



COMPANIES MENTIONED

Fastenal Company

FAST - \$52.93 - Hold (2)

MSC Industrial Direct Co., Inc.

MSM - \$79.42 - Buy (1)

W.W. Grainger, Inc.

GWV - \$207.82 - Hold (2)

BB&TCM'S FEBRUARY FASTENER DISTRIBUTORS INDEX (FDI) - CURRENT CONDITIONS, OUTLOOK REMAIN HEALTHY

Key Points

- **About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors conducted jointly by FCH Sourcing Network and BB&T Capital Markets that aims to provide insight into current trends/outlooks. As a diffusion index, readings above 50 signal strength and below 50 signal weakness. It should be directly relevant to Fastenal and broadly relevant to other distributors (Grainger, MSC).
- **February's FDI is 55.9 (vs. 57.3 in January)-sales still strong, though fewer respondents saw sequential improvement.** Of the items measured (sales, employment, delivery times, inventories, customer inventories), two stood out. First, 44.7% of respondents said February was stronger than expected, while just 15.8% were disappointed. This is good, but those seeing things as "better" about matched those seeing them as the "same"; (January was heavily skewed to "better"). Second, overall customer inventories were seen as balanced, but there was a mild shift from the "too low" (13.2%) to the "too high" camp (7.9%) relative to January. By end market, automotive was relatively strong. Geographically, the Northeast and Midwest seemed a bit stronger than average but the Southwest and West seemed a bit softer. *Demand remains healthy for fastener distributors, though there may not have been as much gain from January to February as was experienced from December to January.*
- **The outlook is mostly undimmed.** 71.1% of respondents expect activity levels to be "higher" in six months while just 5.3% said "lower." This was little different from January. *Month-to-month swings aside, respondents were positive on expected North American conditions.*
- **Pricing: maybe a bit in February, but overall stable.** Year-over-year, point-of-sale pricing is higher (52.6% of respondents) or "flattish" (36.8%); the rate of change is up 3.0%-3.5%. This reflects past actions-most respondents (68.4%) said month-to-month pricing is unaltered-though there may have been isolated new pricing in February. Pricing for distributors (sell to end users) was a bit better than for master distributors (sell to other distributors). *There may have been a little fresh pricing in February, but overall pricing remains stable, not trending.*
- **Supplemental question on "reshoring"-no discernible trend.** There has been speculation of U.S. manufacturers bringing production back onshore given greater event risk, narrowing labor costs, and rising transportation costs. We asked our respondents what they were seeing. They were non-committal: those who think reshoring is real and accelerating (15.8%) were balanced by those who felt production was leaving (18.4%), while those who see no change or view any change as "noise" represented the large majority (65.8%). *It would be hard to argue forcefully that manufacturers are bringing production back to the U.S. to any significant degree.*
- **What does this mean for Fastenal?** It is treacherous to project a single month's trend, but the FDI suggests Fastenal's sequential DSR in February should be in line with to slightly better than historical norms. We think this translates into a DSR of up 22.0%-22.5% in February, which would be in line with, to very slightly, below our model. Bearing in mind that Fastenal, **Grainger**, and **MSC Industrial** are 85%-90% correlated over the last 10 years (and 87%-93% correlated over the last five), the February FDI should carry favorable implications for them as well. *On the whole, the FDI is a positive statement about North American industrial activity in general, and about Fastenal's conditions in particular.*



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IMPORTANT DISCLOSURES Price Chart

FAST

1) 02/04/09 Buy (1) \$44	2) 03/05/09 Buy (1) \$40	3) 05/06/09 Buy (1) \$41	4) 09/15/09 Buy (1) \$45	5) 10/13/09 Buy (1) \$47	6) 01/13/10 Buy (1) \$54	7) 04/14/10 Buy (1) \$60	8) 06/03/10 Buy (1) \$63	9) 07/14/10 Buy (1) \$65	10) 01/19/11 Buy (1) \$69	11) 04/13/11 Buy (1) \$74
12) 06/03/11 Buy (1) \$37	13) 07/07/11 Hold (2) NA									



MSM

1) 01/09/09 Buy (1) \$47	2) 03/10/09 Buy (1) \$42	3) 10/12/09 Buy (1) \$52	4) 10/22/09 Buy (1) \$54	5) 04/08/10 Buy (1) \$67	6) 10/22/10 Buy (1) \$69	7) 04/07/11 Hold (2) NA	8) 08/12/11 Buy (1) \$80
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GWW

1) 10/12/09	2) 01/27/10	3) 04/15/10
Buy (1) \$117	Buy (1) \$120	Hold (2) NA



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<p>All companies under coverage:</p> <p>Buy (1) 55.2%</p> <p>Hold (2) 43.6%</p> <p>Underweight/Sell (3) 1.2%</p> <p>Not Rated (NR) 0.0%</p> <p>Suspended (SP) 0.0%</p>	<p>All companies under coverage to which it has provided investment banking services in the previous 12 months:</p> <p>Buy (1) 10.6%</p> <p>Hold (2) 4.2%</p> <p>Underweight/Sell (3) 0.0%</p> <p>Not Rated (NR) 0.0%</p> <p>Suspended (SP) 0.0%</p>
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- Hold (2): estimated total return potential greater than or equal to 0% and less than 10%
- Underweight (3): estimated total return potential less than 0%

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COMPANY	DISCLOSURE
Fastenal Company (FAST)	1, 6
MSC Industrial Direct Co., Inc. (MSM)	1, 6
W.W. Grainger, Inc. (GWW)	6, 9



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