**BB&TCM Fastener Distributor Index (FDI): April Higher vs. Weak Early 2016**

**KEY TAKEAWAY**

April's seasonally adjusted FDI reading (47.9) proved modestly higher versus the weaker January-March timeframe, as results benefited from a sequential uptick in sales bias among survey participants. Longer-term industry sentiment also improved for respondents versus the early year period, as 53% now expect better conditions in six months (37% in March). While the early improvement is encouraging, we continue to temper our expectations for more material near-term expansion among fastener distributors. Anecdotes (both public and private) still reflect cautionary industry themes (commodity dislocation, currency headwinds, mixed industrial production, etc.), and a sharp recent increase in steel pricing could also pressure near-term demand, in our view. We will continue to watch closely for added signs of more tangible strengthening.

**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).

**April sales better versus early FY’16.** The April FDI (47.9) continues to imply a pressured overall environment for fastener distribution, although results on the aggregate were better versus the January-March readings. Of the items measured (sales, employment, delivery times, inventories, customer inventories), we believe top-line sentiment remains the most compelling indicator in the Index. 63% of April participants noted similar or better sequential sales growth (59% in March). We believe the results are directionally consistent with April results from Fastenal (+1.7% sequentially), which reported -0.8% and +1.5% monthly DSR growth in February/March, respectively. Regarding customer inventories, 21% of participants viewed current levels as "too high." We note that during the headier growth period of 2013-2014, this metric averaged 4%.

**Pricing also sees nascent expansion.** The sequential point-of-sale pricing index for April (53.9) jumped into expansion territory for the first time since June 2015, as 18% of respondents saw an uptick versus March (5%). According to participant commentary, higher global steel pricing (+16% in April) drove price increases for select suppliers (FactSet). We believe the overall environment for pricing remains notably soft given material demand pressure and minimal inflation. Last quarter, Fastenal reported fastener price deflation of 1.5%-2%. Select distributors continue to offset weaker pricing through supplier and freight discounts.

**Labor adds minimal.** Employment (51.3) remained largely unchanged, as 87% of participants noted unchanged or reduced hiring versus the preceding month. On an absolute basis, Fastenal decreased total headcount by 91 in April, the fifth consecutive month of contraction. In Q1’16, the company reiterated its hiring freeze, excluding necessary vending/IT administration adds.

**Six-month outlook modestly encouraging.** The six-month outlook for April respondents also proved higher, as 53% of survey participants now expect increased activity later this year (only 37% last month). We believe the early improvement in currency/commodity pricing, coupled with a modestly higher April PMI (50.8, the second consecutive 50+ reading) could at least partially explain the better sentiment (ISM). Looking ahead, Grainger reports April sales on 5/13.

**Overall, we remain cautious.** Despite the improved six-month outlook, select survey commentary points to added uncertainty near-term. As one participant noted, "Summer slow down is coming...dust off the warehouse BBQ grill." Perhaps more to the point, another noted, "Even with 30 years under my 'fastener belt', I continue to be shocked at how unpredictable this market is." We couldn't agree more.

For required disclosures, including analyst certification, please refer to the important disclosures section on page 3 of this report.
### Fastener Distribution Trends: April 2016

#### Fastener Distribution at a Glance

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<tbody>
<tr>
<td>PMI (Manufacturing Sector)</td>
<td>50.8</td>
<td>51.8</td>
<td>49.5</td>
<td>48.2</td>
<td>48.0</td>
<td>48.4</td>
<td>(1.0)</td>
<td>Growing</td>
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<tr>
<td>FDI (Fastener Sector)</td>
<td>51.3</td>
<td>47.6</td>
<td>44.0</td>
<td>50.4</td>
<td>49.4</td>
<td>46.2</td>
<td>3.8</td>
<td>Growing</td>
</tr>
<tr>
<td>FDI (Seasonally Adjusted)</td>
<td><strong>47.9</strong></td>
<td><strong>46.1</strong></td>
<td><strong>44.5</strong></td>
<td><strong>45.6</strong></td>
<td><strong>50.6</strong></td>
<td><strong>47.5</strong></td>
<td>1.8</td>
<td>Declining</td>
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<tr>
<td>Sales (SA)</td>
<td>38.2</td>
<td>38.6</td>
<td>36.7</td>
<td>36.6</td>
<td>50.4</td>
<td>37.0</td>
<td>(0.4)</td>
<td>Declining</td>
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(Other Metrics; NSA)

| Employment | 51.3 | 52.4 | 44.8 | 46.4 | 48.8 | 50.0 | (1.1) | Growing |
| Supplier Deliveries | 56.6 | 53.7 | 51.7 | 55.4 | 55.0 | 59.1 | 2.9 | Slowing |
| Respondent Inventories | 71.1 | 69.5 | 69.0 | 69.6 | 68.8 | 68.2 | 1.5 | Too High |
| Customer Inventories | 50.0 | 41.5 | 44.8 | 50.0 | 50.0 | 45.5 | 8.5 | Too Low |
| Pricing, month-to-month | 53.9 | 40.2 | 43.1 | 48.2 | 45.0 | 42.4 | 13.7 | Higher |
| Pricing, year-to-year | 47.4 | 36.6 | 43.1 | 41.1 | 50.0 | 48.5 | 10.8 | Lower |

6-Month Outlook - Apr.

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<th>Higher</th>
<th>Same</th>
<th>Lower</th>
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<td>53%</td>
<td>34%</td>
<td>13%</td>
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**FDI and Pricing are diffusion indexes. At 50, the performance of the category 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

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### Fastener Distributor Index (FDI); Seasonally Adjusted

Source: BB&TCM, FCH Sourcing Network, company reports
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All companies under coverage:

- Buy (1) 43.19%
- Hold (2) 53.33%
- Underweight/Sell (3) 3.48%
- Not Rated (NR) 0.00%

All companies under coverage to which it has provided investment banking services in the previous 12 months:

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- Underweight/Sell (3) 33.33%
- 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%
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- **Underweight (3):** estimated total return potential less than 0%
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- **H:** Hold
- **UW:** Underweight
- **NR:** Not Rated
- **NA:** Not Applicable
- **NM:** Not Meaningful
- **SP:** Suspended

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