

HIGHLIGHTED COVERAGE

Fastenal
FAST - \$40.14 - Hold

W.W. Grainger
GWW - \$200.86 - Hold

MSC Industrial Direct
MSM - \$62.21 - Hold

BB&TCM Fastener Distributor Index (FDI) - Tough Sledding for November**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 November, a seasonally-adjusted headline reading of 46.7 marked a return to sub-50 territory for the FDI. Contributing to the lower seasonally-adjusted print was a material sequential decline in sales sentiment (seasonally adjusted 34.8), which we believe is consistent with tough conditions faced by many distributors in November. Additionally, annual pricing sentiment fell below 50 for the first time in the brief history of the Index. The lower FDI score is consistent, in our view, with last week's announced ISM/PMI for November (48.6), which fell below 50 for the first time since 2012, and was the lowest reading in over six years. We remain notably cautious on the overall environment for fastener distribution, and we note that less than one-half of FDI survey participants expect materially stronger conditions six-months from now.

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**).

November sales sentiment further erodes. For November, the FDI returned to negative territory (46.7). 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. 61% of total respondents reported sequentially declining sales for November, with an additional 18% seeing no improvement. One survey participant noted, "November was our worst month since (the) 2008-2009 crash." Overall, the majority of fastener distributors continue to see material sales pressure across many diverse end markets. Last week, Fastenal reported a November DSR of -110 bps yr/yr, which included added declines in manufacturing (-160 bps) and non-res construction (-510 bps).

Employment largely unchanged. The employment component of the FDI (50.0) ticked slightly lower in November, as 91% of participants noted unchanged or reduced hiring versus the preceding month. We believe the tepid sentiment reflects limited visibility for many industry participants, particularly those more directly exposed to energy capex, lower commodity pricing, and currency. To the positive, Fastenal continues to add staffing despite the difficult environment. Last week the company announced a November increase of 257 heads on an absolute basis, putting yr/yr growth at +12.5% (+11.2% in October).

Pricing remains tepid. Point-of-sale pricing for November was unchanged versus October for 61% of survey participants (27% lower). 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 cautious. Overall sentiment among FDI participants continues to reflect ongoing weakness within the domestic economy. 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 into early FY'16, and less than one-half of FDI survey participants expect materially improved activity six-months from now. Despite the largely negative outlook, monthly sales should benefit from easier comps in H2'16, in our view. Early guidance from Grainger implies steady sequential sales improvement in 2016, albeit still lower on a yr/yr basis (-1% at the midpoint). The company reports November sales data on 12/11.

Additional Discussion

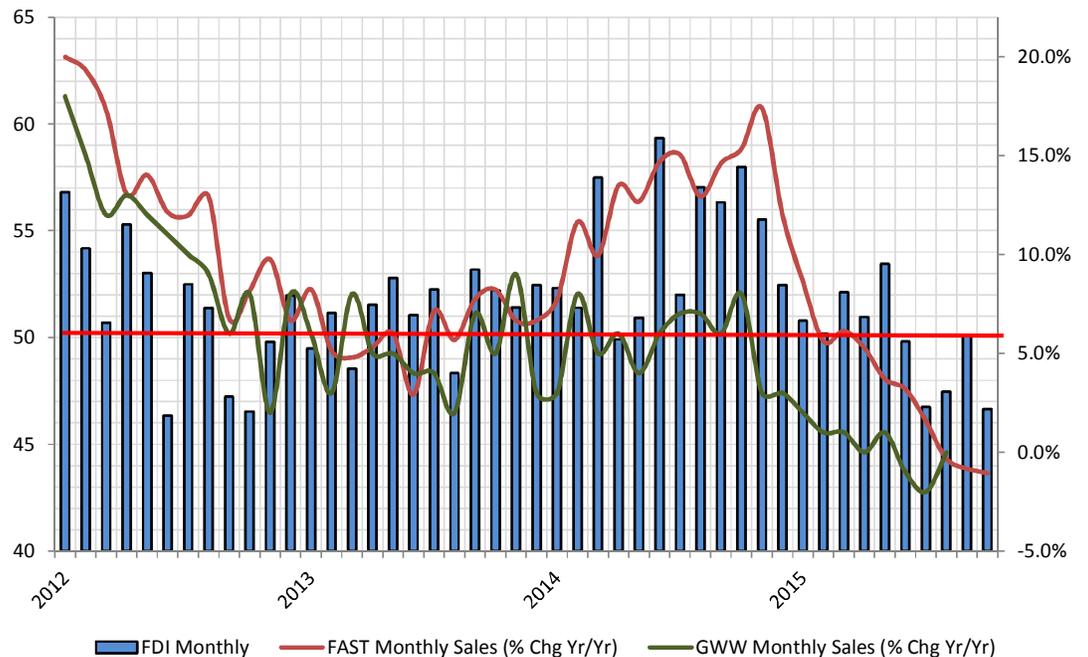
Fastener Distribution Trends; October 2015

FASTENER DISTRIBUTION AT A GLANCE									
November 2015									
	----- Index Values -----						Oct.-->Nov.		
	Nov.	Oct.	Sep.	Aug.	Jul.	Jun.	Change	Direction	
PMI (Manufacturing Sector)	48.6	50.1	50.2	51.1	52.7	53.5	(1.5)	Declining	
FDI (Fastener Sector)	46.2	49.6	44.6	45.5	48.4	52.0	(3.4)	Declining	
FDI (Seasonally Adjusted)	46.7	50.1	47.5	46.7	49.8	53.4	(3.4)	Declining	
Sales (SA)	34.8	48.4	32.4	45.3	35.4	68.7	(13.6)	Declining	
(Other Metrics; NSA)									
Employment	50.0	53.1	48.7	52.3	52.1	60.5	(3.1)	Declining	
Supplier Deliveries	59.1	51.6	56.4	56.8	58.3	57.9	7.5	Slowing	
Respondent Inventories	68.2	65.6	67.9	70.5	64.6	55.3	2.6	Too High	
Customer Inventories	45.5	42.2	43.6	29.5	50.0	34.2	3.3	Too Low	
Pricing, month-to-month	42.4	43.8	44.9	45.5	45.8	55.3	(1.3)	Lower	
Pricing, year-to-year	48.5	53.1	51.3	54.5	58.3	71.1	(4.6)	Lower	
<u>Higher</u> <u>Same</u> <u>Lower</u>									
6-Month Outlook - Nov.	48%	27%	24%						

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

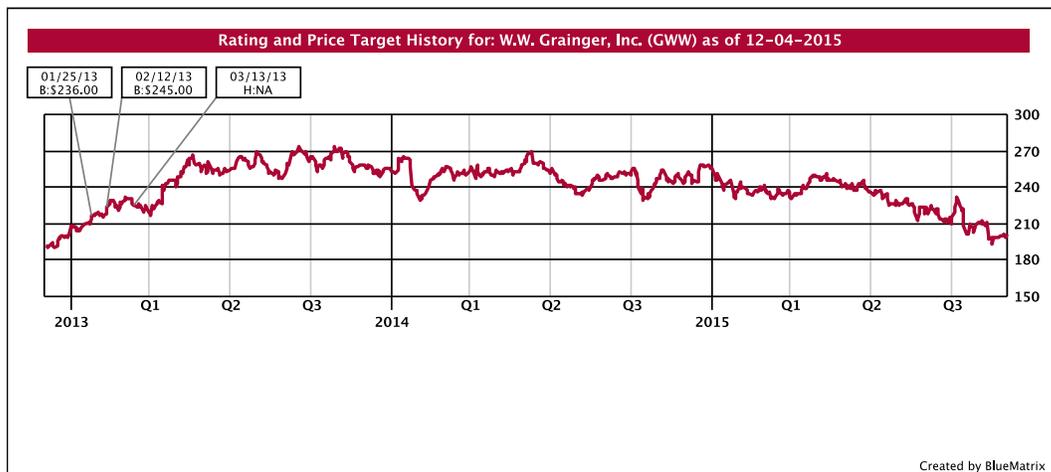
Fastener Distributor Index (FDI); Seasonally Adjusted



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

IMPORTANT DISCLOSURES

Price Chart



BB&T Capital Markets rating distribution by percentage (as of December 7, 2015):

All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	45.40%	Buy (1)	28.10%
Hold (2)	51.93%	Hold (2)	19.43%
Underweight/Sell (3)	2.67%	Underweight/Sell (3)	22.22%
Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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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%

B: Buy **H:** Hold **UW:** Underweight **NR:** Not Rated **NA:** Not Applicable **NM:** Not Meaningful **SP:** Suspended

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