

GRAINGER W W INC
Form DEF 14A
March 13, 2015

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[TABLE OF CONTENTS](#)

[Table of Contents](#)

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:

Table of Contents

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

March 13, 2015

Dear Grainger Shareholder:

The W.W. Grainger, Inc. 2015 annual meeting of shareholders will be held at our headquarters located at 100 Grainger Parkway, Lake Forest, Illinois (see map overleaf), on Wednesday, April 29, 2015, 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, to consider and hold an advisory vote on the compensation of our Named Executive Officers, and to approve the W.W. Grainger, Inc. 2015 Incentive Plan. 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, on the W.W. Grainger, Inc. 2015 Incentive Plan or on other non-routine matters.

Please make sure your shares are voted.

2015 PROXY STATEMENT

W.W. GRAINGER,
INC.

Table of Contents

W.W. GRAINGER, INC.
2015 Annual Meeting of Shareholders
Wednesday, April 29, 2015 10 A.M. (CDT)
Location: W.W. Grainger, Inc.
100 Grainger Parkway
Lake Forest, Illinois 60045-5201
(847) 535-1000

Table of Contents

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 29, 2015

The annual meeting of shareholders of W.W. Grainger, Inc., will be held at its headquarters at 100 Grainger Parkway, Lake Forest, Illinois (see map on previous page), on April 29, 2015, at 10 A.M. (CDT) for the following purposes:

1. To elect eleven 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, 2015;
3. To consider and hold an advisory vote on the compensation of Grainger's Named Executive Officers;
4. To consider and act upon a proposal to approve the W.W. Grainger, Inc. 2015 Incentive Plan, under which Grainger may provide equity and other awards to its employees and directors; and
5. 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 2, 2015, as the record date for the meeting. Shareholders may vote either in person or by proxy.

By order of the Board of Directors.

D. L. Rawlinson
Corporate Secretary
Lake Forest, Illinois
March 13, 2015

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON APRIL 29, 2015

Grainger's Proxy Statement and Annual Report on Form 10-K are available in the 2015 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.

2015 PROXY STATEMENT

W.W. GRAINGER,
INC.

Table of Contents

W.W. GRAINGER, INC.

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

PROXY STATEMENT

Table of Contents

	Page
<u>Annual Meeting Agenda and Voting Recommendations</u>	1
<u>Introduction</u>	2
<u>Directors</u>	6
<u>Recommending Candidates for Board Membership</u>	6
<u>Director Independence</u>	6
<u>Annual Election of Directors</u>	7
<u>Nominees and Director Experience, Qualifications, Attributes, and Skills</u>	7
<u>Board Diversity</u>	15
<u>Board of Directors and Board Committees</u>	15
<u>Leadership Structure</u>	18
<u>Board and Committee Evaluations</u>	20
<u>Board's Role in Risk Oversight</u>	20
<u>Director Compensation</u>	22
<u>Ownership of Grainger Stock</u>	24
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	25
<u>Report of the Audit Committee of the Board</u>	26
<u>Audit Fees and Audit Committee Pre-Approval Policies and Procedures</u>	27
<u>Report of the Compensation Committee of the Board</u>	28
<u>Fees for Independent Compensation Consultant</u>	29
<u>Compensation Discussion and Analysis</u>	30

<u>Summary Compensation Table</u>	<u>48</u>
<u>Grants of Plan-Based Awards Table</u>	<u>50</u>
<u>Outstanding Equity Awards at Fiscal Year-End Table</u>	<u>51</u>
<u>Stock Option Exercises and Stock Vested Table</u>	<u>52</u>
<u>Pension Benefits Table</u>	<u>53</u>
<u>Nonqualified Deferred Compensation Table</u>	<u>53</u>
<u>Other Potential Post-Employment Payments Tables</u>	<u>57</u>
<u>Equity Compensation Plans</u>	<u>63</u>
<u>Transactions with Related Persons</u>	<u>64</u>
<u>Proposal to Ratify the Appointment of Independent Auditor</u>	<u>65</u>
<u>Proposal to Consider and Hold an Advisory Vote on the Compensation of Grainger's Named Executive Officers</u>	<u>66</u>
<u>Proposal to Approve the W.W. Grainger, Inc. 2015 Incentive Plan</u>	<u>67</u>
<u>Appendix A Categorical Standards for Director Independence</u>	<u>A-1</u>
<u>Appendix B W.W. Grainger, Inc. 2015 Incentive Plan</u>	<u>B-1</u>

2015 PROXY STATEMENT

W.W. GRAINGER,
INC.

Table of Contents

Annual Meeting Agenda and Voting Recommendations

Election of 11 directors	FOR EACH DIRECTOR NOMINEE	7
Ratification of the appointment of Ernst & Young LLP as independent auditor for the year ending December 31, 2015	FOR	65
Advisory vote on the compensation of Grainger's Named Executive Officers	FOR	66
Approval of the W.W. Grainger, Inc. 2015 Incentive Plan, under which Grainger may provide equity and other awards to its employees and directors	FOR	78
2015 PROXY STATEMENT	W.W. GRAINGER, INC.	1

Table of Contents

Introduction

What is the purpose of this proxy statement?

This proxy statement relates to Grainger's 2015 annual meeting of shareholders to be held on April 29, 2015, 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 mailing of the proxy statement and other proxy-soliciting materials to you and other shareholders began on or about March 13, 2015.

What matters are scheduled to be presented?

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The election of eleven 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, 2015;

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

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A proposal to approve the W.W. Grainger, Inc. 2015 Incentive Plan, under which Grainger may provide equity and other awards to its employees.

Who is entitled to vote?

Holders of shares of common stock outstanding on Grainger's books at the close of business on March 2, 2015, the record date for the meeting, may vote. There were 67,152,257 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, on the approval of the W.W. Grainger, Inc. 2015 Incentive Plan 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, on the advisory vote on the compensation of Grainger's Named Executive Officers, or on the approval of the W.W. Grainger, Inc. 2015 Incentive Plan.** 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.

Table of Contents

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.

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

Does Grainger have majority voting for election of directors?

Yes. 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.

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 five 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 voting standard applies to the approval of the W.W. Grainger, Inc. 2015 Incentive Plan?

Approval of the W.W. Grainger, Inc. 2015 Incentive Plan requires the affirmative votes of a majority of the shares represented in person or by proxy at the meeting and entitled to vote.

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;

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

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FOR the approval of the W.W. Grainger, Inc. 2015 Incentive Plan.

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, on the advisory resolution on the compensation of Grainger's Named Executive Officers, and on the approval of the W.W. Grainger, Inc. 2015 Incentive Plan; otherwise your nominee is not allowed to vote your shares.** Please contact your brokerage firm, bank, or other nominee with instructions to

Table of Contents

vote your shares for the election of directors and on other matters to be considered at the meeting.

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 2014?

Grainger has a very expansive shareholder engagement process. We hosted our annual investor day in November with over 75 investors in attendance and several hundred via webcast. In addition, we presented at 13 investor conferences and met with over 500 firms and over 800 unique investors in 2014. Our investor outreach includes both existing and potential shareholders and we ensure that we meet with at least 85% of our largest investors each year. We also meet with 90% of our top 15 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. Management, including the Chairman/CEO, CFO and the two top operating leaders, 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

Table of Contents

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.

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 2016 annual meeting?

If you wish to have a shareholder proposal included in Grainger's proxy-soliciting materials for the 2016 annual meeting of shareholders, please send a notice of intent to submit your proposal at that meeting to the Corporate Secretary at Grainger's headquarters. The notice, including the text of the proposal, must be in writing, signed, and in compliance with the timing and other requirements of the proxy rules of the Securities and Exchange Commission. For a shareholder proposal relating to the 2016 annual meeting to be timely, Grainger must receive the notice no later than November 14, 2015.

Grainger's by-laws require written notice concerning a shareholder submission of a proposal or a shareholder nomination of a person for election as a director at a meeting of shareholders. For a shareholder proposal, certain information about the shareholder and the proposal is required. For the submission of a proposal, the notice must be furnished generally not less than 90 days and not more than 120 days before the anniversary date of the prior year's annual meeting. Likewise, for a shareholder nomination, certain information about the shareholder and the nominee is required. For a nomination to be considered at Grainger's 2016 annual meeting, the notice must be furnished no later than November 14, 2015.

A copy of the 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 Grainger's headquarters, 100 Grainger Parkway, Lake Forest, Illinois 60045-5201.

2015 PROXY STATEMENT

W.W. GRAINGER,
INC. 5

Table of Contents

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 2014, 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 2014, Grainger bought products and/or services from, or sold products and/or services to, companies with which Messrs. Adkins, Hall, Levenick, Santi, and Slavik are or were associated as executive officers or otherwise as of December 31, 2014. In no instance did the total amount of the purchases from or sales to any such company during 2014 represent more than 0.236% of the projected consolidated gross revenues of that company for the year or more than 0.381% of the consolidated gross revenues of Grainger for the year.

In addition, as part of its overall 2014 charitable contributions program, Grainger made donations to tax-exempt organizations with which Messrs. Hall, Novich, and Santi serve as officers, directors or trustees. In no instance did the total amount of the contributions to such an organization during 2014 represent more than 0.062% 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

Table of Contents

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.

The Board has determined that each of Messrs. Adkins, Anderson, Hall, 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 except for Mr. Adkins, who was appointed in July 2014, previously were elected by the shareholders at the 2014 annual meeting of shareholders. The Board Affairs and Nominating Committee identified Mr. Adkins as a potential director with the assistance of a search firm.

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 2014 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.

Eleven directors have been nominated for election at this year's annual meeting of shareholders. All directors are elected for a one-year term. Each director will therefore serve until the 2016 annual meeting of shareholders or until his or her successor has been qualified and elected. Details concerning the nominees are provided below.

Majority (rather than plurality) voting applies to Grainger's 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 in March 2015. Each nominee has provided information on their relevant background that includes their experience for at least the past five years.

Grainger's directors and nominees have varied experiences, qualifications, attributes, and skills that assist them in providing guidance and oversight to Grainger's management as it operates 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 23,600 employees in the United States, Canada, Europe, Asia, and Latin America. With 2014 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 and structure 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, are 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.

Table of Contents

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 experiences, qualifications, attributes, and skills that led the Board to nominate each individual.

Rodney C. Adkins

Rodney C. Adkins, age 56, 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 PPL Corporation and United Parcel Service, Inc. where he serves on the Audit 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 with two public companies, in addition to Grainger, and serves on the audit committee of one of them.

Table of Contents

Brian P. Anderson

Brian P. Anderson, age 64, 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 as well as a director of James Hardie Industries SE 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 of The Nemours Foundation. 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 (CFO) 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 CFO of one of the two public companies, 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 two other public companies. In addition, Mr. Anderson serves on the audit committee of three public companies, including Grainger.

Table of Contents**V. Ann Hailey**

V. Ann Hailey, age 64, 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 Avon Products, Inc. and serves on its audit and finance committees, and is a director of Realogy Holdings Corp where she chairs its audit committee and is a member of its nominating and corporate governance committee. During the past five years, Ms. Hailey served on the board of directors of the Federal Reserve Bank of Cleveland. 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 has extensive financial and operations experience. In particular, Ms. Hailey possesses broad expertise in strategic planning, branding and marketing, retail goods and sales and distribution on a global scale. Ms. Hailey's positions as CFO, her current and prior service on the audit committees of other companies and as Audit Chair of the Cleveland Federal Reserve Bank as well as her accounting and financial knowledge, also impart significant expertise to the board, including an understanding of financial statements, corporate finance, accounting and capital markets. Further, as an executive at internet-based businesses, Ms. Hailey has added expertise in internet site development and selling as well as new venture management and funding.

Table of Contents

William K. Hall

William K. Hall, age 71, is a founding partner of Procyon Advisors, LLP and former Chairman of Procyon Technologies, Inc., a privately owned, Chicago-based holding company. Prior to assuming that position in 2000, Mr. Hall was Chairman and Chief Executive Officer of Falcon Building Products, Inc., a manufacturer and distributor of products for residential and commercial construction and home improvement markets. He currently serves on the boards of Actuant Corporation and Stericycle, Inc. and serves on the audit committee of both of those companies. During the past five years, Mr. Hall served on the board of directors of A. M. Castle & Co. Mr. Hall, an independent director, was first elected a director of Grainger in 2005 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. Hall has served as a senior executive at five multinational enterprises and as Chief Executive Officer (CEO) of three manufacturing companies. Included in his responsibilities was the management of foreign operations. Mr. Hall also served as the chief marketing officer of a large manufacturing company for over five years. Through his years of service with public and private companies as well as on a university's faculty, Mr. Hall has in-depth experience in finance, strategy, business ethics and governance. In addition, Mr. Hall has extensive experience as a strategic management consultant providing planning services, including analyzing and evaluating company financials and assessing acquisition and divestiture opportunities.

Stuart L. Levenick

Stuart L. Levenick, age 62, 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 audit committee. 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 multinational manufacturing company and has had extensive international operations experience including positions outside the United States in numerous countries for more than 20 years.

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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 present employer. In addition, he has led his employer's global human resources function and had responsibility for that company's enterprise risk assessment.

2015 PROXY STATEMENT

W.W. GRAINGER,
INC. 11

Table of Contents

Neil S. Novich

Neil S. Novich, age 60, 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 Children's Home & Aid, 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

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

Michael J. Roberts

Michael J. Roberts, age 64, 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

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Mr. Roberts served as president and chief operating officer of a multinational public 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 serves on the compensation committees of two other public companies.

Table of Contents

Gary L. Rogers

Gary L. Rogers, age 70, 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

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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.

James T. Ryan

James T. Ryan, age 56, 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 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

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Mr. Ryan is the Company's Chairman, President and CEO. He has served Grainger in many capacities over his 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.

Table of Contents

E. Scott Santi

E. Scott Santi, age 53, is President and Chief Executive Officer and a member of the board of directors of Illinois Tool Works Inc. (ITW), a worldwide manufacturer and marketer of engineered components and industrial systems and consumables. Mr. Santi was promoted to his current position in November 2012 after having served as acting Chief Executive Officer since October 2012. 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

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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.

James D. Slavik

James D. Slavik, age 62, 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 is also a director of the Hoag Hospital Foundation. 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

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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.

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

Five meetings of the Board were held in 2014. 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

Table of Contents

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 2014 annual meeting of shareholders.

Audit Committee

The Audit Committee met five times in 2014. 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 standards of the New York Stock Exchange (NYSE). The Board has also determined that each of Mr. Santi, Chair of the Audit Committee, Mr. Anderson, Mr. Hall, and Mr. Novich and Ms. Hailey, is an "audit committee financial expert," as that term is defined in the applicable rules of the SEC.

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 met five times in 2014. 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) as well as 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 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.

Table of Contents

Compensation Committee

The Compensation Committee of the Board met five times in 2014.

The Compensation Committee oversees Grainger's compensation and benefits policies and programs (generally with regard to all employees and specifically with regard to executives), makes executive compensation decisions, and reviews and makes recommendations concerning other compensation related 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;
- § A market competitive compensation structure is designed to attract, motivate, develop, and retain key talent to 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 Securities and Exchange Commission (SEC) and the New York Stock Exchange (NYSE).

The Compensation 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 Compensation Committee (the Committee) develops programs based on its own deliberations. It also considers alternatives and recommendations from its independent compensation consultant, a variety of other compensation and benefits consultants, and management. Since 2004, the Committee has retained Deloitte Consulting LLP (Deloitte Consulting) as its independent compensation consultant. After a review of the factors prescribed by the Securities and Exchange Commission and the New York Stock Exchange, the Compensation Committee determined that its compensation consultant, Deloitte Consulting, is an independent advisor under the rules and regulations.

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 Compensation Committee meeting. The Committee has sole authority to retain and terminate the 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;

Table of Contents

- § 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
- § undertakes special projects.

The Committee seeks advice from the independent compensation consultant on compensation trends and best practices, as well as in reviewing the Company's programs and policies to ensure they are designed and operate to achieve their purposes and goals. During 2014, the independent compensation consultant performed a number of specific projects, including providing advice on executive compensation trends, reviewing the design of the W.W. Grainger, Inc. 2015 Incentive Plan that is being submitted for shareholder approval, and attending all Compensation Committee meetings and select executive sessions.

Members of management (including some of the NEOs) assist the Compensation 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 Compensation Committee, either alone or 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 Compensation Committee, in their sole discretion, determines the appropriate compensation design and level.

The Compensation Committee grants equity awards (stock options, restricted stock units (RSUs), and performance shares) to officers and other employees under the 2010 Incentive Plan. The Committee delegates to management a 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.

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

Table of Contents

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.

Table of Contents

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 its 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 2014, sales transactions were made to approximately 1.2 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 2014, Grainger purchased products from more than 2,900 key suppliers, and no single supplier represented more than 5 percent of the total purchases.

Grainger's 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 of the Board 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 of the Board 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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Table of Contents

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, adopted by the Board, of the Board's Audit Committee, Board Affairs and Nominating Committee, and Compensation Committee.

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, Board 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.

2015 PROXY STATEMENT

W.W. GRAINGER,
INC. 21

Table of Contents