

HIGHLIGHTED COVERAGE**Fastenal**

FAST - \$41.08 - Hold

W.W. Grainger

GWW - \$212.19 - Hold

MSC Industrial Direct

MSM - \$63.61 - Hold

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.

Additional Discussion

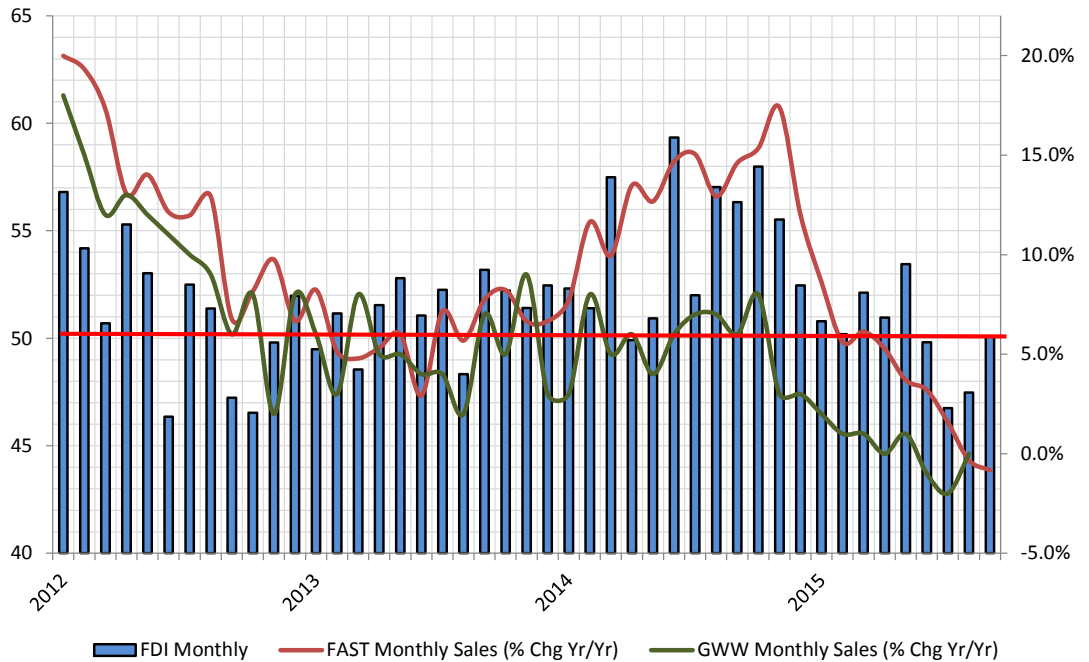
Fastener Distribution Trends; October 2015

FASTENER DISTRIBUTION AT A GLANCE									
October 2015									
	----- Index Values -----						Sep.-->Oct.		
	Oct.	Sep.	Aug.	Jul.	Jun.	May	Change	Direction	
PMI (Manufacturing Sector)	50.1	50.2	51.1	52.7	53.5	52.8	(0.1)	Growing	
FDI (Fastener Sector)	49.6	44.6	45.5	48.4	52.0	51.9	5.1	Declining	
FDI (Seasonally Adjusted)	50.1	47.5	46.7	49.8	53.4	51.0	2.6	Growing	
Sales (SA)	48.4	32.4	45.3	35.4	68.7	53.3	16.0	Declining	
(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	
<u>Higher</u> <u>Same</u> <u>Lower</u>									
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

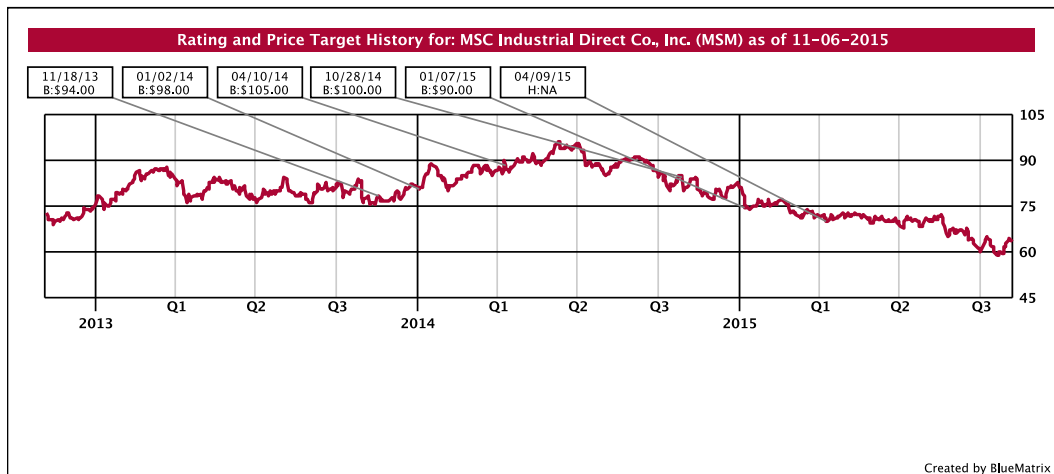
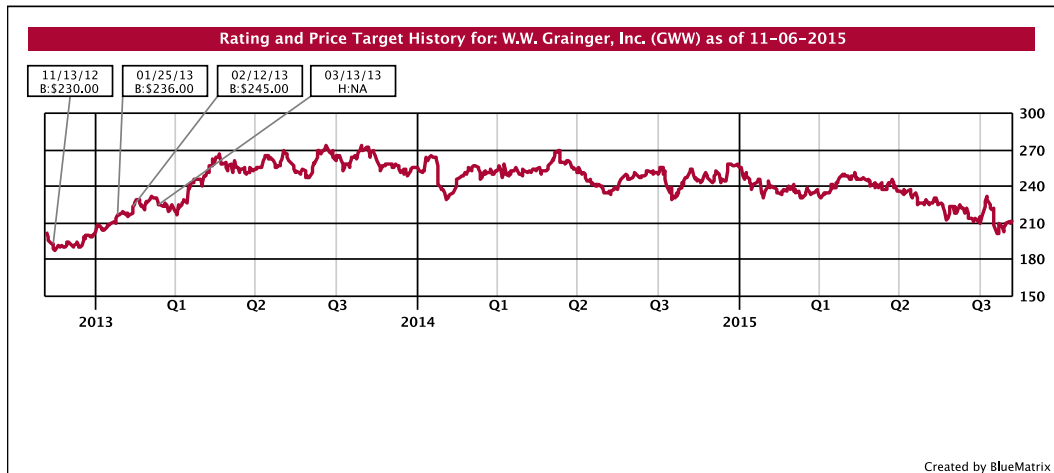
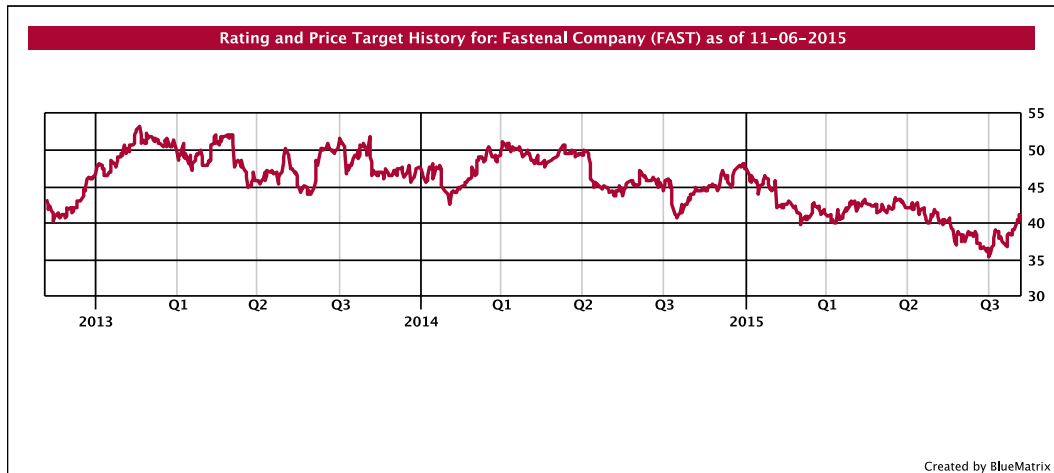
Fastener Distributor Index (FDI); Seasonally Adjusted



Source: BB&TCM, FCH Sourcing Network, company reports

IMPORTANT DISCLOSURES

Price Chart



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Hold (2)	54.07%	Hold (2)	18.67%
Underweight/Sell (3)	0.98%	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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