

Non-GAAP Financial Measures

Adjusted operating income, adjusted net income, and adjusted net income per diluted share

To supplement MSC's unaudited selected financial data presented on a basis consistent with Generally Accepted Accounting Principles ("GAAP"), the Company discloses certain non-GAAP financial measures, including adjusted operating income, adjusted net income, and adjusted net income per diluted share. The adjusted supplemental measures for the thirteen weeks and fiscal year ended August 29, 2015 exclude non-recurring costs associated with the Class C Solutions Group ("CCSG") acquisition and executive transition and separation costs, and related tax effects. There were no adjustments for non-recurring costs for the fourteen weeks and fiscal year ended September 3, 2016. These non-GAAP measures are not in accordance with or an alternative for GAAP, and may be different from non-GAAP measures used by other companies. We believe that these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with MSC's results of operations as determined in accordance with GAAP and that these measures should only be used to evaluate MSC's results of operations in conjunction with the corresponding GAAP measures. The presentation of this additional information is not meant to be considered in isolation or as a substitute for the most directly comparable GAAP measures. We compensate for the limitations of non-GAAP financial measures by relying upon GAAP results to gain a complete picture of Company performance.

In calculating non-GAAP financial measures, we exclude these non-recurring costs to facilitate a review of the comparability of the Company's operating performance on a period-to-period basis because such costs are not, in our view, related to the Company's ongoing operational performance. We use non-GAAP measures to evaluate the operating performance of our business, for comparison with forecasts and strategic plans, and for benchmarking performance externally against competitors. In addition, we use certain non-GAAP financial measures as performance metrics for management incentive programs. Since we find these measures to be useful, we believe that investors benefit from seeing results "through the eyes" of management in addition to seeing GAAP results. We believe that these non-GAAP measures, when read in conjunction with the Company's GAAP financials, provide useful information to investors by offering:

- The ability to make more meaningful period-to-period comparisons of the Company's on-going operating results;
- The ability to better identify trends in the Company's underlying business and perform related trend analyses; and
- A better understanding of how management plans and measures the Company's underlying business.

The tables below reconcile GAAP operating income, GAAP net income and GAAP net income per diluted share ("EPS") to non-GAAP adjusted operating income, adjusted net income, and adjusted net income per diluted share.

Free Cash Flow

Our measure of "Free cash flow" meets the definition of a non-GAAP financial measure. Free cash flow is used in addition to and in conjunction with results presented in accordance with GAAP and free cash flow 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. Free cash flow, 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 free cash flow, 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 free cash flow, as a measure of the Company's ability to reduce debt, add to cash balances, pay dividends, and repurchase stock. Free cash flow has limitations due to the fact that it does not represent the residual cash flow available for discretionary expenditures. For example, free cash flow does not incorporate payments made on capital lease obligations or required debt service payments. In addition, different companies define free cash flow differently. Therefore, we believe it is important to view free cash flow as a complement to our entire consolidated statements of cash flows. A reconciliation of cash provided by operating activities to free cash flow for the fourteen weeks ended and fiscal year ended September 3, 2016 is shown below.

	Thirteen Weeks Ended August 29, 2015	
	(in thousands)	Margin
GAAP Operating income	\$ 95,440	13.1 %
Non-recurring costs	236	
Adjusted Operating income	\$ 95,676	13.2 %

	Thirteen Weeks Ended
	August 29, 2015
	(in thousands)
Net sales	\$ 727,405
Cost of goods sold	<u>400,270</u>
Gross profit	327,135
Operating Expenses	<u>231,695</u>
Income from Operations	95,440
Non-recurring costs	<u>236</u>
Adjusted Operating income	<u><u>\$ 95,676</u></u>

<i>(in thousands, except per share amounts)</i>	Thirteen Weeks Ended	
	August 29, 2015	Diluted EPS
GAAP net income	\$ 59,022	\$ 0.96
Non-recurring costs*	149	-
Adjusted net income	<u>\$ 59,171</u>	<u>\$ 0.96</u>

* On a pre-tax basis includes approximately \$236 of non-recurring executive transition costs related to the planned retirement of the Company's Chief Financial Officer for the thirteen weeks ended August 29, 2015. The non-recurring costs were calculated using an effective tax rate of 36.9%.

	Fiscal Year Ended	
	August 29, 2015	
	(in thousands)	Margin
GAAP Operating income	\$ 379,529	13.0 %
Non-recurring costs	4,507	-
Adjusted Operating income	<u>\$ 384,036</u>	<u>13.2 %</u>

	Fiscal Year Ended	
	August 29, 2015	
	(in thousands)	
Net sales	\$ 2,910,379	
Cost of goods sold	<u>1,593,804</u>	
Gross profit	1,316,575	
Operating Expenses	<u>937,046</u>	
Income from Operations	379,529	
Non-recurring costs	<u>4,507</u>	
Adjusted Operating income	<u><u>\$ 384,036</u></u>	

<i>(in thousands, except per share amounts)</i>	Fiscal Year Ended August 29, 2015	
	\$(after tax)	Diluted EPS
GAAP net income	\$ 231,308	\$ 3.74
Non-recurring costs*	2,794	0.05
Adjusted net income	\$ 234,102	\$ 3.79

* On a pre-tax basis includes approximately \$1,081 of non-recurring integration costs associated with the CCG acquisition, approximately \$2,706 for non-recurring executive separation costs related to the departure of the Executive Vice President of Sales, and approximately \$720 of non-recurring executive transition costs related to the planned retirement of the Company's Chief Financial Officer for the fiscal year ended August 29, 2015. The non-recurring costs were calculated using an effective tax rate of 38.0%.

	Fiscal Quarter Ended September 3, 2016	
	(14 weeks)	(in thousands)
Net cash provided by operating activities	\$ 115,281	(14 weeks)
Expenditures for property, plant and equipment	(53,216)	(in thousands)
Free cash flow	\$ 62,065	(14 weeks)

	Fiscal Year Ended September 3, 2016	
	(53 weeks)	(in thousands)
Net cash provided by operating activities	\$ 401,103	(53 weeks)
Expenditures for property, plant and equipment	(87,930)	(in thousands)
Free cash flow	\$ 313,173	(53 weeks)