BB&TCM's Fastener Distributor Index (FDI) - March Sets into a Stable Pattern

**KEY TAKEAWAY**

The March FDI was 52.8, a good if unspectacular number indicating a slow growth pattern after a couple months of big swings. But it should be said the Q1'13 average reading is the best since Q2'12. This seems in line with the tone from distributors at BB&TCM's Commercial & Industrial Conference: demand is improved from December, but overall still growing just slowly. Pricing is still minimal. Significant acceleration does not seem to yet be in evidence.

**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).

**March (52.8, vs. 48.7 in Feb.) settles it.** After sharp moves in January/February, which made sense directionally but with wider swings than we imagined, March suggests slow growth. Indeed, by averaging 52.8 in Q1'13, the FDI approximated the PMI (52.9). Sales (58.3, vs. 48.7 in Feb.) improved while supplier deliveries were a little slower, suggesting a bit better demand. We believe this is a good reading. It is not robust, but it should be considered that the Q1'13 average is the strongest since Q2'12. It should ease worries, and be a comfortable environment in which to operate.

**Optimism returns to strong levels.** Optimism bounced back in March. The ratio of respondents that were pessimistic about the six-month outlook remained low and largely unchanged (13.9%, vs. 10.3% in February). But many cautious respondents shifted back to optimistic in March (63.9%, vs 38.5% in February). The outlook has been solid the last four months, and the percentage of respondents expecting higher activity in six months is at its highest level since March 2012.

**Pricing: not enough to change anything.** One thing that never seems to change is pricing. Sequential pricing remains meager, and while annual pricing remains up, the range looks to be up 0%-1%. Pricing in the fastener industry remains largely directionless, as the degree of demand improvement thus far in 2013 seems to be insufficient to inspire fresh hikes.

**Supplemental query: a bit of benchmarking.** At a suggestion, we asked a couple benchmarking questions. First, what is average ticket size? At the retail level, the answer fell into the $300-$330 range. Second, what is the cost per sales call. Again, at the retail level the median cost was ~$75.

**What does this mean for other distributors?** We think this reading suggests that March may exhibit the typical seasonal improvement. It does not translate into a better than seasonal showing, which would suggest accelerating growth. That is largely how we have modeled Fastenal, so we would not expect a top line surprise in that name based on March. Grainger, and to a lesser extent possibly MSC Industrial, is a harder read because the government exposure may partially offset the otherwise decent industrial backdrop.

---

**COMPANIES MENTIONED**

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>Price</th>
<th>Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fastenal</td>
<td>FAST</td>
<td>$49.35</td>
<td>Hold</td>
</tr>
<tr>
<td>W.W. Grainger</td>
<td>GWW</td>
<td>$224.65</td>
<td>Hold</td>
</tr>
<tr>
<td>MSC Industrial Direct</td>
<td>MSM</td>
<td>$82.59</td>
<td>Hold</td>
</tr>
</tbody>
</table>

For required disclosures, including analyst certification, please refer to the important disclosures section on page 3 of this report.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>PMI (Overall manufacturing)</td>
<td>51.7</td>
<td>50.7</td>
<td>53.1</td>
<td>54.2</td>
<td>51.7</td>
<td>51.3</td>
<td>(2.9)</td>
<td>Growing</td>
<td></td>
</tr>
<tr>
<td>FDI (Fastener distribution)</td>
<td>51.7</td>
<td>49.5</td>
<td>51.4</td>
<td>52.8</td>
<td>46.8</td>
<td>46.8</td>
<td>4.1</td>
<td>Growing</td>
<td></td>
</tr>
<tr>
<td>Sales</td>
<td>58.3</td>
<td>56.9</td>
<td>56.4</td>
<td>48.7</td>
<td>48.7</td>
<td>52.8</td>
<td>9.6</td>
<td>Growing</td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>56.9</td>
<td>53.1</td>
<td>50.0</td>
<td>56.9</td>
<td>51.4</td>
<td>51.7</td>
<td>0.5</td>
<td>Growing</td>
<td></td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>52.8</td>
<td>47.4</td>
<td>44.8</td>
<td>60.9</td>
<td>48.6</td>
<td>52.8</td>
<td>4.1</td>
<td>Growing</td>
<td></td>
</tr>
<tr>
<td>Respondent Inventories</td>
<td>68.1</td>
<td>60.3</td>
<td>65.5</td>
<td>64.1</td>
<td>64.1</td>
<td>68.1</td>
<td>7.8</td>
<td>Too High</td>
<td></td>
</tr>
<tr>
<td>Customer Inventories</td>
<td>43.1</td>
<td>39.7</td>
<td>39.7</td>
<td>46.9</td>
<td>43.8</td>
<td>43.1</td>
<td>0.7</td>
<td>Too Low</td>
<td></td>
</tr>
<tr>
<td>Pricing, month-to-month</td>
<td>50.0</td>
<td>51.6</td>
<td>51.6</td>
<td>56.9</td>
<td>48.4</td>
<td>50.0</td>
<td>(2.6)</td>
<td>Lower</td>
<td></td>
</tr>
<tr>
<td>Pricing, year-to-year</td>
<td>56.9</td>
<td>57.8</td>
<td>57.8</td>
<td>60.3</td>
<td>53.1</td>
<td>56.9</td>
<td>(5.9)</td>
<td>Higher</td>
<td></td>
</tr>
</tbody>
</table>

6-Month Outlook - Mar.

<table>
<thead>
<tr>
<th>Higher</th>
<th>Same</th>
<th>Lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>64%</td>
<td>22%</td>
<td>14%</td>
</tr>
</tbody>
</table>

*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
BB&T Capital Markets rating distribution by percentage (as of April 5, 2013):

<table>
<thead>
<tr>
<th>Rating</th>
<th>Percentage</th>
<th>Under Coverage to which it has provided investment banking services in the previous 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy (1)</td>
<td>45.78%</td>
<td></td>
</tr>
<tr>
<td>Hold (2)</td>
<td>52.41%</td>
<td></td>
</tr>
<tr>
<td>Underweight/Sell (3)</td>
<td>1.81%</td>
<td></td>
</tr>
<tr>
<td>Not Rated (NR)</td>
<td>0.00%</td>
<td></td>
</tr>
<tr>
<td>All companies under coverage:</td>
<td></td>
<td>16.45%</td>
</tr>
<tr>
<td>All companies under coverage:</td>
<td></td>
<td>5.17%</td>
</tr>
<tr>
<td>All companies under coverage:</td>
<td></td>
<td>0.00%</td>
</tr>
<tr>
<td>All companies under coverage:</td>
<td></td>
<td>0.00%</td>
</tr>
</tbody>
</table>


**BB&T Capital Markets Ratings System:**
The BB&T Capital Markets Equity Research Department Stock Rating System consists of three separate ratings. The appropriate rating is determined by a stock’s estimated 12-month total return potential, which consists of the percentage price change to the 12-month price target and the current yield on anticipated dividends. A 12-month price target is the analyst’s best estimate of the market price of the stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

The definition of each rating is as follows:

- **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%

**B**: Buy  
**H**: Hold  
**UW**: Underweight  
**NR**: Not Rated  
**NA**: Not Applicable  
**NM**: Not Meaningful  
**SP**: Suspended

Stocks rated Buy (1) are required to have a published 12-month price target, while it is not required on stocks rated Hold (2) and Underweight (3).

---

**BB&T Capital Markets Equity Research Disclosures as of April 5, 2013**

BB&T Capital Markets makes a market in the securities of Fastenal Company, W.W. Grainger, Inc. and MSC Industrial Direct Co., Inc.

BB&T Capital Markets expects to receive or intends to seek compensation for investment banking services from Fastenal Company, W.W. Grainger, Inc. and MSC Industrial Direct Co., Inc. in the next three months.

An affiliate of BB&T Capital Markets received compensation from W.W. Grainger, Inc. for products or services other than investment banking services during the past 12 months. The analyst or employees of BB&T Capital Markets with the ability to influence the substance of this report know or have reason to know the foregoing facts.

---

**ADDITIONAL INFORMATION AVAILABLE UPON REQUEST**

For valuation methodology and related risk factors on Buy (1)–rated stocks, please refer to the body text of this report or to individual reports on any covered companies referenced in this report.

The analyst(s) principally responsible for preparation of this report received compensation that is based upon many factors, including the firm’s overall investment banking revenue.

**Analyst Certification**
The analyst(s) principally responsible for the preparation of this research report certify that the views expressed in this research report accurately reflect his/her (their) personal views about the subject security(ies) or issuer(s) and that his/her (their) compensation was not, is not, or will not be directly or indirectly related to the specific recommendations or views contained in this research report.

**OTHER DISCLOSURES**
The information and statistics in this report have been obtained from sources we believe are reliable but we do not warrant their accuracy or completeness. We do not undertake to advise the reader as to changes in figures or our views. This is not a solicitation of an order to buy or sell any securities.

BB&T Capital Markets, a division of BB&T Securities, LLC, member FINRA/SIPC, is a wholly owned nonbank subsidiary of BB&T Corporation. The securities sold, offered or recommended are not a deposit, not FDIC insured, not guaranteed by a bank, not guaranteed by any federal government agency and may go down in value.

The opinions expressed are those of the analyst(s) and not those of BB&T Corporation or its executives.
## COMMERCIAL AND INDUSTRIAL

### Advanced Manufacturing & Distribution
- Holden Lewis (703) 471-3894
- Vineet Khanna (703) 471-3896

### Building Materials
- John F. Kasprzak Jr. (804) 782-8715
- Paul Betz, CFA (804) 782-8746
- Teresa T. Nguyen, CFA (804) 782-8745

### Commercial Durables
- Matthew S. McCall, CFA (804) 780-3582
- Ryan Lugash (804) 775-7939

### Industrial Components & Materials
- John C. Cooper (804) 787-8293

### Industrial Flow Control
- Kevin R. Maczka, CFA (804) 782-8811
- Nicholas Prendergast (804) 782-2006

### Industrial Machinery
- C. Schon Williams (804) 782-8769
- Aaron M. Reeves (804) 780-3237

### Specialty Construction/Environmental Services
- Adam R. Thalhimer, CFA (804) 344-8377
- Charles E. Redding (804) 782-8853

## CONSUMER

### Agribusiness/Consumer Foods
- Heather L. Jones (804) 780-3280
- Brett M. Hundley, CFA (804) 782-8753

### Apparel, Footwear, & Specialty Retail
- Scott D. Krasik, CFA (212) 822-8138
- Kelly L. Halsor, CFA (212) 822-8132

### Automotive Aftermarket/Automotive Dealerships
- Bret D. Jordan, CFA (617) 316-1345
  - David L. Kelley (617) 316-1344

### Food & Drug Merchandising
- Andrew P. Wolf, CFA (804) 787-8224
- Ashby W. Price (804) 782-8711

### Specialty Hardlines Retailers
- Anthony C. Chukumba (212) 822-8143
- Eric Cohen (212) 822-8140

## ENERGY

### Coal
- Mark A. Levin (804) 782-8856
- Nathan P. Martin (804) 782-8799
- Garrett S. Nelson (804) 787-8259

### Diversified Mining
- Garrett S. Nelson (804) 787-8259
- Nathan P. Martin (804) 782-8799

### Energy Infrastructure
- Robert F. Norfleet III (804) 787-8231
- John D. Ellison, CFA (804) 782-8732
- Basil M. Jones III (804) 782-8893

## FINANCIAL SERVICES

### Banks/Thrifts
- Cary A. Morris (804) 782-8831
- Blair C. Brantley, CFA (804) 727-2604

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

## TECHNOLOGY

### Aerospace
- F. Carter Leake (804) 482-7167

### Commercial IT Services/Government Services
- George A. Price Jr. (703) 471-3892
- Jethro R. Solomon (703) 471-3893

### Defense
- Jeremy W. Devaney (703) 471-3891

## TRANSPORTATION SERVICES

### Airfreight & Logistics/Maritime
- Kevin W. Sterling, CFA (804) 782-8804
- William W. Horner (804) 787-1143
- Chip Rowe (804) 782-8787

### Railroads
- Mark A. Levin (804) 782-8856
- Nathan P. Martin (804) 782-8799
- Garrett S. Nelson (804) 787-8259

### Surface Transportation
- Thomas S. Albrecht, CFA (804) 787-8210
- Willard P. Milby, IV (804) 775-7919
- John L. Washington (804) 225-5898
- A. Rhem Wood, Jr. (804) 782-8784

## RESEARCH DEPARTMENT

### Director of Research
- Vernon C. Plack, CFA (804) 780-3257

### Assistant Director of Research
- James H. Weber, CFA (804) 782-8773

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

### Supervisory Analysts
- Kathleen R. Schneider (732) 567-8766
- Denise Bossé Tzynar (804) 782-8880
- James H. Weber, CFA (804) 782-8773

### Editor
- Peggy Myers Walz (804) 782-8785

## RESEARCH OFFICES
- Richmond
- Boston
- New York
- Reston