



COMPANIES MENTIONED

Fastenal Company

FAST - \$39.03 - Hold (2)

MSC Industrial Direct Co., Inc.

MSM - \$64.74 - Buy (1)

W.W. Grainger, Inc.

GWV - \$190.10 - Buy (1)

BB&TCM'S FASTENER DISTRIBUTOR INDEX (FDI) - JUNE ADDS TO INDUSTRIAL ALARM BELLS

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).
- **June's FDI is 51.6 (vs. 56.3 in May)—and it's probably not that good!** June's FDI took a clear turn for the worse. This was led by Sales, which performed worse than expected with a reading of 42.2 (from 58.8 in May). This led to less robust Employment (growing, but at a decelerating rate for the third straight month). Other elements changed little, but at the margin respondents were more inclined to see their own inventories as too high and were less inclined to see their customers' inventories as too low. Construction was a bit weaker than the broad trend in June; electronics was stronger. Geographically, the east coast again lagged the west. *While the FDI continued to point to growth, there was little positive in the direction or composition of it.*
- **Outlook: Pessimism rises sharply.** We commented on the slow erosion of optimism in recent months. That became a mudslide in June: 25% of respondents expect higher activity in six months (43% in May), vs. 38% that expect lower (10% in May). Through May those leaving the "Higher" camp fled for the "Same" category; in June, they flooded in to the "Lower" section. *Clearly, confidence is beginning to fail, in our view.*
- **Price: not too hot, not too cold.** There has been little fresh pricing in 2012, and that is starting to manifest itself in the data. We are not seeing price cuts, but respondents with positive annual gains are just 28.1% of the total; the "Same" camp is swelling. The annual rate of change in point-of-sale pricing moderated again, to up 1.0%–1.5%. *Past hikes continue to anniversary with little in the way of new hikes coming through.*
- **Supplemental question: it is hard impacting new lines of trade.** Grainger and MSC entered the fastener market in earnest several years ago. We asked respondents what impact the encroachment of these category killers has had. 63% of respondents still do not run into them often and another 16% run into them infrequently but expect them to become more prominent as they climb the learning curve. 18% of respondents see them more often, but find them to be uncompetitive or good competitors. Just 3% feel they have messed up the market. *It is hard to be impactful in new lines of trade. This is why we do not think Fastenal and Grainger getting into metalcutting will adversely affect MSC Industrial any time soon.*
- **If May was difficult for the distributors, it would seem June will be no better.** Some alarm bells got raised in May, but the data was ambiguous. The June FDI, when taken with other indicators, seems to clear things up a bit: demand and confidence seem to be fading. As a result, distributor results in June may continue to look weak. We have already seen that with **MSC Industrial's** preliminary June result. As it relates to **Fastenal**, it would suggest June's growth should be in line with to slightly below May's level (13.1%), would suggest a slight top line miss in Q2'12. Given that the "Big 3" distributors are highly correlated, we would expect this to translate into some slowing in **Grainger's** results as well, though we suspect its end market diversity should serve as some insulation.

IMPORTANT DISCLOSURES

Price Chart

FAST

1) 05/06/09	2) 09/15/09	3) 10/13/09	4) 01/13/10	5) 04/14/10	6) 06/03/10	7) 07/14/10	8) 01/19/11	9) 04/13/11	10) 07/07/11
Buy (1) \$41	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
Buy (1) \$52	Buy (1) \$54	Buy (1) \$67	Buy (1) \$69	Hold (2) NA	Buy (1) \$80	Buy (1) \$83



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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All companies under coverage:

Buy (1)	53.0%
Hold (2)	46.0%
Underweight/Sell (3)	1.0%
Not Rated (NR)	0.0%

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

Buy (1)	11.5%
Hold (2)	3.5%
Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%

Suspended (SP)

0.0%

Suspended (SP)

0.0%

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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).

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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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