



COMPANIES MENTIONED

Fastenal Company

FAST - \$43.09 - Hold (2)

MSC Industrial Direct Co., Inc.

MSM - \$68.84 - Hold (2)

W.W. Grainger, Inc.

GWW - \$205.29 - Buy (1)

BB&TCM'S FASTENER DISTRIBUTOR INDEX (FDI) - JULY CONTINUES TREND OF BROADENING NEGATIVE SENTIMENT

Key Points

- **About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors, conducted in partnership with the FCH Sourcing Network, which aims to provide insights 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 (W.W. Grainger, MSC Industrial).
- **Mirroring the PMI, July's FDI signals contraction (45.1, vs. 51.6 in June).** Building on a June that reflected slowing (51.6, from 56.3 in May), July's FDI fell to 45.1 (**Exhibit 1**, next page). Being below 50 suggests more fastener distributors are experiencing worse-than-expected conditions that point to conditions that are or may soon be contracting. Again, Sales was the highlighter, reflecting far worse than expected performance with a reading of 38.2 (from 42.2 in June). But for the first month since the series started Employment was not up (50.0 in July). It is also notable that Supplier Deliveries (51.3, vs. 60.9 in June) sped up, suggesting that demands on production are moderating. Automotive was clearly a stronger end market. After a stronger start to the year, Construction was mixed in July. *Mirroring many broader economic measures, more fastener distributors saw worse than expected performance in July, representing a risk to the cycle.*
- **Outlook: Pessimism rises sharply, again.** Erosion of optimism in recent months continued in July: 18% of respondents expect higher activity in six months (25% in June), vs. 45% that expect lower (38% in June). *Confidence continued to fail, in our view.*
- **Pricing, at least, remains stable.** Still no sign of fresh price (but who expects it at this point?), but nor is there any sign that pricing is sliding. Respondents with positive annual gains (36.8% of total) still easily outpace those feeling pricing pressure (13.2% of respondents); those seeing annual price as the same has swelled to 50% of the total. All this makes the trend in the annual rate of change unsurprising: point-of-sale pricing was ~1.5% in July, consistent with June but half the rate of growth through the first part of 2011 (~3.0%). *With no impetus to raise prices and past increases anniversarying, annual pricing is drifting toward 0%. But it could be worse.*
- **The July FDI continues to cast a negative pall on distributor results.** Fastenal posted a sluggish looking July, so that would seem consistent with the FDI result. However, Fastenal felt this was due to the July 4 holiday more than further slowing in the economy. The result would seem to suggest the issue is more durable than that. Given that the distributors are highly correlated, we would expect **MSC Industrial** and **Grainger** to have had a tough July as well. However, Grainger, with less production exposure and possibly benefiting from seasonal products (hot temperatures), may prove more resilient than its distribution peers.

Additional Discussion

Exhibit 1. A broader swathe of fastener distributors are experiencing subpar results in June, the first time that has been true in 2012

FASTENER DISTRIBUTION AT A GLANCE									
July 2012									
	Index - July	Index - June	Index - May	Index - Apr.	Index - Mar.	Index - Feb.	Index - Jan.	June --> July Change	Direction
PMI (Overall mfring sector)	49.8	49.7	53.5	54.8	53.4	52.4	54.1	(3.8)	Declining
FDI (Fastener distribution)	45.1	51.6	56.3	53.8	55.9	55.9	57.3	(4.7)	Declining
Sales	38.2	42.2	58.8	55.1	69.4	64.5	79.1	(16.6)	Declining
Employment	50.0	54.7	58.8	59.0	63.9	59.2	58.1	(4.1)	Declining
Supplier Deliveries	51.3	60.9	61.3	59.0	48.6	52.6	52.3	(0.3)	Slowing
Respondent Inventories	57.9	60.9	55.0	62.8	59.7	53.9	58.1	5.9	Too High
Customer Inventories	40.8	48.4	46.3	42.3	41.7	47.4	39.5	2.2	Too Low
Pricing, month-to-month	55.3	57.8	51.3	55.1	61.1	57.9	50.0	6.6	Higher
Pricing, year-to-year	61.8	56.3	65.0	70.5	70.8	71.1	65.1	(8.8)	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>						
6-Month Outlook - July	18%	37%	45%						

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&T Capital Markets' estimates, FCH Sourcing Network, Institute for Supply Management

IMPORTANT DISCLOSURES

Price Chart

FAST

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



MSM

1) 10/12/09	2) 10/22/09	3) 04/08/10	4) 10/22/10	5) 04/07/11	6) 08/12/11	7) 01/06/12	8) 04/05/12	9) 06/29/12
Buy (1) \$52	Buy (1) \$54	Buy (1) \$67	Buy (1) \$69	Hold (2) NA	Buy (1) \$80	Buy (1) \$83	Buy (1) \$95	Buy (1) \$81



GWW

1) 10/12/09	2) 01/27/10	3) 04/15/10	4) 06/19/12
Buy (1) \$117	Buy (1) \$120	Hold (2) NA	Buy (1) \$220



BB&T Capital Markets rating distribution by percentage (as of June 30, 2012):

All companies under coverage:

Buy (1)	53.8%
Hold (2)	45.6%
Underweight/Sell (3)	0.6%
Not Rated (NR)	0.0%

All companies under coverage to which it has provided investment banking services in the previous 12 months:

Buy (1)	10.6%
Hold (2)	6.9%
Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%

Suspended (SP)

0.0%

Suspended (SP)

0.0%

BB&T Capital Markets Ratings System:

The BBTCM Equity Research Department Stock Rating System consists of three separate ratings. The appropriate rating is determined by a stock’s estimated 12-month total return potential, which consists of the percentage price change to the 12-month price target and the current yield on anticipated dividends. A 12-month price target is the analyst’s best estimate of the market price of the stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

The definition of each rating is as follows:

Buy (1): estimated total return potential greater than or equal to 10%

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%

NR: Not Rated

NA: Not Applicable

NM: Not Meaningful

SP: Suspended

Stocks rated Buy (1) are required to have a published 12-month price target, while it is not required on stocks rated Hold (2) and Underweight (3).

BB&T Capital Markets Equity Research Disclosures as of August 6, 2012

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

ADDITIONAL INFORMATION IS AVAILABLE UPON REQUEST

BB&T Capital Markets Equity Research Disclosure Legend

1. BB&T Capital Markets makes a market in the securities of the subject company.
2. The analyst or a member of the analyst's household serves as an officer, director, or advisory board member of the subject company.
3. The analyst or a member of the analyst's household owns shares of the subject company.
4. BB&T Capital Markets has managed or co-managed a public offering of securities for the subject company in the last 12 months.
5. BB&T Capital Markets has received compensation for investment banking services from the subject company in the last 12 months.
6. BB&T Capital Markets expects to receive or intends to seek compensation for investment banking services from the subject company in the next three months.
7. BB&T Capital Markets or its affiliates beneficially own 1% or more of the common stock of the subject company as calculated in accordance with Section 13(d) of the Securities Exchange Act of 1934.
8. The subject company is, or during the past 12 months was, a client of BB&T Capital Markets, which provided non-investment banking, securities-related services to, and received compensation from, the subject company for such services. The analyst or employees of BB&T Capital Markets with the ability to influence the substance of this report knows the foregoing facts.
9. An affiliate of BB&T Capital Markets received compensation from the subject company for products or services other than investment banking services during the past 12 months. The analyst or employees of BB&T Capital Markets with the ability to influence the substance of this report know or have reason to know the foregoing facts.

For valuation methodology and related risk factors on Buy (1)–rated stocks, please refer to the body text of this report or to individual reports on any covered companies referenced in this report.

The analyst(s) principally responsible for preparation of this report received compensation that is based upon many factors, including the firm’s overall investment banking revenue.

Analyst Certification

The analyst(s) principally responsible for the preparation of this research report certify that the views expressed in this research report accurately reflect his/her (their) personal views about the subject security(ies) or issuer(s) and that

his/her (their) compensation was not, is not, or will not be directly or indirectly related to the specific recommendations or views contained in this research report.

OTHER DISCLOSURES

The information and statistics in this report have been obtained from sources we believe are reliable but we do not warrant their accuracy or completeness. We do not undertake to advise the reader as to changes in figures or our views. This is not a solicitation of an order to buy or sell any securities.

BB&T Capital Markets is a division of Scott & Stringfellow, LLC, a registered broker/dealer subsidiary of BB&T Corporation. Member FINRA/SIPC. NOT A DEPOSIT, NOT FDIC INSURED, NOT GUARANTEED BY THE BANK, NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY AND MAY GO DOWN IN VALUE.

The opinions expressed are those of the analyst(s) and not those of BB&T Corporation or its executives.

Important Information Regarding the Distribution of this Report in the United Kingdom

This report has been produced by BB&T Capital Markets and is being distributed in the United Kingdom (UK) by Seymour Pierce Limited (SPL). SPL is authorized and regulated in the UK by the Financial Services Authority to carry out both corporate finance and investment services and is a member of the London Stock Exchange. Although BB&T Capital Markets is under separate ownership from SPL, BB&T Capital Markets has appointed SPL as its exclusive distributor of this research in the UK, and BB&T Capital Markets will be remunerated by SPL by way of a fee. This report has not been approved for purposes of section 21 of the UK's Financial Services and Markets Act 2000, and accordingly is only provided in the UK for the use of persons to whom communications can be made without being so approved, as detailed in the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005.

EQUITY RESEARCH

Director of Research - Vernon C. Plack, CFA (804) 780-3257
Assistant Director of Research - James H. Weber, CFA (804) 782-8773

COMMERCIAL AND INDUSTRIAL

Building Materials

John F. Kasprzak Jr. (804) 782-8715
Paul Betz (804) 782-8746
Teresa T. Nguyen, CFA (804) 782-8745

Commercial Durables

Matthew S. McCall, CFA (804) 780-3582
Jack C. Stimac, CFA (804) 782-8884

Industrial Equipment—Distribution & Components

Holden Lewis (703) 471-3894
John C. Cooper (804) 787-8293

Industrial Equipment—Flow Control

Kevin R. Maczka, CFA (804) 782-8811
Nicholas V. Prendergast (804) 782-2006

Industrial Equipment—Machinery

C. Schon Williams (804) 782-8769
Aaron M. Reeves (804) 780-3237

Specialty Construction/Environmental Services

Adam R. Thalheimer, CFA (804) 344-8377
Charles E. Redding (804) 782-8853

CONSUMER

Agribusiness/Consumer Foods

Heather L. Jones (804) 780-3280
Brett M. Hundley, CFA (804) 782-8753
Harsh Nahata (804) 482-5775

Apparel, Footwear, & Specialty Retail

Scott D. Krasik, CFA (212) 822-8138
Kelly L. Halsor (212) 822-8132

Automotive Aftermarket

Bret D. Jordan, CFA (617) 316-1345
David L. Kelley (617) 316-1344

Food & Drug Merchandising

Andrew P. Wolf, CFA (804) 787-8224
Ashby W. Price (804) 782-8711

Specialty Hardlines Retailers

Anthony C. Chukumba (212) 822-8143
Eric Cohen (212) 822-8140

ENERGY

Coal/Natural Resources

Mark A. Levin (804) 782-8856
Nathan P. Martin (804) 782-8799
Garrett S. Nelson (804) 787-8259

Energy Infrastructure

Robert F. Norfleet III (804) 787-8231
John Ellison (804) 782-8732

FINANCIAL SERVICES

Banks/Thriffs

Cary A. Morris (804) 782-8831
Blair C. Brantley, CFA (804) 727-2604

Specialty Finance

Vernon C. Plack, CFA (804) 780-3257
Peter W. Council, CFA (804) 782-8850

TECHNOLOGY

Aerospace & Defense

F. Carter Leake (804) 482-7167
John McLeod (804) 225-5899

Commercial IT Services/Government Services

George A. Price Jr. (703) 471-3892
Jethro R. Solomon (703) 471-3893

Defense

Jeremy W. Devaney (703) 471-3891

TRANSPORTATION SERVICES

Airfreight & Logistics/Maritime

Kevin W. Sterling, CFA (804) 782-8804
William W. Horner (804) 787-1143
Chip Rowe (804) 782-8787

Railroads

Mark A. Levin (804) 782-8856
Nathan P. Martin (804) 782-8799
Garrett S. Nelson (804) 787-8259

Surface Transportation

Thomas S. Albrecht, CFA (804) 787-8210
John L. Washington (804) 225-5898
A. Rhem Wood Jr. (804) 782-8784

RESEARCH DEPARTMENT

Product Manager

W. Moultrie Dotterer, CFA (804) 780-3279

Supervisory Analysts

Kathleen R. Schneider (732) 567-8766
Denise Bossé Tyznar (804) 782-8880
James H. Weber, CFA (804) 782-8773

Editor

Peggy Myers Walz (804) 782-8785

RESEARCH OFFICES

Richmond—Main Office

901 East Byrd St., Suite 310 (800) 552-7757
Richmond, Virginia 23219

New York—Research, Sales Trading, Sales

1133 Avenue of the Americas, 27th fl (800) 896-9868
New York, New York 10036

Reston—Research

12010 Sunset Hills Road, 7th fl
Reston, Virginia 20190
