

# PRELIMINARY FISCAL THIRD QUARTER 2024 RESULTS CONFERENCE CALL

JUNE 13, 2024

**MSC**



## 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 present or historical fact, that address activities, events or developments that we expect, believe or anticipate will or may occur in the future, including statements about 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. In addition, statements which refer to expectations, projections or other characterizations of future events or circumstances, statements involving a discussion of strategy, plans or intentions, statements about management's assumptions, projections or predictions of future events or market outlook and any other statement other than a statement of present or historical fact are forward-looking statements. The inclusion of any statement in this presentation does not constitute an admission by MSC or any other person that the events or circumstances described in such statement are material. In addition, new risks may emerge from time to time and it is not possible for management to predict such risks or to assess the impact of such risks on our business or financial results. Accordingly, future results may differ materially from historical results or from those discussed or implied by these forward-looking statements. Given these risks and uncertainties, the reader should not place undue reliance on these forward-looking statements. These risks and uncertainties include, but are not limited to, the following: general economic conditions in the markets in which we operate; changing customer and product mixes; volatility in commodity and energy prices, the impact of prolonged periods of low, high or rapid inflation, and fluctuations in interest rates; competition, including the adoption by competitors of aggressive pricing strategies or 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; our ability to realize the expected cost savings and benefits from our restructuring activities and structural cost reductions; the retention of key management personnel; the credit risk of our customers; the risk of customer cancellation or rescheduling of orders; difficulties in calibrating customer demand for our 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 disruptions, including those due to extreme weather conditions, at transportation centers, shipping ports, our headquarters or our customer fulfillment centers; disruptions or breaches of our information technology systems or violations of data privacy laws; our ability to attract, train and retain qualified sales and customer service personnel and metalworking and specialty sales specialists; the risk of loss of key suppliers or contractors or key brands or supply chain disruptions; changes to governmental trade or sanctions policies, including the impact from significant import restrictions or tariffs or moratoriums on economic activity with certain countries or regions; 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 or incur additional borrowings on terms we deem attractive; the failure to comply with applicable environmental, health and safety laws and regulations and other laws and regulations applicable to our business; the outcome of government or regulatory proceedings; goodwill and other indefinite-lived intangible assets recorded as a result of our acquisitions could become impaired; our common stock price may be volatile due to factors outside of our control; the significant influence that our principal shareholders will continue to have over our decisions; and our ability to realize the desired benefits from the share reclassification. 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 United States 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.

# PRELIMINARY FISCAL 3Q'24 RESULTS BELOW EXPECTATIONS: CORRECTIVE ACTIONS UNDERWAY

	Prior Year 3Q'23	Preliminary 3Q'24	COMMENTARY & KEY DRIVERS	ACTION PLANS
<b>Net Sales</b> <i>(YoY ADS % change)</i>	\$1,054.5	~\$978 - \$980 <i>(-7.3% to -7.1%)</i>	<ul style="list-style-type: none"> <li>YoY headwind of ~300 bps from non-repeating Public Sector orders</li> <li>ADS up ~3% sequentially</li> <li>Sales pressured from <b>macro softness</b>, particularly in <b>heavy manufacturing</b> and <b>metalworking</b> end markets</li> <li><b>Core Customer improvement</b> below expectations</li> </ul>	<ul style="list-style-type: none"> <li>Maintaining focus in <b>areas of the business that are delivering</b> such as solutions, Public Sector, and OEM fastener cross-selling</li> <li>Adding resources to accelerate <b>website enhancements</b></li> <li><b>Planning an accelerated marketing campaign</b> in conjunction with the roll-out of website enhancements</li> </ul>
<b>Reported EPS</b> <i>(YoY % change)</i>	\$1.69	~\$1.26 - \$1.28 <i>(-25% to -24%)</i>	<ul style="list-style-type: none"> <li><b>Lower sales</b> and <b>gross margin performance</b> were the primary contributors of reduced EPS</li> <li>Gross margin miss driven by <b>product and customer mix</b> and <b>unexpected dilution from our web price realignment</b></li> </ul>	<ul style="list-style-type: none"> <li><b>Implementing corrective actions</b> to address unexpected dilution from web price realignment</li> </ul>
<b>Adjusted EPS*</b> <i>(YoY % change)</i>	\$1.74	~\$1.32 - \$1.34 <i>(-24% to -23%)</i>	<ul style="list-style-type: none"> <li>Adjusted operating expense* <b>in line with expectations</b> and <b>improved sequentially as a percent of sales</b></li> </ul>	



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

# PRELIMINARY FISCAL 3Q'24 NET SALES AND SOLUTIONS PERFORMANCE



## Core and Other Customers

▲ ~2% QoQ    ▼ ~7% YoY

- **Sequential improvement** below expectations
- **Heavy manufacturing** and **metalworking softness** primary driver of YoY decline
- **Positive feedback** and **net promoter score improvement** slowly materializing



## National Accounts

▲ ~1% QoQ    ▼ ~1% YoY

- **Resilient performance** both QoQ and YoY despite ongoing macro softness
- **43 of Top 100 National Accounts** showing growth YoY



## Public Sector

▲ ~17% QoQ    ▼ ~25% YoY

- **Strong sequential growth** driven by recent wins and budget constraints alleviating
- **YoY decline** driven by large non-recurring orders in the prior year
- **Recent wins** expected to ramp through the remainder of the year

AVERAGE DAILY SALES

DRIVERS

## SOLUTIONS

### IN-PLANT PROGRAM COUNT

+32% YoY    |    +4% QoQ

### INSTALLED VENDING MACHINES

+10% YoY    |    +2% QoQ

# UPDATING FISCAL 2024 FULL YEAR OUTLOOK

## ADS Growth (YoY)

Prior	Updated
0% - 5%	(4.7)% - (4.3)%

## Fiscal Fourth Quarter Assumptions

- YoY headwind of approximately 300 bps in the quarter related to non-recurring public sector orders in prior year
- Expect ADS to be approximately flat sequentially at the mid-point of our outlook
- Assume macro conditions remain at soft 3Q levels with modest improvement in our upside scenario

## Fiscal Fourth Quarter Assumptions

- Expect adjusted operating expenses\* to step up sequentially due to non-repeating benefits from variable compensation and healthcare costs as well as higher depreciation
- Anticipate gross margin to perform at or better than the historical average sequential decline
- Gross margin YoY mix benefit of approximately 100 bps related to non-repeating Public Sector orders in the prior year

## Additional Guidance

- Depreciation and amortization expense of ~\$80M
- Interest and Other expense of ~\$45M
- Capex \$120M-\$130M\*\*\*
- Operating cash flow conversion > 125%\*\*
- Tax rate 24.0%-24.5%

## Adjusted Operating Margin\*

Prior	Updated
12.0% - 12.8%	10.5% - 10.7%

Prior outlook as of March 28, 2024 was targeting low-end of ranges

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

\*\* The Company defines Operating Cash Flow Conversion as Net cash provided by operating activities as a percentage of Net income. The Company's management uses Operating Cash Flow Conversion to evaluate the Company's operating performance, in particular how efficiently the Company turns its sales and profits into cash, and to assess the efficiency of the Company's use of working capital. The Company believes Operating Cash Flow Conversion is useful to investors for the foregoing reasons and as a measure of the rate at which the Company converts its net income reported in accordance with GAAP to cash inflows, which helps investors assess whether the Company is generating sufficient cash flow to provide an adequate return.

\*\*\* Includes expenditures associated with cloud computing arrangements





# 1<sup>ST</sup> HALF TO 2<sup>ND</sup> HALF ADS INFLECTION LOWER THAN EXPECTED



1H to 2H ADS Growth Drivers	Expectations		Assumptions
	Prior	Updated	
Seasonality	↑ ~4%	↑ ~1-2%	<ul style="list-style-type: none"> <li>Sequential improvement occurring in early 2H'24</li> <li>Macro conditions and lower levels of activity weighing on seasonal lift</li> </ul>
Improving Macro Conditions	↑ ~2%	↓ ~(2)%	<ul style="list-style-type: none"> <li>Industrial Production Index down sequentially and YoY in April</li> <li>Heavy manufacturing verticals continue operating at low levels</li> <li>GBI: Metalworking Index down sequentially in May and continues to remain below 50</li> </ul>
Price	↑ ~1%	~0%	<ul style="list-style-type: none"> <li>Expected benefits offset by temporary web price realignment dilution and mix</li> <li>Corrective actions on web price realignment should provide sequential price benefits in 4Q'24</li> </ul>
Growth Initiatives	↑ ~3%	↑ ~1-2%	<ul style="list-style-type: none"> <li>In-Plant program and Vending count both up YoY and QoQ</li> <li>Strong QoQ improvement in OEM fasteners driven by cross-selling efforts</li> <li>Public Sector up sequentially with new wins secured in 3Q'24</li> <li>Net promoter score improvement from web price and marketing initiatives have yet to materialize into meaningful Core Customer improvement</li> <li>Heavy manufacturing softness pressuring larger customer demand</li> </ul>

# APPENDIX

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# RECONCILIATIONS

## Preliminary Non-GAAP Financial Measures

To supplement MSC's preliminary 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 net income and non-GAAP diluted earnings per share, that exclude share reclassification costs (prior year) and restructuring and other 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's results of operations in conjunction with the corresponding GAAP financial measures.

Financial data may also include certain forward-looking information that is not presented in accordance with GAAP. The Company believes that a quantitative reconciliation of such forward-looking information to the most directly comparable financial measure calculated and presented in accordance with GAAP cannot be made available without unreasonable efforts because a reconciliation of these non-GAAP financial measures would require the Company to predict the timing and likelihood of potential future events such as restructurings and other infrequent or unusual gains and losses. Neither the timing or likelihood of these events, nor their probable significance, can be quantified with a reasonable degree of accuracy. Accordingly, a reconciliation of such forward-looking information to the most directly comparable GAAP financial measure is not provided.

## Preliminary Results Excluding Restructuring and Other Costs and Share Reclassification Costs (prior year)

In calculating preliminary non-GAAP financial measures, we exclude restructuring and other costs, share reclassification costs (prior year), 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

## Non-GAAP Financial Measures

MSC INDUSTRIAL DIRECT CO., INC.  
Reconciliation of GAAP and Non-GAAP Preliminary Financial Information  
Thirteen Weeks Ended June 1, 2024  
(In millions, except per share data)

GAAP net income	~ \$71.0 million to ~ \$72.0 million
Restructuring and other costs, net of tax benefit	~ \$3.5 million
Non-GAAP net income	~ \$74.5 million to ~ \$75.5 million
GAAP net income per common share	~ \$1.26 to ~ \$1.28
Non-GAAP net income per common share	~ \$1.32 to ~ \$1.34
Weighted-average diluted shares used in computing net income per common share	~ 56,351

# RECONCILIATIONS

MSC INDUSTRIAL DIRECT CO., INC.  
Reconciliation of GAAP and Non-GAAP Financial Information  
Thirteen Weeks Ended June 3, 2023  
(In thousands, except percentages and per share data)

	GAAP Financial Measure	Items Affecting Comparability		Non-GAAP Financial Measure
	Total MSC Industrial	Restructuring and Other Costs	Share Reclassification Proposal Costs	Adjusted Total MSC Industrial
Net Sales	\$ 1,054,464	—	—	1,054,464
Cost of Goods Sold	625,527	—	—	625,527
Gross Profit	428,937	—	—	428,937
Gross Margin	40.7 %	— %	— %	40.7 %
Operating Expenses	291,706	—	1,373	290,333
Operating Exp as % of Sales	27.7 %	— %	(0.1)%	27.5 %
Restructuring and Other Costs	1,845	1,845	—	—
Income from Operations	135,386	(1,845)	(1,373)	138,604
Operating Margin	12.8 %	0.2 %	0.1 %	13.1 %
Total Other Expense	(8,981)	—	—	(8,981)
Income before provision for income taxes	126,405	(1,845)	(1,373)	129,623
Provision for income taxes	31,266	(505)	(376)	32,147
Net income	95,139	(1,340)	(997)	97,476
Net income (loss) attributable to noncontrolling interest	(41)	—	—	(41)
Net income attributable to MSC Industrial	95,180	(1,340)	(997)	97,517
Net income per common share:				
Diluted	\$ 1.69	\$ (0.02)	\$ (0.02)	\$ 1.74

\*Individual amounts may not agree to the total due to rounding.



**THANK YOU**

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