

## COMPANIES MENTIONED

**Fastenal**

FAST - \$45.88 - Hold

**W.W. Grainger**

GWW - \$252.92 - Hold

**MSC Industrial Direct**

MSM - \$81.41 - Buy

**BB&TCM Fastener Distributor Index: 2013 Heads Out with a Whimper****KEY TAKEAWAY**

December illustrated the same direction-less behavior we have seen through much of 2013, finishing at 50.0 on the nose, suggesting neither growth nor contraction in the period. December has a number of headwinds - notably difficult holiday timing and poor weather (which has carried into January) - that could well be affecting the result. But regardless of the source, we believe that nothing in this figure says December will impress relative to October/November for distributors (Fastenal pre-announced its Q4'13 already, implying a tough December). We expect a bit better demand in 2014, as do the majority of respondents. But it seems unlikely to us that Q4'13 distributor earnings will be the turning point supporting that.

**KEY POINTS**

**About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors, conducted with the **FCH Sourcing Network**. It offers insights into current trends/outlooks. As a diffusion index, figures 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).

**December FDI: Out with a Whimper.** December's 50.0 was below November (51.7), a second straight decline but not altering the pattern over 2013 of oscillating around 50. Indeed, the average reading for 2013 was 51.2, highlighting what has been, overall, a slow year. Sales stabilized, but at 50 (from 43.1 in November) as many respondents saw them down as did up. Employment of 53.6 backed up a bit (56.9 in November), but overall hiring remains positive. Customer Inventories ticked up a bit again, but are still "too low" at 42.9 (from 41.4 in November), meaning pent-up demand remains. *The result in December changed little from the middling readings that were the norm through 2013. It is possible weather and holidays played a role in this, but we believe the numbers still bely just modest signs of firming.*

**It is safe to say there was no fear in December.** Literally. In December ~57% of respondents see better conditions in six months, not much worse than November (~62%). More impressive, while pessimists have been light in the survey for months, in December not a single respondent anticipated weaker conditions six months out. *There may not yet be a lot of signs of better demand, but we believe at the same time there is an expectation that conditions, at worst, will be unchanged from present levels.*

**Price: stable, modest gains.** The pricing picture shored up a bit in November, and those levels carried through in December. *Indeed, respondents continued to put realized pricing in the 1.5%-2.0% range, slightly better than what we saw through much of the middle part of 2013.*

**What does this mean for other distributors?** The data suggests that December was a bit weaker than November. As always, there is not a lot of detail as to why this might have been, but it seems reasonable in light of sluggish demand through 2013, tough holiday timing in December, and less than favorable weather. Notably, **Fastenal** pre-announced Q4'13 EPS, with the implication being that December has not sufficiently improved. With nasty weather carrying over into January, tough results and cautious outlooks likely remain the norm from in Q4'13, in our view.

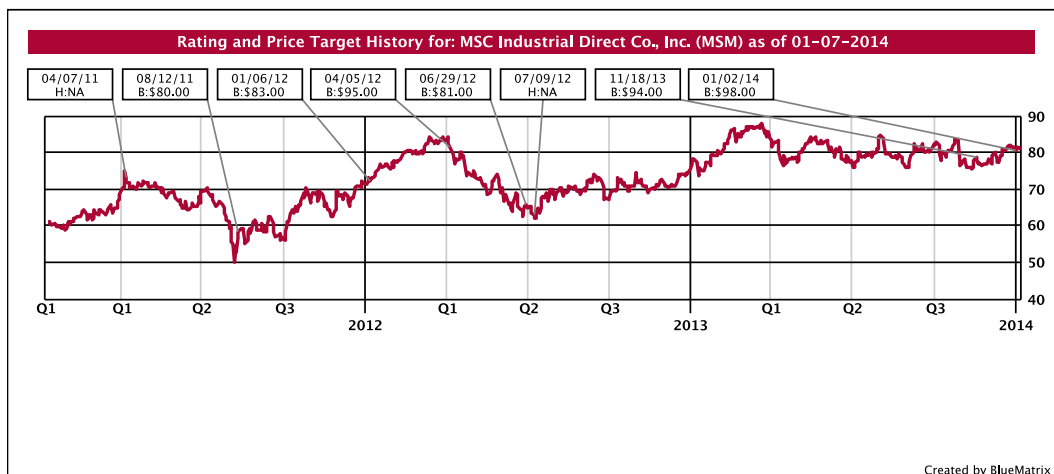
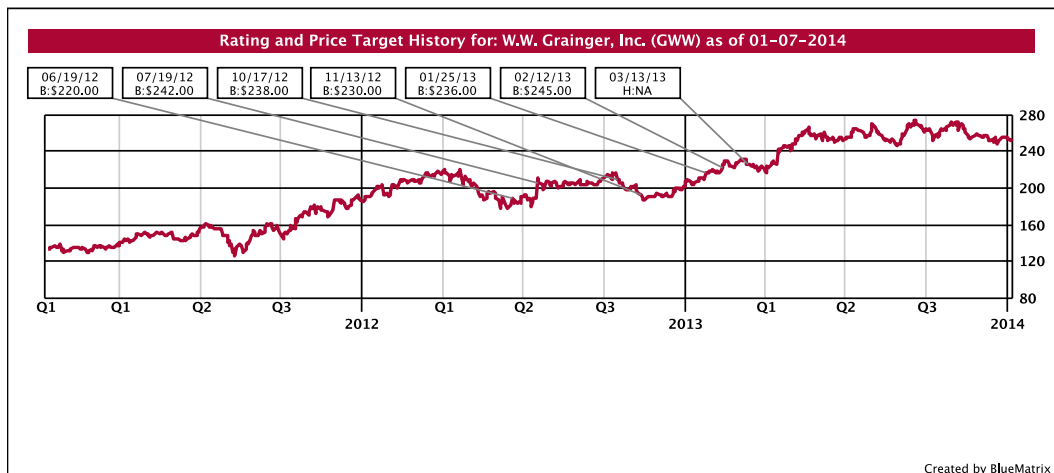
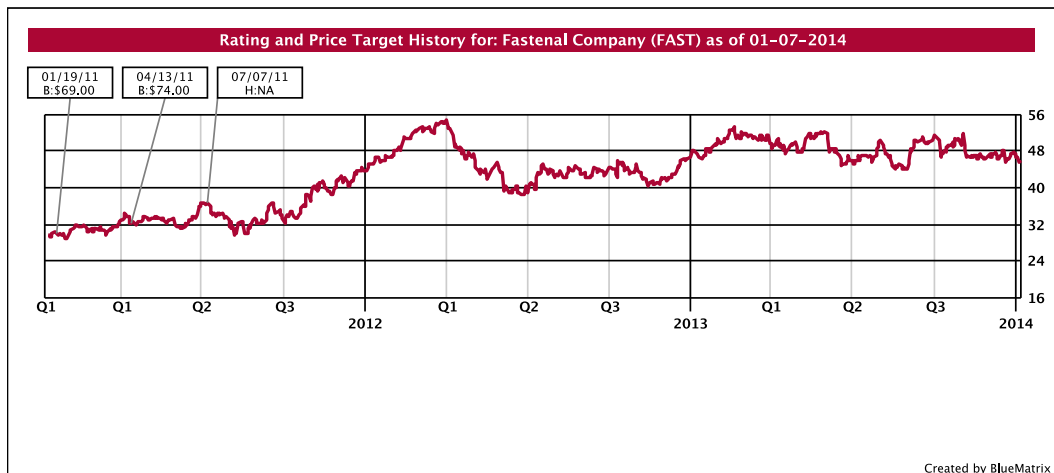
FASTENER DISTRIBUTION AT A GLANCE														
December 2013														
	----- Index Values -----												Nov.-->Dec.	
	Dec.	Nov.	Oct.	Sep.	Aug.	July	June	May	Apr.	Mar.	Feb.	Jan.	Change	Direction
<b>PMI (Overall mfring sector)</b>	57.0	57.3	56.4	56.2	55.7	55.4	50.9	49.0	50.7	51.3	54.2	53.1	(0.3)	Growing
<b>FDI (Fastener distribution)</b>	50.0	51.7	52.7	45.4	50.8	49.7	51.3	52.4	51.6	52.8	48.7	56.9	(1.7)	Declining
Sales	50.0	43.1	73.2	42.9	58.1	58.3	50.0	63.9	68.8	58.3	48.7	82.8	6.9	Declining
Employment	53.6	56.9	53.6	50.0	50.0	51.4	57.1	56.9	45.3	56.9	56.4	60.3	(3.3)	Growing
Supplier Deliveries	53.6	65.5	44.6	52.9	59.7	56.9	60.7	51.4	53.1	52.8	47.4	44.8	(11.9)	Slowing
Respondent Inventories	57.1	65.5	55.4	62.9	66.1	62.5	69.6	55.6	60.9	68.1	60.3	65.5	(8.4)	Too High
Customer Inventories	42.9	41.4	39.3	35.7	35.5	31.9	37.5	37.5	39.1	43.1	42.3	39.7	1.5	Too Low
Pricing, month-to-month	50.0	58.6	55.4	54.3	56.5	52.8	48.2	56.9	54.7	50.0	52.6	56.9	(56.9)	Lower
Pricing, year-to-year	71.4	65.5	62.5	62.9	62.9	55.6	58.9	65.3	65.6	56.9	62.8	60.3	3.0	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>											
6-Month Outlook - Dec.	57%	43%	0%											

*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.*

*Sources: BB&T Capital Markets' estimates, FCH Sourcing Network, Institute for Supply Management*

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### Price Chart



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Buy (1)	45.51%	Buy (1)	23.81%
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Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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The definition of each rating is as follows:

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David L. Kelley (617) 316-1344

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Nicholas V. Prendergast (804) 782-2006

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Nathan P. Martin (804) 782-8799

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Ashby W. Price (804) 782-8711

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Blair C. Brantley, CFA (804) 727-2604

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Vernon C. Plack, CFA (804) 780-3257  
Peter W. Council, CFA (804) 782-8850

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Brett M. Hundley, CFA (804) 782-8753  
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Scott D. Krasik, CFA (212) 822-8138  
Kelly L. Halsor, CFA (212) 822-8132

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Anthony C. Chukumba (212) 822-8143  
Eric Cohen (212) 822-8140

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Willard P. Milby IV (804) 775-7919  
Aaron M. Reeves (804) 780-3237  
A. Rhem Wood Jr. (804) 782-8784

## **RESEARCH DEPARTMENT**

### **Director of Research**

Vernon C. Plack, CFA (804) 780-3257

### **Equity Product Manager**

W. Moultrie Dotterer, CFA (804) 780-3279

### **Supervisory Analysts**

Kathleen R. Schneider (732) 567-8766  
Denise Bossé Tynzar (804) 782-8880

### **Editor**

Peggy Myers Walz (804) 782-8785

## **RESEARCH OFFICES**

**Richmond**  
**Boston**  
**New York**  
**Reston**