BB&T Capital Markets

June 5, 2013

Advanced Manufacturing & Distribution

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COMPANIES MENTIONED

Fastenal
FAST - $50.92 - Hold

W.W. Grainger
GWW - $256.73 - Hold

MSC Industrial Direct
MSM - $82.54 - Hold

BB&TCM's Fastener Distributor Index (FDI) - May Gains Slightly Over April

KEY TAKEAWAY

For the most part, the May FDI looked a lot like March and April: sluggish current conditions, and an expectation for that situation to continue. But two potentially positive developments surfaced. First, the FDI has outperformed the PMI the last few months, which could imply some emerging relative industrial strength. Second, there may be some modest pricing being taken. Based on these, we would consider this to be a slightly improved report.

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**).

May FDI: at 52.4, stability takes hold. The FDI seems to have settled into a groove: while May was technically a step up from April (51.6), over the last three months the reading has been stable in the low 50s, suggesting sluggish-but-positive growth. The pieces in May all mostly wiggled from April: Sales were lower but in expansion territory (63.8, vs. 68.8 in Apr.) and the employment picture firmed (56.9, vs. 45.3 in Apr.). On the other hand, customer inventories, already low, got lower still (37.5, vs. 39.1 in Apr.). *Substantively, May feels similar to March and April: most are seeing growth, but not a lot, and the most hopeful sign is that at some point, presumably, there will be a need to add some inventory into the same channel.*

Outlook: tempered, but still positive. In May, the ratio of respondents that were optimistic was largely unchanged (47.2%, vs. 46.9% in Apr.). Pessimism edged up a bit, as those expecting a weaker environment in six months were 16.7% (vs. 12.5% in Apr.). *The May outlook is more of the same: a favorable ratio of "higher" to "lower" outlooks suggests that fear of a slowing or downturn is very low.*

Price: starting to look a bit positive. Sequential pricing improved for the third straight month (56.9, vs. 54.8 in Apr.). Most respondents still have higher annual pricing (65.3, vs. 65.6 in Apr.). The magnitude of the annual price increases cited was in the 1%-2% range, actually up from what had been 0%-1% for many months. *This suggests some firms are slipping in, and realizing, price increases.*

Supplemental query: reprising the question of Amazon Supply? It has been about a year since Amazon Supply made a splash and we asked what respondents thought. In that time, not much has changed. 83% of respondents still do not expect any impact from Amazon (vs. 95% in May 2012). 14% expect Amazon to influence the market but are not seeing it yet (vs. 5% in May 2012). Only 3% of respondents are seeing an impact (none in May 2012). *Respondents are perhaps a bit more circumspect about Amazon one year on, but still almost nobody is seeing any meaningful influence currently.*

What does this mean for other distributors? Overall, it is unlikely conditions have changed much in May: things look positive-but-sluggish, and we would expect that to continue to be the message as companies report monthly sales (**Fastenal** and **Grainger**). But the better pricing picture and the outperformance of the FDI over the PMI for the third straight month should be taken as incremental positives.

For required disclosures, including analyst certification, please refer to the important disclosures section on page 3 of this report

Additional Discussion

Figure 1: May FDI improves slightly; FDI outperforms PMI for three consecutive months.

FASTENER DISTRIBUTION AT A GLANCE
May 2013

	Index - May	Index - Apr.	Index - Mar.	Index - Feb.	Index - Jan.	Index - Dec.	Apr.-->May Change	Direction
PMI (Overall mftring sector)	49.0	50.7	51.3	54.2	53.1	50.7	(1.7)	Declining
FDI (Fastener distribution)	52.4	51.6	52.8	48.7	56.9	48.4	0.9	Growing
Sales	63.9	68.8	58.3	48.7	82.8	32.8	(4.9)	Growing
Employment	56.9	45.3	56.9	56.4	60.3	53.1	11.6	Growing
Supplier Deliveries	51.4	53.1	52.8	47.4	44.8	60.9	(1.7)	Slowing
Respondent Inventories	55.6	60.9	68.1	60.3	65.5	64.1	(5.4)	Too High
Customer Inventories	37.5	39.1	43.1	42.3	39.7	46.9	(1.6)	Too Low
Pricing, month-to-month	56.9	54.7	50.0	52.6	56.9	51.6	2.3	Higher
Pricing, year-to-year	65.3	65.6	56.9	62.8	60.3	57.8	(0.3)	Higher

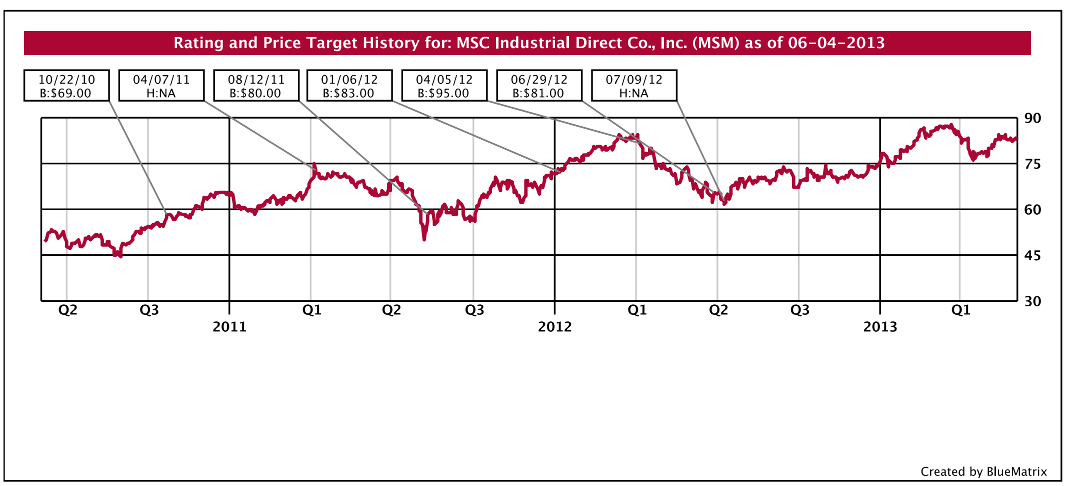
	Higher	Same	Lower
6-Month Outlook - May	47%	36%	17%

FDI and Pricing are diffision 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.

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

IMPORTANT DISCLOSURES

Price Chart



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