

HIGHLIGHTED COVERAGE**Fastenal**

FAST - \$37.50 - Hold

W.W. Grainger

GWW - \$218.40 - Hold

MSC Industrial Direct

MSM - \$65.91 - Hold

BB&TCM Fastener Distribution Index (FDI) - August Reflects Tough Environment**KEY TAKEAWAY**

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. For the second consecutive month, the seasonally adjusted August FDI fell below 50 (46.7), which we believe is consistent with the tough current environment for many distributors. Added contraction was driven by weaker sales sentiment and a material decline in perceived customer inventories. We believe the lower customer inventory reading is also consistent with the recent pullback in new orders among national manufacturers. Pricing, employment, and supplier deliveries were largely unchanged, while the long-term outlook for industry sentiment ticked modestly lower. Overall, we believe that fastener distributors continue to face material demand pressure from lower commodity prices, forex, and weaker industrial production. We maintain our cautious outlook on the industry, but will continue to watch for signs of more material long-term improvement.

KEY POINTS

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

Weaker sales trends continue. For August, the FDI fell below 50 (46.7) for the second consecutive month. Of the items measured (sales, employment, delivery times, inventories, customer inventories), we believe weaker top-line sentiment remains the most directionally accurate indicator in the Index. Nearly 68% of total respondents reported sequentially flat or lower sales for August. In our view, the results are consistent with sluggish recent growth from Fastenal (+1.6% yr/yr in August versus a five year average of +13.2%), Grainger (-1% in July versus FY'15 guide of 0%-2%), and MSC (company estimated +2.2% in June versus +7.6% last year).

Reduced customer inventories also impact Index results. The sequential Index decline was also partially due to 45% of participants reporting customer inventories as "too low" (21% last month). We believe the decline reflects tightening inventories among manufacturers and reduced overall end market demand. The reading is also consistent, in our view, with materially slower recent growth in the *ISM New Order Index*, which totaled 51.7 in August, versus 56.5 last month (*ISM*).

Pricing environment largely stagnant. Point-of-sale pricing for August was unchanged versus July for 73% of survey participants. We believe the overall environment for price increases remains notably soft given material demand pressure (declining commodity prices, forex, weaker industrial production) and minimal inflation. Additionally, we view the survey results as largely consistent with recent Grainger price adjustments (-1% in Q2'15) and FY'15 guidance (also -1%). Monthly data for employment and supplier deliveries was also largely unchanged versus July.

What does this mean for public distributors? In our view, the data reflects overall weakness within the domestic economy, and 2015 has proven difficult thus far for many industrial distributors. We believe lower energy spending is at the root of weaker sales, with currency woes further compounding the slowdown. To the positive, recent conversations with private industry contacts suggest a modest uptick in manufacturing demand for the latter portion of FY'15 (45% of Index respondents expect stronger conditions six months from now). We will continue to watch for signs of more material long-term improvement. For now, however, we expect announced August sales for Grainger (9/14) to reflect ongoing weakness in the overall environment.

Additional Discussion

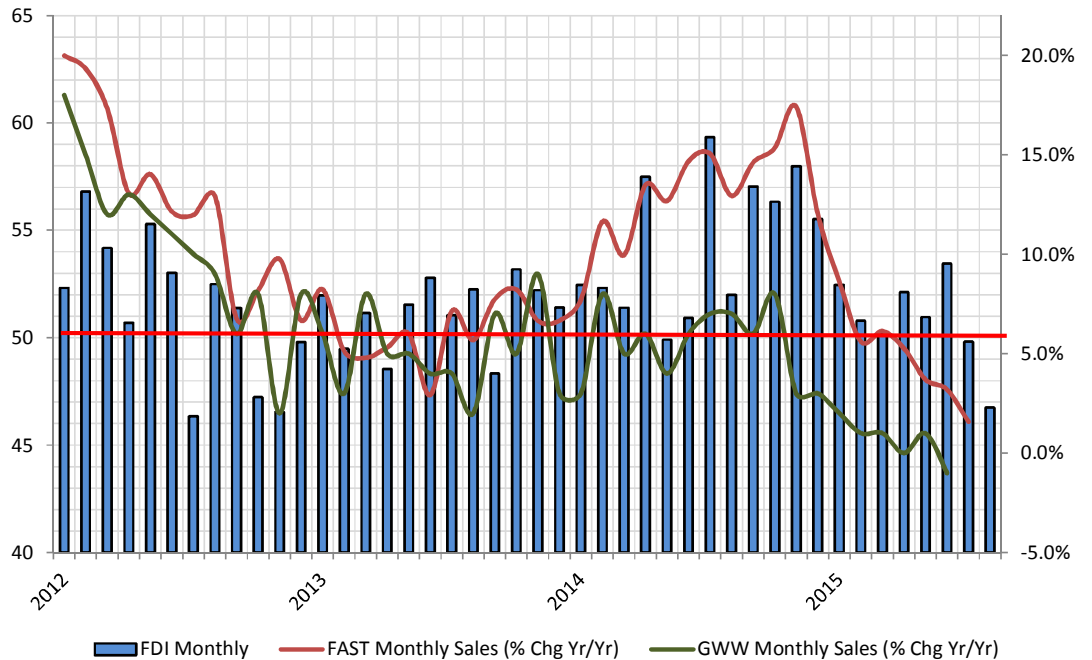
Fastener Distribution Trends; August 2015

FASTENER DISTRIBUTION AT A GLANCE									
August 2015									
	----- Index Values -----						Jul.-->Aug.		
	Aug.	Jul.	Jun.	May	Apr.	Mar.	Change	Direction	
PMI (Manufacturing Sector)	51.1	52.7	53.5	52.8	51.5	51.5	(1.6)	Growing	
FDI (Fastener Sector)	45.5	48.4	52.0	51.9	55.4	51.8	(3.0)	Declining	
FDI (Seasonally Adjusted)	46.7	49.8	53.4	51.0	52.1	50.2	(3.1)	Declining	
Sales (SA)	45.3	35.4	68.7	53.3	58.3	48.6	9.9	Declining	
(Other Metrics; NSA)									
Employment	52.3	52.1	60.5	53.7	54.8	53.6	0.2	Growing	
Supplier Deliveries	56.8	58.3	57.9	66.7	57.1	66.1	(1.5)	Slowing	
Respondent Inventories	70.5	64.6	55.3	57.4	50.0	57.1	5.9	Too High	
Customer Inventories	29.5	50.0	34.2	33.3	40.5	33.9	(20.5)	Too Low	
Pricing, month-to-month	45.5	45.8	55.3	50.0	54.8	50.0	(0.4)	Lower	
Pricing, year-to-year	54.5	58.3	71.1	68.5	83.3	62.5	(3.8)	Higher	
Higher Same Lower									
6-Month Outlook - August	45%	27%	27%						

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&TCM, FCH Sourcing Network, Institute for Supply Management

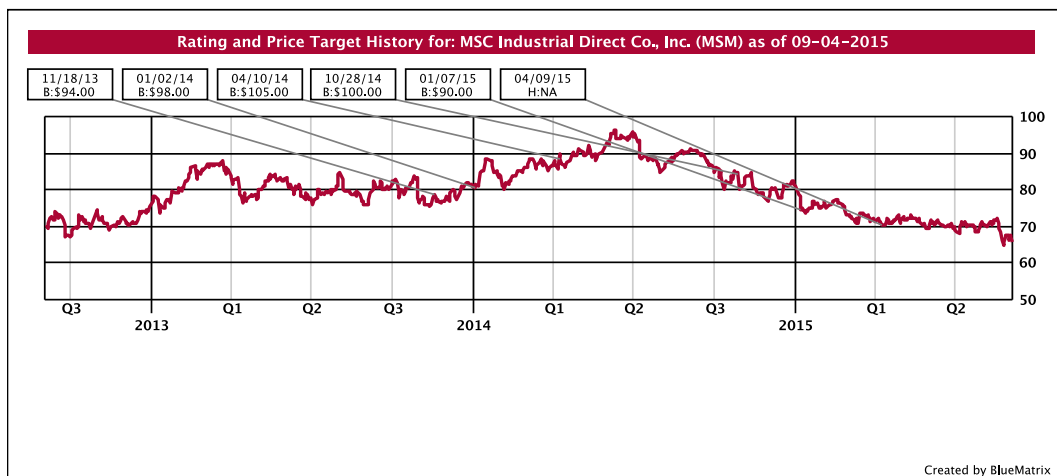
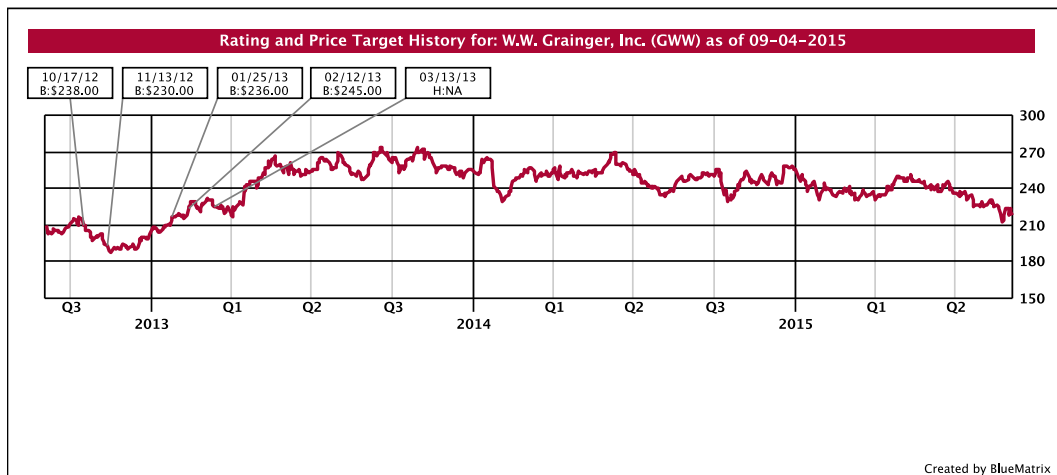
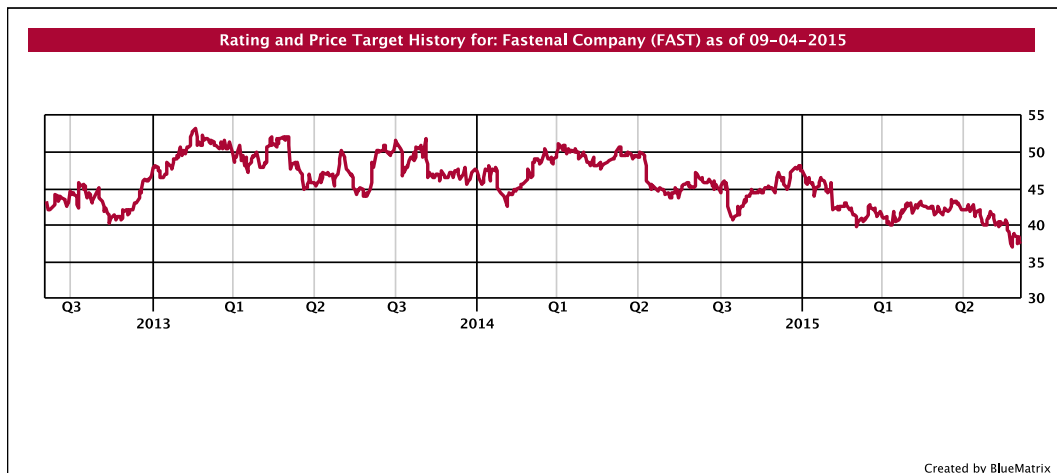
Fastener Distributor Index (FDI); Seasonally Adjusted



Source: BB&TCM, FCH Sourcing Network

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)	46.51%	Buy (1)	25.71%
Hold (2)	53.16%	Hold (2)	20.00%
Underweight/Sell (3)	0.33%	Underweight/Sell (3)	0.00%
Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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The definition of each rating is as follows:

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