

COMPANIES MENTIONED

Fastenal
FAST - \$45.29 - Hold

W.W. Grainger
GWW - \$255.16 - Hold

MSC Industrial Direct
MSM - \$76.13 - Hold

BB&TCM's Fastener Distributor Index (FDI) - Not Much Going On in June (Again)

KEY TAKEAWAY

Overall, we would characterize June as a bit of a step back. The overall temperature of the June FDI was not substantively changed from May, but at the margin results seem more apathetic than hopeful. Sales was the weakest component in June. Many of May's optimists fled to the "same" camp. A window for price hikes seems to have closed, though gains the last few months seem to have stuck. So the sluggish-but-growing environment is intact, but the favorable signs we have tried to discern the last couple months tempered. In terms of upcoming industrial distributor earnings, we suspect top line results will be in-line with (**Grainger**) to slightly below (**Fastenal, MSC Industrial**) our models with a still cautious tone.

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**).

June FDI: at 51.3, just not much happening. As in the last few months, the FDI changed technically (worse) but not substantively. June's 51.3 was a bit worse than May's 52.4, but that continues to point to sluggish-but-positive growth. The lower figure in June was driven by sales (50, vs. 63.9 in May), where those with better-than-expected results matched those with worse. This was only partly offset by supplier deliveries, which slowed (60.7, vs. 51.4 in May). Customer inventories remain low. *Substantively, June feels similar to May (which felt similar to April which felt similar to March). The YTD average for the FDI is 52.3, which is representative of growth, but not much of it. There is not much going on in fastener distribution.*

Outlook: apathy settles in. In June, the ratio of respondents that were optimistic declined (28.6%, vs. 47.2% in May). This still hugely outnumbers the ratio of those that were pessimistic (14.3%, vs. 16.7% in May). *The outlook component is still on-balance favorable about the next six months. What was notable in June was the apathy: with many optimists in May are now seeing no change over six months, those answering "Same" were 57% of the sample, the highest we have seen.*

Price: any gains were held, but not built on. Positive pricing signals reversed in June, with those reporting sequential gains slipping (48.2, vs. 56.9 in May). If there was an early year push to capture a bit of pricing, it seems to have run its course. Conversely, it seems to have stuck: those with positive annual pricing remain high (58.9, vs. 65.3 in May), and the increase remained in a 1%-2% range. *In all likelihood we have seen an early-year window to enact some annual price hikes, and those appear to have stuck. But the overall pricing environment remains tepid.*

What does this mean for other distributors? June activity does not look likely to bail out what have been softer results in April/May. Challenging conditions seem to have persisted. That seems like the probable message as industrial distributors report Q2'13 earnings. Judging by comps, it seems possible sales results will be mildly disappointing for **Fastenal** and **MSC Industrial** (the quarter end for which was May), while **Grainger** is likely to be in-line.

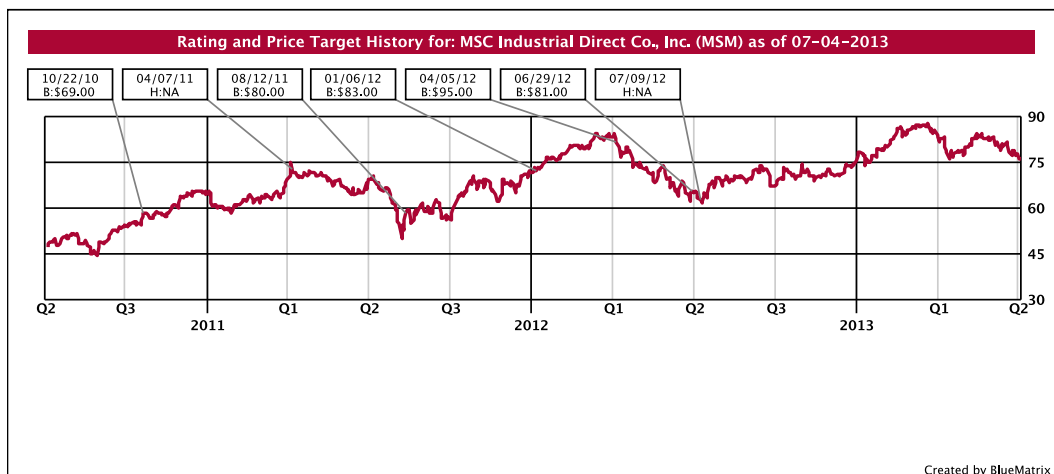
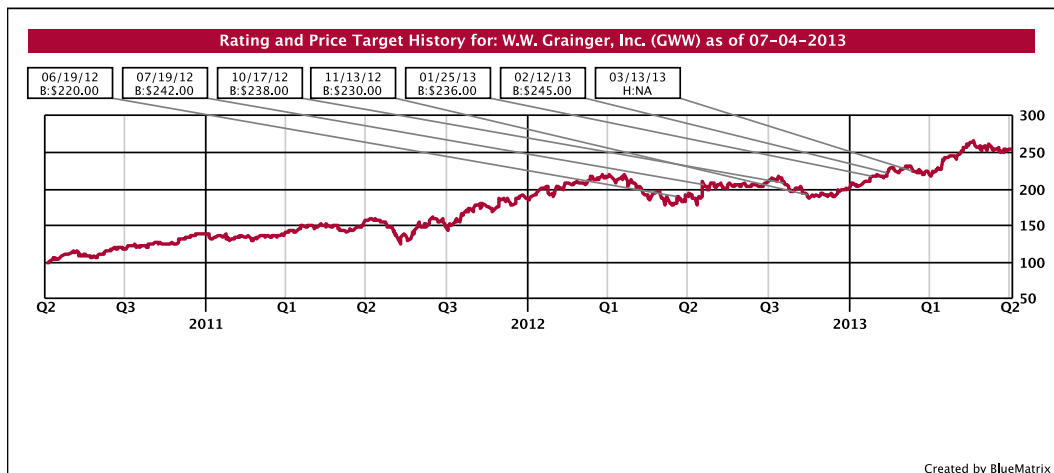
FASTENER DISTRIBUTION AT A GLANCE								
June 2013								
	Index - June	Index - May	Index - Apr.	Index - Mar.	Index - Feb.	Index - Jan.	May-->Jun. Change	Direction
PMI (Overall mftring sector)	50.9	49.0	50.7	51.3	54.2	53.1	1.9	Growing
FDI (Fastener distribution)	51.3	52.4	51.6	52.8	48.7	56.9	(1.1)	Growing
Sales	50.0	63.9	68.8	58.3	48.7	82.8	(13.9)	Declining
Employment	57.1	56.9	45.3	56.9	56.4	60.3	0.2	Growing
Supplier Deliveries	60.7	51.4	53.1	52.8	47.4	44.8	9.3	Slowing
Respondent Inventories	69.6	55.6	60.9	68.1	60.3	65.5	14.1	Too High
Customer Inventories	37.5	37.5	39.1	43.1	42.3	39.7	0.0	Too Low
Pricing, month-to-month	48.2	56.9	54.7	50.0	52.6	56.9	(8.7)	Lower
Pricing, year-to-year	58.9	65.3	65.6	56.9	62.8	60.3	(6.3)	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>					
6-Month Outlook - June	29%	57%	14%					

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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Underweight/Sell (3)	0.62%	Underweight/Sell (3)	0.00%
Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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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%

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