BB&T Capital Markets

Industrial Distribution

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HIGHLIGHTED COVERAGE

<table>
<thead>
<tr>
<th>Company</th>
<th>Stock Symbol</th>
<th>Price</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fastenal</td>
<td>FAST</td>
<td>$38.80</td>
<td>Hold</td>
</tr>
<tr>
<td>W.W. Grainger</td>
<td>GWW</td>
<td>$194.79</td>
<td>Hold</td>
</tr>
<tr>
<td>MSC Industrial</td>
<td>MSM</td>
<td>$59.19</td>
<td>Hold</td>
</tr>
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</table>

BB&TCM Fastener Distributor Index (FDI): Uptick Implied; We Remain Cautious

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. A seasonally adjusted headline reading of 50.8 for December implies marginal sequential expansion over a notably weak November. Despite the positive movement, we note that just 35% of survey respondents cited improving sales during the period, and less than one-half expect stronger conditions six months from now. Perhaps more importantly, anecdotal color from industry participants remains dour; in our view, which we believe implies added weakness for domestic manufacturing near-term. Our outlook for fastener distributors is notably cautious, although we will watch closely for additional signs of fundamental stabilization.

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).

FDI ticks modestly higher. The December FDI (50.8) implies a slight uptick in overall conditions versus a notably weak November. The implied sequential improvement is consistent with modestly improved late year sales reported last week by MSC (December sales -1.4% versus -6.1% in November), although the company did benefit from ~two extra days of favorable seasonal timing (~250 bps impact). To the positive, MSC noted no major negative impact from weather in the quarter, and management characterized late year shutdown activity as largely similar to last year. Based on our conversations with industry contacts, we believe recent flooding (particularly TX, LA) could have a more material impact on near-term results for select manufacturers and distributors.

Although sales, industry anecdotes remain largely negative. While we view the sequential improvement as a nascent positive, overwhelming anecdotal evidence points to continued systemic weakness within domestic manufacturing. 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. Only 35% of respondents reported sequential improvement in sales for December. One participant noted, "This was our weakest month in terms of gross revenue in the past 10 years- we set a new record low, even lower than 2009." Overall, the majority of fastener distributors continue to see material sales pressure across many diverse end markets. The employment component of the FDI (48.8) ticked slightly lower in December, as 90% of participants noted unchanged or reduced hiring (seasonally adjusted) versus the preceding month.

Pricing still tepid, offsets taking hold for MSC. Point-of-sale pricing for December was unchanged versus November for 80% of survey participants (15% 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 year/yr price adjustments from Grainger (-1% in Q3’15) and Fastenal (-2% on fasteners). MSC has proven to be an outlier here, with modest price realization partially attributed to nascent traction on supplier discounts and renewed freight initiatives.

Six-month outlook still mixed. 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 in 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, and early guidance from Grainger implies steady sequential sales improvement later in 2016.

For required disclosures, including analyst certification, please refer to the important disclosures section on page 3 of this report
## Additional Discussion

**Fastener Distribution Trends; December 2015**

<table>
<thead>
<tr>
<th>FASTENER DISTRIBUTION AT A GLANCE</th>
<th>December 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Index Values</td>
</tr>
<tr>
<td>PMI (Manufacturing Sector)</td>
<td>48.2</td>
</tr>
<tr>
<td>FDI (Fastener Sector)</td>
<td>49.4</td>
</tr>
<tr>
<td>FDI (Seasonally Adjusted)</td>
<td>50.8</td>
</tr>
<tr>
<td>Sales (SA)</td>
<td>51.3</td>
</tr>
</tbody>
</table>

(Other Metrics; NSA)

| Employment                        | 48.8 | 50.0 | 53.1 | 48.7 | 52.3 | 52.1 | (1.2)   | Declining |
| Supplier Deliveries               | 55.0 | 59.1 | 51.6 | 56.4 | 56.8 | 58.3 | (4.1)   | Slowing   |
| Respondent Inventories            | 68.8 | 68.2 | 65.6 | 67.9 | 70.5 | 64.6 | 0.6     | Too High  |
| Customer Inventories              | 50.0 | 45.5 | 42.2 | 43.6 | 29.5 | 50.0 | 4.5     | Too Low   |
| Pricing, month-to-month            | 45.0 | 42.4 | 43.8 | 44.9 | 45.5 | 45.8 | 2.6     | Lower     |
| Pricing, year-to-year              | 50.0 | 48.5 | 53.1 | 51.3 | 54.5 | 58.3 | 1.5     | Lower     |

**Higher Same Lower**

6-Month Outlook - Dec. 45% 35% 20%

*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

![Graph showing FDI Monthly, FAST Monthly Sales (% Chg Yr/Yr), GWW Monthly Sales (% Chg Yr/Yr), MSM Monthly Sales (% Chg Yr/Yr)]

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

Price Chart

Rating and Price Target History for: Fastenal Company (FAST) as of 01-08-2016

Rating and Price Target History for: W.W. Grainger, Inc. (GWW) as of 01-08-2016

Rating and Price Target History for: MSC Industrial Direct Co., Inc. (MSM) as of 01-08-2016

BB&T Capital Markets rating distribution by percentage (as of January 11, 2016):

<table>
<thead>
<tr>
<th>Rating</th>
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</tr>
</thead>
<tbody>
<tr>
<td>All companies</td>
<td>All companies under coverage to which it has provided investment banking services in the previous 12 months:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buy (1)</td>
<td>44.90%</td>
<td>Buy (1)</td>
<td>27.27%</td>
</tr>
<tr>
<td>Hold (2)</td>
<td>52.77%</td>
<td>Hold (2)</td>
<td>18.78%</td>
</tr>
<tr>
<td>Underweight/Sell (3)</td>
<td>2.33%</td>
<td>Underweight/Sell (3)</td>
<td>25.00%</td>
</tr>
<tr>
<td>Not Rated (NR)</td>
<td>0.00%</td>
<td>Not Rated (NR)</td>
<td>0.00%</td>
</tr>
</tbody>
</table>
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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%


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).

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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.

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