

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

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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.**

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(Name of Registrant as Specified In Its Charter)

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(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:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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Table of Contents

**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

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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.**

2016 PROXY STATEMENT

W.W. GRAINGER,  
INC.

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Table of Contents

**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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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 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.

2016 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**

	<b>Page</b>
<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 Tenure</u>	15
<u>Board Diversity</u>	16
<u>Board of Directors and Board Committees</u>	16
<u>Leadership Structure</u>	19
<u>Board and Committee Evaluations</u>	21
<u>Board's Role in Risk Oversight</u>	21
<u>Director Compensation</u>	23
<u>Ownership of Grainger Stock</u>	25
<u>Section 16(a) Beneficial Ownership Reporting Compliance</u>	27
<u>Report of the Audit Committee of the Board</u>	28
<u>Audit Fees and Audit Committee Pre-Approval Policies and Procedures</u>	29
<u>Report of the Compensation Committee of the Board</u>	30
<u>Fees for Independent Compensation Consultant</u>	31

<u>Compensation Discussion and Analysis</u>	<u>32</u>
<u>Summary Compensation Table</u>	<u>50</u>
<u>Grants of Plan-Based Awards Table</u>	<u>52</u>
<u>Outstanding Equity Awards at Fiscal Year-End Table</u>	<u>53</u>
<u>Stock Option Exercises and Stock Vested Table</u>	<u>54</u>
<u>Pension Benefits Table</u>	<u>55</u>
<u>Nonqualified Deferred Compensation Table</u>	<u>55</u>
<u>Other Potential Post-Employment Payments Tables</u>	<u>59</u>
<u>Equity Compensation Plans</u>	<u>66</u>
<u>Transactions with Related Persons</u>	<u>67</u>
<u>Proposal to Ratify the Appointment of Independent Auditor</u>	<u>68</u>
<u>Proposal to Consider and Hold an Advisory Vote on the Compensation of Grainger's Named Executive Officers</u>	<u>69</u>
<u>Appendix A Categorical Standards for Director Independence</u>	<u>A-1</u>

2016 PROXY STATEMENT

W.W. GRAINGER,  
INC.

---

Table of Contents

Annual Meeting Agenda and Voting Recommendations

Election of ten directors	FOR EACH DIRECTOR NOMINEE	7
Ratification of the appointment of Ernst & Young LLP as independent auditor for the year ending December 31, 2016	FOR	68
Advisory vote on the compensation of Grainger's Named Executive Officers	FOR	69
2016 PROXY STATEMENT	W.W. GRAINGER, INC.	1

---



Table of Contents

## 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.

Table of Contents

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.

Table of Contents

**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.

Table of Contents

**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](http://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.

2016 PROXY STATEMENT

W.W. GRAINGER,  
INC. 5

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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](http://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.

Table of Contents

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.

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 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.

Table of Contents

**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.



Table of Contents

**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.

Table of Contents

**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.

2016 PROXY STATEMENT

W.W. GRAINGER,  
INC. 11

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Table of Contents

**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**

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**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**

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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.



Table of Contents

**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**

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**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**

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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.



Table of Contents

**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**

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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

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.

<b>Director Experience, Qualifications, Attributes, and Skills</b>	<b>Adkins</b>	<b>Anderson</b>	<b>Hailey</b>	<b>Hall</b>	<b>Levenick</b>	<b>Novich</b>	<b>Roberts</b>	<b>Rogers</b>	<b>Ryan</b>	<b>Santi</b>	<b>Slavik</b>
<b>Operational</b> Experience in the development and implementation of operating plans and business strategy	ü	ü	ü	ü	ü	ü	ü	ü	ü	ü	ü
<b>Finance</b> 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
<b>Supply Chain/Logistics</b> 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		
<b>Marketing</b> Experience in, or experience in a senior management position responsible for, managing a sales function	ü		ü	ü	ü		ü	ü	ü	ü	ü
<b>Human Resources/Compensation</b> 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      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      ü

**International**

Experience in oversight of a complex global organization      ü      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      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:

<b>Years of Service</b>	<b>1-5</b>	<b>6-11</b>	<b>12-17</b>	<b>25+</b>
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**

<b>Name</b>	<b>Audit</b>	<b>Board Affairs and Nominating</b>	<b>Compensation</b>
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