HIGHLIGHTED COVERAGE

Fastenal
FAST - $41.08 - Hold

W.W. Grainger
GWW - $212.19 - Hold

MSC Industrial Direct
MSM - $63.61 - Hold

BB&T Capital Markets

Industrial Distribution

November 9, 2015

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BB&TCM Fastener Distributor Index (FDI) - Showing Sequential Signs of Life

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 October, a seasonally-adjusted headline reading of 50.1 marked the first sequential improvement for the index since June. Contributing to the positive seasonally-adjusted print were sequential gains in both sales and employment sentiment, which we believe are consistent with anecdotal commentary noting the inherently weak conditions faced among many distributors in September. Pricing and customer/respondent inventories were largely unchanged. While the sequential improvement is encouraging, we remain notably cautious on the overall environment for fastener distribution. We would also note that the FDI’s six-month outlook for improving industry sentiment has now slipped to a putrid 28%. We will continue to watch for more material signs of 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).

October sales sentiment improves versus September. For October, the FDI returned to positive territory (50.1) for the first time in three months. 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. 63% of total respondents reported sequentially flat or improving sales for October. We believe the nascent improvement is modestly encouraging, albeit not particularly surprising given the weak September sales print. Overall, the majority of fastener distributors continue to see material sales pressure across many diverse end markets. Last week, Fastenal reported an October DSR reduction of 80 bps yr/yr, which included added declines in manufacturing (-70 bps) and non-res construction (-470 bps).

Employment also ticks higher. Of additional note, the October employment index (53.1) showed a slight improvement in hiring sentiment versus the prior month. While current overall hiring remains tepid for many fastener distributors, the increase versus September is modestly encouraging, in our view. Fastenal added a more substantial 548 heads on an absolute basis in the month, marking the company’s second consecutive monthly expansion following August contraction. Fastenal management has indicated that it expects to add another 50 net new stores in FY’16.

Pricing largely stagnant. Point-of-sale pricing for October was unchanged versus September for 69% 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 yr/yr price adjustments from Grainger (-1% in Q3’15) and Fastenal (-2% on fasteners).

Six-month outlook still notably cautious. While the sequential uptick in sales is encouraging, overall sentiment continues to reflect ongoing 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. Recent conversations with private industry contacts suggest continued pressure on manufacturing demand for the latter portion of FY’15 (72% of FDI respondents now expect flat-to-weaker conditions six months from now). We will continue to watch for signs of more material long-term improvement. For now, however, we expect forthcoming sales prints (Grainger 11/12) to reflect ongoing weakness in the overall industrial environment.

For required disclosures, including analyst certification, please refer to the important disclosures section on page 3 of this report.
Additional Discussion
Fastener Distribution Trends; October 2015

<table>
<thead>
<tr>
<th>FASTENER DISTRIBUTION AT A GLANCE</th>
<th>October 2015</th>
<th>Sep. --&gt; Oct.</th>
<th>Change</th>
<th>Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>PMI (Manufacturing Sector)</td>
<td>50.1</td>
<td>50.2</td>
<td>51.1</td>
<td>52.7</td>
</tr>
<tr>
<td>FDI (Fastener Sector)</td>
<td>49.6</td>
<td>44.6</td>
<td>45.5</td>
<td>48.4</td>
</tr>
<tr>
<td>FDI (Seasonally Adjusted)</td>
<td>50.1</td>
<td>47.5</td>
<td>46.7</td>
<td>49.8</td>
</tr>
<tr>
<td>Sales (SA)</td>
<td>48.4</td>
<td>32.4</td>
<td>45.3</td>
<td>35.4</td>
</tr>
</tbody>
</table>

(Other Metrics; NSA)

| Employment                        | 53.1 | 48.7 | 52.3 | 52.1 | 60.5 | 53.7 | 4.4    | Growing          |
| Supplier Deliveries               | 51.6 | 56.4 | 56.8 | 58.3 | 57.9 | 66.7 | (4.8)  | Slowing          |
| Respondent Inventories            | 65.6 | 67.9 | 70.5 | 64.6 | 55.3 | 57.4 | (2.3)  | Too High         |
| Customer Inventories              | 42.2 | 43.6 | 29.5 | 50.0 | 34.2 | 33.3 | (1.4)  | Too Low          |
| Pricing, month-to-month           | 43.8 | 44.9 | 45.5 | 45.8 | 55.3 | 50.0 | (1.1)  | Lower            |
| Pricing, year-to-year             | 53.1 | 51.3 | 54.5 | 58.3 | 71.1 | 68.5 | 1.8    | Higher           |

Higher Same Lower
6-Month Outlook - Oct. 28% 44% 28%

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, company reports
**IMPORTANT DISCLOSURES**

**Price Chart**

### BB&T Capital Markets rating distribution by percentage (as of November 9, 2015):

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
<th>Rating</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy (1)</td>
<td>44.95%</td>
<td>Buy (1)</td>
<td>28.26%</td>
</tr>
<tr>
<td>Hold (2)</td>
<td>54.07%</td>
<td>Hold (2)</td>
<td>18.67%</td>
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<tr>
<td>Underweight/Sell (3)</td>
<td>0.98%</td>
<td>Underweight/Sell (3)</td>
<td>0.00%</td>
</tr>
<tr>
<td>Not Rated (NR)</td>
<td>0.00%</td>
<td>Not Rated (NR)</td>
<td>0.00%</td>
</tr>
</tbody>
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**Rating and Price Target History for: Fastenal Company (FAST) as of 11-06-2015**

**Rating and Price Target History for: W.W. Grainger, Inc. (GWW) as of 11-06-2015**

**Rating and Price Target History for: MSC Industrial Direct Co., Inc. (MSM) as of 11-06-2015**
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