

## COMPANIES MENTIONED

## Fastenal

FAST - \$51.80 - Hold

## W.W. Grainger

GWW - \$229.37 - Buy

## MSC Industrial Direct

MSM - \$86.08 - Hold

**BB&TCM's Fastener Distributor Index (FDI) - February Backslides a Bit****KEY TAKEAWAY**

Driven again by the sales component, February eased back toward slow/no growth after what was a resurgent January. This is not too surprising to us - January had a much easier comparison against December - and a modest growth environment hardly seems like an unlikely endgame. The oddity is that it diverged from the broad PMI, which improved further in February. We are not sure what this means, but distributor DSRs and the March reading should shed some light. Our supplemental question held more evidence than we might have expected of the potential for MSC Industrial in its purchase of BDNA.

**KEY POINTS**

**About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of NorAm fastener distributors, conducted with the FCH Sourcing Network, which 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).

**February (48.7, vs. 56.9 in Jan.) raises questions.** After a resurgent January, February skidded to levels that question the strength of the early 2013 bounce. The main mover, again, was sales (48.7, vs. 82.8 in Jan.) which returned to slow/no growth mode. Other components were stable. *Retracing from January's robust, comp-aided reading is not surprising, nor is it a stretch to think underlying demand is growing sluggishly. But why did the FDI diverge from the PMI, which improved in February? Distributor DSRs and March readings should be telling.*

**The January Outlook loses a bit of momentum.** Euphoria about the future also seems to have tempered some. Optimists (38% see activity higher in six months) still handily outpace pessimists (10%), but not by nearly as much as February when optimists were 62% of respondents and pessimists 7%. Mostly the camp seeing things being the "same" swelled, to 51% of the total. *This still ranks as a good reading, but definitely more cautious and guarded than we have seen of late.*

**Pricing: settling in at mind-numbingly marginal.** After a hopeful January, February sequential pricing settled back toward the no change level. Higher year-over-year pricing is still the norm, but at this point it seems to be in the very low single digit zone. *Any apparent improvement seems to have been nothing but a feint, as pricing in the fastener industry remains largely directionless.*

**Supplemental query: What impact might MSC buying Barnes Distribution have?** MSC Industrial has sought ways to access fasteners, and BDNA would seem to provide that entree. But what did respondents think? Most did not think much: 36% imagined MSC would be more competitive in fasteners, but 64% did not see much impact on the market. However, even in this there is a cautionary tale for smaller distributors. *Of the distributors who imagined no impact, 76% based this on never having run into Barnes, not MSC's inability to tackle the model. But one of the things MSC brings to the transaction is a wider reach. It still has to prove it can be effective in fasteners, but this suggests to us there is a real geographic opportunity.*

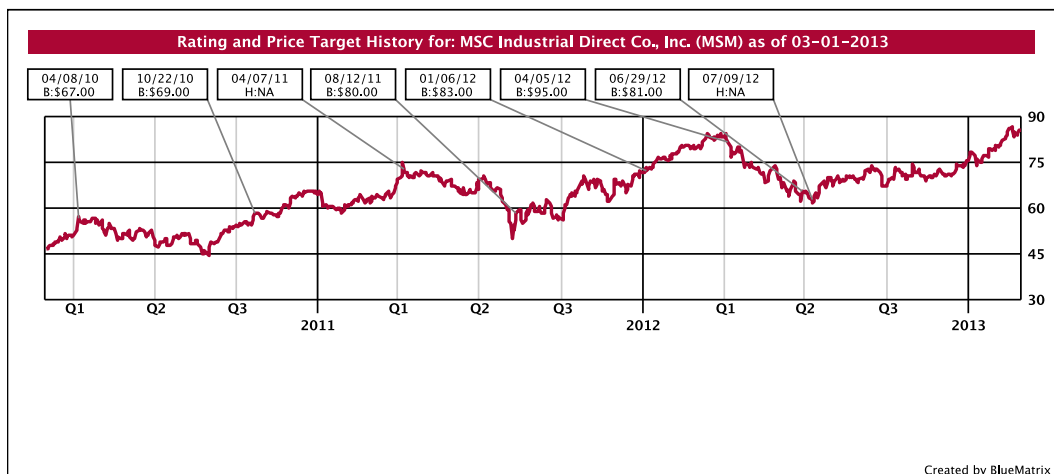
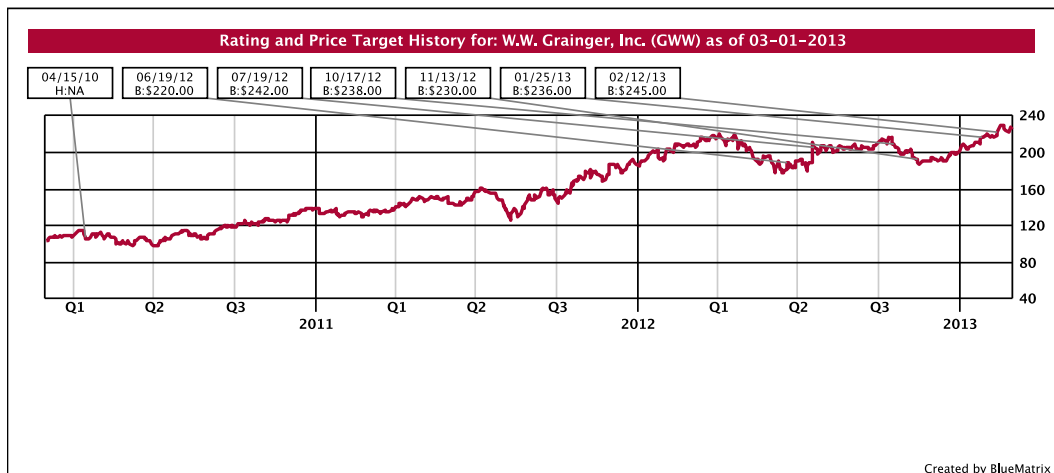
FASTENER DISTRIBUTION AT A GLANCE								
February 2013								
	Index - Feb.	Index - Jan.	Index - Dec.	Index - Nov.	Index - Oct.	Index - Sept.	Jan.-->Feb. Change	Direction
<b>PMI (Overall mftring sector)</b>	54.2	53.1	50.7	49.5	51.7	51.5	1.1	Growing
<b>FDI (Fastener distribution)</b>	48.7	56.9	48.4	46.1	46.8	48.2	(8.2)	Declining
Sales	48.7	82.8	32.8	34.4	48.6	45.7	(34.0)	Declining
Employment	56.4	60.3	53.1	50.0	51.4	51.4	(3.9)	Growing
Supplier Deliveries	47.4	44.8	60.9	56.3	48.6	50.0	2.6	Speeding Up
Respondent Inventories	60.3	65.5	64.1	59.4	62.9	62.9	(5.3)	Too High
Customer Inventories	42.3	39.7	46.9	43.8	38.6	45.7	2.7	Too Low
Pricing, month-to-month	52.6	56.9	51.6	48.4	50.0	47.1	(4.3)	Higher
Pricing, year-to-year	62.8	60.3	57.8	53.1	58.6	55.7	2.5	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>					
6-Month Outlook - Feb.	38%	51%	10%					

*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, FCH Sourcing Network, Institute for Supply Management

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### Price Chart



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Underweight/Sell (3)	2.11%	Underweight/Sell (3)	0.00%
Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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