

## COMPANIES MENTIONED

**Fastenal**  
FAST - \$48.61 - Hold

**W.W. Grainger**  
GWW - \$256.97 - Hold

**MSC Industrial Direct**  
MSM - \$88.09 - Buy

## BB&TCM's Fastener Distributor Index: February FDI Defines Healthy Stability

### KEY TAKEAWAY

The big picture did not change in February: an FDI of 51.3 is consistent with levels of December/January and continuing to reflect slow growth. But even if growth is slow, it also looks very stable: the employment outlook is good, pricing is in decent (if unremarkable) shape and inventories are lean. The majority of respondents see things better in six months, again. It may not be an environment in which to expect sizable gains in scale, but it is one well suited to investing in your business.

### KEY POINTS

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

Beginning in January 2014, we began seasonalizing the data. The raw data can show signs of seasonal influence, i.e., January is usually strong coming off the holiday-impacted weaker December. This bias can be adjusted for. It will be refined as more data is available. In the interim, in the attached table we will show the raw and adjusted numbers, but in this text we will refer to the seasonally adjusted figure.

**February FDI: Still seeking better data ... across the board.** February was 51.3, comparable to January (51.5) and December (52.0). So fastener industry activity remains in slow-growth territory, akin to the levels experienced over the last eight months. The ever-volatile Sales component was anything but, coming in at a relatively neutral 48.0, the Employment (60.0) was healthy, and Supplier Deliveries (62.0) continued to lengthen, suggesting a tighter market. This was offset by a second straight month of declines in Customer Inventories (36.0). *Demand growth remains modest, reflected as well in the manufacturing PMI and the metalworking MBI. But supporting data is not bad: employment is rising, supplies are tightening, and in lower customer stocks are seeds for improvement. Conditions define stability.*

**Outlook: Lowering the red flag.** In January, 11% of respondents expected six month conditions to worsen, not bad by any means, but the highest in four months. In February, only 4% envisioned a worsening. Respondents expecting improved conditions were 52.0%; a majority has been positive for the last six months. *January was likely just noise; the dominant sentiment remains that things will get better in the future. There remains little fear.*

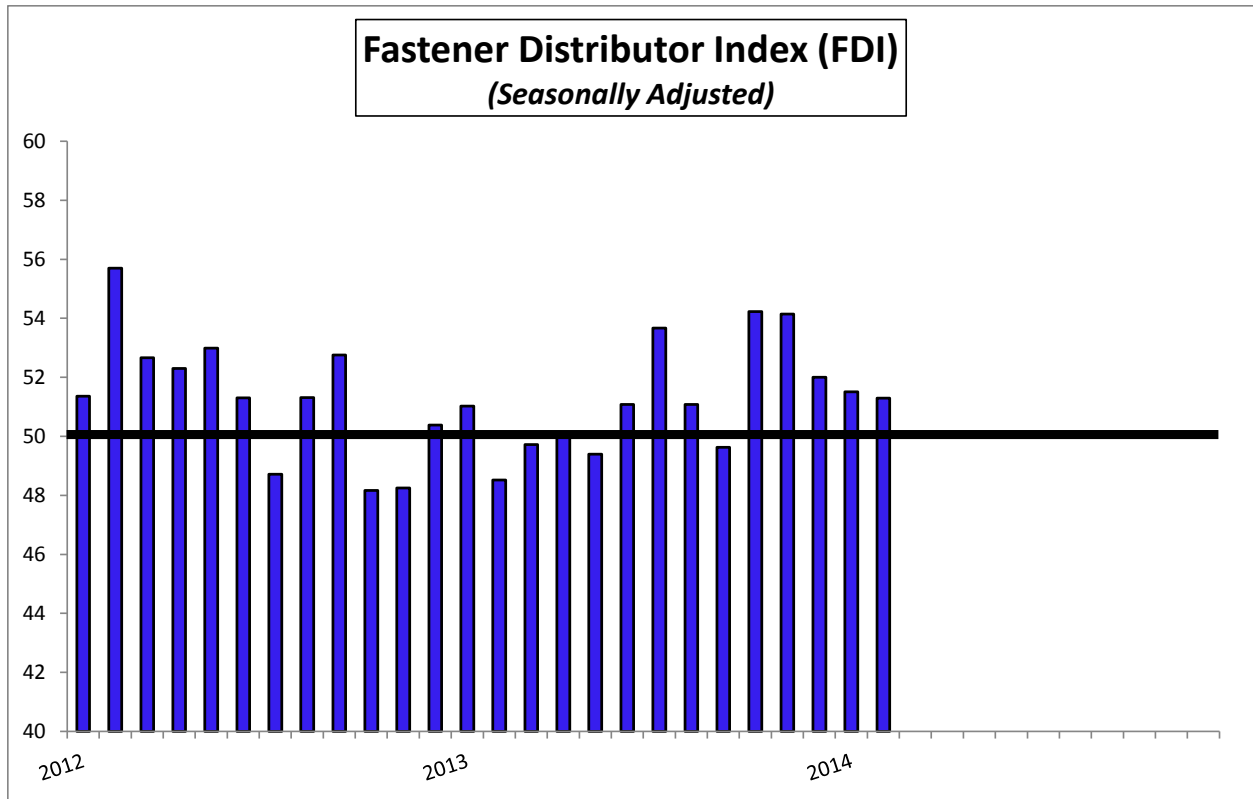
**Price: maybe a little, but nothing to write home about.** In February, it seemed there were still efforts to take price (the sequential reading was 60.0) and annual pricing is up (72.0). Reported annual pricing was 1.5%-2.5%, level with December and January. *We are open to the idea that the data is suggesting there's some pricing in the market to start the year. At the same time, it doesn't seem like much.*

**Survey Question: Is the spate of M&A of late a trend, or a coincidence?** The decision was evenly split: 52% of respondents expected the top tier of distributors to continue to consolidate, while 48% thought recent large deals were opportunistic and not a trend. Even so, the activity has caught the notice of respondents: 72% indicated that concerns over margins, market share, and capital for investment would require some form of adaptation. At the same time, it isn't scaring anyone off: only 8% of distributors were more inclined to sell their business.

FASTENER DISTRIBUTION AT A GLANCE									
February 2014									
	----- Index Values -----							Jan.-->Feb.	
	Feb.	Jan.	Dec.	Nov.	Oct.	Sep.	Aug.	Change	Direction
PMI (Manufacturing Sector)	53.2	51.3	56.5	57.0	56.6	56.0	56.3	1.9	Growing
MBI (Metalworking sector)	53.4	54.2	49.9	50.3	50.7	48.1	44.6	(0.8)	Growing
FDI (Fastener Sector)	51.5	57.4	50.0	51.7	52.7	45.4	50.8	(5.9)	Growing
<b>FDI (Seasonally Adjusted)</b>	<b>51.3</b>	<b>51.5</b>	<b>52.0</b>	<b>54.1</b>	<b>54.2</b>	<b>49.6</b>	<b>51.1</b>	<b>(0.5)</b>	<b>Growing</b>
Sales	48.0	70.3	50.0	43.1	73.2	42.9	58.1	(22.3)	Declining
Employment	60.0	55.4	53.6	56.9	53.6	50.0	50.0	4.6	Growing
Supplier Deliveries	62.0	63.5	53.6	65.5	44.6	52.9	59.7	(1.5)	Slowing
Respondent Inventories	60.0	55.4	57.1	65.5	55.4	62.9	66.1	4.6	Too High
Customer Inventories	36.0	40.5	42.9	41.4	39.3	35.7	35.5	(4.5)	Too Low
Pricing, month-to-month	60.0	62.2	50.0	58.6	55.4	54.3	56.5	(2.2)	Higher
Pricing, year-to-year	72.0	67.6	71.4	65.5	62.5	62.9	62.9	4.4	Higher
		<u>Higher</u>	<u>Same</u>	<u>Lower</u>					
6-Month Outlook - Feb.		52%	44%	4%					

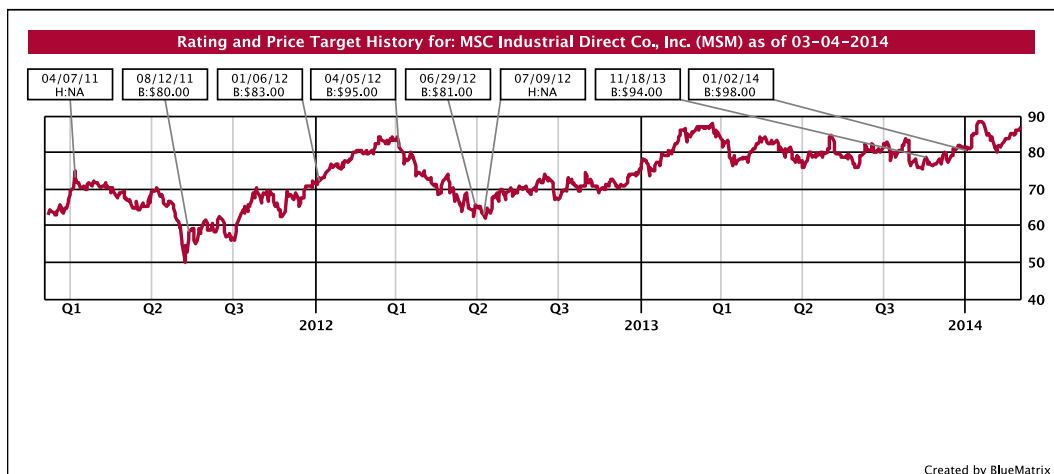
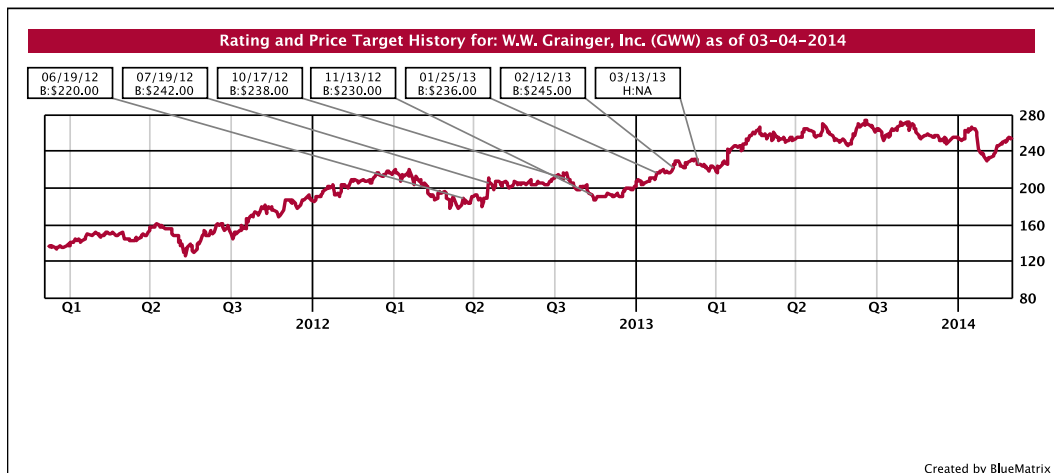
*FDI and Pricing are diffusion indexes. At 50, the performance of the category listed met expectations. A reading above 50 suggests the category outperformed expectations, while a reading below 50 suggests the category underperformed expectations.*

*Sources: BB&T Capital Markets' estimates, FCH Sourcing Network, Institute for Supply Management*



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### Price Chart



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Hold (2)	53.25%	Hold (2)	14.53%
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Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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