

MSC INDUSTRIAL DIRECT CO INC
Form DEF 14A
December 15, 2017
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A
(Rule 14a-101)

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
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MSC INDUSTRIAL DIRECT CO., INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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Notice of 2018 Annual Meeting

and 2017 Proxy Statement

Thursday, January 25, 2018

9:00 a.m., local time

The Hilton Long Island/Huntington

598 Broad Hollow Road

Melville, New York 11747

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Notice of 2018 Annual Meeting of Shareholders

January 25, 2018

To the shareholders of MSC Industrial Direct Co., Inc.:

NOTICE IS HEREBY GIVEN that the annual meeting of shareholders of MSC Industrial Direct Co., Inc., a New York corporation, will be held on January 25, 2018 at 9:00 a.m., local time, at the Hilton Long Island/Huntington, 598 Broad Hollow Road, Melville, New York 11747, for the following purposes:

1. to elect nine directors to serve for one-year terms;
2. to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2018;
3. to approve, on an advisory basis, the compensation of our named executive officers;
4. to conduct an advisory vote on the preferred frequency of future advisory votes on the compensation of our named executive officers; and
5. to consider and act upon such other matters as may properly come before the annual meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on December 7, 2017 are entitled to vote at the annual meeting and any adjournments or postponements thereof.

All shareholders are cordially invited to attend the annual meeting. However, to assure your representation at the annual meeting, you are urged to vote on the Internet, by telephone or by completing, signing and dating the enclosed proxy card as promptly as possible, and returning it in the postage-paid envelope provided. Any shareholder attending the annual meeting may vote in person even if he or she has already voted on the Internet, by telephone or by returning a proxy.

By Order of the Board of Directors,

Steve Armstrong

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We are furnishing this proxy statement to you in connection with the solicitation of proxies by our Board of Directors, which we refer to as our Board, to be used at our 2018 annual meeting of shareholders, or at any adjournments or postponements thereof. This proxy statement describes the matters to be presented at the meeting and related information that will help you vote at the meeting. References in this proxy statement to “the company,” “we,” “us,” “our” and similar terms mean MSC Industrial Direct Co., Inc.

We have elected to take advantage of the “notice and access” rule of the Securities and Exchange Commission (which we refer to as the SEC) that allows us to furnish proxy materials to shareholders online. We believe that electronic delivery expedites the receipt of proxy materials, while significantly lowering costs and reducing the environmental impact of printing and mailing full sets of proxy materials. As a result, on or about December 15, 2017, we mailed to our shareholders of record as of the close of business on December 7, 2017, either (i) a Notice of Internet Availability of Proxy Materials containing instructions on how to access our proxy materials online and how to request paper copies of our proxy materials or (ii) a printed set of proxy materials, which includes the notice of annual meeting, this proxy statement, our 2017 annual report to shareholders and a proxy card. If you received a Notice of Internet Availability of Proxy Materials by mail, you will not receive a printed copy of the materials unless you specifically request one. If your shares are held in the MSC Industrial Direct 401(k) Plan, you will receive a printed set of proxy materials and the enclosed proxy will serve as a voting instruction card for the trustee of the MSC Industrial Direct 401(k) Plan, T. Rowe Price Trust Company, who will vote all shares of Class A common stock of the company allocated to your 401(k) account in accordance with your instructions. If you hold your shares through a broker, bank or other nominee, rather than directly in your own name, your intermediary will either forward to you printed copies of the proxy materials or will provide you with instructions on how you can access the proxy materials electronically.

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2017 Proxy Statement Summary

This summary highlights information contained elsewhere in our proxy statement. This summary does not contain all of the information that you should consider. You should read the entire proxy statement carefully before voting.

Annual Meeting

Date and Time	9:00 a.m., January 25, 2018
Location	The Hilton Long Island/Huntington, 598 Broad Hollow Road, Melville, New York 11747
Record Date	December 7, 2017
Voting	Record and beneficial shareholders as of the record date are entitled to vote. Holders of our Class A common stock and our Class B common stock vote together as a single class, with each holder of Class A common stock entitled to one vote per share of Class A common stock and each holder of Class B common stock entitled to ten votes per share of Class B common stock.

Meeting Agenda and Voting Matters

		Page Reference
Proposal	Board Voting	(for more detail)
Election of nine directors	FOR EACH	Page 7
	NOMINEE	
Ratification of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2018	FOR	Page 26
Approval, on an advisory basis, of the compensation of our named executive officers	FOR	Page 62
Advisory vote on the preferred frequency of future advisory votes on the compensation of our named executive officers	ONE YEAR	Page 63

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Board Nominees

Name	Age	Director		Principal Occupation	Independent	Committee Memberships		
		Since				AC	CC	N&CGC
Jonathan Byrnes	69	2010		Senior Lecturer at Massachusetts Institute of Technology				
Roger Fradin	64	1998		Operating Executive with The Carlyle Group				
Erik Gershwind	46	2010		President and Chief Executive Officer of the company				
Louise Goeser	64	2009		President and Chief Executive Officer of Grupo Siemens S.A. de C.V.				C
Mitchell Jacobson (Board Chair)	66	1995		Non-executive Chairman of the Board of Directors of the company				
Michael Kaufmann	55	2015		Chief Financial Officer (Chief Executive Officer eff. 1/1/2018) of Cardinal Health, Inc.				
Denis Kelly	68	1996		Investment Banker at Scura Paley Securities LLC				C
Steven Paladino	60	2015		Executive Vice President and Chief Financial Officer of Henry Schein, Inc.				
Philip Peller (Lead Director)	78	2000		Independent Director; Retired Partner of Arthur Andersen LLP				C

AC Audit Committee
 CC Compensation Committee
 N&CGC Nominating and Corporate Governance Committee
 C Chairman

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Corporate Governance Highlights

Independence	<p>7 out of our 9 director nominees are independent.</p> <p>The independent directors meet regularly in private executive sessions without management.</p> <p>We have an independent Lead Director, who serves as the presiding director at the executive sessions of the independent directors.</p> <p>All committees of our Board of Directors (referred to in this proxy statement as our Board) are composed exclusively of independent directors.</p>
Board Oversight of Risk Management	<p>Our Board is responsible for the oversight of the company's risk management and reviews our major financial, operational, compliance, reputational and strategic risks, including steps to monitor, manage and mitigate such risks.</p>
Stock Ownership Requirements	<p>Each of our non-executive directors must own a minimum number of shares equal to five times his or her base annual retainer within five years of joining our Board.</p> <p>Our Chief Executive Officer must own at least six times his annual salary in our common stock.</p> <p>Within five years of attaining the position, each of our Executive Vice Presidents must own at least three times his or her annual base salary in our common stock, each of our Senior Vice Presidents must own at least two times his or her annual base salary in our common stock and each of our Vice Presidents must own at least one time his or her annual base salary in our common stock.</p>
Board Practices and Accountability; Annual Evaluations; Annual Elections	<p>Our Nominating and Corporate Governance Committee annually reviews the performance of our Board and Board committees.</p> <p>Our Board and each Board committee conduct annual written self-evaluations to help ensure that our Board and each Board committee have the appropriate scope of activities.</p> <p>All directors stand for election annually.</p>
Board Refreshment Process; Board and Board Committee Composition	<p>Our Nominating and Corporate Governance Committee annually reviews the composition of our Board and Board committees.</p> <p>The annual written self-evaluations conducted by our Board and each Board committee also ensure that our Board and Board committees have the appropriate number and mix of members, skills and experience.</p> <p>Most recently, we elected Messrs. Kaufmann and Paladino as independent directors in fiscal year 2016 in order to ensure that our Board continues to be comprised of board members with diverse and critical skills.</p> <p>Each of our independent directors is a member of no more than two of our Board committees, thereby enhancing committee member focus on committee matters.</p>

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Regular Board Reviews of Executive Succession	Our Board regularly reviews senior level promotion and succession plans and is responsible for succession planning for the CEO position. Our Board has contingency plans in place for emergencies such as the departure, death, or disability of the CEO or other executive officers.
Other Corporate Governance Practices	We maintain a clawback policy to recoup incentive compensation in the event of a significant financial restatement (whether or not a covered officer engaged in misconduct), as well as in cases of breach of non-competition and other covenants. Company management has in the past engaged in a wide-ranging dialogue with our major institutional investors and is committed to continuing this dialogue in the future.

Fiscal Year 2017 Company Performance

In fiscal year 2017, we generated results reflecting strong execution as market conditions improved and the overall manufacturing sector returned to growth. However, the pricing environment continued to remain a headwind for our business. Based on these dynamics, our performance in fiscal 2017 was highlighted by the following developments:

- we continued our market share gains, building on our leadership position in metalworking, as well as developing a leadership position in our Class C inventory business;
- we continued to stabilize our gross margin in the face of a continuing soft pricing environment;
- earnings per share increased to \$4.05 from \$3.77 in fiscal 2016, as we realized the benefits from our strong expense controls and cost structure and the leverage in our business model;
- we continued to build stronger partnerships with our customers, providing deep technical expertise across the industries that we serve, and optimizing our customers' operations with inventory management and other supply chain solutions; and
- we completed the acquisition of DECO Tool Supply Co. in July 2017.

Net sales increased 0.8% to \$2.89 billion in fiscal 2017 from \$2.86 billion in fiscal 2016. Fiscal 2017 was a 52-week year as compared with fiscal 2016 which was a 53-week year. Average daily sales (ADS) increased 3.2% in fiscal 2017, as compared to fiscal 2016. Even as we continued to invest in our future growth, operating expenses both in dollars and as a percentage of sales were lower than the prior year. Operating income in fiscal 2017 was \$379.0 million, representing an increase of 0.8% from operating income of \$376.0 million in fiscal 2016. For fiscal 2017, the company achieved diluted earnings per share of \$4.05 versus \$3.77 in fiscal 2016.

Fiscal Year 2017 Compensation Decisions

Consistent with our pay-for-performance compensation philosophy, the Compensation Committee of our Board took the following key actions with respect to NEO compensation for fiscal 2017:

- Bonus Payouts Approximated Target. Based on company performance against target performance goals and achievement levels of each NEO's individual goals and objectives under our performance bonus plan, and the Committee's determination of the appropriate individual performance multiplier, payouts under our performance bonus plan were 114.9% of target for Mr. Gershwind and 91.5% of target for our other NEOs.
- Total Cash Compensation Generally At or Below Market Median. Total actual cash compensation for Mr. Gershwind approximated the 75th percentile of the competitive market data

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developed by our independent compensation consultant. Messrs. Jilla's and Jones' total cash compensation approximated the 50th percentile of the competitive market data, and Ms. Heerdt's and Mr. Armstrong's total cash compensation approximated the 25th percentile of the competitive market data.

· CEO Total Direct Compensation ("TDC") Below Market 25th Percentile; Other NEOs Generally At or Below Market Median. We calculate TDC as the sum of fiscal year end base salary, actual annual performance bonuses and long-term equity awards (and in the cases of Mr. Jilla and Ms. Heerdt, we also annualize their special new hire grants of restricted shares made in fiscal 2015 over their five-year vesting periods, which is consistent with the market data methodology). For fiscal 2017, Mr. Gershwind's TDC was 4.5% below the 25th percentile of the competitive market data; Mr. Jilla's TDC approximated the 50th percentile; Mr. Jones' TDC was between the median and 75th percentile; Mr. Armstrong's TDC approximated the 25th percentile; and Ms. Heerdt's TDC was between the 25th and 50th percentiles of the competitive market data.

Please see "Compensation Discussion and Analysis" beginning on page 30 of this proxy statement.

Compensation Summary

The following table shows the compensation for the following individuals for the fiscal years ended September 2, 2017 and September 3, 2016. For an explanation of the amounts in the table below, please see "Summary Compensation Table" on page 49 of this proxy statement.

Name and Principal Position	Year	Salary (\$)	Stock Awards (\$)	Option Awards (\$)	Non-Equity	All Other Compensation (\$)	Total (\$)
					Incentive Plan Compensation (\$)		
Erik Gershwind	2017	719,148	825,003	675,002	1,723,180	19,442	3,961,775
President and Chief Executive Officer	2016	700,710	824,953	674,994	500,000	20,711	2,721,368
Rustom Jilla	2017	490,510	443,316	362,700	322,654	20,956	1,640,136
Executive Vice President and Chief Financial Officer	2016	476,811	384,970	314,993	117,726	30,490	1,324,990
Douglas Jones	2017	388,430	338,818	277,204	201,272	13,196	1,218,920

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Executive Vice President, Chief Supply Chain Officer	2016	384,604	302,452	247,493	73,435	21,520	1,029,504
Steve Armstrong	2017	398,359	242,308	198,221	161,009	20,366	1,020,263
Senior Vice President, General Counsel and Corporate Secretary	2016	386,213	221,641	181,350	53,549	20,655	863,408
Kari Heerd	2017	335,013	220,838	180,672	157,688	19,380	913,591
Senior Vice President and Chief People Officer	2016	325,638	192,485	157,492	57,535	14,815	747,965

Ratification of Appointment of Independent Registered Public Accounting Firm (Proposal No. 2)

Our Audit Committee has appointed the firm of Ernst & Young LLP to serve as our independent registered public accounting firm for fiscal year 2018. Our Board considers it desirable for shareholders to pass upon the selection of the independent registered public accounting firm. Our Board recommends that you vote “FOR” the ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal year 2018. Please see “Ratification of Appointment of Independent Registered Public Accounting Firm (Proposal No. 2)” beginning on page 26 of this proxy statement.

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Approval, on an Advisory Basis, of the Compensation of Named Executive Officers (Proposal No. 3)

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we are providing our shareholders with the opportunity to vote to approve, on a non-binding, advisory basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the compensation disclosure rules of the SEC. This vote is advisory, which means that this vote on executive compensation is not binding on the company, our Board or our Compensation Committee. Based on company and individual performance, our Compensation Committee believes that compensation levels for fiscal year 2017 were appropriate and consistent with the philosophy and objectives of the company's compensation programs. Our Board recommends that you vote "FOR" the approval, on an advisory basis, of the compensation of our named executive officers as disclosed in this proxy statement. Please see "Approval, on an Advisory Basis, of the Compensation of Named Executive Officers (Proposal No. 3)" on page 62 of this proxy statement.

Advisory Vote on the Preferred Frequency of Future Advisory Votes on the Compensation of Named Executive Officers (Proposal No. 4)

We are providing our shareholders with the opportunity to vote, on a non-binding and advisory basis, on the preferred frequency of future advisory votes on the compensation of our named executive officers. This vote is advisory, which means that this vote on the preferred frequency of future advisory votes is not binding on the company. Our Board recommends that you vote every "ONE YEAR" as the preferred frequency of future advisory votes on the compensation of our named executive officers. Please see "Advisory Vote on the Preferred Frequency of Future Advisory Votes on the Compensation of Named Executive Officers (Proposal No. 4)" on page 63 of this proxy statement.

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Proxy Statement for the Annual Meeting
of Shareholders to be held on January 25, 2018

ELECTION OF DIRECTORS (PROPOSAL NO. 1)

Nine directors will be elected at our 2018 annual meeting of shareholders for a term of one year expiring at the 2019 annual meeting, and will serve until their respective successors have been elected, or until their earlier resignation or removal. Each of the nominees for director was previously elected a director of the company by our shareholders.

Each nominee has indicated that he or she is willing to serve as a member of our Board, if elected, and our Board has no reason to believe that any nominee may become unable or unwilling to serve. In the event that a nominee should become unavailable for election for any reason, the shares represented by a properly executed and returned proxy will be voted for any substitute nominee who shall be designated by the current Board. There are no arrangements or understandings between any director or nominee for director and any other person pursuant to which such person was selected as a director or nominee for director of the company.

Our Nominating and Corporate Governance Committee has reviewed the qualifications and independence of the nominees for director and, with each member of the Nominating and Corporate Governance Committee abstaining as to himself or herself, has recommended each of the other nominees for election to our Board.

Board and Committee Evaluations; Qualifications of Nominees

Our Nominating and Corporate Governance Committee annually reviews the composition and performance of our Board and Board committees and is responsible for recruiting, evaluating and recommending candidates to be presented for appointment, election or reelection to serve as members of our Board. Our Board and each Board committee conduct annual written self-evaluations to help ensure that our Board and Board committees have the appropriate number and mix of members, skills and experience and the appropriate scope of activities. These self-evaluations also provide Board and Board committee members with insight for enhancing the effectiveness of their meetings. In evaluating our Board, our Nominating and Corporate Governance Committee has considered that our directors have a wide range of experience as senior executives of large publicly traded companies, and in the areas

of investment banking, accounting, business education and business management consulting. In these positions, they have also gained experience and knowledge in core management skills that are important to their service on our Board, such as business-to-business distribution, supply chain management, mergers and acquisitions, strategic and financial planning, financial reporting, compliance, risk management, intellectual property matters and leadership development. Several of our directors also have experience serving on the boards of directors and board committees of other public companies, which provides them with an understanding of current corporate governance practices and trends and executive compensation matters. Our Nominating and Corporate Governance Committee also believes that our directors have other key attributes that are important to an effective board of directors, including the highest professional and personal ethics and values, a broad diversity of business experience and expertise, an understanding of our business and industry, a high level of education, broad-based business acumen and the ability to think strategically.

In furtherance of our ongoing self-evaluations by our Board and Board committees and in order to ensure that our Board continues to be comprised of board members with diverse and critical skills, we elected two new independent directors, Messrs. Kaufmann and Paladino, on September 24, 2015. In addition, with the election of Messrs. Kaufmann and Paladino, we reviewed and changed our Board committee composition so that each of our independent directors is a member of no more than two of our Board committees, thereby enhancing committee member focus on committee matters.

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In addition to the qualifications described above, the Nominating and Corporate Governance Committee also considered the specific skills and attributes described in the biographical details that follow in determining whether each individual nominee should serve on our Board.

2018 Nominees for Director

Nominee	Principal Occupation	Age	Director Since
Jonathan Byrnes	Senior Lecturer at Massachusetts Institute of Technology	69	March 2010
Roger Fradin	Operating Executive with The Carlyle Group	64	July 1998
Erik Gershwind	President and Chief Executive Officer of the company	46	October 2010
Louise Goeser	President and Chief Executive Officer of Grupo Siemens S.A. de C.V.	64	January 2009
Mitchell Jacobson (Board Chair)	Non-executive Chairman of the Board of the company	66	October 1995
Michael Kaufmann	Chief Financial Officer (Chief Executive Officer eff. 1/1/2018) of Cardinal Health, Inc.	55	September 2015
Denis Kelly	Investment Banker at Scura Paley Securities LLC	68	April 1996
Steven Paladino	Executive Vice President and Chief Financial Officer of Henry Schein, Inc.	60	September 2015
Philip Peller (Lead Director)	Independent Director; Retired Partner of Arthur Andersen LLP	78	April 2000

Jonathan Byrnes

Business Experience Dr. Byrnes has been a Senior Lecturer at MIT since 1992. In this capacity, he has taught graduate courses in Supply Chain Management and Integrated Account Management and programs for business executives, and he has supervised thesis research. He has been president of Jonathan Byrnes & Co., a consulting company, since 1976, and Founding Chairman of Profit Isle, Inc., a software company, since 2009. Dr. Byrnes earned a doctorate at Harvard University, and is a former President of the Harvard Alumni Association. He also served a two-year term on Harvard University's Advisory Committee on Shareholder Responsibility, and he is currently serving a three-year term on the Board of Directors of Harvard Magazine.

Specific Skills and Attributes Dr. Byrnes is a recognized expert in the areas of supply chain and integrated account management, areas which are critical to industrial distribution. Dr. Byrnes provides our Board with key perspectives relating to our operations and business strategy.

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Roger Fradin

Business Experience Mr. Fradin has served as an Operating Executive with The Carlyle Group, a global alternative asset manager, since February 2017. Mr. Fradin served as Vice Chairman of Honeywell International Inc. from April 2014 until February 2017, after previously serving as the President and Chief Executive Officer of the Automation and Control Solutions Division of Honeywell International Inc. from January 2004 until April 2014. Previously, he was President and CEO of the Security and Fire Solutions Division of Honeywell International Inc. From 1987 until 2000, Mr. Fradin served as the President of the ADEMCO Group.

Specific Skills and Attributes Mr. Fradin’s operational expertise and broad experience as a senior executive of a major diversified technology and manufacturing company makes him a valued asset to the Board. In addition, he provides critical insight and perspective relating to our customer base.

Other Directorships Mr. Fradin is also a director of Signode Industrial Group (a private company), a director and member of the Audit Committee and Finance Committee of Pitney Bowes Inc., and a director and member of the Audit Committee of Harris Corporation.

Erik Gershwind

Business Experience Mr. Gershwind was appointed our President and Chief Executive Officer in January 2013. From October 2009 to October 2011, Mr. Gershwind served as our Executive Vice President and Chief Operating Officer and from October 2011 to January 2013, he served as our President and Chief Operating Officer. Mr. Gershwind was elected by the Board to serve as a director in October 2010. Previously, Mr. Gershwind served as our Senior Vice President, Product Management and Marketing from December 2005 and our Vice President of Product Management from April 2005. From August 2004 to April 2005, Mr. Gershwind served as Vice President of MRO and Inventory Management. Mr. Gershwind has held various positions of increasing responsibility in Product, e-Commerce and Marketing. Mr. Gershwind joined the company in 1996 as manager of our acquisition integration initiative.

Specific Skills and Attributes Mr. Gershwind has held senior management positions responsible for key business functions of the company and is a key contributor to our current strategy and success. In addition, as our Chief Executive Officer, he brings critical perspectives to our Board on our strategic direction and growth strategy.

Family Relationship Mr. Gershwind is the nephew of Mitchell Jacobson, our Non-executive Chairman of the Board, and the son of Marjorie Gershwind Fiverson, Mr. Jacobson’s sister. Mr. Jacobson and Ms. Gershwind Fiverson are also our principal shareholders. There are no other family relationships among any of our directors or executive officers.

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Louise Goeser

Business Experience Ms. Goeser is President and Chief Executive Officer of Grupo Siemens S.A. de C.V. and is responsible for Siemens Mesoamérica. Siemens Mesoamérica is the Mexican, Central American and Caribbean unit of multinational Siemens AG, a global engineering company operating in the industrial, energy and healthcare sectors. Prior to accepting this position in March 2009, Ms. Goeser served as President and Chief Executive Officer of Ford of Mexico from January 2005 to November 2008. Prior to this position, she served as Vice President, Global Quality for Ford Motor Company, a position she had held since 1999. Prior to 1999, she served as Vice President for Quality at Whirlpool Corporation, and served in various leadership positions with Westinghouse Electric Corporation.

Specific Skills and Attributes Ms. Goeser has extensive experience in senior executive positions and as a director of large public companies, and she possesses the knowledge and expertise necessary to contribute an important viewpoint on a wide variety of governance and operational issues, as well as the reporting and other responsibilities of a public company.

Other Directorships During the last five years, Ms. Goeser previously served as a director and a member of the Audit Committee and the Compensation, Governance and Nominating Committee of Talen Energy Corporation and as a director and member of the Compensation, Governance and Nominating Committee of PPL Corporation.

Mitchell Jacobson

Business Experience Mr. Jacobson was appointed our President and Chief Executive Officer in October 1995 and held both positions until November 2003. He continued as our Chief Executive Officer until November 2005. Mr. Jacobson was appointed our Chairman of the Board in January 1998 and became Non-executive Chairman of the Board effective January 1, 2013. Previously, Mr. Jacobson was President and Chief Executive Officer of Sid Tool Co., Inc., our predecessor company and current wholly-owned and principal operating subsidiary from June 1982 to November 2005.

Specific Skills and Attributes Mr. Jacobson has been instrumental to our past and ongoing growth, which reflects the values, strategy and vision that Mr. Jacobson contributes. His leadership as Chairman, experience in industrial distribution and strategic input are critically important to our Board. In addition, as one of our principal shareholders, Mr. Jacobson provides critical insight and perspective relating to the company's shareholders.

Family Relationship Mr. Jacobson is the uncle of Erik Gershwind, our President and Chief Executive Officer and a director of the company, and the brother of Marjorie Gershwind Fiverson, Mr. Gershwind's mother. There are no other family relationships among any of our directors or executive officers.

Other Directorships Mr. Jacobson was appointed a director of Ambrosia Holdings, L.P. in August 2017. Mr. Jacobson previously served as a director of HD Supply Holdings, Inc. from October 2007 to December 2013.

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Michael Kaufmann

Business Experience Mr. Kaufmann was recently named as Chief Executive Officer of Cardinal Health, Inc., effective January 1, 2018. Mr. Kaufmann has served as Chief Financial Officer of Cardinal Health, Inc. since November 2014. He previously served as Chief Executive Officer of the Pharmaceutical Segment of Cardinal Health, Inc. from August 2009 until November 2014. Previously, he was Group President for the Medical distribution businesses of Cardinal Health, Inc. from April 2008 until August 2009. Mr. Kaufmann served in other executive positions with Cardinal Health from 1990 through 2008, and prior to that he worked for almost six years in public accounting with Arthur Andersen.

Specific Skills and Attributes Mr. Kaufmann’s operational expertise and broad experience as a senior executive of a major healthcare services and products company makes him a valued asset to the Board. His knowledge of the distribution business and supply chain management expertise provide the Board with critical insights. In addition, as a chief financial officer of a large public company, Mr. Kaufmann brings additional finance and accounting expertise to our Board. Mr. Kaufmann qualifies as an “audit committee financial expert” as defined by applicable SEC rules.

Denis Kelly

Business Experience Mr. Kelly is an Investment Banker at Scura Paley Securities LLC, a private investment banking firm which he co-founded in 2001. From 1993 to 2000, he was a Managing Director of Prudential Securities Inc. Previously, he served as the President of Denbrook Capital Corporation, a merchant banking firm, from 1991 to 1993. From 1980 to 1991, Mr. Kelly held various positions at Merrill Lynch, including Managing Director of Mergers and Acquisitions and Managing Director of Merchant Banking. Mr. Kelly began his investment banking career at Lehman Brothers in 1974.

Specific Skills and Attributes Mr. Kelly’s varied investment banking career, including extensive mergers and acquisitions experience, along with his service on other public and private boards of directors provide the Board with expertise in finance, business development and corporate governance.

Other Directorships Mr. Kelly is also a director of Weight Watchers International, Inc. and Chairman of its Audit Committee. During the last five years, Mr. Kelly previously served as a director and member of the Audit Committee of Kenneth Cole Productions, Inc., which is no longer a public company.

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Steven Paladino

Business Experience Mr. Paladino has served as Executive Vice President and Chief Financial Officer of Henry Schein, Inc. since 2000. Prior to his current position, from 1993 to 2000, Mr. Paladino was Senior Vice President and Chief Financial Officer, from 1990 to 1992, he served as Vice President and Treasurer and, from 1987 to 1990, he served as Corporate Controller of Henry Schein, Inc. Before joining Henry Schein, Mr. Paladino was employed as a Certified Public Accountant for seven years, most recently with the international accounting firm of BDO Seidman LLP (now known as BDO USA, LLP).

Specific Skills and Attributes Mr. Paladino brings to the Board extensive financial, accounting and distribution industry expertise. Mr. Paladino’s skills in corporate finance and accounting provide the Board with expertise and depth in public company accounting issues, and his distribution-related experience provide the Board with critical knowledge and perspectives. Further, his experience as a public company director provides the Board with additional knowledge and perspectives on corporate governance matters. Mr. Paladino qualifies as an “audit committee financial expert” as defined by applicable SEC rules.

Other Directorships Mr. Paladino is also a director of Henry Schein, Inc.

Philip Peller

Business Experience Mr. Peller, who has served as our Lead Director since December 2007, was a partner of Andersen Worldwide S.C. and Arthur Andersen LLP from 1970 until his retirement in 1999. He served as Managing Partner of Practice Protection and Partner Affairs for Andersen Worldwide S.C. from 1998 to 1999 and as Managing Partner of Practice Protection from 1996 to 1998. He also served as the Managing Director of Quality, Risk Management and Professional Competence for Arthur Andersen’s global audit practice.

Specific Skills and Attributes Mr. Peller’s extensive experience in global audit, financial, risk and compliance matters provides invaluable expertise to our Board. In addition, Mr. Peller’s accounting background and experience allow him to provide the Board with unique insight into public company accounting issues and challenges, and also qualify him to serve as an “audit committee financial expert” as defined by applicable SEC rules.

Other Directorships During the last five years, Mr. Peller previously served as a director and Chairman of the Audit Committee of Kenneth Cole Productions, Inc., which is no longer a public company.

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Director Qualifications

The chart below demonstrates how the Board's nominees for election at our 2018 annual meeting of shareholders provide the skills, experiences and perspectives that the Nominating and Corporate Governance Committee and the Board consider important for an effective board of directors.

Name	Industry Knowledge		Business Management Experience			Financial/Accounting Experience	
	Business to Business Distribution	Supply Chain Management	Senior Executive Management	Public Company Corporate Governance and Compensation	Mergers and Acquisitions	Financial Literacy	Financial Reporting
Jonathan Byrnes							
Roger Fradin							
Erik Gershwind							
Louise Goeser							
Mitchell Jacobson							
Michael Kaufmann							
Denis Kelly							
Steven Paladino							
Philip Peller							

The Board recommends a vote "FOR" the re-election of each of Ms. Goeser and Messrs. Byrnes, Fradin, Gershwind, Jacobson, Kaufmann, Kelly, Paladino and Peller.

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CORPORATE GOVERNANCE

Director Independence

Pursuant to New York Stock Exchange listing standards, a majority of the members of our Board must be independent. The Board must determine that each independent director has no material relationship with the company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). The Board follows the criteria set forth in Section 303A of the New York Stock Exchange listing standards to determine director independence. Our independence criteria are also set forth in Section 1.1 of our Corporate Governance Guidelines, a copy of which is available on our website at www.mscdirect.com/corporategovernance. In addition to applying these guidelines, the Board will consider all relevant facts and circumstances in making an independence determination.

The Board undertakes a review of director independence on an annual basis and as events arise which may affect director independence. Based upon this review, the Board determined that Ms. Goeser and Messrs. Byrnes, Fradin, Kaufmann, Kelly, Paladino and Peller are independent in accordance with Section 303A.02 of the New York Stock Exchange listing standards and Rule 10A-3 promulgated under the Securities Exchange Act of 1934, as amended, which we refer to as the Exchange Act, as well as under our Corporate Governance Guidelines.

In evaluating the independence of Ms. Goeser, the Board considered that Ms. Goeser is the President and Chief Executive Officer of Grupo Siemens S.A. de C.V., an affiliate of Siemens AG, and is responsible for Siemens Mesoamérica. Siemens AG is a customer and supplier of our company. Sales to and purchases from Siemens AG were made in the ordinary course of business and amounted to significantly less than 0.5% of the recipient company's gross revenues during its most recent fiscal year.

In evaluating the independence of Mr. Byrnes, the Board considered that Mr. Byrnes is a Senior Lecturer at MIT, which is a customer of our company. Sales to MIT were made in the ordinary course of business and amounted to significantly less than 0.5% of the company's gross revenues during our most recent fiscal year.

In evaluating the independence of Mr. Fradin, the Board considered that Mr. Fradin served as Vice Chairman of Honeywell International Inc., which is a customer and supplier of our company, from April 2014 until February 2017. In addition, the Board considered that Mr. Fradin is (i) a director of Signode Industrial Group, which is a supplier of our company, (ii) a director of Pitney Bowes, which is a supplier of our company, and (iii) a director of Harris Corporation, which is a customer of our company. Sales to and purchases from such companies were made in the ordinary course of business and amounted to significantly less than 0.5% of the recipient company's gross revenues

during its most recent fiscal year.

In evaluating the independence of Mr. Paladino, the Board considered that Mr. Paladino is the Executive Vice President and Chief Financial Officer of Henry Schein, Inc., which is a customer of our company. Sales to Henry Schein were made in the ordinary course of business and amounted to significantly less than 0.5% of the company's gross revenues during our most recent fiscal year.

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Board Meetings and Attendance

The standing committees of our Board are the Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee. The table below provides the current membership of our Board and each of these committees and the number of meetings held by our Board and each of these committees during fiscal year 2017.

Name	Audit Board	Audit Committee	Compensation Committee	Nominating and Corporate Governance Committee
Jonathan Byrnes				
Roger Fradin				
Erik Gershwind				
Louise Goeser				
Mitchell Jacobson				
Michael Kaufmann				
Denis Kelly				
Steven Paladino				
Philip Peller				
Fiscal Year 2017 Meetings	8	6	7	4

Lead Director Chairperson Audit Committee Financial Expert Member

During fiscal year 2017, each of our current directors attended at least 75% of the aggregate number of meetings of our Board and of the committees of our Board on which he or she served.

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Board Committees

Audit Committee

Principal Functions

Principal Functions of the Audit Committee

Assists in Board oversight of:

- the preparation and integrity of our financial statements;
- our compliance with our ethics policies and legal and regulatory requirements;
- our independent registered public accounting firm’s qualifications, performance and independence; and
- the performance of our internal audit function.

Appoints (and is responsible for terminating) our independent registered public accounting firm.

Recommends to the Board that the audited financial statements be included in our Annual Report on Form 10-K for filing with the SEC.

Oversees risk management practices for our major financial risk exposures and the steps that have been taken to monitor and mitigate such exposures.

Prepares an annual Audit Committee report to be included in our annual proxy statement.

Undertakes an annual evaluation of its performance.

Composition and Charter

The Audit Committee is currently comprised of Messrs. Byrnes, Kaufmann, Kelly, Paladino and Peller, each of whom the Board has determined to be independent under both the rules of the SEC and the listing standards of the New York Stock Exchange and to meet the financial literacy requirements of the New York Stock Exchange. Mr. Peller is the Chairman of the Audit Committee. The Board has determined that each of Messrs. Peller, Kaufmann and Paladino qualifies as an “audit committee financial expert” within the meaning of the rules of the SEC.

The Audit Committee is directly responsible for the appointment, termination, compensation, retention and oversight of the work of our independent auditors. The Audit Committee has adopted a written charter, a copy of which is available on our website at www.mscdirect.com/corporategovernance. The Audit Committee has the authority to engage independent counsel and other advisors as it deems necessary to carry out its duties. We are obligated to provide appropriate funding for the Audit Committee for these purposes.

Policy on Service on Other Audit Committees

Under our corporate governance guidelines, members of the Audit Committee may not serve as members of an audit committee for more than three public companies, including the Audit Committee of our Board.

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Compensation Committee

Principal Functions

Principal Functions of the Compensation Committee

Reviews and approves corporate goals and objectives relevant to the compensation of our Chief Executive Officer.

Evaluates our Chief Executive Officer's performance in light of those goals and objectives.

Determines and approves our Chief Executive Officer's compensation level based on its evaluation of his performance.

Sets the compensation levels of all of our other executive officers, including with respect to our incentive compensation plans and equity-based plans.

Recommends to our Board the compensation of our non-executive directors.

Has the sole responsibility to retain and terminate the compensation consultant.

Administers our equity incentive plans.

Oversees risk management practices for risks relating to our overall compensation structure, including review of our compensation practices, in each case with a view to assessing associated risks.

Prepares a Compensation Committee report on executive compensation to be included in our annual proxy statement.

Undertakes an annual evaluation of its performance.

Composition and Charter

Our Compensation Committee is currently comprised of Ms. Goeser and Messrs. Fradin, Kaufmann, Kelly and Paladino, each of whom is an independent director. Mr. Kelly is the Chairman of the Compensation Committee. The Compensation Committee has adopted a written charter, a copy of which is available on our website at www.mscdirect.com/corporategovernance.

Delegation of Authority

The Compensation Committee does not delegate its responsibilities to any other directors or members of management. Under our 2015 Omnibus Incentive Plan, the Compensation Committee is permitted to delegate its authority under such plan to a committee of one or more directors or one or more officers, in all cases to the extent permitted under applicable law, including New York Stock Exchange listing requirements. However, as a matter of policy, the Compensation Committee authorizes all grants of awards under the 2015 Omnibus Incentive Plan.

Compensation Processes and Procedures

The Compensation Committee makes all compensation decisions for our executive officers. In fiscal year 2017, the views and recommendations of Mitchell Jacobson, our Chairman of the Board, and Erik Gershwind, our President and Chief Executive Officer, were considered by the members of the Compensation Committee in its review of the performance and compensation of individual executives. The views and recommendations of Mr. Jacobson and Mr. Gershwind will continue to be considered by the members of the Compensation Committee in its review of the performance and compensation of individual executives. In fiscal year 2017, Mr. Jacobson also provided input on Mr. Gershwind's compensation. In addition, the Compensation Committee obtains input from Mr. Gershwind on the compensation of the other named executive officers and other executive officers and senior officers. Our Human Resources department and our Senior Vice President and Chief People Officer, Ms. Kari Heerdt, assist the Chairman of the Compensation Committee in developing the agenda for committee meetings and work with the Compensation Committee in developing agenda materials for

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the committee's review, including coordinating and presenting management's proposals and recommendations to the Compensation Committee with respect to executive and non-executive director compensation. Ms. Heerdt and Mr. Gershwind regularly attend Compensation Committee meetings, excluding portions of meetings where their own compensation is discussed. The Compensation Committee considers, but is not bound by, management's proposals and recommendations with respect to executive compensation.

The Compensation Committee has the authority to retain and terminate any third-party compensation consultant and to obtain advice and assistance from internal and external legal, accounting and other advisors. In connection with compensation decisions made by the Compensation Committee for fiscal year 2017, the Committee relied on competitive market data and analysis prepared by its independent compensation consultant, Frederic W. Cook & Co., Inc., a compensation consulting firm that we refer to in this proxy statement as F.W. Cook. F.W. Cook provides research, market data and survey information and makes recommendations to the Compensation Committee regarding our executive compensation programs and our non-executive director compensation programs. F.W. Cook advises the Compensation Committee on the competitiveness of our compensation arrangements and provides input, analysis and recommendations for the compensation paid to our named executive officers, other executives and non-management directors. F.W. Cook provides data and analysis with respect to public companies having similar characteristics (including size, profitability, geography, business lines and growth rates) to those of our company. As discussed under "Compensation Risk Assessment" below, F.W. Cook also updated and confirmed the comprehensive risk assessment of our incentive-based compensation plans which F.W. Cook conducted in 2016 (and prepares on a triennial basis) to assist the Compensation Committee in its compensation risk assessment. The Compensation Committee considers, but is not bound by, the consultant's recommendations with respect to executive and non-executive director compensation.

During fiscal year 2017, the Compensation Committee reviewed the independence of F.W. Cook, its other advisors and the individuals employed by such advisors who furnish services to us, which included a consideration of the factors required by New York Stock Exchange listing standards. Based on its review, the Compensation Committee determined that F.W. Cook, its other advisors and the individuals employed by such advisors who furnish services to us are independent and that their service does not raise any conflicts of interest that would prevent them from providing independent and objective advice to the committee.

Compensation Committee Interlocks and Insider Participation

During our 2017 fiscal year, each of Ms. Goeser and Messrs. Fradin, Kaufmann, Kelly and Paladino served as members of our Compensation Committee. None of the members of the Compensation Committee was, during or prior to fiscal year 2017, an officer of the company or any of our subsidiaries or had any relationship with us other than serving as a director and as a de minimis shareholder. In addition, none of our directors has interlocking or other relationships with other boards, compensation committees or our executive officers that would require disclosure under Item 407(e)(4) of Regulation S-K.

Nominating and Corporate Governance Committee

Principal Functions

Principal Functions of the Nominating and Corporate Governance Committee

Identifies individuals qualified to become members of our Board consistent with criteria approved by our Board.

Reviews the qualifications and independence of the nominees for director.

Recommends to our Board nominees for membership on our Board. Only those candidates recommended by the Nominating and Corporate Governance Committee will be considered by our Board as nominees for director.

Develops and recommends to our Board corporate governance principles and other corporate governance policies that are applicable to our company.

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Reviews and approves any related party transactions between the company and any officer, director, principal shareholder or immediate family member or other affiliate of such persons proposed to be entered into and, if appropriate, ratifies any such transaction previously commenced and ongoing.

Oversees the evaluation of our Board, Board Committees and our management.

Oversees risk management practices for risks relating to governance and compliance matters.

Assists in Board oversight of our compliance with our ethics policies.

Undertakes an annual evaluation of its performance.

Composition and Charter

Our Nominating and Corporate Governance Committee is currently comprised of Ms. Goeser and Messrs. Byrnes, Fradin and Peller, each of whom is an independent director. Ms. Goeser is the Chairwoman of the Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee has adopted a written charter, a copy of which is available on our website at www.mscdirect.com/corporategovernance.

Policy Regarding Shareholder Nominations for Director

The Nominating and Corporate Governance Committee of our Board believes that the best director candidates will be those who have a number of qualifications, including independence, knowledge, judgment, integrity, character, leadership skills, education, experience, financial literacy, standing in the community and an ability to foster a diversity of backgrounds and views and to complement our Board's existing strengths. There are no specific, minimum or absolute criteria for Board membership. The Nominating and Corporate Governance Committee seeks to achieve a balance and diversity of knowledge, experience and capability on our Board, while maintaining a sense of collegiality and cooperation that is conducive to a productive working relationship within the Board and between the Board and management. The Nominating and Corporate Governance Committee also believes that it is important for directors to have demonstrated an ethical and successful career. Such a career may include:

- experience as a senior executive of a publicly traded corporation, a management consultant, an investment banker, a partner at a law firm or registered public accounting firm or a professor at an accredited law or business school;
- experience in the management or leadership of a substantial private business enterprise, educational, religious or not-for-profit organization; or
- such other professional experience as the Nominating and Corporate Governance Committee determines qualifies an individual for Board service.

At all times, the Nominating and Corporate Governance Committee will make every effort to ensure that our Board and its committees include at least the required number of independent directors, as that term is defined by applicable standards promulgated by the New York Stock Exchange and the SEC. In addition, prior to nominating an existing director for re-election to our Board, the Nominating and Corporate Governance Committee will consider and review such existing director's attendance and performance, independence, experience, skills and contributions as an existing

director to our Board.

The Nominating and Corporate Governance Committee may employ third-party search firms to identify director candidates, if so desired. The Nominating and Corporate Governance Committee will review and consider recommendations from a wide variety of contacts, including current executive officers, directors, community leaders and shareholders, as a source for potential director candidates.

The Nominating and Corporate Governance Committee will consider qualified director candidates recommended by shareholders in compliance with our procedures and subject to applicable inquiries. The Nominating and Corporate Governance Committee does not have different standards for

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evaluating nominees depending on whether they are proposed by our directors or by our shareholders. Any shareholder may recommend a nominee for director at least 120 calendar days prior to the one year anniversary of the date on which our proxy statement was released to shareholders in connection with the previous year's annual meeting, by writing to Corporate Secretary, MSC Industrial Direct Co., Inc., 75 Maxess Road, Melville, NY 11747, and providing the following information:

- the name, company shareholdings and contact information of the person making the nomination;
- the candidate's name, address and other contact information;
- any direct or indirect holdings of our securities by the nominee;
- any information required to be disclosed about directors under applicable securities laws and/or stock exchange requirements;
- information regarding related party transactions with the company and/or the shareholder submitting the nomination;
- any actual or potential conflicts of interest; and
- the nominee's biographical data, current public and private company affiliations, employment history and qualifications and status as "independent" under applicable securities laws and stock exchange requirements.

All of these communications will be reviewed by our Senior Vice President, General Counsel and Corporate Secretary and forwarded to Ms. Goeser, the Chairwoman of the Nominating and Corporate Governance Committee, for further review and consideration in accordance with this policy. Any such shareholder recommendation should be accompanied by a written statement from the candidate of his or her consent to be named as a candidate and, if nominated and elected, to serve as a director.

Board Leadership Structure; Executive Sessions of the Independent Directors

Our Board functions collaboratively and emphasizes active participation and leadership by all of its members. Our Board currently consists of nine directors, each of whom, other than Messrs. Gershwind and Jacobson, is independent under our Corporate Governance Guidelines and the applicable rules of the New York Stock Exchange. Mr. Gershwind has served as our President and Chief Executive Officer since January 1, 2013 and as a member of our Board since 2010. Mr. Jacobson, who is one of our principal shareholders, has served as our Non-executive Chairman since January 1, 2013 and as our Chairman since 1998. Mr. Jacobson previously served as our President from October 1995 through November 2003, and as our Chief Executive Officer from October 1995 through November 2005. The Board has separated the roles of Chairman and Chief Executive Officer since 2005 and has appointed a non-management, lead director since 2007.

Our Board of Directors believes that the most effective Board leadership structure for our company at the present time is for the roles of Chief Executive Officer and Chairman of the Board to be separated. Under this structure, our Chief Executive Officer is generally responsible for setting the strategic direction for our company and for providing the

day-to-day leadership over our operations, and our Chairman of the Board sets the agenda for meetings of the Board and presides over Board meetings. In addition, our independent directors meet at regularly scheduled executive sessions without members of management present. Mr. Peller, who has served as our Lead Director since 2007, serves as the presiding director at the executive sessions of the independent directors. The Lead Director also has such other duties and responsibilities as determined by the Board from time to time. Those additional duties and responsibilities include:

- making recommendations to the Board regarding the structure of Board meetings;
- recommending matters for consideration by the Board;
- determining appropriate materials to be provided to the directors;

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