



COMPANIES MENTIONED

Fastenal Company

FAST - \$39.51 - Hold (2)

MSC Industrial Direct Co., Inc.

MSM - \$67.81 - Buy (1)

W.W. Grainger, Inc.

GWV - \$182.38 - Hold (2)

BB&TCM'S FASTENER DISTRIBUTOR INDEX (FDI) - MAY IMPROVES OVER APRIL, SO WHAT GIVES WITH FASTENAL?

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).
- **May's FDI is 56.3 (vs. 53.8 in April)–April looks like the outlier.** After a weaker April, May rebounded, returning to healthier Q1'12 levels. Sales bumped up to 58.8 (from 55.1 in April), but this is still below the 60+ showings of Q1'12. Contributors were Supplier Deliveries (61.3 in May, vs. 59.0 in April), which are at the slowest level of the year, and Customer Inventories (46.3 in May, vs. 42.3 in April) which, while still “too low,” seemed to trend toward heavier buying activity. In terms of end markets, automotive and construction fared a bit better than the broad trend (so the latter may be clear of the “pull forward” from the warm winter); no market trended worse. Geographically, the east coast seemed to lag the west coast where demand was concerned. Overall, the makeup of the reading is probably a little softer, still, than Q1'12 given the lower sales component, but we clearly are not trending downward.
- **Outlook responses are less optimistic.** Slow erosion in optimism continued in May: 43% of respondents expect higher activity in six months (62% in April), vs. just 10% that expect lower (10% in April). This is still positive–far more people are optimistic than pessimistic–but the ranks of those expecting “Same” are swelling.
- **Price: if there was a nascent trend, it looks to have fizzled.** Fewer respondents are seeing higher annual pricing (46.2% in May, lowest of the year). This does not mean lower prices; the “same” camp has grown the last two months in both the sequential and annual question. The annual rate of change in point-of-sale pricing moderated slightly again, to up 2%–3%. This is a case of past hikes anniversarying with little in the way of new hikes coming through.
- **Supplemental question: right or wrong, few expect Amazon to impact them.** We asked what impact was expected by the “introduction” of AmazonSupply.com. 31% have not seen Amazon among their competitors in the past, and don't expect to in the future. Another 56% expect Amazon to find a niche, but not one that affects them. 8% have competed with Amazon before and do not expect the competitive dynamics to change. Only 5% of respondents believe Amazon is going to bring increasing pressure to the marketplace. We are not particularly panicky about Amazon's impact, but this does strike us as potentially overly complacent.
- **If May was better, why was Fastenal's May so poor?** We were not surprised the May FDI improved over April; our channel checks and macro data (which suggests **MSC Industrial** will make, not miss, sales in FQ3'12) pointed in that direction. But the question is, why then was **Fastenal's** May DSR so poor? One interpretation is that it reflects weakening NorAm trends, but this would suggest the FDI and our other checks are wrong. It might suggest Fastenal lost share, but we cannot think of a catalyst to cause such an abrupt reversal. It may be a monthly “noise” event, which is why reporting monthly can be treacherous. Our gut says it is the latter. There should be some additional insight to be had when **Grainger** reports its May DSR.

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



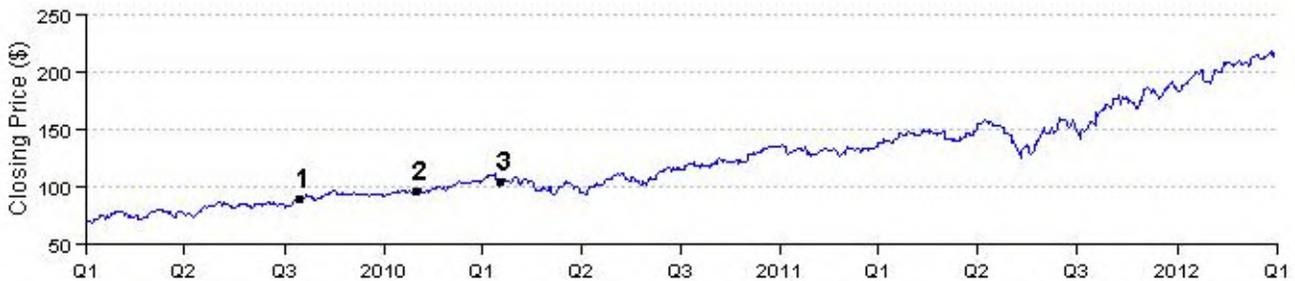
MSM

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



BB&T Capital Markets rating distribution by percentage (as of March 31, 2012):

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

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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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