

# Fiscal Third Quarter 2021 Earnings Presentation

JULY 7, 2021

# Cautionary Note Regarding Forward-Looking Statements

Statements in this presentation may constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future, including statements about the future impact of COVID-19 on our business operations, results of operations and financial condition, expected future results, expected benefits from our investment and strategic plans and other initiatives, and expected future growth, profitability and return on invested capital, are forward-looking statements. The words "will," "may," "believes," "anticipates," "thinks," "expects," "estimates," "plans," "intends," and similar expressions are intended to identify forward-looking statements. Forward-looking statements involve risks and uncertainties that could cause actual results to differ materially from those anticipated by these forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. The inclusion of any statement in this presentation does not constitute an admission by MSC Industrial or any other person that the events or circumstances described in such statement are material. Factors that could cause actual results to differ materially from those in forward-looking statements include the following, many of which are and will be amplified by the COVID-19 pandemic: the impact of the COVID-19 pandemic on our sales, operations and supply chain; general economic conditions in the markets in which we operate, including conditions resulting from the COVID-19 pandemic; changing customer and product mixes; competition, including the adoption by competitors of aggressive pricing strategies and sales methods; industry consolidation and other changes in the industrial distribution sector; our ability to realize the expected benefits from our investment and strategic plans, including our transition from being a spot-buy supplier to a mission-critical partner to our customers; our ability to realize the expected cost savings and benefits from our restructuring activities and structural cost reductions; the retention of key personnel; volatility in commodity and energy prices; the credit risk of our customers, including changes in credit risk as a result of the COVID-19 pandemic; the risk of customer cancellation or rescheduling of orders; difficulties in calibrating customer demand for our products, in particular personal protective equipment or "PPE" products, which could cause an inability to sell excess products ordered from manufacturers resulting in inventory write-downs or could conversely cause inventory shortages of such products; work stoppages, labor shortages or other business interruptions (including those due to extreme weather conditions or as a result of the COVID-19 pandemic) at transportation centers, shipping ports, our headquarters or our customer fulfillment centers; disruptions or breaches of our information systems, or violations of data privacy laws; the retention of qualified sales and customer service personnel and metalworking specialists; the risk of loss of key suppliers or key brands or supply chain disruptions, including due to import restrictions resulting from the COVID-19 pandemic; changes to governmental trade policies, including the impact from significant import restrictions or tariffs; risks related to opening or expanding our customer fulfillment centers; our ability to estimate the cost of healthcare claims incurred under our self-insurance plan; litigation risk due to the nature of our business; risks associated with the integration of acquired businesses or other strategic transactions; financial restrictions on outstanding borrowings; our ability to maintain our credit facilities; the interest rate uncertainty due to the London Interbank Offered Rate ("LIBOR") reform; the failure to comply with applicable environmental, health and safety laws and regulations, including government action in response to the COVID-19 pandemic, and other laws applicable to our business; the outcome of government or regulatory proceedings or future litigation; goodwill and intangible assets recorded resulting from our acquisitions could be impaired; our common stock price may be volatile due to factors outside of our control; and our principal shareholders exercise significant control over us, which may result in our taking actions or failing to take actions that are in the best interests of other shareholders. Additional information concerning these and other risks is described under "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual and Quarterly Reports on Forms 10-K and 10-Q, respectively, and in the other reports and documents that we file with the U.S. Securities and Exchange Commission. We expressly disclaim any obligation to update any of these forward-looking statements, except to the extent required by applicable law.

## Fiscal Third Quarter 2021 Overview

**Improved sales trends driven by growth initiatives and macro environment**

**Solid underlying gross margins due to price and purchase cost performance**

**Exceeding original Mission Critical\* program savings goals for fiscal 2021**

**Realized \$20.8 million loss recovery**

**Repurchased \$47.1 million of shares**

\* See Appendix for more information about Mission Critical.



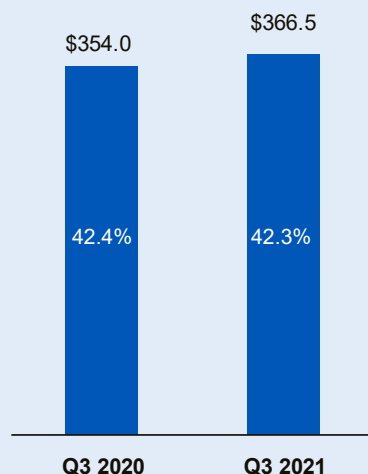
# Fiscal Third Quarter 2021 Reported Results

## Net Sales (millions)



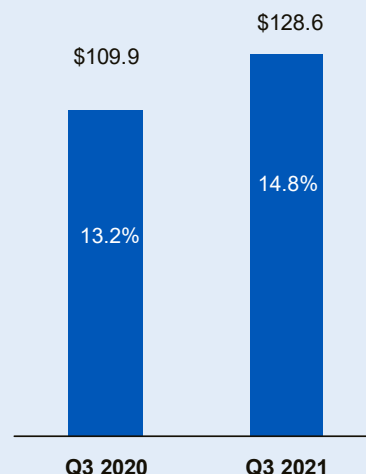
- Average Daily Sales (ADS) increased 2.2%
- Safety and janitorial product sales declined 42% YoY
- Sales for the rest of the business improved 21% YoY, and improved sequentially each month during the quarter

## Gross Profit (millions and % of sales)



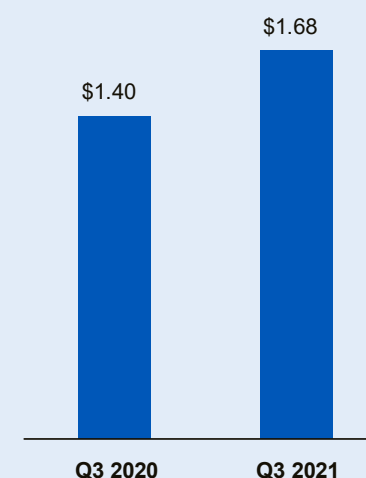
- 10 bps decline reflects strong execution on price and cost initiatives to offset inflation
- Gross margin improved 30 bps sequentially from Q2

## Operating Profit (millions and % of sales)



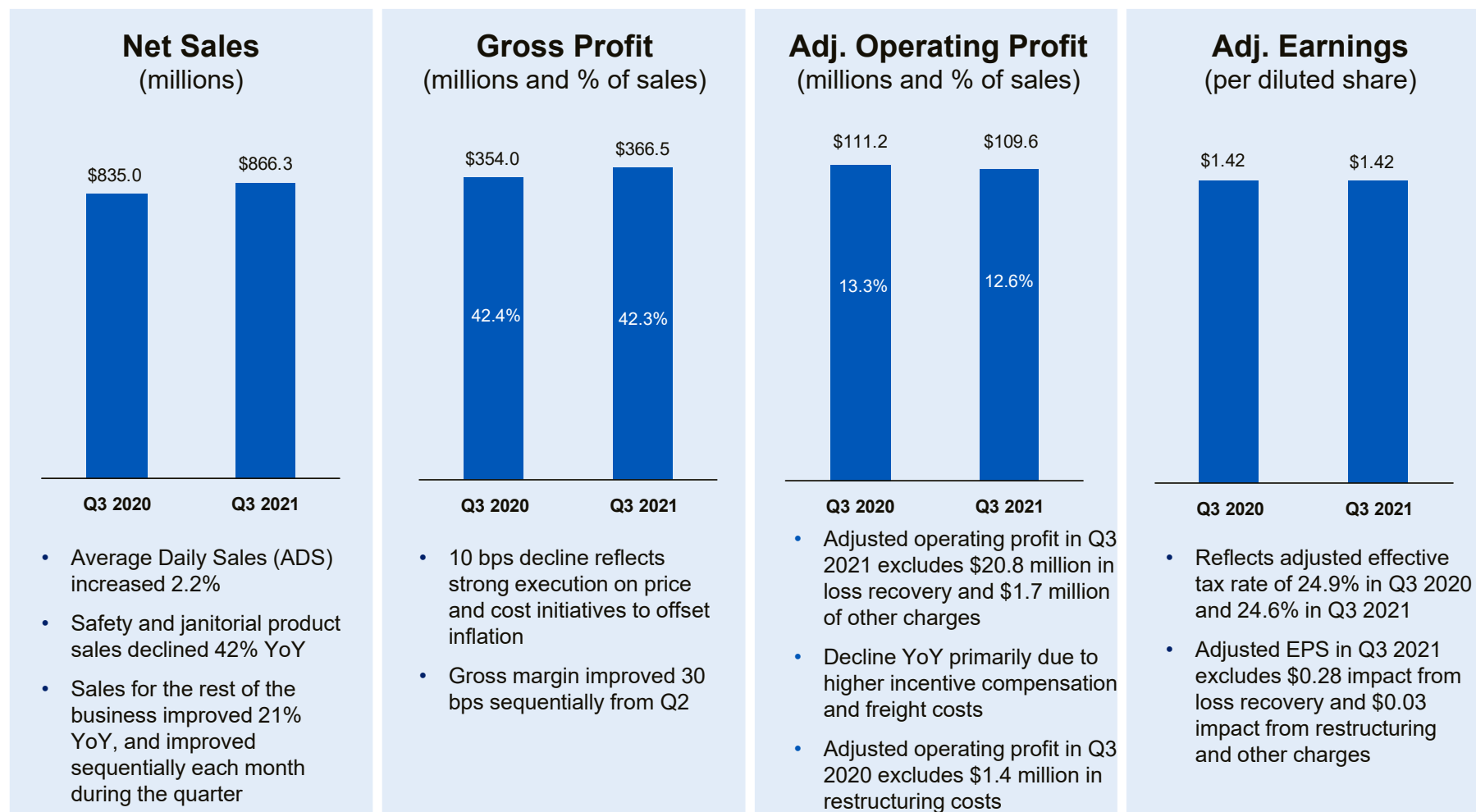
- Operating profit includes \$20.8 million loss recovery on the PPE related impairment recorded in Q1

## Earnings (per diluted share)



- Reflects effective tax rate of 24.9% in Q3 2020 and 24.7% in Q3 2021
- EPS in Q3 2021 includes approximately \$0.28 impact from loss recovery and \$0.03 impact from restructuring and other charges

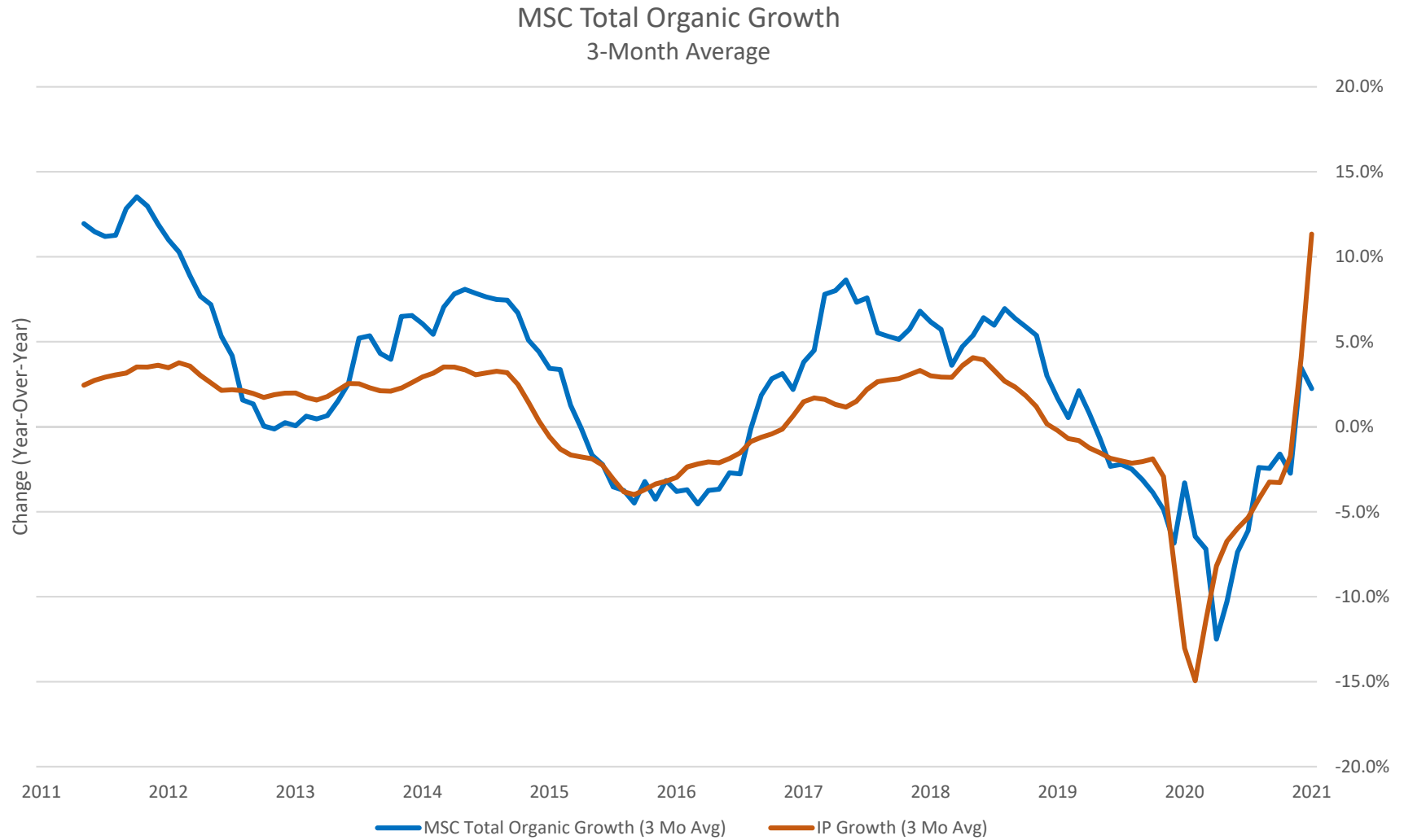
# Fiscal Third Quarter 2021 Adjusted Results\*



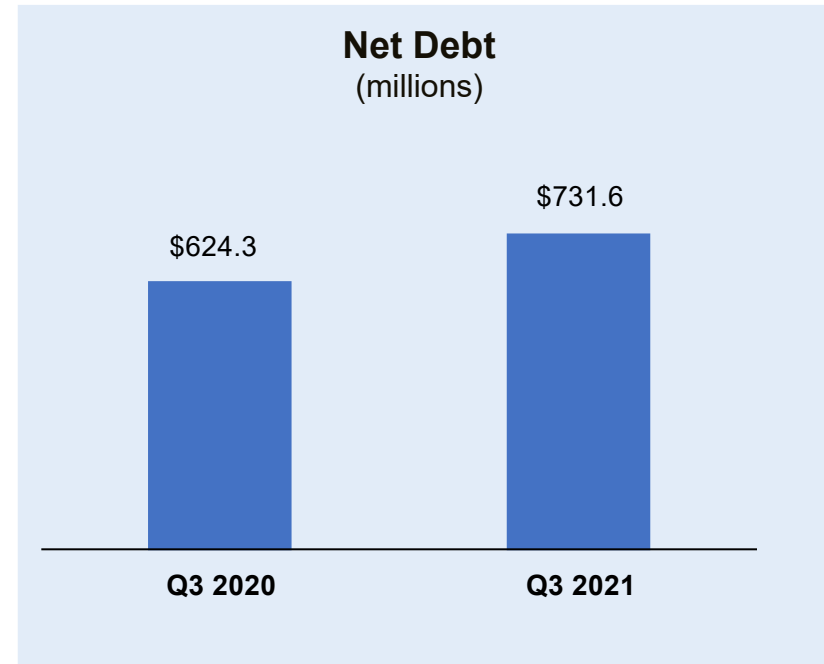
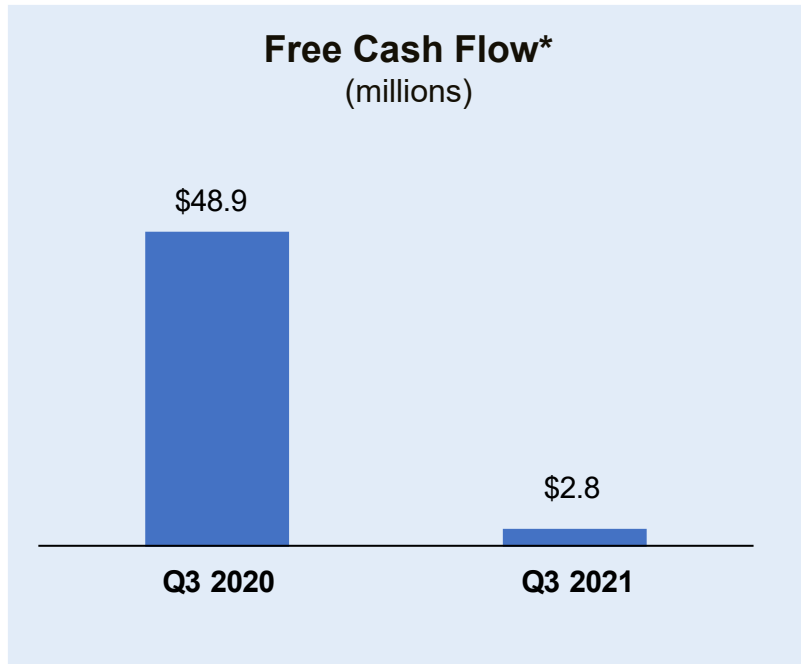
\* Represents a non-GAAP financial measure. See appendix for non-GAAP reconciliations. Individual amounts may not agree to the total due to rounding.



# Industrial Production Index (IP)



# Fiscal Third Quarter 2021 Balance Sheet and Liquidity Position

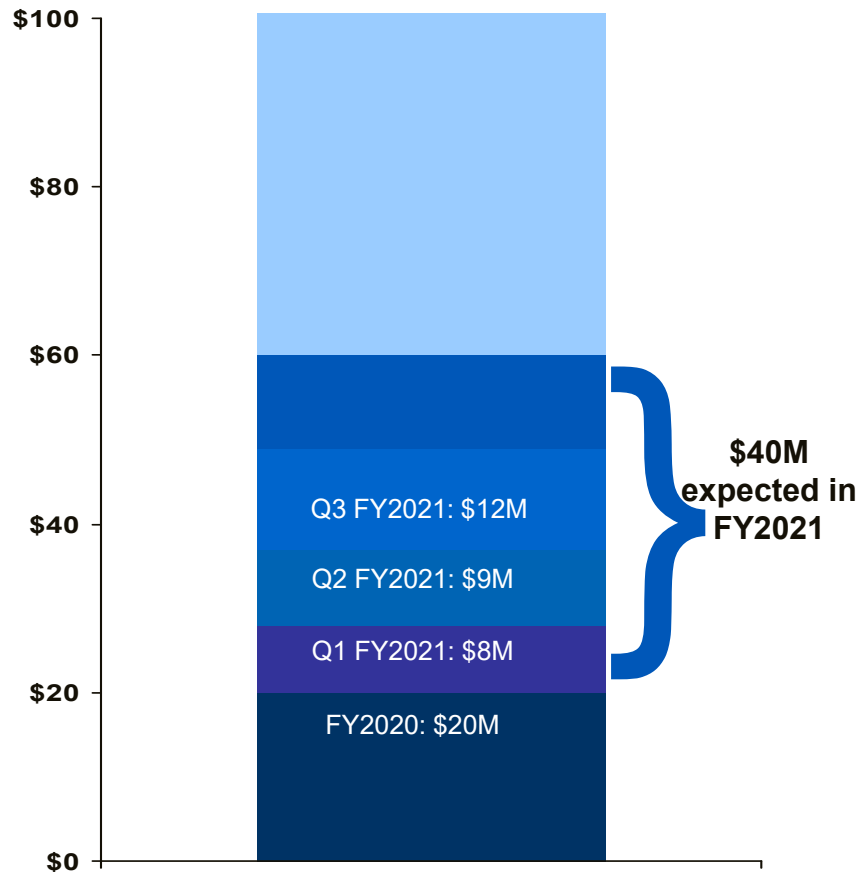


- Free cash flow performance reflects increased inventory and seasonal accounts receivable growth
- Repurchased \$47.1 million of shares and paid \$42 million in dividends

\* Represents a non-GAAP financial measure. See appendix for non-GAAP reconciliations.

# Mission Critical: Strong Progress on Cost Savings

Total Gross Savings Target:  
\$90M – \$100M  
by end of FY23 versus FY19



**MSC**

## KEY AREAS



Sales and service



Supply chain






General &  
Administrative

- Raised FY21 target to ~\$40M gross cost savings
- FY21 growth investments ~\$25M
- Net savings of ~\$15M FY21
- Continue to target \$90M to \$100M in total cost savings by end of FY23 versus FY19; trending to high end of range
- Projected improvement in OpEx to Sales ratio of roughly 200 bps by end of FY23



## Fiscal 2021 Framework – Adjusted\*

Revenue Growth (YoY)	Adjusted Operating Margin Range (%)
 <b>Low single digits</b>	<b>11.5% - 11.9%</b>
 <b>Flat</b>	<b>11.2% - 11.6%</b>
 <b>Low single digits</b>	<b>11.0% - 11.4%</b>

\* Excludes approximately \$30 million of restructuring and other charges, \$30.1 million in PPE-related inventory write-downs, \$26.7 million in an asset impairment, partially offset by \$20.8 million in loss recovery

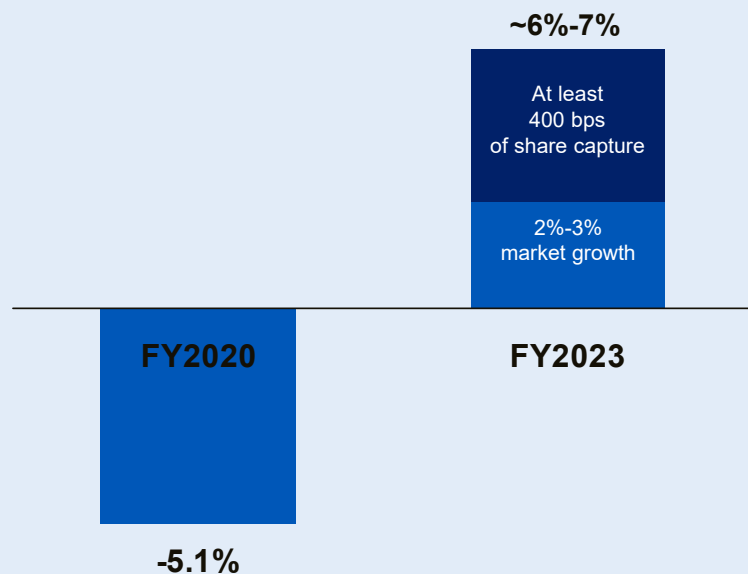
# Fiscal Year 2023 Targets

## Mission Critical Objectives

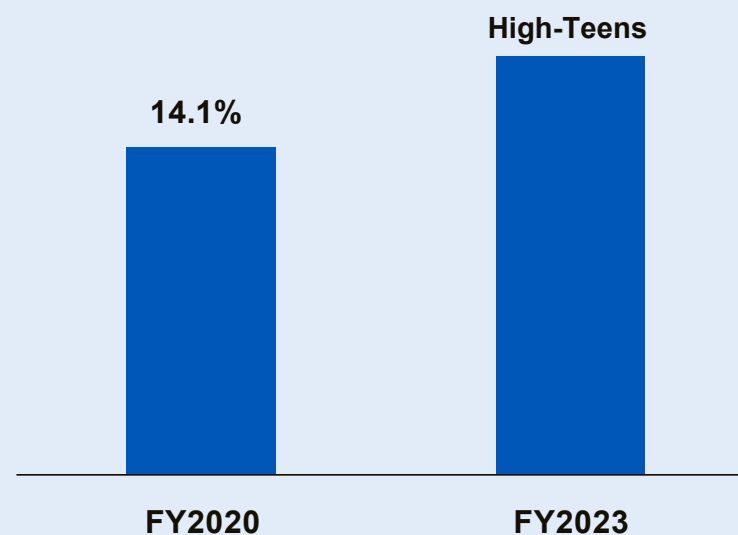
Reaccelerate market share capture

Grow profits faster than sales

### Sales Growth



### Return on Invested Capital (ROIC)\*



\* Represents a non-GAAP financial measure. See appendix for non-GAAP reconciliations.

## Summary

**Focused on executing in an improving environment and remain committed to serving our customers**

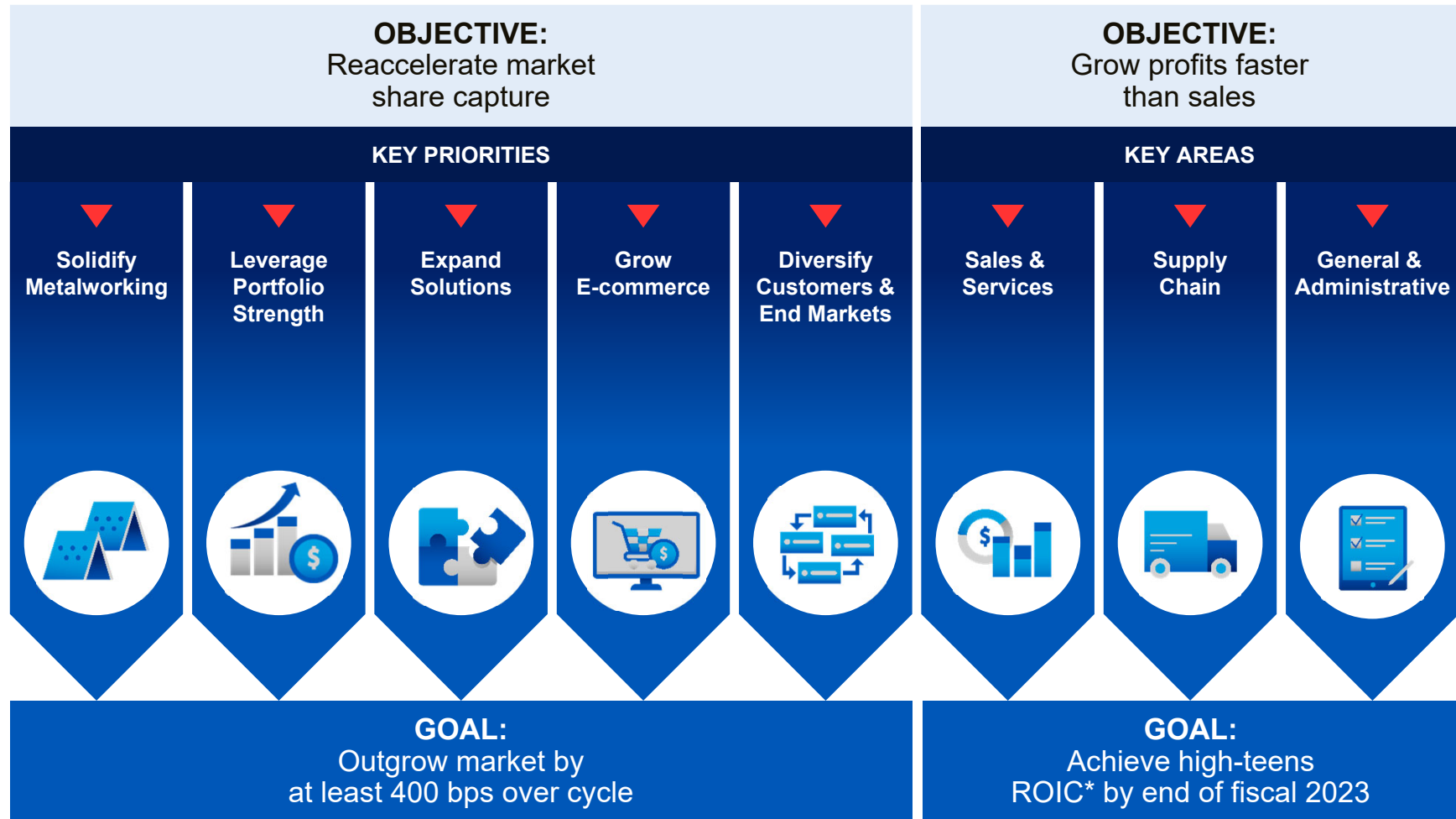
**Encouraged by momentum as evidenced by improving results and project execution**

**Implementation of Mission Critical initiatives expected to drive above market growth and improve profits faster than sales**



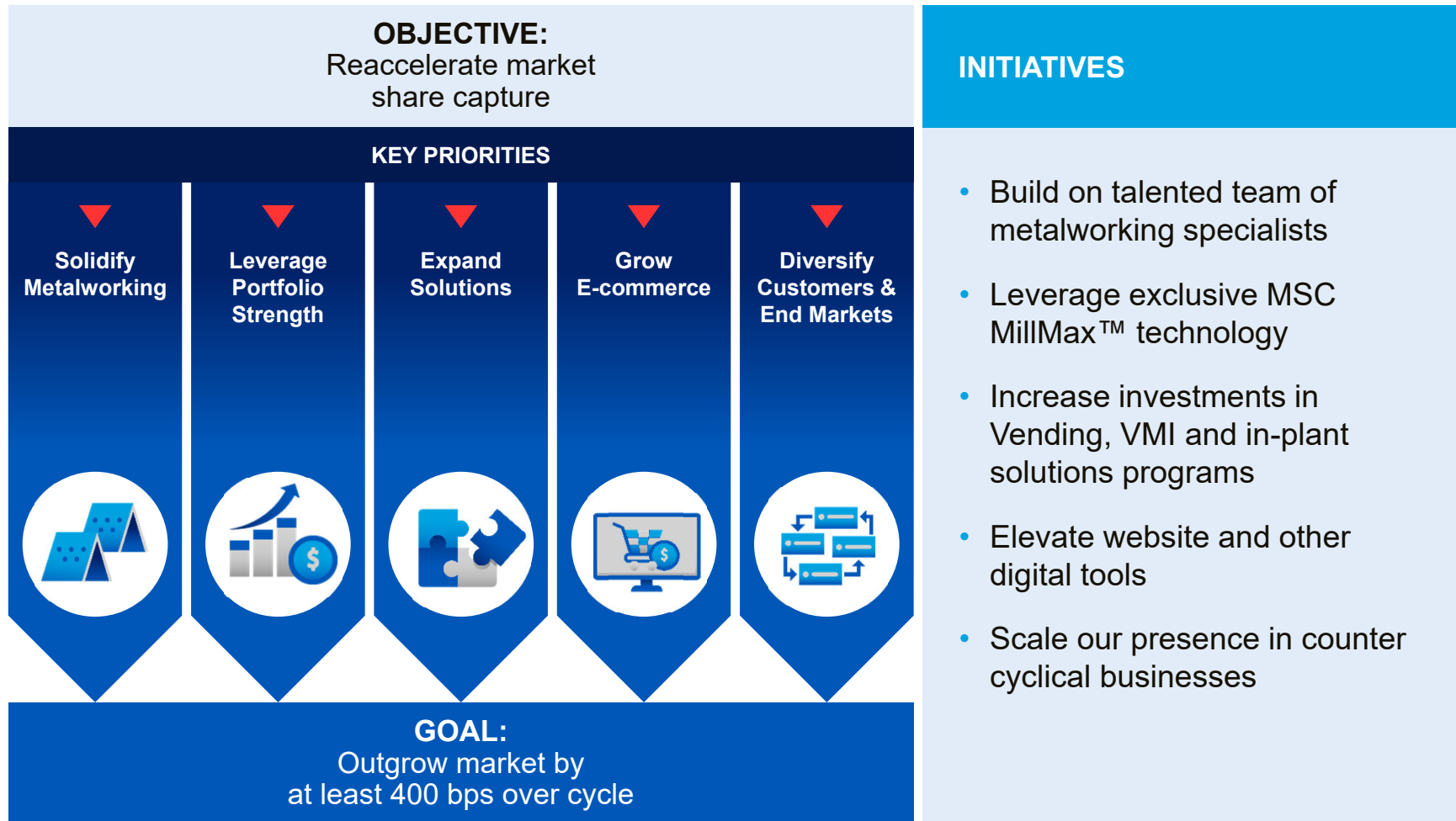
# Appendix

# Overview of Mission Critical



\* Represents a non-GAAP financial measure. See appendix for non-GAAP reconciliations.

# Mission Critical: Reaccelerate Market Share Capture



# Mission Critical: Grow Profits Faster than Sales

## INITIATIVES

- Optimize distribution center network
- Renegotiated supplier contracts
- Redesigned talent acquisition approach
- Reduced long-term freight contracts
- Voluntary early retirement program
- Review of real estate footprint

**OBJECTIVE:**  
Grow profits faster  
than sales

## KEY AREAS

Sales &  
Services

Supply  
Chain




General &  
Administrative



**GOAL:**  
Achieve high-teens  
ROIC\* by end of 2023

\* Represents a non-GAAP financial measure. See appendix for non-GAAP reconciliations.

## Fiscal 2021 Framework\*

Revenue Growth (YoY)	Operating Margin Range (%)
 <b>Low single digits</b>	<b>10.2% - 10.6%</b>
 <b>Flat</b>	<b>9.9% - 10.3%</b>
 <b>Low single digits</b>	<b>9.6% - 10.0%</b>

\* Includes \$26.7 million in an asset impairment.



# Reconciliations

## Non-GAAP Financial Measures

- ***Free Cash Flow (“FCF”)***

FCF is a non-GAAP financial measure. FCF is used in addition to and in conjunction with results presented in accordance with accounting principles generally accepted in the United States (“GAAP”), and FCF should not be relied upon to the exclusion of GAAP financial measures. Management strongly encourages investors to review our financial statements and publicly-filed reports in their entirety and to not rely on any single financial measure. FCF, which we reconcile to “Net cash provided by operating activities,” is cash flow from operations reduced by “Expenditures for property, plant and equipment”. We believe that FCF, although similar to cash flow from operations, is a useful additional measure since capital expenditures are a necessary component of ongoing operations. Management also views FCF, as a measure of the Company’s ability to reduce debt, add to cash balances, pay dividends, and repurchase stock. FCF has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, FCF does not incorporate payments made on finance lease obligations or required debt service payments. In addition, different companies define FCF differently. Therefore, we believe it is important to view FCF as a complement to our entire consolidated statements of cash flows. A reconciliation of cash provided by operating activities to FCF for the thirteen and thirty-nine-week periods ended May 29, 2021 and May 30, 2020, respectively is shown below.

- ***Return on Invested Capital (“ROIC”)***

ROIC is calculated using a non-GAAP financial measure. We calculate ROIC by dividing non-GAAP net operating profit after tax (“NOPAT”) by average invested capital, a GAAP measure. NOPAT is defined as tax effected income from operations. Average invested capital is defined as net debt plus shareholder’s equity using a trailing 13-month average. We believe that ROIC is useful to investors as a measure of performance and of the effectiveness of the use of capital in our operations. We use ROIC as one measure to monitor and evaluate operating performance. This method of determining non-GAAP ROIC may differ from other companies’ methods and therefore may not be comparable to those used by other companies. ROIC should be considered in addition to, rather than as a substitute for, other information provided in accordance with GAAP. The financial measure calculated under GAAP which is most directly comparable to ROIC is considered to be the ratio of Net income to Average invested capital. See below for the calculation of ROIC and the reconciliation to the comparable GAAP measure.

# Reconciliations

- ***Results Excluding Impairment Loss (Loss Recovery), Restructuring Costs, Inventory Write-downs, and Other Charges***

To supplement MSC Industrial's unaudited selected financial data presented consistent with accounting principles generally accepted in the United States ("GAAP"), the Company discloses certain non-GAAP financial measures, including non-GAAP gross profit, non-GAAP operating expenses, non-GAAP income from operations, non-GAAP operating margin, non-GAAP provision for income taxes, non-GAAP net income and non-GAAP diluted earnings per share, that exclude impairment losses (loss recovery), restructuring costs, inventory write-downs related to certain PPE inventory, and other related costs and tax effects.

These non-GAAP financial measures are not presented in accordance with GAAP or an alternative for GAAP financial measures and may be different from similar non-GAAP financial measures used by other companies. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP financial measures and should only be used to evaluate MSC Industrial's results of operations in conjunction with the corresponding GAAP financial measures.

In calculating non-GAAP financial measures, we exclude impairment losses (loss recovery), restructuring costs, inventory write-downs related to certain PPE inventory, and other related costs and tax effects. Management makes these adjustments to facilitate a review of the Company's operating performance on a comparable basis between periods, for comparison with forecasts and strategic plans, for identifying and analyzing trends in the Company's underlying business and for benchmarking performance externally against competitors. We believe that investors benefit from seeing results from the perspective of management in addition to seeing results presented in accordance with GAAP for the same reasons and purposes for which management uses such non-GAAP financial measures.

# Reconciliations

MSC INDUSTRIAL DIRECT CO., INC.  
 Reconciliation of GAAP and Non-GAAP Information  
 Thirteen and Thirty-Nine Weeks Ended May 29, 2021 and May 30, 2020  
 (dollars in thousands)

GAAP Measure		Items Affecting Comparability		Non-GAAP Measure	
Net cash provided by operating activities Thirteen Weeks Ended		Expenditures for property, plant and equipment Thirteen Weeks Ended		Free cash flow Thirteen Weeks Ended	
May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
\$ 20,426	\$ 59,126	\$ (17,644)	\$ (10,183)	\$ 2,782	\$ 48,943

GAAP Measure		Items Affecting Comparability		Non-GAAP Measure	
Net cash provided by operating activities Thirty-Nine Weeks Ended		Expenditures for property, plant and equipment Thirty-Nine Weeks Ended		Free cash flow Thirty-Nine Weeks Ended	
May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020	May 29, 2021	May 30, 2020
\$ 139,360	\$ 214,941	\$ (37,598)	\$ (35,920)	\$ 101,762	\$ 179,021

# Reconciliations

MSC INDUSTRIAL DIRECT CO., INC.  
 Reconciliation of GAAP and Non-GAAP Financial Information  
 Thirteen Weeks Ended May 29, 2021  
 (dollars in thousands, except percentages and per share data)

	GAAP Financial Measure		Items Affecting Comparability			Non-GAAP Financial Measure
	Total MSC Industrial	Impairment Loss (Loss Recovery)	Restructuring Costs	Legal Costs-impairment of prepaid for PPE	Adjusted Total MSC Industrial	
Net Sales	\$ 866,294	\$ -	\$ -	\$ -	\$ 866,294	
Cost of Goods Sold	499,823	-	-	-	499,823	
Gross Profit	366,471	-	-	-	366,471	
Gross Margin	42.3%	-	-	-	42.3%	
Operating Expenses	257,336	-	-	401	256,935	
Operating Exp as % of Sales	29.7%	-	-	0.0%	29.7%	
Impairment Loss (Loss Recovery)	(20,840)	(20,840)	-	-	-	
Restructuring Costs	1,349	-	1,349	-	-	
Income from Operations	128,626	20,840	(1,349)	(401)	109,536	
Operating Margin	14.8%	2.4%	-0.2%	0.0%	12.6%	
Total Other Expense	(2,550)	-	-	-	(2,550)	
Income before provision for income taxes	126,076	20,840	(1,349)	(401)	106,986	
Provision for income taxes	31,141	5,263	(341)	(100)	26,319	
Net income	94,935	15,577	(1,008)	(301)	80,667	
Net income attributable to noncontrolling interest	501	-	-	-	501	
Net income attributable to MSC Industrial	\$ 94,434	\$ 15,577	\$ (1,008)	\$ (301)	\$ 80,166	
Net income per common share:						
Diluted	\$ 1.68	\$ 0.28	\$ (0.02)	\$ (0.01)	\$ 1.42	



# Reconciliations

MSC INDUSTRIAL DIRECT CO., INC.  
 Reconciliation of GAAP and Non-GAAP Financial Information  
 Thirty-Nine Weeks Ended May 29, 2021  
 (dollars in thousands, except percentages and per share data)

	GAAP Financial Measure		Items Affecting Comparability			Non-GAAP Financial Measure
	Total MSC Industrial	Inventory Write-down	Restructuring Costs	Impairment Loss	Legal Costs - impairment of prepaid for PPE	Adjusted Total MSC Industrial
Net Sales	\$ 2,412,193	\$ -	\$ -	\$ -	\$ -	\$ 2,412,193
Cost of Goods Sold	1,427,653	30,091	-	-	-	1,397,562
Gross Profit	984,540	(30,091)	-	-	-	1,014,631
Gross Margin	40.8%	-1.2%	-	-	-	42.1%
Operating Expenses	741,156	-	-	-	1,421	739,735
Operating Exp as % of Sales	30.7%	-	-	-	0.1%	30.7%
Impairment Loss	5,886	-	-	5,886	-	-
Restructuring Costs	26,943	-	26,943	-	-	-
Income from Operations	210,555	(30,091)	(26,943)	(5,886)	(1,421)	274,896
Operating Margin	8.7%	-1.2%	-1.1%	-0.2%	-0.1%	11.4%
Total Other Expense	(8,856)	-	-	-	-	(8,856)
Income before provision for income taxes	201,699	(30,091)	(26,943)	(5,886)	(1,421)	266,040
Provision for income taxes	49,639	(7,392)	(6,620)	(1,446)	(349)	65,446
Net income	152,060	(22,699)	(20,323)	(4,440)	(1,072)	200,594
Net income attributable to noncontrolling interest	1,087	-	-	-	-	1,087
Net income attributable to MSC Industrial	\$ 150,973	\$ (22,699)	\$ (20,323)	\$ (4,440)	\$ (1,072)	\$ 199,507
Net income per common share:						
Diluted	\$ 2.69	\$ (0.40)	\$ (0.36)	\$ (0.08)	\$ (0.02)	\$ 3.55



# Reconciliations

MSC INDUSTRIAL DIRECT CO., INC.  
Reconciliation of GAAP and Non-GAAP Financial Information  
Thirteen and Thirty-Nine Weeks Ended May 30, 2020  
(dollars in thousands, except percentages and per share data)

	GAAP Financial Measure		Items Affecting Comparability <sup>1</sup>		Non-GAAP Financial Measure	
	Total MSC Industrial		Restructuring Costs		MSC Industrial excluding Restructuring Costs	
	Thirteen Weeks Ended May 30, 2020	Thirty-Nine Weeks Ended	Thirteen Weeks Ended May 30, 2020	Thirty-Nine Weeks Ended	Thirteen Weeks Ended May 30, 2020	Thirty-Nine Weeks Ended
Net Sales	\$ 834,972	\$ 2,444,667	\$ -	\$ -	\$ 834,972	\$ 2,444,667
Cost of Goods Sold	481,010	1,412,457	-	-	481,010	1,412,457
Gross Profit	353,962	1,032,210	-	-	353,962	1,032,210
Gross Margin	42.4%	42.2%	-	-	42.4%	42.2%
Operating Expenses	242,751	748,519	-	-	242,751	748,519
Operating Exp as % of Sales	29.1%	30.6%	-	-	29.1%	30.6%
Restructuring Costs	1,359	5,871	1,359	5,871	-	-
Income from Operations	109,852	277,820	(1,359)	(5,871)	111,211	283,691
Operating Margin	13.2%	11.4%	-0.2%	-0.2%	13.3%	11.6%
Total Other Expense	(5,838)	(12,375)	-	-	(5,838)	(12,375)
Income before provision for income taxes	104,014	265,445	(1,359)	(5,871)	105,373	271,316
Provision for income taxes	25,900	66,323	(338)	(1,468)	26,238	67,791
Net income	78,114	199,122	(1,021)	(4,403)	79,135	203,525
Net income attributable to noncontrolling interest	411	501	-	-	411	501
Net income attributable to MSC Industrial	\$ 77,703	\$ 198,621	\$ (1,021)	\$ (4,403)	\$ 78,724	\$ 203,024
Net income per common share:						
Diluted	\$ 1.40	\$ 3.57	\$ (0.02)	\$ (0.08)	\$ 1.42	\$ 3.65

<sup>1</sup>The thirteen and thirty-nine weeks ended May 30, 2020 include only restructuring costs. Items of note excluded from the current period results, including inventory write-downs, an impairment loss (loss recovery) and associated legal costs, did not occur in the prior year periods.



# Reconciliations

MSC INDUSTRIAL DIRECT CO., INC.  
 Reconciliation of GAAP and Non-GAAP Information  
 As of August 29, 2020  
 (dollars in thousands, except percentages)

	Fiscal Year Ended
	August 29, 2020
(a) Net income attributable to MSC Industrial (twelve-month trailing)	\$ 251,117
<b>NOPAT</b>	
Income from Operations (twelve-month trailing)	350,740
Effective tax rate	24.7%
(b) Non-GAAP NOPAT	264,177
<b>Invested Capital</b>	
Total MSC Industrial shareholders' equity	\$ 1,314,945
Current portion of debt including obligations under finance leases	122,248
Long-term debt including obligations under finance leases	497,018
Total Debt	619,266
Cash and cash equivalents	125,211
Net debt	494,055
Invested capital	1,809,000
(c) Average invested capital (thirteen-month trailing average)	1,876,934
(a)/(c) Net income to Average invested capital	13.4%
(b)/(c) Non-GAAP ROIC	14.1%





***MSC***