance or in creating or enhancing long-term value for our shareholders. While the Board generally believes that splitting the positions is unnecessary and not in the best interest of shareholders, in 2008, as part of a planned leadership succession process, it temporarily separated the two positions. The separation of these functions helped promote an orderly transition in Company leadership. At the end of the transition period, after consideration of Grainger's governance structures, the Board determined it was appropriate to recombine the Chairman and Chief Executive Officer positions.

In deciding that a combined Chairman and Chief Executive Officer position is the appropriate leadership structure for Grainger, the Board also recognized the need for independent leadership and oversight. Since 1995, Grainger's Operating Principles for the Board of Directors have assigned a leadership role to the independent director serving as Chair of the Board Affairs and Nominating Committee. Over time, this director has been responsible for facilitating Board involvement on major issues and/or proposals, reviewing meeting agenda and information to be provided to the Board, consulting with directors, the Chief Executive Officer, and management and presiding at executive sessions of the Board.

In 2010, the Board revised its Operating Principles and by-laws to create the leadership position of Lead Director, to be elected annually by and from the Board's independent directors. Among the duties assigned to the Lead Director is the responsibility for:

- § presiding at meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors;
- § serving as the primary liaison between the Chairman and the independent directors;
- § reviewing and approving the types of information sent to the Board;
- § reviewing and approving meeting agenda for the Board to ensure that critical issues are included;
- § reviewing and approving meeting schedules to ensure that there is sufficient time for discussion of all agenda items;
- § conducting the Board's annual self-evaluation, including coordinating Board committee evaluations;
- § working with the Compensation Committee and leading the Chairman/Chief Executive Officer evaluation and communicating to the Chairman/Chief Executive Officer the independent directors' annual evaluation of the Chairman/Chief Executive Officer's performance; and
- § calling meetings of the independent directors if appropriate.

The Board believes that given Grainger's corporate governance structures and processes, a combined Chairman and Chief Executive Officer position in conjunction with an independent Lead Director provides effective oversight of management by the Board and results in a high level of management accountability to shareholders.

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Board and Committee Evaluations

The Board and each of its Committees conduct annual reviews to determine their effectiveness and identify opportunities for improvement. All of the Board and Committee evaluations are completed annually and discussed at the December meetings. Every October, each Director completes an evaluation of his or her effectiveness, the effectiveness of the Committees upon which he or she serves, and the effectiveness of the Board. The evaluations focus on a range of questions relating to how the Board and its Committees can improve their key function of maximizing long term shareholder value by being appropriately involved in strategic decisions. The process solicits ideas from directors about:

- § the priority of Board issues, including issues and items that should be discussed at future meetings;
- § the quality and timeliness of information provided to the Board;
- § the quality of discussions, including director candor and engagement; and
- § the areas for improvement in overall Board effectiveness.

In preparation for discussions at the December meetings, the Committee Chairs collect comments from each Committee member, which are discussed with the Lead Director and then discussed with the members of each Committee. The Lead Director also facilitates a discussion of Board evaluations with the full Board.

Board's Role in Risk Oversight

Grainger is a broad-line distributor of maintenance, repair and operating supplies and other related products and services serving businesses and institutions, providing customers with access to more than 1.5 million products. Grainger has a broad and diverse customer base. In 2015, sales transactions were made to approximately 3 million customers with no single customer's aggregate purchases representing more than 3 percent of Grainger's total sales. Grainger also has a diverse supplier base. In 2015, Grainger purchased products from more than 4,800 key suppliers, and no single supplier represented more than 5 percent of the total purchases.

The Board has overall responsibility for risk oversight. Its role is to oversee risk assessment and risk management processes and policies used by Grainger to identify, assess, monitor and address potential financial, compensation, operational, strategic and legal risks on an enterprise-wide basis. The risks monitored include threats to information technology systems and other issues of cyber security. The Audit Committee also regularly reviews Grainger's risk assessment and risk management processes and policies, including receiving regular reports from the members of Grainger's management who are responsible for risk assessment and risk management on the effectiveness of Grainger's Enterprise Risk Management (ERM) initiatives. As part of its oversight responsibility, the Compensation Committee assesses the relationship between potential risk created by Grainger's compensation programs and their impact on long-term shareholder value.

Available Information

Grainger has adopted Business Conduct Guidelines for directors, officers, and employees, incorporating the Code of Ethics required by rules of the SEC to be applicable to a company's chief executive officer, chief financial officer, and chief accounting officer or controller, and intends to satisfy any disclosure requirements with respect to the Business Conduct

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Guidelines by posting the information on its website. Grainger also has adopted Operating Principles for the Board of Directors, which represent its corporate governance guidelines.

Grainger's Business Conduct Guidelines and Operating Principles for the Board of Directors are available in the Governance section of Grainger's website at www.grainger.com/investor.

Also available in the Governance section of that website are the charters, as amended from time to time, of the Audit Committee, Board Affairs and Nominating Committee, and Compensation Committee, which were adopted by the Board.

All of these documents are also available to shareholders in print, free of charge, upon request to the Corporate Secretary at Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.

Other Communications with Directors

Grainger has established a process by which shareholders and other interested parties may communicate with the Board, its Committees, and/or individual directors on matters of interest. Such communications should be sent in writing to:

[Name(s) of director(s)]
or
[Non-management directors]
or
[Board of Directors]
W.W. Grainger, Inc.
P.O. Box 856
Skokie, Illinois 60076-0856

If the matter is confidential in nature, please mark the correspondence accordingly. Additional information concerning this process is available in the Governance section of Grainger's website at www.grainger.com/investor.

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Director Compensation

Grainger's ten independent directors each receive an annual cash retainer of \$85,000 and an annual deferred stock grant of \$145,000. Directors serving as Committee Chairs receive an additional annual cash retainer.

Grainger's ten independent directors (directors) are compensated at a level that approximates median market practice. In benchmarking director pay, Grainger uses the same compensation comparator group that is used to benchmark compensation for Grainger's executives as described in the Compensation Discussion and Analysis. The Compensation Committee's independent compensation consultant periodically reviews the comparative information and advises on director compensation.

After the 2015 annual meeting of shareholders, the directors' compensation was adjusted as follows:

- § the annual cash retainer for each director remained unchanged at \$85,000;
- § the deferred stock grant for each director increased by \$20,000 to \$145,000;
- § chair Retainers:
 - § Audit Committee the annual retainer remained unchanged at \$20,000;
 - § Compensation Committee the annual retainer remained unchanged at \$15,000; and
 - § Board Affairs and Nominating Committee the annual retainer remained unchanged at \$10,000.
- § the annual retainer for the Lead Director increased by \$5,000 to \$25,000.

All independent directors receive an annual deferred stock unit grant worth \$145,000. The number of shares covered by each grant is equal to \$145,000 divided by the 200-day average stock price through January 31 (a methodology consistent with the calculation used for equity awards to Grainger executives), rounded up to the next ten-share increment. The deferred stock units are settled in shares upon termination of service as a director. Directors may also defer their annual cash retainers, lead director retainer, committee chair retainers (as applicable), and meeting fees in a deferred stock unit account.

Stock ownership guidelines applicable to non-employee directors were established in 1998. These guidelines provide that within five years after election, a director must own Grainger common stock and common stock equivalents having a value of at least five times the annual cash retainer fee for serving on the Board. The policy also states that any pledged shares cannot be used to meet the ownership guidelines. All directors are currently in compliance with the ownership guidelines.

Grainger provides travel and reimburses travel expenses to directors relating to their service to Grainger and reimburses directors for attending continuing education programs. In addition, Grainger matches directors' charitable contributions on a three to one basis up to a maximum company contribution of \$7,500 annually and provides discounts on product purchases, both on the same basis as provided to U.S. Grainger employees.

A director who is an employee of Grainger or any Grainger subsidiary does not receive any compensation for serving as a director.

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Name	Fees Earned or Paid in Cash¹	Stock Awards²	Option Awards	Non-equity Incentive Plan Compensation	Change in Pension Value and Non- qualified Deferred Compensation Earnings	All Other Compensation³	Total
Rodney C. Adkins	\$ 85,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 240,077
Brian P. Anderson	\$ 85,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 0	\$ 232,577
V. Ann Hailey	\$ 85,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 0	\$ 232,577
William K. Hall	\$ 85,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 240,077
Stuart L. Levenick	\$ 120,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 0	\$ 267,577
Neil S. Novich	\$ 85,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 240,077
Michael J. Roberts	\$ 100,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 0	\$ 247,577
Gary L. Rogers	\$ 85,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 0	\$ 232,577
James T. Ryan	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
E. Scott Santi	\$ 105,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 260,077
James D. Slavik	\$ 85,000	\$ 147,577	\$ 0	\$ 0	\$ 0	\$ 7,500	\$ 240,077

1

Represents cash fees received in 2015.

2

Represents the grant date fair value of an award of 590 deferred stock units made on April 29, 2015, with immediate vesting that will be paid upon termination from service, computed in accordance with FASB ASC Topic 718. The stock units were determined by dividing the grant dollar value by the 200-day average stock price as of January 31 in the year of the grant, a methodology consistent with the calculation used for other executive equity awards.

3

Represents amount paid by the Company to charitable organizations as part of the Company's matching gift program.

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The table below shows how many shares of Grainger common stock the directors, certain executive officers, and all directors and executive officers as a group beneficially owned as of March 7, 2016.

Beneficial ownership is a term broadly defined by the SEC. In general, a person beneficially owns securities if the person, alone or with another, has voting power or investment power (the power to sell) over the securities. Being able to acquire either voting or investment power within 60 days, such as by exercising stock options, also results in beneficial ownership of securities. Unless otherwise indicated in the footnotes following the table, each of the named persons had sole voting and investment power with respect to the indicated number of Grainger shares.

Beneficial Owner	Shares	Stock Option Shares Exercisable Within 60 Days¹	Stock Units²	Total	Percentage of Common Stock³
James D. Slavik ^{4,5,6,7} 100 Bayview Circle Suite 4500 Newport Beach, CA 92660	3,830,417	0	18,059	3,848,476	6.2%
Rodney C. Adkins	400	0	984	1,384	*
Brian P. Anderson	4,340	0	14,919	19,259	*
Court D. Carruthers	0	15,741	0	15,741	*
V. Ann Hailey	200	0	9,354	9,554	*
William K. Hall	1,468	0	19,118	20,586	*
Joseph C. High	4,939	25,135	4,000	34,074	*
John L. Howard ⁸	1,127,050	89,749	20,000	1,236,799	2.0%
Ronald L. Jadin ⁹	20,459	120,653	0	141,112	*
Stuart L. Levenick	400	0	15,391	15,791	*
Donald G. Macpherson	24,189	83,540	0	107,729	*
Neil S. Novich	4,605	0	21,915	26,520	*
Michael J. Roberts	1,000	0	16,797	17,797	*
Gary L. Rogers	310	0	10,856	11,166	*
James T. Ryan	147,928	431,965	20,000	599,893	*
E. Scott Santi	303	0	4,812	5,115	*
Directors and Executive Officers as a group ^{10,11}	5,177,652	786,927	185,376	6,149,955	9.6%

1

In computing the percentage of shares owned by each person and by the group, these shares were added to the total number of outstanding shares for the separate calculations.

2

Represents the number of stock units credited to the accounts of non-employee directors under the 2005 Incentive Plan, the 2010 Incentive Plan, and the 2015 Incentive Plan, and the number of restricted stock units credited to the accounts of executive officers under the 1990 Long Term Stock Incentive Plan, the 2005 Incentive Plan, the 2010 Incentive Plan, and the 2015 Incentive Plan. Each stock unit is intended to be the economic equivalent of a share of Grainger common stock. These units are excluded from the computations of percentages of shares owned.

3

An asterisk (*) indicates less than 1%.

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- 4 Mr. Slavik is known to be the beneficial owner of more than 5% of Grainger's common stock.
- 5 Includes 2,509,252 shares as to which Mr. Slavik has shared voting and/or investment power.
- 6 Excludes 1,039,490 shares held by certain of Mr. Slavik's family members, as to which shares Mr. Slavik disclaims voting or investment power.
- 7 Includes 500,000 shares that are pledged as collateral. In March 2013, when the number of shares beneficially owned by Mr. Slavik that were pledged as collateral was 1,536,117, Mr. Slavik began to implement a plan to reduce the pledged shares attributable to him. At that time, Mr. Slavik committed to the Board of Directors that so long as he remains a director he will not pledge any additional shares, that he will reduce his outstanding pledges by 20% per year, and that within five years of March 2013, by March 2018, he will terminate all of his pledging arrangements. Consistent with this commitment, Mr. Slavik reduced his pledge by 527,611 shares by March 2014, and then continued with a reduction of 241,759 shares by March 2015, and 266,747 shares by March 2016.
- 8 Includes 18,406 shares as to which Mr. Howard has sole voting and investment power, and 1,108,644 shares as to which Mr. Howard may be deemed to have shared voting and investment power by virtue of his serving as a director of The Grainger Foundation, Inc. The Grainger Foundation was established in 1949 by William Wallace Grainger, the founder of Grainger, and is not affiliated with Grainger.
- 9 Excludes 5,756 shares held by Mr. Jadin's wife, as to which Mr. Jadin disclaims voting or investment power.
- 10 Includes 3,619,426 shares as to which members of the group have shared voting and/or investment power.
- 11 Excludes 1,045,246 shares held by certain family members, as to which shares members of the group disclaim voting or investment power.

The following table sets forth information concerning all other persons known to Grainger to beneficially own more than 5% of Grainger's common stock on December 31, 2015, as reported in Schedules 13D/13G. Schedule 13G filers generally are institutional investors who acquire beneficial ownership of more than 5% of a public company's voting securities in the ordinary course of business without the purpose of changing or influencing control of the company.

Beneficial Owner	Shares Beneficially Owned¹	Percentage of Common Stock
Blackrock, Inc. 55 East 52 nd Street New York, NY 10055 Massachusetts Financial Services Company	3,386,214 ²	5.4%
111 Huntington Avenue Boston, MA 02199	3,843,840 ³	6.1%

The Vanguard Group
100 Vanguard Boulevard
Malvern, PA 19355

5,213,574⁴

8.3%

1

Includes shares beneficially owned by affiliated entities.

2

Includes 2,859,411 shares as to which there is sole voting power and no shares as to which there is shared voting power. Sole dispositive power is claimed.

3

Includes 3,465,846 shares as to which there is sole voting power and no shares as to which there is shared voting power. Sole dispositive power is claimed.

4

Includes 108,802 shares as to which there is sole voting power and 6,000 shares as to which there is shared voting power. Includes 5,097,586 shares as to which there is sole dispositive power and 115,988 shares as to which there is shared dispositive power.

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SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires our directors and officers and persons who own more than 10% of our common stock to file reports of ownership and changes in ownership with the SEC and the NYSE, and to furnish us with copies of the reports. Specific due dates for these reports are prescribed by SEC rules and we are required to report in this proxy statement any failure by directors, officers, or 10% holders to file such reports on a timely basis. Based on our review of such reports and written representations from our directors and officers, we believe that all such filing requirements were timely met during 2015, with the exception of one late Form 4 for each of our Section 16 officers, namely, Michael Ali, Laura D. Brown, Joseph C. High, John L. Howard, Ronald L. Jadin, William Lomax, Donald G. Macpherson, and James T. Ryan, each relating to the Company's annual stock option grant and resulting from an inadvertent administrative error.

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Report of the Audit Committee of the Board

The Audit Committee assists the Board in fulfilling its oversight responsibilities. The Board has determined that each of the members of the Audit Committee is "independent," as that term is defined in the independence requirements for audit committee members contained in the applicable rules of the SEC and standards of the NYSE. The Audit Committee acts under a charter that is reviewed annually, was last amended by the Board on December 1, 2015, and is available in the Governance section of Grainger's website at www.grainger.com/investor.

Management is responsible for the Company's internal controls and the financial reporting process and for compliance with applicable laws and regulations. Ernst & Young LLP ("EY"), the Company's independent auditor, was responsible for performing an independent audit of the Company's most recent consolidated financial statements and expressing an opinion on the conformity of those financial statements with accounting principles generally accepted in the United States of America, as well as expressing an opinion on the effectiveness of the Company's internal control over financial reporting. The Audit Committee's responsibility is to monitor and oversee these processes.

In performing these responsibilities, the Audit Committee reviewed and discussed the Company's audited consolidated financial statements and the effectiveness of internal control over financial reporting with management and EY. The Audit Committee discussed with EY matters required to be discussed under Auditing Standard No. 16 "*Communications with Audit Committees*" adopted by the Public Company Accounting Oversight Board ("PCAOB"). EY also provided to the Audit Committee the letter and written disclosures required by PCAOB standards concerning EY's independence and the Audit Committee discussed with EY the matter of the firm's independence.

Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2015, as filed with the SEC.

E. Scott Santi, Chair
Brian P. Anderson
V. Ann Hailey
William K. Hall
Neil S. Novich

Members of the Audit Committee of the
Board of Directors

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Audit Fees and Audit Committee Pre-Approval Policies and Procedures

The following table sets forth the fees for professional services rendered by Ernst & Young LLP with respect to fiscal years 2015 and 2014, respectively:

Fee Category	2015	2014
Audit	\$ 4,768,897	\$ 3,737,073
Audit-Related	272,000	193,000
Tax	1,529,228	761,555
Other	3,000	3,000
Total Fees	\$ 6,573,125	\$ 4,694,628

Audit. Consists of fees billed for professional services rendered for the audits of Grainger's annual financial statements and internal control over financial reporting, review of the interim financial statements included in Grainger's quarterly reports on Form 10-Q, and other services normally provided in connection with Grainger's statutory and regulatory filings or engagements.

Audit-Related. Consists of fees billed for professional services rendered for assurance and related services that are reasonably related to the performance of the audit or review of Grainger's financial statements. These services include the audits of Grainger's employee benefit plans and various attest services.

Tax. Consists of fees billed for professional services rendered for tax compliance, tax advice and tax planning. These services include assistance with the preparation of various tax returns.

Other. Consists of fees billed for all other professional services rendered to Grainger.

Pre-Approval Policy for Audit and Non-Audit Services

The Audit Committee has adopted a policy for the pre-approval of all audit and permitted nonaudit services to be provided by Grainger's independent auditor. Also, specific pre-approval by the Audit Committee is required for any proposed services exceeding pre-approved fee levels.

The Audit Committee may delegate pre-approval authority for audit and non-audit services to one or more of its members, and such authority has been delegated to the Chair of the Audit Committee. The decisions of any member to whom such authority is delegated must be presented to the full Audit Committee at its next scheduled meeting. The Audit Committee periodically reviews reports summarizing all services provided by the independent auditor.

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Report of the Compensation Committee of the Board

The Compensation Committee reviewed and discussed the Compensation Discussion and Analysis with management. Based on such review and discussion, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in the Company's proxy statement for its 2016 annual meeting of shareholders and in its Annual Report on Form 10-K for the year ended December 31, 2015, as filed with the SEC. The Compensation Committee acts under a charter that is reviewed annually, was last reviewed by the Board on December 9, 2015 and is available in the Governance section of Grainger's website at www.grainger.com/investor.

Michael J. Roberts, Chairman
Rodney C. Adkins
Stuart L. Levenick
Gary L. Rogers
James D. Slavik

Members of the Compensation Committee of the
Board of Directors

Table of Contents**Fees for Independent Compensation Consultant**

The Compensation Committee has engaged Deloitte Consulting LLP (Deloitte Consulting) as its independent compensation consultant. The following table sets forth the fees for services rendered by Deloitte Consulting and its affiliates with respect to fiscal year 2015:

Type of Fee	2015
Executive Compensation Consulting	\$ 121,172
All Other Consulting	\$ 1,405,056
Total Fees	\$ 1,526,228

Executive Compensation Consulting Fees: Consists of fees billed for services provided to advise the Compensation Committee of the Board with respect to executive and director compensation.

All Other Consulting Fees: Consists of fees billed for all other services provided to Grainger. None of these fees are related to compensation matters.

Since 2003, affiliates of Deloitte Consulting have provided other services to Grainger that are unrelated to executive compensation matters. The decision to engage an affiliate of Deloitte Consulting for these other services was made by management. The Board has been informed of this ongoing work and the use of an affiliate of Deloitte Consulting but neither the Board nor the Compensation Committee specifically approved these services. After a review of the factors prescribed by the SEC and the NYSE, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, was found not to have any conflicts of interest.

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Compensation Discussion and Analysis

Compensation Discussion & Analysis Topics:

1. **Executive Summary**
2. **Compensation Philosophy, Plans and Practices**
3. **Compensation Committee of the Board**
4. **Risk Assessment**
5. **Say-on-Pay**
6. **Role of Management**
7. **Compensation Comparator Group**
8. **Base Salaries**
9. **Annual Incentives**
10. **Long-Term Incentives**
11. **Stock Ownership Guidelines**
12. **Hedging and Pledging Prohibition**
13. **Other Benefits**
14. **Employment Contracts, Change in Control Arrangements, and Termination of Employment Arrangements**
15. **Compensation Recoupment Policy (Clawbacks)**

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1. Executive Summary

The Company's compensation program is based upon a philosophy that is applied to all Company employees to attract and retain the best people and provide them appropriate performance-based incentives that encourage them to achieve results that create long-term shareholder value.

The overall compensation structure is designed to drive profitable growth leading to shareholder value creation. Employees at all levels of the Company, including its executives, are provided incentives to grow the business (Sales Growth) while achieving attractive investment returns (Return on Invested Capital, or ROIC) for the Company's shareholders. For executives, the compensation program is designed to link pay to performance and is structured to reward both annual and long-term Company performance while not encouraging excessive risk taking.

The basic compensation structure did not change in 2015. Highlights for the year include:

§ financial results did not meet expectations and therefore the payouts for both the annual bonus payments and long-term performance share program were below target;

§ the Company strengthened its pay for performance structure by amending its profit sharing program for most U.S.-based employees to more closely track the performance of the participating business units; and

§ as a result of long term succession planning, the role of Chief Operating Officer was created, the U.S. Business was reorganized to gain operational and cost efficiencies, and performance-based retention awards were granted to certain Named Executive Officers.

This Compensation Discussion and Analysis (CD&A) describes the Company's compensation philosophy and programs generally, and explains the compensation paid to the six most highly compensated executives in 2015 the Named Executive Officers (NEOs).

Named Executive Officers (NEOs) for 2015

Officer	Title
James T. Ryan	Chairman of the Board, President and Chief Executive Officer (CEO)
Ronald L. Jadin	Senior Vice President and Chief Financial Officer (CFO)
Donald G. Macpherson	Chief Operating Officer
John L. Howard	Senior Vice President and General Counsel
Joseph C. High	Senior Vice President and Chief People Officer (CPO)
Court D. Carruthers	Former Senior Vice President and Group President, Americas ¹

1

Mr. Carruthers resigned from his position with the Company effective as of July 31, 2015 and assisted with

the transition of his responsibilities until December 31, 2015.

Compensation includes a combination of base salary, short-term incentives, long-term equity incentives including performance shares and stock options, and a performance-based retirement vehicle. These components are combined to provide Company executives with appropriate incentives for profitable long-term growth.

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The Company's NEO compensation uses the following components:

Compensation Element	Purpose	Link to Performance	Fixed/ Performance Based	Short/Long Term
Base Salary	Establishes a market competitive level and provides an appropriate level of fixed compensation to attract and retain leaders.	Based on individual performance.	Fixed	Short-Term
Annual Incentives (Management Incentive Program)	Encourages annual results that create shareholder value.	Linked to annual achievement of predetermined Company objectives sales growth and ROIC.	Performance Based	Short-Term
Stock Options	Directly links managers' and shareholders' interests by tying long-term incentives to stock appreciation.	The initial grant value (above or below target) is linked to individual performance, while the ultimate value of the program is linked to stock price performance over up to 10 years.	Performance Based	Long-Term
Performance Shares	Aligns compensation with the Company's business strategy and the long-term creation of shareholder value.	Linked to achieving specific pre-determined Company objectives and stock price over the 3-year performance period sales growth and 3-year ROIC.	Performance Based	Long-Term
Retirement/Profit Sharing	Aligns the interests of the employees and shareholders as the Company's annual contribution is based on a formula that incorporates 2 key drivers of shareholder value earnings performance and capital employed.	Linked to financial performance contributions greater than 8% are based on Company performance.	Performance Based	Long-Term

In order to encourage profitable growth while protecting shareholders' interests, the Company's compensation programs include the following risk mitigating features:

Compensation Program vs. Risk Mitigating Action	Annual Incentives	Stock Options	Performance Shares
Balanced Performance Measures (Growth and Profits)	ü	ü	ü
Robust Goal Setting	ü	ü	ü
Retention Ratio	N/A	ü	ü
Clawback Policies	ü	ü	ü
Stock Ownership Requirements	N/A	ü	ü
Awards Capped (Number of Shares)	ü	ü	ü
Compensation Committee Oversight	ü	ü	ü
Internal and Independent External Audit	ü	ü	ü
Restrictions on Hedging and Pledging	N/A	ü	ü

Target total compensation for the Company's employees is generally set to approximate the market median. The weighting of the individual compensation components varies by level, with more senior level executives having a greater emphasis on performance-based long-term compensation which aligns management to shareholders. NEO compensation is structured so that the largest component is long-term equity (stock options and performance shares), followed by base salary and the performance-based annual incentives (this detail is shown in the following table). Each NEO's compensation is compared to equivalent positions in a comparator group selected by the Compensation Committee (with assistance from the Committee's independent compensation consultant). NEO base salaries and long-term incentive grants are determined based on many factors including individual performance, responsibilities, and the overall relation to market levels of compensation.

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These components and the use of performance-based pay are consistent with the mix seen in the comparator group. The tables below show NEO compensation components as a percentage of the total target compensation package.

Performance vs. Fixed Compensation

NEO	Performance Based Compensation		Fixed/Individual Based Compensation	
	Company	Peers	Company	Peers
Mr. Ryan	88%	88%	12%	12%
Mr. Jadin	78%	78%	22%	22%
Mr. Macpherson	77%	78%	23%	22%
Mr. Howard	73%	73%	27%	27%
Mr. High	73%	73%	27%	27%

Annual vs. Long-Term Compensation

NEO	Annual Compensation		Long-Term Compensation	
	Company	Peers	Company	Peers
Mr. Ryan	27%	28%	73%	72%
Mr. Jadin	41%	39%	59%	61%
Mr. Macpherson	46%	41%	54%	59%
Mr. Howard	48%	45%	52%	55%
Mr. High	47%	45%	53%	55%

"Performance Based Compensation" consists of the annual incentive plan, long-term incentives, and profit sharing.

"Fixed/Individual Based Compensation" consists of base salary.

"Annual Compensation" consists of base salary and the annual incentive plan.

"Long-term Compensation" consists of stock options, performance shares, and profit sharing. Annual profit sharing contributions are based on the Company's short-term performance, distributions are restricted, and full vesting occurs after five years of service, making this component a long-term benefit.

"Peers" was determined from the comparator group in the 2014 Aon Hewitt Compensation Study as described further within Topic 7.

2015 Performance

The Company believes that revenue growth coupled with a focus on ROIC leads to shareholder value creation and uses two metrics to determine performance-based compensation: year over year sales growth and ROIC. In 2015, Company sales were up +0.1% to \$9.97 billion and ROIC was 28.5%. Excluding the effect of any acquisitions made during the year, sales growth was 1.3% and ROIC was 29.9%.

The Company's compensation structure links pay with Company performance. 2015 financial results did not meet expectations and therefore both the annual bonus payments and long-term performance share program were settled below target:

§

The 2015 Company Management Incentive Program achieved 48% of target as the Company fell short of the 2015 sales growth goal of 5.1%.

§

Awards under the long-term 2013-2015 Performance Share Program are 63% of target based on 2015 sales growth and the 2013-2015 ROIC performance.

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The Company is focused on profitable daily sales growth over the short- and long-term. Using ROIC and sales growth for both short-term and long-term incentive awards does not create unreasonable risk because:

§ **Different Performance Goals.** The short-term incentive program focuses on sales growth compared to the prior year and a pre-determined ROIC, with both measures linked to the Company's one-year plan. The long-term incentive program focuses on a specific sales dollar goal in the third year of the performance period. In addition, the long-term incentive program requires a threshold level of ROIC over the performance period in order for the awards to vest.

§ **Different Time Periods.** The short-term incentive program focuses on the achievement of sales growth and ROIC over one year. The long-term incentive program focuses on sales growth over three years, while maintaining an ROIC above 18% during the three-year period.

§ **Mergers and Acquisitions (M&A).** The short-term incentive program does not include the impact from acquisitions/divestitures. The long-term incentive program includes M&A results (both sales growth and ROIC) and is designed to encourage successful acquisitions and profitable integrations.

§ **Company-Wide Performance Measures.** Performance is measured at the Company-wide level as opposed to specific business unit or regional levels.

§ **Maximum Payout is Capped.** Incentive plans are capped at 200% of the target award.

2. Compensation Philosophy, Plans and Practices

As part of the Company's pay for performance philosophy, the Company's compensation program includes several features that maintain alignment with shareholders:

§ **Emphasis on Variable Performance-Based Compensation.** Over 73% of the NEOs' compensation is tied to Company performance that the Company believes drives shareholder value.

§ **Double-Trigger Change in Control Requirements.** Both the existing Change in Control Agreements and awards under the 2015 Incentive Plan have double-trigger change in control provisions.

§ **Ownership Requirements.** The CEO is required to hold equity in the Company worth at least 6x his base salary, and all other NEOs are required to hold at least 3x base salary.

§ **Holding / Retention Periods.** NEOs are required to hold exercised stock option shares and other stock awards until ownership requirements are met. Those who fail to achieve ownership requirements will not receive future equity-based awards.

§ **Prohibition on Hedging and Pledging.** NEOs and directors are prohibited from hedging and future pledging of Company shares.

§ **Clawback Provisions.** The Company has established recoupment policies for financial fraud and/or material inaccuracies as well as for violations of non-competition agreements and non-solicitation agreements.

§

Performance Thresholds and Caps. Both the annual incentive and performance share programs require a threshold level of performance in order to achieve any payment, and the maximum payments are capped.

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§

Annual Risk Reviews. The Company conducts an annual risk review based on a process recommended by the Compensation Committee's independent compensation consultant.

§

Minimal Perquisites

The Company's compensation programs also maintain alignment with shareholders by not including certain features:

§

No Cash Buyouts of Underwater Stock Options, Repricing, or Stock Options issued at a discount. Stock options issued will not be repriced, replaced, or regranted through cancellation or by lowering the exercise price of a previously granted stock option.

§

No Excessive Change in Control Agreements. The maximum cash benefit is equal to 2x salary and target bonus.

§

No Change in Control Agreements with Excise Tax Gross-ups.

§

No Tax Gross-ups on Perquisites.

§

No Employment Agreements. The Company does not maintain any employment agreements with its NEOs.

§

No Payment of Dividend Equivalents on Unearned Performance Shares or Stock Options.

Overall, the Company's compensation program is designed to be straightforward and understandable to its employees and shareholders, and to drive long-term shareholder value creation by aligning compensation with both individual and Company performance.

3. Compensation Committee of the Board

The Compensation Committee of the Board is responsible for the Company's compensation programs.

The Compensation Committee oversees the Company's compensation and benefit programs for all officers and employees. The Committee is responsible for ensuring that the Company's compensation practices provide appropriate incentives to increase long-term shareholder value, reflect the highest level of integrity, and protect the interests of shareholders. One of its responsibilities is to make certain that a competitive compensation structure is in place that will attract, reward, and retain employees and to motivate them to grow the business profitably. The Committee is also charged with ensuring that compensation, especially for executives, is linked to both individual and Company performance, and ensuring that compensation policies and practices for all employees do not include incentives to take inappropriate risk.

In setting individual compensation levels, the Compensation Committee selects a compensation comparator group of companies and reviews studies of total compensation paid to executives in those comparator group companies with similar duties and responsibilities. The Committee then considers a variety of reference points, including competitive compensation data at the 25th, 50th, and 75th percentiles, individual and Company performance, the executive's overall experience, replaceability, internal equity, unique skills, and management's recommendation to determine appropriate compensation for each executive. All elements of compensation are valued and reviewed in evaluating the relative competitiveness of the Company's compensation practices against the comparator group. Target total compensation for the Company's employees and executives as a whole (including the NEOs) is generally set to approximate the market median.

The Compensation Committee reviews at least annually a tally sheet for each NEO to evaluate the potential value of all compensation. The tally sheet includes each NEO's current

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base salary, annual incentive award, and the value of all outstanding equity-based awards (both vested and unvested), deferrals, benefits, and perquisites, as well as potential payments under retirement and certain change in control situations. Since no NEO has an employment agreement with the Company that guarantees continued employment, the tally sheets also facilitate the Committee's evaluation of the reasonableness of awards and their likely retention value.

Under its charter, the Compensation Committee makes executive compensation decisions and recommends actions to the Board of Directors and to shareholders (for example, related to the advisory Say-on-Pay vote or equity plan proposals), as appropriate.

In discharging its responsibilities, the Committee regularly consults with independent advisors, compensation consultants, and the Company's management. After a review of the factors prescribed by the SEC and the NYSE, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, is an independent advisor under the applicable rules and regulations. The Compensation Committee's charter can be found in the Governance section of Grainger's website at www.grainger.com/investor.

4. Risk Assessment

The Compensation Committee's oversight responsibility includes assessing the relationship between potential risk created by the Company's compensation programs and their impact on long-term shareholder value. The Company's compensation programs are designed to include risk-mitigating features, and the Committee also engaged its independent compensation consultant (Deloitte Consulting) to assist with the process of an annual internal risk assessment of all incentive-based compensation, including short-term and long-term incentive programs.

The incentive compensation programs include risk-mitigating components, such as:

- § balanced performance measures – sales growth combined with profitability;
- § robust performance measure selection and goal setting;
- § balanced mix of short-term and long-term incentives;
- § balanced mix of equity vehicles – stock options are combined with performance shares;
- § clawback provisions to recoup incentive compensation; and
- § stock ownership, retention, and holding requirements.

Since 2009, the Committee has engaged its independent compensation consultant to conduct a risk assessment that is completed every three years. For the interim years, the Company conducts an annual internal risk review based on practices and methodologies recommended by the Committee's independent compensation consultant. The results of the Deloitte Consulting-conducted 2015 risk review were discussed with the Committee.

Based on the risk review and the Committee's discussions, the Committee does not believe that the Company's compensation policies and practices are reasonably likely to have a material adverse effect on the Company.

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5. Say-on-Pay

At the 2015 annual meeting of shareholders, the advisory vote to approve the compensation of the Company's NEOs received the support of 94% of the shareholders voting on the proposal. The Compensation Committee has considered these results and believes that they confirm the appropriateness of the Company's current executive compensation policies and practices. The Company routinely discusses its compensation philosophy with its shareholders as part of investor relations activities.

The Company is required to check with shareholders on the frequency of the say-on-pay vote every six years. In 2011, management recommended and shareholders approved an annual say-on-pay vote. The next frequency vote is scheduled for 2017.

6. Role of Management

Management assists the Compensation Committee in the design, recommendation, and implementation of compensation programs.

Members of management assist the Compensation Committee by routinely recommending programs that management believes will provide the appropriate level of compensation and incentives consistent with the Company's compensation philosophy. Consistent with this process, management works with advisors from Aon Hewitt to develop market information and recommends adjustments in base salaries, annual incentive targets, and long-term incentive awards to be reviewed by the Compensation Committee and approved by the Board. For NEOs other than Mr. Ryan, the recommendations also include the structure and targets of short-term and long-term incentive programs, as well as changes to programs required for regulatory compliance. These recommendations are reviewed and approved by the CEO before they are presented to the Compensation Committee. Mr. Ryan's compensation is reviewed by the Compensation Committee in conjunction with its independent compensation consultant, together with other independent directors (as directed by the Board), in executive session without members of management present.

7. Compensation Comparator Group

The Company's compensation program is regularly benchmarked against a Compensation Committee-approved comparator group of companies that are similar to the Company in size and complexity. The Company performs these studies to understand current market practices and to provide a reference point for compensation discussions.

Every other year, the Compensation Committee determines a compensation comparator group of companies and undertakes a study of total compensation paid to executives occupying similar positions with similar duties and responsibilities in the comparator companies. All elements of compensation are valued and considered when determining the relative competitiveness of the Company's compensation practices. A comparator group compensation study was conducted in 2014 (2014 Compensation Study).

The 2014 comparator group consists of 22 businesses that are relatively similar in complexity and size to the Company and represent the types of major companies with which the Company historically competes for executive talent. The companies that were selected for the 2014 Compensation Study are generally within a range of 0.5 to 2.0 times Grainger's annual revenue. The competitive market for executive talent includes companies both within and outside the same industry or sector as the Company. Most of the Company's publicly-traded direct competitors tend to be too small in sales or scope of operations for direct compensation comparisons with the Company. Including a broader range of companies provides a more representative depiction of the Company's competitive market for talent. Therefore, companies used for compensation comparison purposes differ from those in the

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industry indices used in the Company Performance Graph in Part II, Item 5 of the Company's most recent Annual Report on Form 10-K.

Management played a minimal role in selecting the 2014 compensation comparator group, as the Committee relied on Aon Hewitt for survey and market data and its independent compensation consultant (Deloitte Consulting) for assistance. The role of management in selecting the comparator group was limited to providing general comments on the relevance of each industry represented by the comparator companies.

Listed below is the 2014 Compensation Study comparator group and the 2013 revenues and enterprise values for each company.

Company Name	2013 Revenue (\$mil)	2013 Enterprise Value* (\$mil)
Air Products & Chemicals Inc.	\$ 10,180	\$ 28,568
AutoZone, Inc.	\$ 9,148	\$ 18,763
Ball Corp	\$ 8,468	\$ 11,013
The Clorox Co	\$ 5,623	\$ 13,084
Cummins Inc.	\$ 17,301	\$ 25,735
Dover Corp	\$ 8,730	\$ 18,570
Eastman Chemical Co	\$ 9,350	\$ 16,709
Eaton Corporation plc	\$ 22,046	\$ 44,600
Genuine Parts Co	\$ 14,078	\$ 13,364
Illinois Tool Works Inc.	\$ 14,135	\$ 39,442
Ingersoll-Rand Plc	\$ 12,351	\$ 20,281
Mattel Inc	\$ 6,485	\$ 17,424
Meadwestvaco Corp	\$ 5,389	\$ 8,236
Owens-Illinois, Inc.	\$ 6,967	\$ 9,515
Parker-Hannifin Corporation	\$ 13,016	\$ 15,588
PPG Industries Inc.	\$ 15,108	\$ 28,347
Rockwell Automation Inc.	\$ 6,352	\$ 14,557
Ross Stores Inc.	\$ 9,721	\$ 12,741
Textron Inc.	\$ 12,104	\$ 13,153
The Mosaic Company	\$ 8,170	\$ 17,843

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The Sherwin-Williams Co	\$	10,186	\$	19,489
WESCO International Inc.	\$	7,513	\$	5,504
25th %ile	\$	7,678	\$	13,102
Median	\$	9,536	\$	17,067
75th %ile	\$	12,849	\$	20,083
<i>W.W. Grainger, Inc.</i>	\$	<i>9,438</i>	\$	<i>17,821</i>
<i>W.W. Grainger, Inc. Percentile Rank</i>		<i>49%</i>		<i>57%</i>

*

Enterprise Value is calculated as market capitalization plus debt, minority interest and preferred shares, minus total cash and cash equivalents.

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The Compensation Committee reviewed the 2014 Compensation Study in conjunction with a tally sheet listing the potential value of all compensation available for the NEOs. The Compensation Committee concluded that the earned and potential awards for 2014 were consistent with the Company's pay philosophy, Company and individual performance, and market practices. Based on this review and the strong support from shareholders on the Say-on-Pay proposal, the Committee did not make specific adjustments to the design of the Company's compensation programs. The next Compensation Study and comparator group validation is scheduled to take place in 2016.

8. Base Salaries

Base salaries are intended to provide an appropriate level of fixed compensation to attract and retain executives. Base salaries are determined after a detailed evaluation of individual performance, competitive market levels, and executive experience.

Annual base salary adjustments are considered and implemented to reflect individual performance, contribution and experience, and to maintain market competitiveness. The 2014 Compensation Study showed that, on average, the Company's base salaries for NEOs were approximately 4% above the market median.

Base salary increases for the NEOs, with the exception of Mr. Ryan, are reviewed and approved by the CEO before they are presented to the Compensation Committee. In approving recommendations, the Committee reviews these recommendations in conjunction with its independent compensation consultant.

The compensation awarded to Mr. Ryan is determined by the Board with assistance from the Compensation Committee and its independent compensation consultant. The Compensation Committee reviews and approves the corporate goals and objectives relevant to Mr. Ryan's compensation and evaluates his performance in light of those goals and objectives. Together with the other independent directors (as directed by the Board), the Compensation Committee determines and approves Mr. Ryan's compensation level based on this evaluation, in executive session without members of management present.

Following the annual performance management review process (which is similar to the process in which all employees participate), base salaries are reviewed and adjusted (if appropriate) to reflect individual and Company performance, base salaries for comparable positions from market studies, experience, tenure, and internal equity.

Based on the process outlined above, on April 1, 2015, Mr. Ryan's base salary was increased to \$1,157,225 (+2.5%). In addition, the following base salary adjustments were made for the other NEOs:

- § Mr. Jadin's base salary was increased to \$706,000 (+2.5%);
- § Mr. Macpherson's base salary was increased to \$680,000 (+2.6%);
- § Mr. Howard's base salary was increased to \$659,000 (+2.6%);
- § Mr. High's base salary was increased to \$481,000 (+2.5%); and
- § Mr. Carruthers' base salary was increased to CAD 693,000 (+2.5%).

Effective August 1, 2015, as a result of the Company naming him Chief Operating Officer and consolidating responsibilities, Mr. Macpherson's base salary was increased to \$800,000 (+17.6%).

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Annual incentives are intended to provide an appropriate level of variable compensation to encourage executives to achieve annual results that create shareholder value without encouraging excessive risk taking.

NEOs are eligible to receive short-term cash-based incentives on the achievement of specified annual Company-wide financial performance measures set forth in the Company Management Incentive Program (MIP). The Company structures the MIP to motivate performance that balances short-term and long-term results and aligns the interests of management with shareholders.

Each NEO's target incentive award under the annual incentive program is based on a review of competitive market practice and is designed to approximate a market value that is generally at the median of the comparator group. The following table displays the 2015 MIP target (program and payment) applicable to each NEO.

Name	2015 Target Incentive (as a % of base salary)	Program	Actual Payment (as a % of the target)
Mr. Ryan	130%	Company	48%
Mr. Jadin	85%	Company	48%
Mr. Macpherson	100%	Company	48%
Mr. Howard	75%	Company	48%
Mr. High	75%	Company	48%
Mr. Carruthers	85%	Company	48%

The Compensation Committee and management perform a thorough analysis in setting financial measures and goals for the Company MIP to ensure the program appropriately balances the Company's objectives, is aligned with long-term shareholder interest, and has appropriate and effective risk-mitigating components. While the measures and goals are clearly aligned with the Company's strategy, they also account for current economic conditions. The combination of sales growth and ROIC performance, as well as threshold, target, and maximum payment levels, serves to mitigate risk to the Company's shareholders.

The Company believes the design of the annual incentive program creates shareholder value and encourages performance by focusing on profitable sales growth and ROIC. The basic framework of the MIP has been in place for over ten years, although specific objectives and performance target levels have been modified on a year-by-year basis in light of the current economic and competitive environment. This framework was selected to align with Company strategy and to balance sales growth with profitability, efficiency, expense management, and asset management. ROIC reflects how effectively management uses Company assets and is generally defined by the Company as pre-tax operating earnings divided by net working assets. Year-over-year daily sales growth is determined by year-over-year results. Acquisitions and divestitures that occur during the year are not included in the calculation of daily sales growth or ROIC. These measures are consistent with the Company's objective of growing profitably over time, which it believes is closely linked with shareholder value creation.

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The 2015 Company MIP was based on the Company's ROIC and year-over-year daily sales growth. The Company determined the payment earned for ROIC and the payment earned for sales growth, and the two amounts were added together:

$$\text{MIP Payment} = (\text{Sales Growth Performance} + \text{ROIC Performance})$$

The following table shows various payout scenarios that were established at the beginning of the year:

2015 Management Incentive Program

ROIC Performance	% Payout*
≤18.00%	0%
24.18%	25%
29.9%**	48%
30.36%	50%
≥32.83%	60%

Daily Sales Growth Performance	% Payout*
1.3%**	0%
≤2.00%	0%
3.55%	25%
5.10%	50%
8.05%	100%
≥11.00%	150%

*

Payouts are interpolated on a straight-line basis.

**

For the year 2015, ROIC was 29.9% and sales growth was 1.3%. Based on these results, Company MIP paid at 48% of target.

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The Company believes that it establishes the sales growth and ROIC targets to provide an appropriate level of motivation. Under the terms of the annual incentive program, the Committee has the discretion to adjust MIP payment amounts to correct for any unusual circumstances, both positive and negative, that might affect ROIC or sales growth. No discretionary adjustments were made in 2015.

Incentive amounts paid to Messrs. Ryan, Jadin, Macpherson, Howard, and Carruthers were based on the performance targets established for the 2015 MIP and were made under a separate annual incentive program described in the 2010 Incentive Plan. This program is designed to ensure that annual incentives are performance-based and fully tax deductible by the Company under Section 162(m) of the Internal Revenue Code. Under the program, the Committee allocates a portion of an incentive pool to each participant. The pool is funded with 5% of the Company's net earnings and the independent members of the Board have the authority to make specific awards. The sum of the individual participants' percentages may not be greater than 100% of the pool. The independent members of the Board may use their discretion to reduce these amounts but may not increase them. Consistent with prior years, the independent members of the Board used their discretion to reduce the amounts to yield payments equal to those that would have made using the same financial target and measures as the 2015 MIP.

Consistent with current practices, the 2016 MIP will continue to utilize daily sales growth along with ROIC as performance measures and all NEOs will be aligned to the Company MIP.

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Table of Contents**10. Long-Term Incentives**

The Company annually provides long-term incentives to NEOs and other key managers in order to align with the following elements of the Company's strategy to improve shareholder value:

§ *achieve long-term business goals and objectives that increase shareholder value (including achieving financial performance that balances growth, profitability, and asset management);*

§ *reward management for taking prudent action and achieving results that create shareholder value;*

§ *attract qualified leaders to join the Company; and*

§ *retain management through business cycles.*

The Company's long-term incentives for NEOs consist of stock options and performance shares and are provided under shareholder-approved incentive plans. In 2015, the Company structured awards such that stock options represent approximately 70% of the total value of long-term incentive compensation and performance shares represent approximately 30% of the total value. Providing a mix of different types of equity awards is consistent with market practice for senior executives. The 70 / 30 (stock options/performance share) mix provides incentives to drive shareholder value creation and the three year vesting schedule aids in executive retention.

The target number of shares provided for stock options and performance share awards is designed to approximate an economic value that targets the median of the compensation comparator group for comparable jobs. The 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. The value is converted to shares using the 200-day average stock price as of January 31 in the year of grant. The use of the 200-day average to calculate the number of shares is intended to smooth stock price volatility that can distort the number of shares awarded.

NEO Long-Term Incentives

Award	Weight	Vesting & Term	Performance Measure
Stock Options	70%	3-year cliff vesting; 10 year term	Grant allocated based on individual performance; long-term value based on appreciation in stock price.
Performance Shares	30%	3-year cliff vesting contingent on performance	Sales growth measured in year 3 of the performance cycle, with 3-year average ROIC.

Stock Options

The Company's stock options provide the right to purchase Company stock at a specified price over a ten-year term with three-year cliff vesting. They are intended to directly link management's and shareholders' interests by tying a substantial portion of long-term incentives to stock price appreciation. The ten-year term is designed to focus the NEOs on long-term value creation. Three-year cliff vesting encourages meaningful retention before an executive can realize any value created by stock price appreciation. Stock option repricing is not permitted under any of the Company's equity incentive plans.

In 2014, stock options were awarded at an exercise price equal to the closing price of the Company's common stock reported for the business day before the grant. Beginning in 2015, stock options are awarded at an exercise price equal to the closing price of the Company's

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common stock reported on the business day of the grant. In addition, in order for managers to hold one discussion with employees on all components of pay, the stock option grant date was changed from the date of the annual shareholders' meeting to April 1 of each year.

Performance Shares

The Company's performance share program provides the NEOs and other executives with a potential share payout depending on sales growth (including the impact of acquisitions / divestitures) and ROIC achievement over a three-year cycle. The actual number of shares paid to an NEO can range from 0% to 200% of the target number of performance shares awarded. The Compensation Committee (with the assistance of its independent compensation consultant) and management perform a thorough analysis in setting the financial measures and goals for a three-year performance cycle that begins January 1 of the first year. The sales growth component is measured at the end of the cycle's third year and the ROIC component is measured at the end of the third year based on the three-year average. These measurement dates reinforce a long term focus. Dividend equivalents are not paid on performance shares. Due to the three-year cycle that each award covers, the Company has three performance share cycles ongoing at all times.

2013-2015 Performance Share Cycle

For the 2013-2015 performance share cycle, the 2015 sales target of \$11.3 billion was established when 2012 sales were \$9.0 billion. The Company's net sales in 2015 determined the number of shares conditionally earned, while vesting remained dependent on meeting a three-year average ROIC hurdle of 18%. The payout of the target performance share awards for this program cycle was made according to the following table:

2015 Total Company Sales	Payout as a Percent of Target
<\$9.5B	0%
\$9.5B	50%
\$9.97B*	63%*
\$11.3B	100%
\$11.9B	200%

* In 2015, sales were \$9.97 billion and the participants conditionally earned 63% of their target. The Compensation Committee determined that the award vested because the Company's average ROIC for the three year period 2013-2015 was greater than 18%.

2014-2016 Performance Share Cycle

For the 2014-2016 performance share cycle, the 2016 sales target of \$11.9 billion was established when 2013 sales were \$9.4 billion. The Company's net sales in 2016 will determine the number of shares earned, while vesting remains dependent on meeting a

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three year average ROIC hurdle of 18%. The payout of the target performance share awards for this program cycle will be made according to the following table:

2016 Total Company Sales	Payout as a Percent of Target
<\$10.0B	0%
\$10.0B	50%
\$11.9B	100%
\$12.6B	200%

Sales of \$11.9 billion in 2016 are required for participants to earn 100% of target award assuming the average ROIC for the three year period 2014-2016 is greater than 18%. This award will remain at risk through 2016.

2015-2017 Performance Share Cycle

For the 2015-2017 performance share cycle, the 2017 sales target of \$12.2 billion was established when 2014 sales were \$10.0 billion. The Company's net sales in 2017 will determine the number of shares earned, while vesting remains dependent on meeting a three year average ROIC hurdle of 18%. The payout of the target performance share awards for this program cycle will be made according to the following table:

2017 Total Company Sales	Payout as a Percent of Target
<\$10.6B	0%
\$10.6B	50%
\$12.2B	100%
\$13.3B	200%

The Compensation Committee selected these performance measures because they balance sales growth with long-term profitability, expense management, and asset management and align with objectives established in the annual incentive program. The Committee may use different sales growth and ROIC objectives and targets from year to year to maximize alignment with then-current business objectives and to reflect economic conditions.

The 2016-2018 performance share cycle will continue to include both three-year ROIC and three-year sales growth targets.

Performance Vested Restricted Stock Units

The Company's performance vested restricted stock units (PRSUs) were used in 2015 for retention and promotions. They provide a potential share payout depending on ROIC achievement over a three year cycle. The ROIC performance objective is the same as that used in the Performance Share Programs. The actual number of PRSUs paid to an NEO is either 0% or 100% of the grant number awarded, based on achievement of the ROIC goal. Dividend equivalents are not paid on PRSUs.

Effective August 1, 2015, the Company granted:

§ Mr. Macpherson 8,507 PRSUs with 7-year cliff vesting,

§ Mr. Jadin 7,438 PRSUs with 5-year cliff vesting,

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§ Mr. Howard 4,811 PRSUs with 5-year cliff vesting, and

§ Mr. High 2,176 PRSUs with 3-year cliff vesting.

To make PRSUs consistent with the Company's existing Performance Share program design, an 18% threshold level of average ROIC performance over a three year period (2015-2017) must be achieved in order for the PRSUs to meet the performance criteria. If this threshold is achieved, 100% of the PRSUs will be settled into shares after the vesting period is met; if this threshold is not achieved, all of the PRSUs will be forfeited.

Award Agreements / Non-Competition / Clawbacks

In 2010 the Company added additional clawback policies that would address a material restatement of reported earnings and fraud (see the "Compensation Recoupment Policy" section for additional details). In addition to and in connection with their long-term incentive awards, the NEOs and all other recipients are required to sign an agreement containing confidentiality and non-competition obligations designed to protect the Company's confidential and proprietary information and to preserve the Company's competitive advantages. Under these clawback agreements, should an executive violate his or her confidentiality or non-compete obligations, any award is automatically forfeited. The agreements also require, in certain circumstances, that an executive who has breached the confidentiality and non-compete agreements return vested shares and/or gains from disposition of shares to the Company.

11. Stock Ownership Guidelines

As of December 31, 2015, all officers subject to stock ownership guidelines, including the NEOs, are in compliance with the guidelines.

The Company continues to believe that requiring executive ownership of Company stock creates alignment between executives and shareholders and encourages executives to act to increase shareholder value. In 1996, the Company established stock ownership guidelines for its NEOs and other officers. In 2011, the Company increased the minimum ownership requirement for the CEO from 5x base salary to 6x and established a retention ratio for equity awards. The stock ownership guidelines for the NEOs are as follows:

NEO	Minimum Ownership Requirement as a Percentage of Base Salary	Currently in Compliance?
James T. Ryan	6x	Yes
Ronald L. Jadin	3x	Yes
Donald G. Macpherson	3x	Yes
John L. Howard	3x	Yes
Joseph C. High	3x	Yes

These stock ownership guidelines must be met within three years of being elected an officer or assuming a new position, and are reviewed annually by the Board. NEOs are required to hold exercised option shares and other stock awards until ownership requirements are met. Officers who fail to achieve these ownership levels will not receive future equity-based awards until they comply with the guidelines. Shares owned directly by the officer (including those held as a joint tenant or as tenant in common), RSUs, shares owned in a self-directed IRA, and certain shares owned or held for the benefit of a spouse or minor children are counted toward meeting the guidelines. Stock options (whether vested or unvested) and performance share awards are not counted toward meeting the ownership guidelines.

Table of Contents**25% Retention Ratio**

It is the Company's long-term goal for executives to also meet a second ownership requirement that is expressed in outright ownership (in actual shares and/or deferred vested shares). The Company has implemented a required 25% after-tax share retention ratio for NEOs. Upon receiving shares from the Company following the exercise or settlement of equity awards, if the NEO does not hold outright ownership of shares worth his required ownership multiple, he will be required to retain 25% of the shares received from all such equity awards (net of any shares used to satisfy tax withholding obligations) until the stock ownership guidelines are met with shares owned outright.

12. Hedging and Pledging Prohibition

The Company's Business Conduct Guidelines (which are available in the Governance section of Grainger's website at www.grainger.com/investor) prohibit employees and the Board of Directors from engaging in any financial arrangement (including, without limitation, put and call options and short sales) that establish a short position in Company stock and are designed to hedge or offset a decrease in market value. Effective January 1, 2013, by policy, Company officers and directors are also prohibited from pledging any additional Company stock at any amount as collateral for a loan or for a margin account. One of the Company's directors who had a long-standing pledge arrangement prior to the anti-pledging policy has committed to reduce his outstanding pledges by 20% per year and that pledges would be eliminated by March 2018 (see further details under the "Ownership of Grainger Stock" section).

13. Other Benefits

The other components of the Company's compensation program for NEOs are substantially similar to those available for most of the Company's other employees. This includes the same health and welfare benefits and the same performance-based profit sharing contribution methodology that is applied to the U.S.-based employees who are profit sharing participants. The Company provides Supplemental Profit Sharing Plans solely to maintain an equal percentage of profit sharing compensation contribution to approximately 215 employees, including NEOs, who would be subject to contribution limitations imposed on qualified plans by the Internal Revenue Code. The Company does not provide any other supplemental retirement benefits to its NEOs or other employees based in the United States.

Profit sharing is the primary Company-sponsored retirement vehicle for U.S.-based employees. Profit sharing aligns the interests of the Company's employees, management, and shareholders as the Company's annual contribution to profit sharing is based on a formula that incorporates two key drivers of shareholder value – earnings performance and capital employed. The Company contributes a minimum of 8% of payroll to the program and provides employees the opportunity to share in the success of the Company beyond this amount only if a threshold return on capital is achieved. In 2015, the contribution percentage that each participating employee receives is a function of his or her years of service with the maximum contribution occurring at five or more years of service. For 2015, the NEOs received 80% of the contribution percentage that other employees received. The Company does not maintain a defined benefit pension plan for U.S.-based employees.

Effective February 2010, the Company implemented a 401(k) plan for businesses in the U.S. whose employees do not participate in profit sharing. Of the approximately 225 employees eligible for this 401(k) plan, none are NEOs. As part of the 2016 profit sharing plan, the Company has implemented a 401(k) feature for all U.S.-based employees including the NEOs. The Company will contribute 3% of pay to the 401(k) feature and this amount is funded from the profit sharing pool. As mentioned above, the minimum Company contribution is 8% of pay with the first 3% going into the 401(k).

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Mr. Carruthers was an employee of the Company's Canadian subsidiary, Acklands Grainger Inc. (AGI), and therefore participated in the AGI Notional Account Plan. The AGI Notional Account Plan (for designated executives) provides an 11% contribution (of earnings above CAD 262,600), which earns an investment return equal to the Canadian prime interest rate plus 1%.

NEOs and certain other officers may elect to defer receipt of up to 50% of base salary and 85% of annual cash incentives under the 2004 Voluntary Salary and Incentive Deferral Plan, an unfunded deferred compensation plan. The purpose of the plan is to provide executives with retirement savings and financial planning opportunities that are not available to them in tax-qualified retirement plans due to Internal Revenue Code limitations. The investment choices and returns for the nonqualified programs are the same as those offered to participants in profit sharing.

Effective April 2011, the Company requires that the NEOs and certain other Company officers have periodic physical examinations at a facility selected by the Company. The Company believes that periodic physical exams are important to maintain the effectiveness of its executive talent.

The NEOs (except for Mr. High and Mr. Carruthers) and certain other Company officers have grandfathered participation in the Company's former Executive Death Benefit Plan. The beneficiary of a participant who dies while employed by the Company is entitled to a taxable benefit of 120 monthly payments of 50% of the participant's monthly compensation, calculated on the basis of salary and target annual incentive. The Company has discontinued its executive death benefit program for executives hired or promoted after December 31, 2009. Unless offered to other Company employees, the Company will not make payments, grants, or awards following the death of an executive in the form of unearned salary or unearned bonuses, accelerated vesting or the continuation in force of unvested equity grants, awards or ungranted equity, perquisites, and other payments or awards made in lieu of compensation.

NEOs were eligible to be reimbursed for up to \$10,000 in financial services in 2015. The financial service reimbursements are fully taxable and not grossed-up to cover taxes. Officers are allowed the business use of corporate aircraft and car and driver, while Mr. Ryan is also allowed personal use of both, subject to his reimbursement of the incremental cost of use. These benefits represent a cost-effective method of allowing the Company's top executives to more effectively use their time. In 2015, Mr. Ryan did not utilize the corporate aircraft for personal use and he reimbursed the Company for all personal use of the car and driver. All other benefits, including the profit sharing contribution percentages and various welfare benefits provided to U.S. NEOs and other executive officers, are comparable to those provided to the majority of salaried and hourly U.S.-based Company employees.

Mr. Carruthers received a competitive Canadian benefits package, which included benefits above those offered to regular Canadian AGI employees. These benefits included Group Life Insurance, Accidental Death & Dismemberment Insurance, Dependent Life Insurance, Dental Insurance, extended Health Insurance, and Annual Executive Medical Insurance. As part of his international assignment, Mr. Carruthers received a supplemental housing allowance of \$95,000 and support for automobile expenses of \$40,000. Mr. Carruthers resigned from his position with the Company effective as of July 31, 2015.

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Summary Compensation Table

Principal	Year	Salary	Bonus	Stock Awards ¹	Option Awards ²	Non-Equity Incentive Plan Comp. ³	Change in Pension Value and NQDC Earnings ⁴	All Other Comp. ^{5,6}
	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
Principal of the Board, CEO	2015	\$ 1,150,169	\$ 0	\$ 2,266,070	\$ 3,063,077	\$ 715,165	\$ 0	\$ 333,106
	2014	\$ 1,123,500	\$ 0	\$ 1,960,612	\$ 3,028,115	\$ 1,044,325	\$ 0	\$ 554,908
	2013	\$ 1,099,000	\$ 0	\$ 1,926,230	\$ 3,614,855	\$ 1,037,813	\$ 0	\$ 491,484
President and Chief Financial Officer	2015	\$ 701,625	\$ 0	\$ 2,122,365	\$ 708,618	\$ 288,048	\$ 0	\$ 183,108
	2014	\$ 685,125	\$ 0	\$ 642,780	\$ 700,517	\$ 433,067	\$ 0	\$ 316,338
	2013	\$ 623,750	\$ 0	\$ 459,073	\$ 861,327	\$ 400,815	\$ 0	\$ 363,370
Vice President and Chief Operating Officer	2015	\$ 725,750	\$ 0	\$ 2,322,855	\$ 669,245	\$ 350,400	\$ 0	\$ 293,893
	2014	\$ 659,750	\$ 0	\$ 1,370,245	\$ 656,722	\$ 417,027	\$ 0	\$ 272,617
	2013	\$ 595,583	\$ 0	\$ 430,369	\$ 807,513	\$ 385,970	\$ 0	\$ 303,568
Vice President and General Counsel	2015	\$ 654,900	\$ 0	\$ 1,368,565	\$ 452,741	\$ 237,240	\$ 0	\$ 133,159
	2014	\$ 639,450	\$ 0	\$ 444,292	\$ 394,054	\$ 356,643	\$ 0	\$ 330,757
	2013	\$ 622,500	\$ 0	\$ 315,553	\$ 592,156	\$ 354,375	\$ 0	\$ 227,967
Vice President and Chief Information Officer	2015	\$ 478,050	\$ 0	\$ 758,863	\$ 393,682	\$ 173,160	\$ 0	\$ 98,949
	2014	\$ 497,688	\$ 0	\$ 495,296	\$ 669,245	\$ 204,310	\$ 4,690	\$ 85,769
	2013	\$ 576,261	\$ 0	\$ 1,370,245	\$ 656,722	\$ 365,987	\$ 4,553	\$ 104,888
Messrs. Carruthers ^{7,8} , President and Chief Information Officer	2015	\$ 582,385	\$ 0	\$ 430,369	\$ 807,513	\$ 460,325	\$ 4,113	\$ 86,518

1

Represents the grant date fair value of stock awards computed in accordance with FASB ASC Topic 718. Performance share grants are calculated at target achievement and may pay out up to 200% of the target award. Performance vested restricted stock awards are calculated at target achievement and may pay out up to 100% of the target award. The maximum value of the stock awards shown are \$4,532,140, \$2,646,825, \$2,818,151, \$1,703,583, \$1,050,256, and \$990,592 for Messrs. Ryan, Jadin, Macpherson, Howard, High, and Carruthers, respectively.

2

Represents the grant date fair value of option awards computed in accordance with FASB ASC Topic 718.

3

Represents amounts paid under a 162(m)-qualified, shareholder-approved annual cash incentive plan for all, except for Mr. High, who was paid under the Company Management Incentive Plan.

4

The Company maintains a Non-Qualified Defined Contribution plan for Acklands Grainger Inc.'s ("AGI") Designated Executives. The plan accrues an additional pension benefit equivalent to 11% of earnings in excess of the maximum earnings threshold of CAD 262,600 for 2015 and provides interest on the prior year balance at the prime rate plus 1%. For 2015, the 1% additional interest totals CAD 6,491 for Mr. Carruthers. The Company does not maintain an employee pension plan nor does it issue above-market earnings on nonqualified deferred accounts for non-AGI officers.

5

For 2015, includes contributions accrued under the Company's profit sharing plan, the related supplemental profit sharing plan, and for deferred compensation plan participants, Company contributions that would otherwise have been made to the supplemental profit sharing plan (\$251,278, \$129,918, \$130,405, \$115,815, \$84,549 for Messrs. Ryan, Jadin, Macpherson, Howard, and High, respectively). For Mr. Carruthers, this includes contributions accrued under the AGI Defined Contribution Plan and the AGI Notional Account Plan (CAD 13,936 pension contributions + CAD 93,620 Notional). It includes reimbursement for financial services (\$4,875, \$10,000, \$5,618, \$10,000, \$10,000, and \$0 for Messrs. Ryan, Jadin, Macpherson, Howard, High, and Carruthers, respectively).

It also includes the incremental cost of the frozen Executive Death Benefit Program (\$72,928, \$43,190, \$153,470, and \$1,910 for Messrs. Ryan, Jadin, Macpherson, and Howard) and the cost of

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executive physicals (\$4,025, \$0, \$4,400, \$5,434, \$4,400, and \$4,700 for Messrs. Ryan, Jadin, Macpherson, Howard, High, and Carruthers respectively).

6

Mr. Carruthers receives a Canadian benefits package, which includes additional benefits not available to regular Canadian employees. The incremental value totals CAD 4,636 and includes Group Life Insurance, Accidental Death & Dismemberment Insurance and Dependent Life Insurance.

7

Reflects the amount paid to Mr. Carruthers in Canadian dollars, which were converted into U.S. dollars at a rate of CAD 1.3839 to U.S. \$1.0000. This is the spot conversion rate at the close of business on December 31, 2015.

8

Mr. Carruthers resigned from his position with the Company effective as of July 31, 2015 and assisted the Company with the transition of his responsibilities until his December 31, 2015 separation date. As part of his separation agreement, assuming continued compliance with all terms of the agreement, including its non-competition and non-solicitation provisions, he will receive base salary continuation for 18 months plus the continued vesting of certain equity and the forfeiture of other equity. See the Other Potential Post-Employment Payments table for Mr. Carruthers for additional details.

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Grants of Plan-Based Awards

Estimated Possible Payouts Under Non-Equity Incentive Plan Awards ¹			Estimated Future Payouts Under Equity Incentive Plan Awards ^{2,3}			All Other Stock Awards: No. of Shares of Stock or Units	All Other Option Awards: No. of Securities Underlying Options ⁴	Excise or Priority Op
Threshold	Target	Maximum	Threshold	Target	Maximum			
\$ 0	\$ 1,489,927	\$ 2,979,854	4,701	9,402	18,804		65,816	\$ 2
\$ 0	\$ 600,100	\$ 1,200,200	1,088	2,176	4,352		15,226	\$ 2
			0	7,438	7,438			
\$ 0	\$ 730,000	\$ 1,460,000	1,028	2,055	4,110		14,380	\$ 2
			0	8,507	8,507			
\$ 0	\$ 494,250	\$ 988,500	695	1,390	2,780		9,728	\$ 2
			0	4,811	4,811			