BB&T Capital Markets

May 2, 2012

COMMERCIAL AND INDUSTRIAL

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COMPANIES MENTIONED

W.W. Grainger, Inc.
GWW - $207.83 - Hold (2)

MSC Industrial Direct Co., Inc.
MSM - $73.49 - Buy (1)

Fastenal Company
FAST - $47.01 - Hold (2)

BB&TCM'S FASTENER DISTRIBUTOR INDEX (FDI) - APRIL STILL SOLID, BUT CLEARY SLOWER THAN MARCH/Q1'12

Key Points

- **About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors, conducted in partnership with the FCH Sourcing Network, that aims to provide insight into current trends/outlooks. As a diffusion index, readings above 50 signal strength and below 50 signal weakness. It should be directly relevant to Fastenal and broadly relevant to other distributors (W.W. Grainger, MSC Industrial).

- **April's FDI is 53.8 (vs. 55.9 in March)–a good start to Q2'12, just not as good as Q1'12.** In Q1'12 the index averaged 56.4, so April's reading suggests more tepid growth to begin Q2'12. It is also notable that the FDI underperformed versus the national manufacturing index (PMI). Sales hurt, slipping from the mid- to high-60s in Feb./Mar. to 55.1. Other elements, though, supported a still healthy view, specifically slower Supplier Deliveries (59.0 in April, vs. 51.2 average in Q1'12) and Customer Inventories (42.3 in April) that are still viewed by distributors as too low. Most end markets and geographies did not diverge much from the broad trend, though construction, electronics and the Northeast looked a little softer. Why April was not so robust is hard to say. Maybe direct shipping is accelerating as project/capital spending ramps (thus, a divergence between FDI and PMI). Perhaps Q1'12 had some demand pull forward. But we can say this: a reading of 53–54 still constitutes sequential growth in April over March.

- **The outlook is still the strongest component, but a poor trend has to be acknowledged**. 61.5% of respondents expect activity to be "higher" in six months; just 10.3% said "lower." This is a good reading, but one cannot ignore that the spread has narrowed over the last four months. Respondents feel good about things, but not as good as they did to start the year.

- **Price: still mildly favorable, not obviously trending.** Year-to-year, point-of-sale pricing is up (48.7% of respondents) or "flattish" (43.6%); rate of change backed up a bit to 2.5%–3.0%. We may be seeing past increases anniversarying at a faster rate than new hikes impact. Sequential pricing is still mildly favorable, but did not pick up versus March's glimmer of optimism.

- **Supplemental question: asked what markets companies see suited to invest in, they seem attracted to the flame.** We asked distributors inclined to invest in new markets what ones they thought merited investment. Most mentioned: General Industrial/Job Shops (20.3% of responses). This is not aggressive, as "Industrial" is where most firms already play suggesting a low-risk effort to target tangential spots within already known areas. The next three industrial markets most often mentioned were Automotive (15.6%), Oil/Gas (9.4%) and Metal/Mining (7.8%), all clearly exciting markets, in our view. High margin electronics also were targeted (10.9%). It would seem these are the markets where competition could escalate.

- **What does this mean for Fastenal? Perhaps a bit of a backing off from what was a strong March**. It is treacherous to project one month's trend, but with the FDI a bit softer led by the sales piece, we believe it would suggest a bit of a weaker trend in **Fastenal**'s sequential DSR in April relative to historical norms (which for April over March is up 0%–1%). It would not surprise us, then if April's DSR was "flattish" with March, +/–0.5%, which would imply annual growth of 17.6%–18.8% and put the sales line a bit behind our model. Given that Fastenal, **Grainger**, and **MSC Industrial** are 85%–90% correlated over the last 10 years (and 87%–93% correlated over the last five), the April FDI might suggest a little slower results for them as well.

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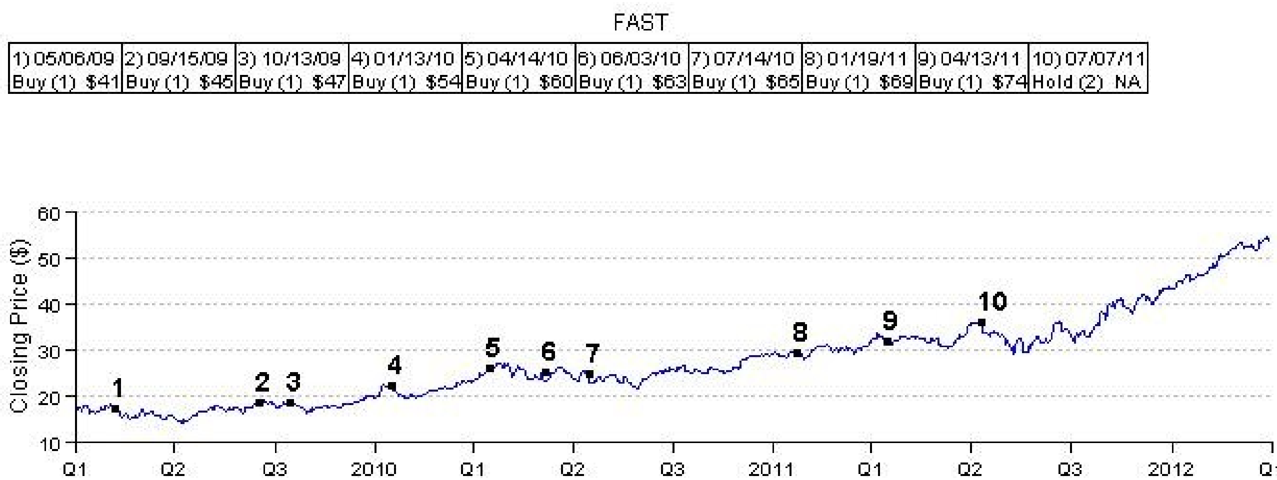
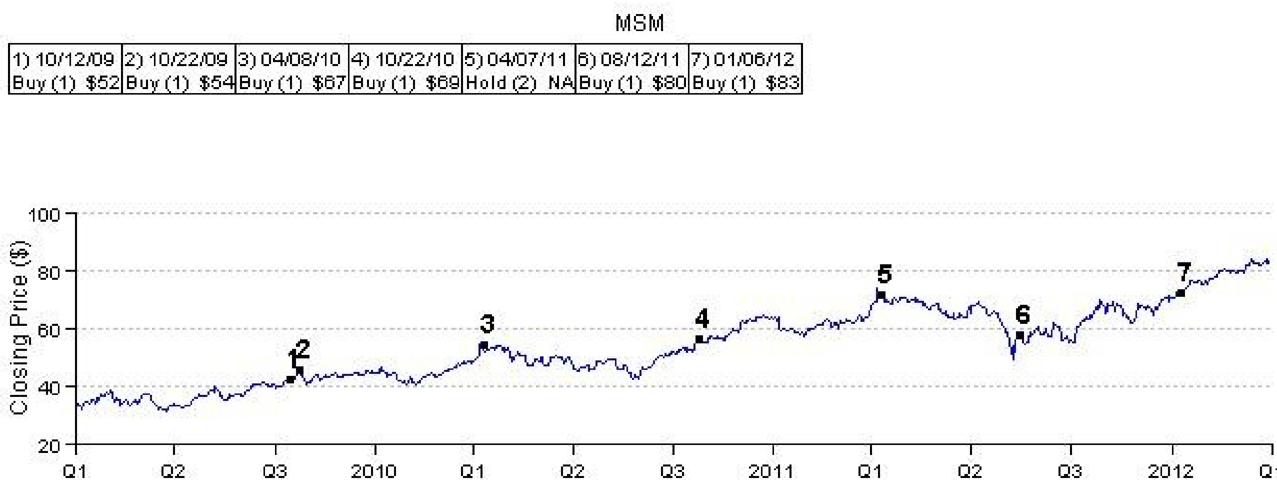
IMPORTANT DISCLOSURES
Price Chart





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All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	53.0%	Buy (1)	11.5%
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Underweight/Sell (3)	1.0%	Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%	Not Rated (NR)	0.0%
Suspended (SP)	0.0%	Suspended (SP)	0.0%

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NR: Not Rated **NA:** Not Applicable **NM:** Not Meaningful **SP:** Suspended

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Fastenal Company (FAST)	1, 6

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MSC Industrial Direct Co., Inc. (MSM)	1, 6
W.W. Grainger, Inc. (GWW)	6, 9

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