

HIGHLIGHTED COVERAGE

Fastenal
FAST - \$46.70 - Hold

W.W. Grainger
GWW - \$223.68 - Hold

MSC Industrial Direct
MSM - \$71.12 - Hold

BB&TCM Fastener Distributor Index (FDI): Participants Citing Minimal Reprieve

KEY TAKEAWAY

For February, the seasonally adjusted FDI (44.5) remained in contraction, reflecting what we believe remains a strained environment for both distributors and manufacturers. Sales growth among survey participants dipped incrementally, with just 28% of respondents citing stronger results versus January. Lighter sentiment toward employment, pricing, and respondent inventories further underpinned the cautious read from participants. To be fair, we are noting some divergence between the FDI and nascent improvement for select distributors (and headline metrics such as IP/PMI). FDI survey participants simply have yet to see material improvement in fundamental growth conditions within most core metrics. We will continue to watch closely for added signs of tangible strengthening.

KEY POINTS

About the Fastener Distributor Index (FDI). The FDI is a monthly survey of NorAm fastener distributors, conducted with the **FCH Sourcing Network** and the **National Fastener Distributors Association**. It offers insights into current industry trends/ outlooks. As a diffusion index, figures above 50 signal strength, while readings below 50 signal weakness. It should be directly relevant to **Fastenal** and broadly relevant to other distributors (**W.W. Grainger, MSC Industrial**).

February FDI 44.5, participants simply not seeing material improvement (yet). The February FDI (44.5) implies continued contraction in overall growth conditions among our survey participants. Of the items measured (sales, employment, delivery times, inventories, customer inventories), we believe weaker top-line sentiment remains the most compelling indicator in the Index. Only 28% of respondents reported sequential sales improvement for February (36% last month). Additionally, the employment component of the FDI (44.8) ticked lower in February, as 90% of participants noted unchanged or reduced hiring conditions versus the preceding month. Regarding customer inventories, 10% of participants viewed current levels as "too high." We note that during the headier growth period of 2013-2014, this metric averaged 4%.

Pricing unchanged. Point-of-sale pricing for February was unchanged versus December for 66% of survey participants (24% lower). We believe the overall environment for price increases remains notably soft given material demand pressure (declining commodity prices, forex, weaker industrial production) and minimal inflation. Additionally, we view the survey results as largely consistent with recent yr/yr price adjustments from Grainger (-2% in January) and Fastenal (-2% on fasteners last quarter). MSC has proven to be an outlier here, with modest price realization partially attributed to nascent traction on supplier discounts and renewed freight initiatives.

Will Fastenal's February surprise to the upside? Fastenal's January DSR of +3.3% (the first annual expansion since August 2015) was modestly surprising, in our view, given continued weakness among many private fastener distributors. We believe the company should be commended for the early year growth, and note that yr/yr comps become incrementally easier in the coming months. Despite the positives, we have yet to see more substantial signs of fundamental improvement among our private survey participants. Fastenal will report February sales on 3/4.

Overall: we remain cautious. Anecdotal survey commentary points to continued pressure for fastener-centric distributors in H1'16, with the potential for a more substantive reprieve in H2'16. We believe lower energy spending is at the root of weaker sales, with currency woes further compounding the slowdown. Visibility remains notably low for the majority of providers, and we expect added pressure on discretionary spending near-term.

Additional Discussion

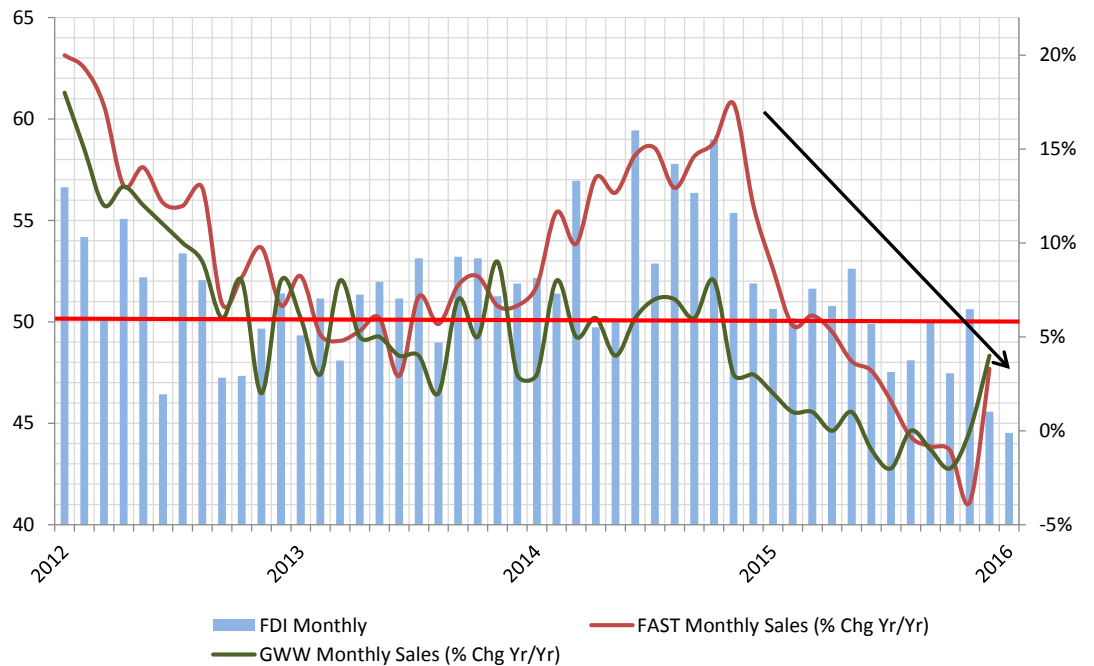
Fastener Distribution Trends; February 2015

FASTENER DISTRIBUTION AT A GLANCE									
February 2015									
	----- Index Values -----						Jan.-->Feb.		
	Feb.	Jan.	Dec.	Nov.	Oct.	Sep.	Change	Direction	
PMI (Manufacturing Sector)	49.5	48.2	48.0	48.4	49.4	50.0	1.3	Declining	
FDI (Fastener Sector)	44.0	50.4	49.4	46.2	49.6	44.6	(6.5)	Declining	
FDI (Seasonally Adjusted)	44.5	45.6	50.6	47.5	50.1	48.1	(1.1)	Declining	
Sales (SA)	36.7	36.6	50.4	37.0	48.3	34.9	0.0	Declining	
(Other Metrics; NSA)									
Employment	44.8	46.4	48.8	50.0	53.1	48.7	(1.6)	Declining	
Supplier Deliveries	51.7	55.4	55.0	59.1	51.6	56.4	(3.6)	Slowing	
Respondent Inventories	69.0	69.6	68.8	68.2	65.6	67.9	(0.7)	Too High	
Customer Inventories	44.8	50.0	50.0	45.5	42.2	43.6	(5.2)	Too Low	
Pricing, month-to-month	43.1	48.2	45.0	42.4	43.8	44.9	(5.1)	Lower	
Pricing, year-to-year	43.1	41.1	50.0	48.5	53.1	51.3	2.0	Lower	
<u>Higher</u> <u>Same</u> <u>Lower</u>									
6-Month Outlook - Feb.	38%	41%	21%						

FDI and Pricing are diffusion indexes. At 50, the performance of the category listed met expectations. A reading above 50 suggests the category outperformed expectations, while a reading below 50 suggests the category underperformed expectations.

Source: BB&TCM, FCH Sourcing Network, Institute for Supply Management

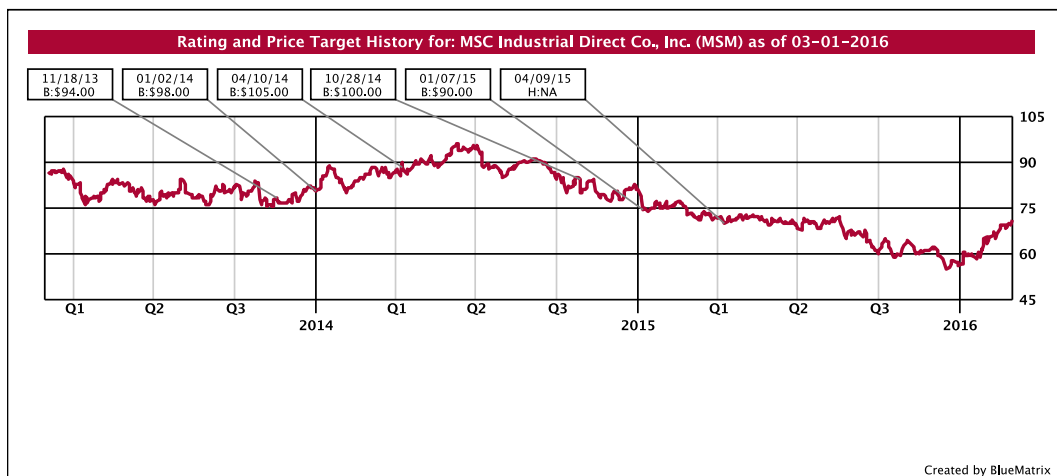
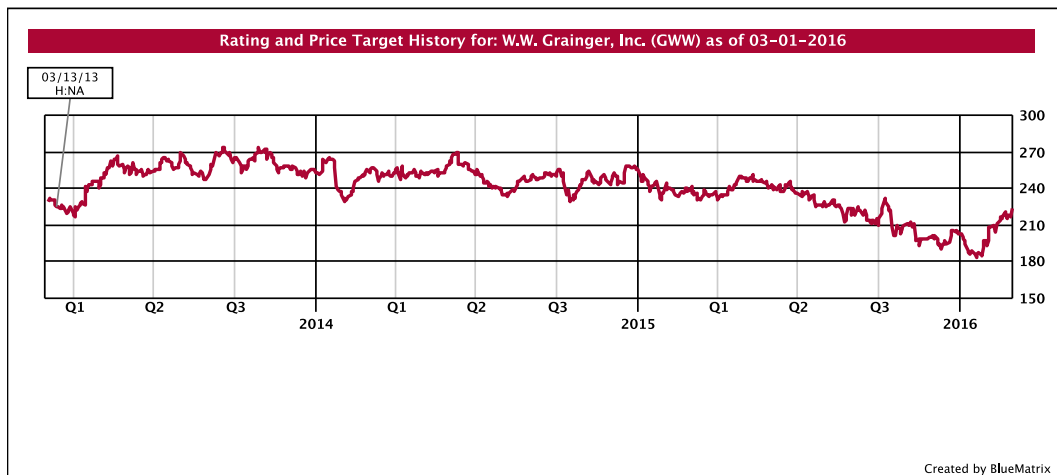
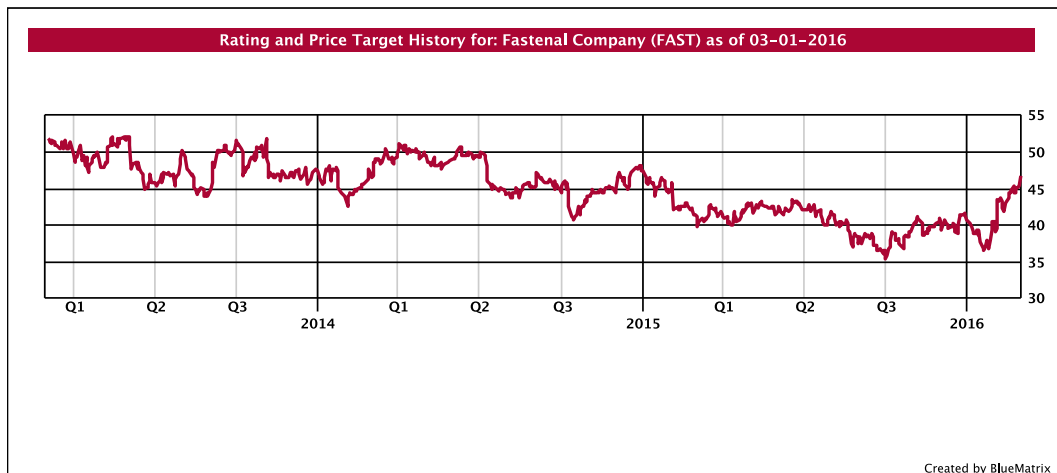
Fastener Distributor Index (FDI); Seasonally Adjusted



Source: BB&TCM, FCH Sourcing Network, company reports

IMPORTANT DISCLOSURES

Price Chart



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Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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