MSC Industrial Direct Co. Inc. (MSM)

Updated January 13th, 2025 by Quinn Mohammed

Key Metrics

Current Price:	$82	**5 Year CAGR Estimate:**	11.7%	**Market Cap:**	$4.5B
Fair Value Price:	$55	**5 Year Growth Estimate:**	17.0%	**Ex-Dividend Date:**	01/15/2025
% Fair Value:	150%	**5 Year Valuation Multiple Estimate:**	-7.7%	**Dividend Payment Date:**	01/29/2025
Dividend Yield:	4.1%	**5 Year Price Target**	$120	**Years Of Dividend Growth:**	3
Dividend Risk Score:	D	**Retirement Suitability Score:**	C	**Rating:**	Buy

Overview & Current Events

Founded in 1941 by Sid Jacobson, MSC Industrial Direct (MSM) is one of the largest direct marketers and distributors of metalworking and maintenance, repair, and operations (MRO) products in North America. The company has 6 customer fulfillment centers, 10 regional inventory centers and 38 warehouses. MSM is a $4.5 billion market cap company that employs over 7,000 people.

On January 11th, 2023, MSC Industrial acquired Buckeye Industrial Supply Co, an independent metalworking distributor, as well as Tru-Edge Grinding, a custom tool manufacturer. Combined, the two companies generated $28 million in revenue in 2022.

On June 25th, 2024, MSC announced its acquisition of ApTex, Inc., a production-oriented industrial distributor, and Premier Tool Grinding, Inc., a designer and manufacturer of carbide cutting tools. The two companies generated more than $20 million in 2023.

On October 10th, 2024, MSC Industrial Direct increased its quarterly dividend by 2.4% to $0.85 per share.

On January 8th, 2025, MSM reported first quarter results. Net sales for the quarter came in at $929 million, a 2.7% year-over-year decline. Adjusted income from operations decreased 28% to $74.6 million. Its adjusted operating margin was weaker than in the prior year at 8.0% vs 10.9%. Adjusted net income decreased by 31.8% to $48.4 million and adjusted diluted EPS declined by 31.2% to $0.86 from $1.25 in the same prior year period.

Leadership initiated its Q2 2025 outlook for adjusted operating margin of 6.5% to 7.5% and (5.0)% to (3.0)% ADS growth.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.78	$3.76	$4.00	$5.10	$5.20	$4.51	$4.81	$6.15	$6.29	$4.81	***$3.54***	***$7.76***
DPS	$1.60	$1.72	$1.80	$2.22	$2.76	$3.00	$3.00	$3.00	$3.16	$3.32	***$3.40***	***$5.48***
Shares[1]	62	57	56	56	56	55	55	56	56	56	***56.0***	***50.0***

MSC Industrial has produced a 9-year EPS CAGR of 2.7%. In the last five years, however, its EPS has declined by an annual average rate of -1.5%. We forecast that MSM can grow forward earnings by approximately 17% over the next five years, largely due to its relatively low point for FY 2025.

The company has been able to regularly increase product prices, but it experienced margin weakness in FY 2024 which is expected to get worse in FY 2025.

MSC successfully completed the first chapter of its Mission Critical Program in the fourth quarter of 2023, when it grew over 500 basis points above the Industrial Production Index, improved adjusted operating margin by more than 200 basis points, and improved ROIC into the high teens since fourth quarter 2020. It has announced chapter two of this program, aiming to outgrow the Industrial Production Index by at least 400 basis points, and margins of at least 20% through a business cycle. Over the long term, the business aspires to achieve mid-teens operating margins and return on invested capital of 20%. In the near term this is challenging due to the softness seen in heavy manufacturing.

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[1] In millions

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Additionally, the company states its current growth priorities include tuck-in acquisitions, such as the recent purchase of ApTex, Premier Tool Grinding, and Buckeye Industrial Supply Co., and share repurchases. The emergence of Amazon is a threat; however, MSM's business is difficult to replicate, and the company has done well over the last several years to keep this threat at bay.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	20.1	18	21.5	17	14.4	14.6	17.9	13.1	14.6	19.1	***23.2***	***15.5***
Avg. Yld.	2.1%	2.5%	2.1%	2.6%	3.7%	4.4%	3.5%	3.8%	3.3%	3.3%	***4.1%***	***4.6%***

Over the past ten and five years, shares of MSM have traded hands with an average P/E ratio of 17.3- and 14.9-times earnings, respectively. We credit this multiple to three basic items: a solid established business, a conservative balance sheet and a large family stake. MSM is effectively a third-generation company with the family owning about a fifth of the economic interest of MSM and having most of the voting power.

It is also worthwhile noting that MSM paid a special dividend in 2005, 2011, 2015 and 2020.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	42%	46%	45%	44%	53%	67%	62%	49%	50%	69%	***96%***	***71%***

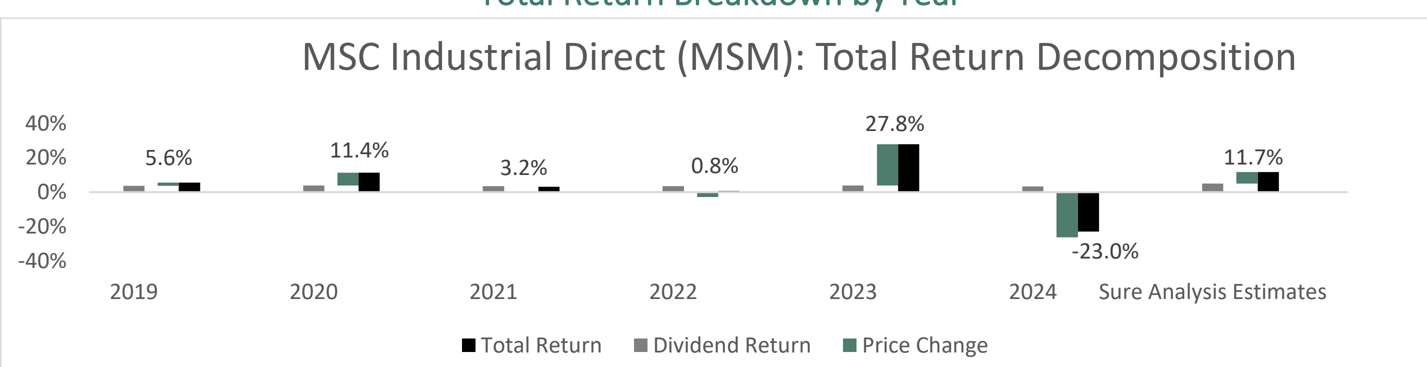
MSM's competitive advantage stems from its superior scale and execution. The company has roughly 2.4 million SKUs and boasts a rapid order fulfillment rate. It is true that Amazon is a formidable threat, but thus far MSM has been able to ward off attacks through its niche market relationships. A greater threat to the business is the possibility of American manufacturing, especially metalworking, moving overseas; however, this seems less and less likely.

During the last recession MSM's performance was average, posting earnings-per-share of $3.04, $2.00, $2.37, and $3.43 for the fiscal years ending 2008, 2009, 2010 and 2011, respectively. Earnings are likely to be cyclical in the future, but the overall trend has been positive. As of the last quarterly report, long-term debt stood at $290 million against adjusted operating income of approximately $407 million.

Final Thoughts & Recommendation

MSM is one of those companies that can easily slide under the radar unless you are directly involved in the supply chain. The general public does not see a strong brand fronting the business, so it can be difficult to conceptualize the company's competitive position. Yet due to MSM's scale, dependability, and niche relationships, the company has developed a consistent profit machine. Total returns going forward are estimated at 11.7%, stemming from the 4.1% dividend yield and 17.0% EPS growth, partly offset by -7.7% P/E multiple contraction. MSC Industrial Direct maintains its buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	2910	2864	2888	3204	3364	3192	3243	3692	4009	3821
Gross Profit	1317	1289	1286	1393	1432	1343	1334	1558	1643	1573
Gross Margin	45.2%	45.0%	44.5%	43.5%	42.6%	42.1%	41.1%	42.2%	41.0%	41.2%
D&A Exp.	70	72	63	63	65	69	69	70	75	83
Operating Profit	380	376	379	421	407	368	339	474	492	405
Op. Margin	7.9%	8.1%	8.0%	10.3%	8.6%	7.9%	6.7%	12.8%	12.3%	10.6%
Net Profit	198	313	200	295	277	350	171	340	343	259
Net Margin	6.8%	10.9%	6.9%	9.2%	8.2%	11.0%	5.3%	9.2%	8.6%	6.8%
Free Cash Flow				295	277	350	171	185	607	311
Income Tax	142	141	137	77	94	82	70	111	113	87

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	2100	2065	2099	2289	2311	2382	2462	2729	2544	2462
Cash & Equivalents	38	53	16	46	32	125	41	44	50	30
Acc. Receivable	403	392	472	524	541	492	560	688	435	412
Inventories	507	444	465	518	559	543	624	716	727	644
Goodwill & Int.	743	729	744	798	794	782	795	824	829	825
Total Liabilities	767	967	874	901	827	1062	1300	1367	1052	1061
Accounts Payable	114	111	121	145	160	126	186	217	226	206
Long-Term Debt	427	607	533	535	442	619	786	795	454	509
Total Equity	1333	1098	1225	1387	1479	1315	1151	1350	1479	1392
D/E Ratio	0.32	0.55	0.44	0.39	0.30	0.47	0.68	0.59	0.31	0.37

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	11.1%	11.1%	11.1%	15.0%	12.6%	10.7%	9.0%	13.1%	13.0%	10.3%
Return on Equity	16.9%	19.0%	19.9%	25.2%	20.2%	18.0%	17.6%	27.2%	24.3%	17.9%
ROIC	13.2%	13.3%	13.4%	17.9%	15.0%	13.0%	11.2%	16.6%	16.7%	13.4%
Shares Out.	62	57	56	56	56	55	55	56	56	56
Revenue/Share	47.33	46.88	50.69	56.50	60.60	57.37	57.82	65.87	71.32	67.70
FCF/Share	3.23	5.13	3.52	5.20	4.98	6.29	3.04	3.30	10.80	5.52

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.