



# Fiscal 2020 Q1 Earnings Presentation

## January 8, 2020

# Risks and Non-GAAP Disclosures

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 expected future results, expected benefits from our investment and strategic plans and other initiatives, and expected future margins, are 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 release does not constitute an admission by MSC 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: general economic conditions in the markets in which we operate; 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; retention of key personnel; volatility in commodity and energy prices; the outcome of government or regulatory proceedings or future litigation; credit risk of our customers; risk of customer cancellation or rescheduling of orders; work stoppages or other business interruptions (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 systems, or violations of data privacy laws; retention of qualified sales and customer service personnel and metalworking specialists; risk of loss of key suppliers, key brands or supply chain disruptions; changes to trade policies, including the impact from significant restrictions or tariffs; risks associated with opening or expanding our customer fulfillment centers; 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; interest rate uncertainty due to LIBOR reform; failure to comply with applicable environmental, health and safety laws and regulations; goodwill and intangible assets recorded as a result of our acquisitions could be impaired; risks associated with the volatility of our common stock; and our principal shareholders exercise significant control over us. 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 the reports on Forms 10-K and 10-Q that we file with the U.S. Securities and Exchange Commission. We assume no obligation to update any of these forward-looking statements.

Throughout this presentation we will reference both GAAP and adjusted financial results, which are non-GAAP financial measures. Please refer to the reconciliation tables at the end of this presentation for a reconciliation of the adjusted financial measures to the most directly comparable GAAP measures.

# FY 2020 Q1 Results

(dollars in millions, except per share data and as otherwise noted)

	FY 2020 Q1 Reported Results	FY 2020 Q1 Severance/ Separation Costs	FY 2020 Q1 Excluding Severance/ Separation Costs <sup>(1)</sup>	FY 2020 Q1 Guidance Midpoint Excluding Severance/ Separation Costs <sup>(1)</sup>	FY 2019 Q1 Reported Results
Net Sales	\$823.6	n/a	\$823.6	\$819.1	\$831.6
Gross Margin	42.2%	n/a	42.2%	42.0%	43.0%
Operating Expenses	\$256.9	\$2.6	\$254.3	\$253.7	\$255.0
Effective Tax Rate	25.0%	25.0%	25.0%	25.1%	25.1%
Diluted EPS	\$1.18	(\$0.03)	\$1.21	\$1.18	\$1.33

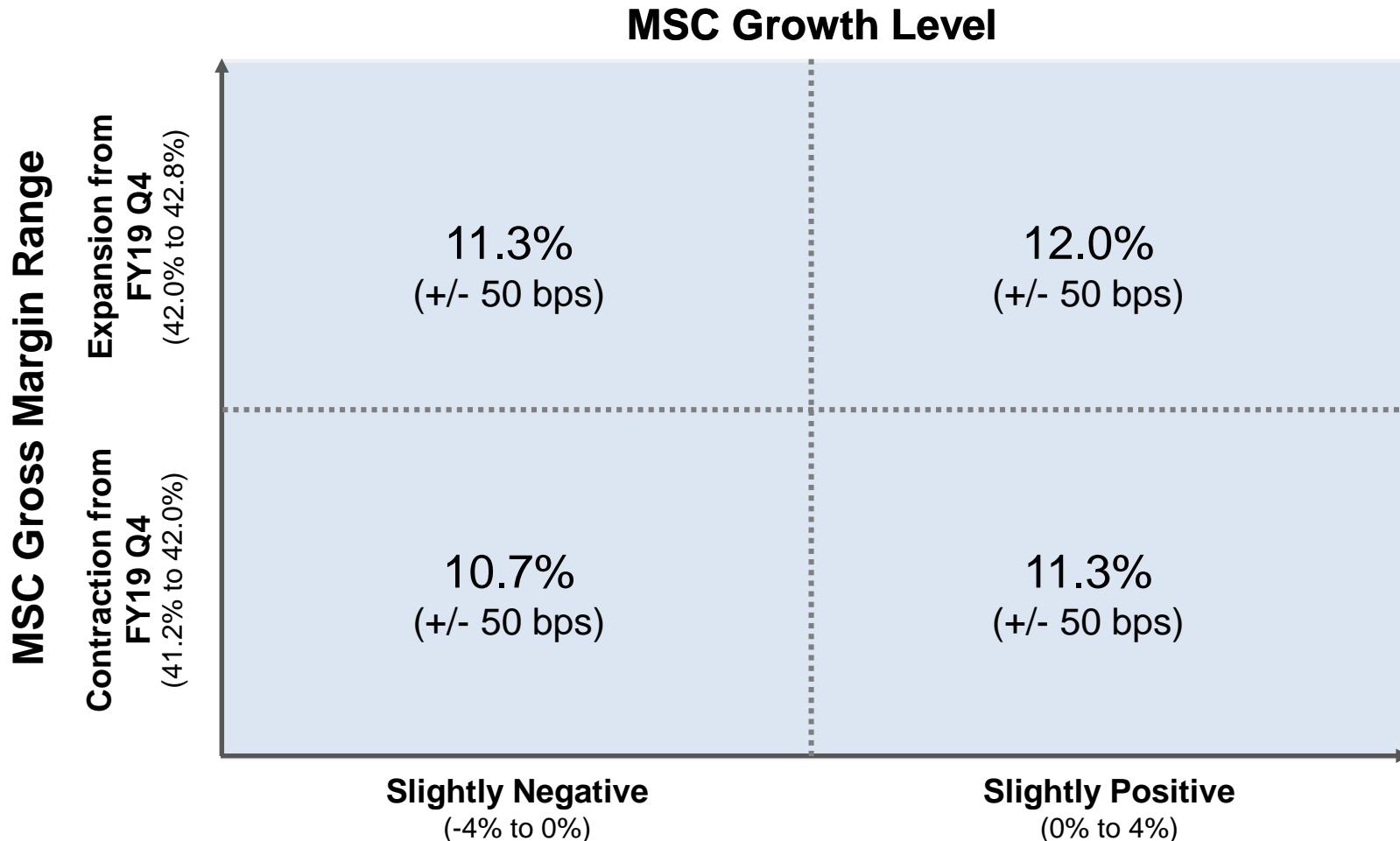
(1) Non-GAAP reconciliations provided on slides 6–9.

# FY 2020 Q2 Guidance

(dollars in millions, except per share data and as otherwise noted)

	FY 2020 Q2 Total Company Guidance	FY 2019 Q2 Reported Results
Net Sales	\$781 – \$798	\$823.0
Gross Margin	41.8% – 42.2%	42.7%
Operating Margin	9.5% – 9.9%	11.7%
Diluted EPS	\$0.97– \$1.03	\$1.24

# FY 2020 Annual Operating Margin Framework<sup>(1)</sup>



(1) Includes roughly 10 basis points dilution from Mexico business and excludes any severance and separation costs.

# Reconciliations

## Non-GAAP Financial Measures

### **•Free Cash Flow (“FCF”)**

Our measure of “FCF” meets the definition of a non-GAAP financial measure. FCF is used in addition to and in conjunction with results presented in accordance with Generally Accepted Accounting Principles (“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-week periods ended November 30, 2019 and December 1, 2018, respectively is shown below.

### **•Results excluding Severance and Separation Costs**

To supplement MSC's unaudited selected financial data presented consistent with GAAP, the Company discloses certain non-GAAP financial measures, including Non-GAAP operating expenses, non-GAAP income from operations, non-GAAP (benefit) provision for income taxes, non-GAAP net income and non-GAAP diluted earnings per share, that exclude severance and separation costs.

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 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 the Company's performance.

In calculating non-GAAP financial measures, we exclude severance and separation costs and the related tax effects, to facilitate a review of the Company's operating performance on a period-to-period basis, for comparison with forecasts and strategic plans, and for benchmarking performance externally against competitors. 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;
- a better understanding of how management plans and measures the Company's underlying business; and
- an easier way to compare the Company's operating results against analyst financial models and operating results of competitors that supplement their GAAP results with non-GAAP financial measures

# Reconciliations – Free Cash Flow

MSC INDUSTRIAL SUPPLY CO. AND SUBSIDIARIES

Reconciliation of GAAP and Non-GAAP Information

Thirteen Weeks Ended November 30, 2019 and December 1, 2018

(dollars in thousands)

GAAP Measure		Items Affecting Comparability		Non-GAAP Measure	
Net cash provided by operating activities		Expenditures for property, plant and equipment		Free cash flow	
Thirteen Weeks Ended		Thirteen Weeks Ended		Thirteen Weeks Ended	
November 30, 2019	December 1, 2018	November 30, 2019	December 1, 2018	November 30, 2019	December 1, 2018
\$ 85,112	\$ 76,866	\$ (12,689)	(10,053)	\$ 72,423	\$ 66,813

# Reconciliations – Fiscal 2020 Q1

## Severance and Separation costs impact

### MSC INDUSTRIAL SUPPLY CO. AND SUBSIDIARIES

Reconciliation of GAAP and Non-GAAP Information

Thirteen Weeks Ended November 30, 2019

(dollars in thousands, except per share data)

	GAAP Measure	Items Affecting Comparability	Non-GAAP Measure
	Total MSC Thirteen Weeks Ended November 30, 2019	Severance and Separation Costs Thirteen Weeks Ended November 30, 2019	MSC excluding Severance and Separation Costs Thirteen Weeks Ended November 30, 2019
Net Sales	\$ 823,601	\$ -	\$ 823,601
ADS Growth %	-1.0%	-	-1.0%
Cost of Goods Sold	476,405	-	476,405
Gross Profit	347,196	-	347,196
Gross Margin	42.2%	-	42.2%
Operating Expense	256,898	2,571	254,327
Operating Exp as % of Sales	31.2%	0.3%	30.9%
Income from Operations	90,298	(2,571)	92,869
Operating Margin	11.0%	-0.3%	11.3%
Total Other Expense	(3,040)	-	(3,040)
Income before provision for income taxes	87,258	(2,571)	89,829
Provision for income taxes	21,806	(643)	22,449
Net income	65,452	(1,928)	67,380
Net income attributable to noncontrolling interest	34	-	34
Net income attributable to MSC Industrial	\$ 65,418	\$ (1,928)	\$ 67,346
Net income per common share:			
Diluted	\$ 1.18	\$ (0.03)	\$ 1.21

# Reconciliations – Fiscal 2020 Q1 Guidance

## Severance and Separation costs impact (from previous quarter)

MSC INDUSTRIAL SUPPLY CO. AND SUBSIDIARIES  
 Reconciliation of GAAP and Non-GAAP Information  
 Guidance for Thirteen Weeks Ended November 30, 2019\*  
 (dollars in millions, except per share data)

	GAAP Measure	Items Affecting Comparability	Non-GAAP Measure
	Total MSC Thirteen Weeks Ended November 30, 2019	Severance and Separation Costs Thirteen Weeks Ended November 30, 2019	MSC excluding Severance and Separation Costs Thirteen Weeks Ended November 30, 2019
Net Sales	\$ 819.1	\$ -	\$ 819.1
ADS Growth %	-1.5%	-	-1.5%
Cost of Goods Sold	475.3	-	475.3
Gross Profit	343.8	-	343.8
Gross Margin	42.0%	-	42.0%
Operating Expense	256.0	2.3	253.7
Operating Exp. as % of Sales	31.3%	0.3%	31.0%
Income from Operations	87.8	(2.3)	90.1
Operating Margin	10.7%	-0.3%	11.0%
Total Other Expense	(3.0)	-	(3.0)
Income before provision for income taxes	84.8	(2.3)	87.1
Provision for income taxes	21.3	(0.6)	21.9
Net income	63.5	(1.7)	65.2
Net income (loss) attributable to noncontrolling interest	-	-	-
Net income attributable to MSC Industrial	\$ 63.5	\$ (1.7)	\$ 65.2
Net income per common share:			
Diluted	\$ 1.15	\$ (0.03)	\$ 1.18

\* The data in the above tables represented the midpoint of management's guidance