HIGHLIGHTED COVERAGE

<table>
<thead>
<tr>
<th>Stock</th>
<th>Price</th>
<th>Rating</th>
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<tbody>
<tr>
<td>Fastenal</td>
<td>FAST -</td>
<td>$40.14</td>
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<tr>
<td>W.W. Grainger</td>
<td>GWW</td>
<td>$200.86</td>
</tr>
<tr>
<td>MSC Industrial Direct</td>
<td>MSM</td>
<td>$62.21</td>
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**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.”

**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**

<table>
<thead>
<tr>
<th>FASTENER DISTRIBUTION AT A GLANCE</th>
<th>Index Values</th>
<th>Oct.→Nov.</th>
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<td>November 2015</td>
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<td>Change</td>
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<td>50.1</td>
<td>50.2</td>
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<td>52.7</td>
<td>53.5</td>
<td>(1.5)</td>
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<td>48.4</td>
<td>52.0</td>
<td>(3.4)</td>
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<td>49.8</td>
<td>53.4</td>
<td>(3.4)</td>
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<td>68.7</td>
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(Other Metrics; NSA)

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<td>57.9</td>
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<td>67.9</td>
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<tbody>
<tr>
<td></td>
<td>42.4</td>
<td>43.8</td>
<td>44.9</td>
<td>45.5</td>
<td>45.8</td>
<td>55.3</td>
<td>(1.3)</td>
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<tbody>
<tr>
<td></td>
<td>48.5</td>
<td>53.1</td>
<td>51.3</td>
<td>54.5</td>
<td>58.3</td>
<td>71.1</td>
<td>(4.6)</td>
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<table>
<thead>
<tr>
<th>6-Month Outlook - Nov.</th>
<th>Higher</th>
<th>Same</th>
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<tbody>
<tr>
<td></td>
<td>48%</td>
<td>27%</td>
<td>24%</td>
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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

Rating and Price Target History for: Fastenal Company (FAST) as of 12-04-2015

Rating and Price Target History for: W.W. Grainger, Inc. (GWW) as of 12-04-2015

Rating and Price Target History for: MSC Industrial Direct Co., Inc. (MSM) as of 12-04-2015

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%
BB&T Capital Markets Ratings System:
The BB&T Capital Markets Equity Research Department Stock Rating System consists of three separate ratings. The appropriate rating is determined by a stock’s estimated 12-month total return potential, which consists of the percentage price change to the 12-month price target and the current yield on anticipated dividends. A 12-month price target is the analyst’s best estimate of the market price of the stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

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

Stocks rated Buy (1) are required to have a published 12-month price target, while it is not required on stocks rated Hold (2) and Underweight (3).

The BB&T Capital Markets Equity Research Department REIT Rating System is determined by a stock’s total return potential relative to our current REIT sector return expectations. Our stock “relative rating” system may be explained as follows:
Buy: If the BB&TCM price target for the common stock implies a total return (price appreciation plus dividend yield) approximately 2.5 percentage points in excess of the midpoint of our REIT sector forecasts over the next 12 months, we rate the security Buy.
Hold: If the BB&TCM price target for the common stock implies a total return (price appreciation plus dividend yield) that lies within 2.5 percentage points of our REIT sector FTM forecast, either above or below, we rate the security Hold.
Underweight: If the BB&TCM price target for the common stock implies a total return (price appreciation plus dividend yield) approximately 2.5 percentage points below the midpoint of our REIT sector FTM forecast, we rate the security Underweight.

Investors should note that the percentage point spread and the midpoint of total sector returns used for our rating will likely change on occasion, based on shifts in our forecasted risk and return environment for the sector overall. The BB&TCM REIT team will revisit risk and return forecasts from time to time as macroeconomic events and relative value shifts unfold. Philosophically, we intend to maintain our distribution of Buy, Hold, and Underweight ratings regardless of the total sector return expectations, meaning: our stock-specific ratings will remain relative to the REIT sector, not an absolute total return basis.

BB&T Capital Markets Equity Research Disclosures as of December 7, 2015
BB&T Capital Markets makes a market in the securities of Fastenal Company, W.W. Grainger, Inc. and MSC Industrial Direct Co., Inc.
BB&T Capital Markets expects to receive or intends to seek compensation for investment banking services from Fastenal Company, W.W. Grainger, Inc. and MSC Industrial Direct Co., Inc. in the next three months.
An affiliate of BB&T Capital Markets received compensation from W.W. Grainger, Inc. for products or services other than investment banking services during the past 12 months. The analyst or employees of BB&T Capital Markets with the ability to influence the substance of this report know or have reason to know the foregoing facts.

ADDITIONAL INFORMATION AVAILABLE UPON REQUEST
For valuation methodology and related risk factors on Buy (1)–rated stocks, please refer to the body text of this report or to individual reports on any covered companies referenced in this report.
The analyst(s) principally responsible for preparation of this report received compensation that is based upon many factors, including the firm’s overall investment banking revenue.

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