BB&T Capital Markets

February 2, 2012

COMMERCIAL AND INDUSTRIAL

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COMPANIES MENTIONED

Fastenal Company
FAST - $47.07 - Hold (2)

MSC Industrial Direct Co., Inc.
MSM - $77.24 - Buy (1)

W.W. Grainger, Inc.
GWW - $193.37 - Hold (2)

INTRODUCING THE FASTENER DISTRIBUTOR INDEX (FDI) - THE STATE OF THE SECTOR IS GOOD IN JANUARY

Key Points

- **Introducing the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors 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 Industrial).

- **January's FDI is 57.3–sales besting expectations, channel inventories remain low.** Of the items measured (sales, employment, delivery times, inventories, customer inventories), two stood out. First, 67.4% of respondents said January was stronger than they expected, while just 9.3% were disappointed. Second, most respondents saw customer inventories as appropriate, but 23.3% felt they were too low while just 2.3% felt they were too high. *2012 has started strongly for fastener distributors. Demand is good–the tenor of additional commentary was of slow, steady growth–and inventories are seen as low, leading to strong sales trends in January*.

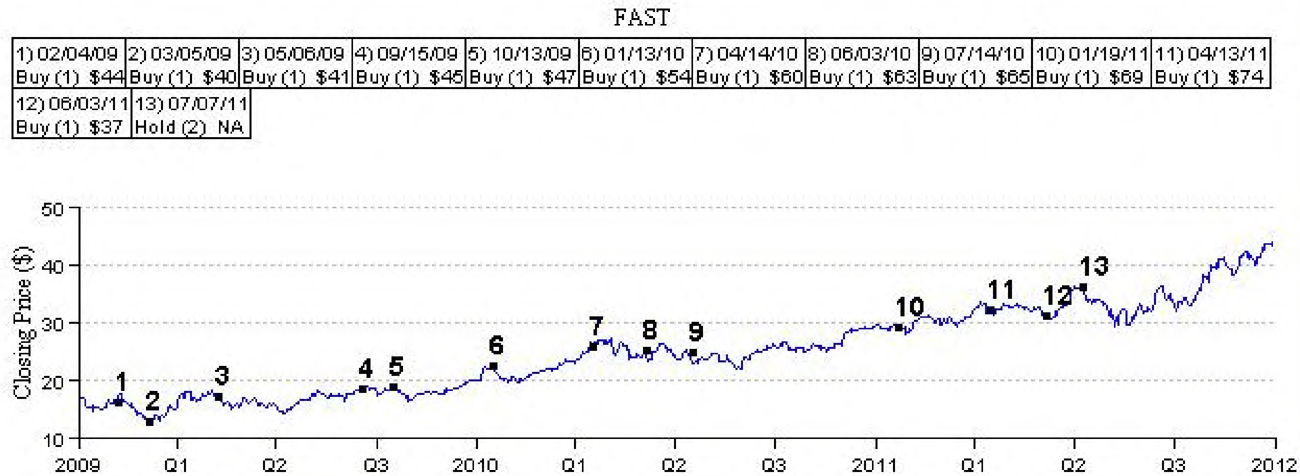
- **But it was the *outlook* that was the strongest reading in the survey**. Asked what they expected activity levels to be in six months in North America, 74.4% thought "higher" while just 4.7% said "lower". *As strong as current conditions are, the most lopsided response was in favor of business conditions being even stronger in mid-2012*.

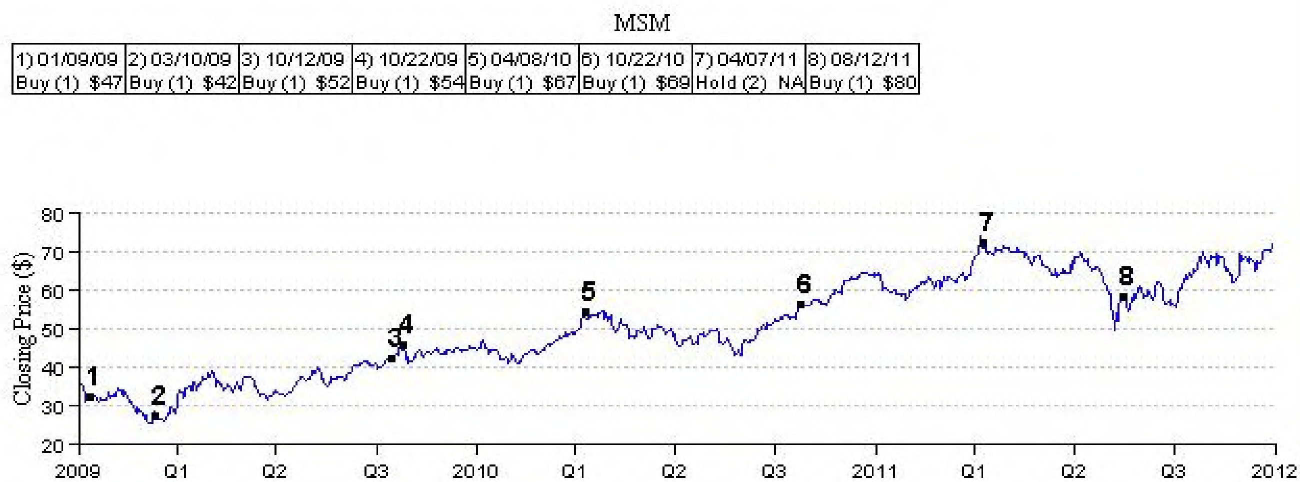
- **Pricing is the model of consistency**. Year-over-year, point-of-sale pricing is generally higher (48.8% of respondents) or "flattish" (32.6%), with the average rate of change being up 3.0%–3.5%. However, this would seem to reflect past actions, as a great number of respondents (76.7%) indicated that month-to-month pricing is unchanged, with the balance split evenly between distributors that increased them in January and those that decreased them. *Currently across the fastener landscape there does not seem to be much impetus to raise prices*.

- **Supplemental question on vending – smaller players are not following, or cannot follow, bigger distributors**. We inquired of respondent's plans as it relates to installing vending machines. The majority have no plans to utilize vending (58.1%), many have no current plans but are open to it in the future (37.2%), and very few had plans to jump into the fray in 2012 (4.7%). *If vending is a viable means of fulfillment to clients–and we think it is–these results suggest smaller distributors are ceding it to larger ones. The emergence of vending would seem likely to generate even greater competitive pressure on smaller distributors*.

- **What does this mean for public distributors**? It is treacherous to project a single month's trend, but the FDI suggests **Fastenal's** January could likely be up ~22%, in line with to slightly above 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 January FDI results should be favorable to 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*.

IMPORTANT DISCLOSURES
Price Chart





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All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	55.2%	Buy (1)	10.6%
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Underweight/Sell (3)	1.2%	Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%	Not Rated (NR)	0.0%
Suspended (SP)	0.0%	Suspended (SP)	0.0%

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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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