Fastener Distributor Index – Report #158 February 2025

Written by R.W. Baird analyst David J. Manthey, CFA with Quinn Fredrickson, CFA 3/7/25

Key Takeaway:

The seasonally adjusted Fastener Distributor Index (FDI) rebounded off a weather/holiday-impacted January, reaching **51.6** in February and again signaling improvement in the fastener market. The Forward-Looking Indicator (FLI), however, was slightly lower m/m at **47.3** as tariff headlines continue to dominate the news cycle and pressure respondent sentiment. Overall, it remains a mixed but slightly improving fastener demand environment.

Fastener Distribution Trends: February 2025

FASTENER DISTRIBUTION AT A GLANCE
February 2025

	------------------------ Index Values								--------------------------		Rate of
	Feb	**Jan**	**Dec**	**Nov**	**Oct**	**Sep**	**Aug**	**Jul**	**Jun**	**Direction**	**Change**
ISM PMI (Manufacturing)	50.3	50.9	49.3	48.4	46.5	47.2	47.2	46.8	48.5	Growing	Slower
FDI	**51.6**	**47.6**	**48.1**	**46.4**	**56.5**	**59.0**	**53.8**	**47.5**	**52.1**	Growing	Faster
FLI	**47.3**	**49.9**	**51.4**	**52.3**	**52.6**	**50.5**	**47.4**	**49.6**	**50.9**	Declining	Faster
(Other Metrics)											
Sales	53.0	37.7	36.5	48.9	61.8	58.4	50.2	43.3	52.6	Growing	Faster
Employment	50.0	51.7	47.0	51.7	51.7	55.4	50.0	50.0	53.2	Same	Same
Supplier Deliveries	60.0	55.0	56.1	46.7	61.7	60.7	62.9	46.9	59.7	Growing	Faster
Respondent Inventories	66.0	61.7	63.6	65.0	63.3	64.3	67.7	62.5	64.5	Growing	Faster
Customer Inventories	44.0	50.0	48.5	40.0	48.3	55.4	50.0	48.4	45.2	Declining	Faster
Pricing, month-to-month	74.0	53.3	53.0	58.3	56.7	58.9	56.5	51.6	59.7	Growing	Faster
Pricing, year-to-year	72.0	55.0	53.0	56.7	56.7	62.5	45.2	42.2	54.8	Growing	Faster
				Highe	Same	Lower					
6-Month Outlook - February				44%	24%	32%					

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.

Source: Baird, FCH Sourcing Network, Institute for Supply Management

About the Fastener Distributor Index (FDI). The FDI is a monthly survey of North American fastener distributors, conducted with the **FCH Sourcing Network** and **Baird**. It offers insights into current fastener industry trends/outlooks. Similarly, the Forward-Looking Indicator (FLI) is based on a weighted average of four forward-looking inputs. This indicator is designed to provide directional perspective on future expectations for fastener market conditions. As diffusion indexes, values above 50.0 signal strength, while readings below 50.0 signal weakness. Over time, results should be directly relevant to **Fastenal (FAST)** and broadly relevant to other industrial distributors such as **W.W. Grainger (GWW)** and **MSC Industrial (MSM)**.

<u>Key Points:</u>

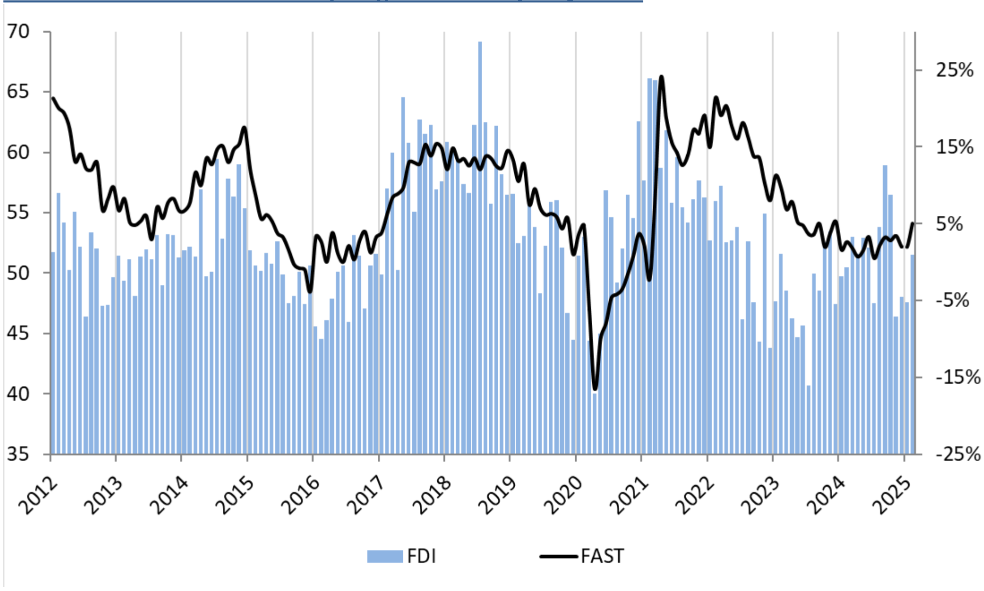
FDI sees slight m/m improvement and return to growth. The February seasonally adjusted FDI improved to 51.6 from January's 47.6. January was very soft due to weather and holiday timing thus we view the m/m improvement as in part indicative of simple normalization. Consistent with this, 40% of respondents indicated sales came in above seasonal expectations this month, which is essentially in line with the 34% average registered over the past year but up nicely from just 27% in January and 15% in December. Employment remained steady, with a robust 84% of responses saying employment levels were similar month over month. One noticeable change vs. last month was an uptick in participants noting higher pricing m/m, with many indicating this was an attempt to get ahead of potential tariffs. Nearly half (48%) of respondents said pricing was higher vs. last month, which was up significantly from just 17% in January and the highest percentage across the FDI survey since May 2022.

FLI slightly worsens, as all eyes remain on tariffs. The FLI slipped further below 50 this month, coming in at 47.3 (January 49.9). Based on respondent commentary and a continued weakening in the six-month outlook, we believe tariff headlines remain the primary drag on sentiment and are pressuring the FLI. 44% of participants forecast better activity levels over the next six months vs. today – down vs. 50% last month and 61% in December. Another 24% see similar trends continuing (down vs. 33% in January), while 32% forecast deteriorating sales (vs. 17% last month). As such, sentiment is becoming more mixed, albeit still leaning slightly optimistic on balance (44% higher, 32% lower). Respondent commentary points to a modest but long-awaited demand rebound finally beginning to materialize, though tariffs are seen as a threat to eliminate this momentum. Indeed, the six-month outlook index, while still healthy at 56.0, is now down significantly from the very optimistic December reading (72.7). Still, with the ISM PMI downcycle of 26 consecutive months of a sub-50 reading coming to an end in January, and February also remaining above 50, the potential for additional Fed rate cuts ahead, and industrial market sentiment improving post-election, a favorable turn in demand conditions ahead remains a distinct possibility with any resolution on the tariff front.

Respondent commentary focuses on pricing and whether tariffs will upset a nascent recovery. As previously mentioned, pricing is beginning to accelerate again in advance/anticipation of tariffs. One participant said, "*[We are] raising pricing to offset some of the tariffs. [We are] also expecting increased activity as some customers are attempting to beat tariffs most likely coming.*" Another participant said, "*[The] tariff situation is causing uncertainty regarding pricing in the near future.*" Turning to demand, underlying trends are showing some signs of improvement, assuming tariffs do not disrupt the momentum: "*There were plenty of visible green shoots in our industrial business coming into the new year that shriveled and died in February. The tariff changes/expansions pack quite the punch for so much of our industry and greater economy and it seems inevitable at this point that the drag of inflation will soon renew. Our revised assumption is that the long overdue recovery will be postponed in the near term. The short version is that this sucks for all involved. Fingers crossed that in the long term, some good comes out of all of this.*" Others have seen the firming in demand and recovery materializing more durably: "*The month of February 2025 was only $15,000 shy of being our biggest selling February of all time. This is on the backside of January 2025 being our biggest selling January of all time. So far, so good this year.*" Similarly, one participant said, "*Very good strong month in February following a solid January. Keeping our fingers crossed that March will follow-suit and not get blown up by tariff woes.*" Lastly, some are optimistic that even despite tariffs, a recovery can still form: "*Starting to see some of the results of the new administration in our day-to-day business. Tariff concerns have driven demand of domestically manufactured screws slightly higher. We are hopeful that demand for domestically threaded fasteners continues at a moderate rate throughout the year*"; "*We expect that regardless of tariff impacts, manufacturing and fastener sales will return to normal. We appear to be in a down cycle showing signs of reversal.*"

Fastenal reported February daily sales growth of +5.0% y/y, above our +3.6% estimate. Consistent with the improvement in the FDI, fastener sales returned to modest growth at +0.6% (January was -1.7%). Elsewhere, safety sales were +8.5% and other non-fasteners grew +6.8% y/y. For March, we are modeling a further improvement in trend to +7.7% y/y daily sales growth, which nonetheless assumes slightly weaker-than-normal seasonality off a strong February. Beyond the near term, we assume FAST is growing in the double-digits in the back half of this year and throughout 2026 in what we assume is an improving industrial/commercial economy (consistent with recent ISM improvement).

Fastener Distributor Index (FDI); Seasonally Adjusted



**FAST March 2020 – December 2021 Monthly Sales Presented as ex. Safety Products*
Source: Baird, FCH Sourcing Network, Company reports

1-Month Lagged FDI vs. FLI (Both Seasonally Adjusted)

Source: Baird, FCH Sourcing Network

Risk Synopsis

Fastenal: Risks include economic sensitivity, pricing power, relatively high valuation, secular gross margin pressures, success of vending and on-site initiatives, and ability to sustain historical growth.

Grainger: Risks include ability to maintain margins, internet-only industrial supply sources, ability to sustain secular growth, cyclicality, and international operations.

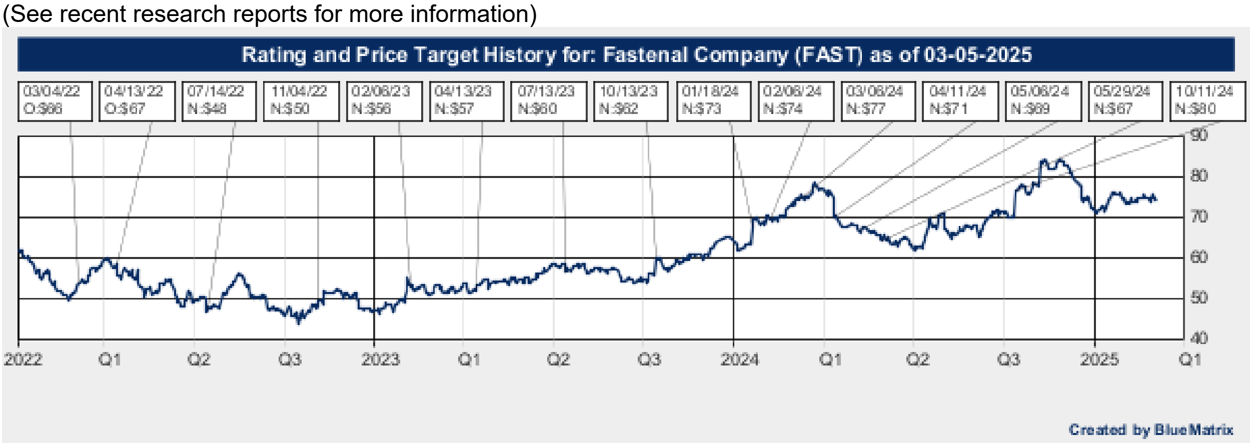
MSC Industrial: Risks include cyclicality, maintaining and managing growth, success of Mission Critical initiative, and poor investor sentiment.

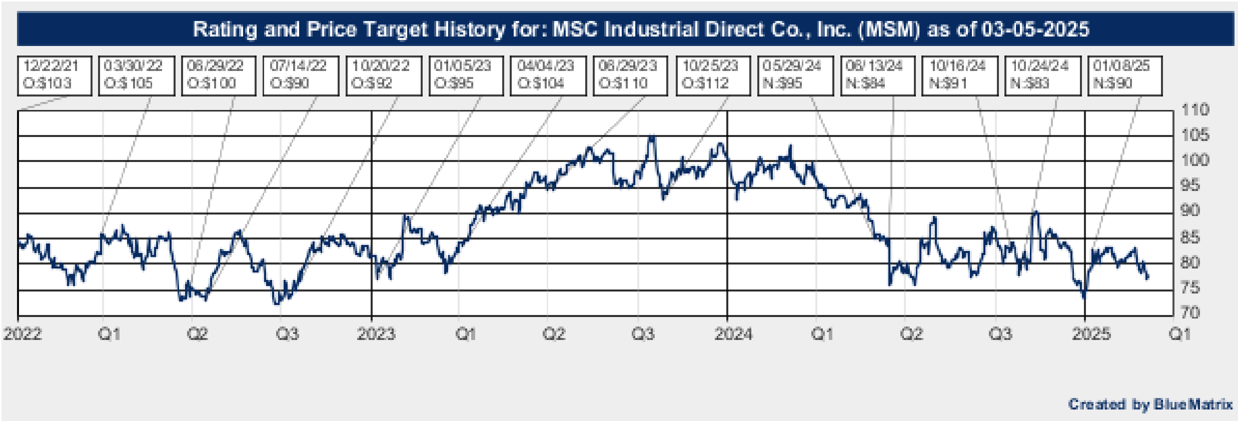
Industrial Distribution: Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.

Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned
All stock prices below are as of 3/6/2025.

Fastenal Company (FAST-$76.73-Neutral)
W.W. Grainger Inc. (GWW-$990.36-Outperform)
MSC Industrial Direct Co. Inc (MSM-$79.02-Neutral)
(See recent research reports for more information)





1 - Robert W. Baird & Co. Incorporated makes a market in the securities of FAST, GWW, and MSM.
8 - Robert W. Baird & Co. Incorporated and/or its affiliates beneficially own 1% or more of any class of common equity securities of Fastenal Company.

Robert W. Baird & Co. Incorporated ("Baird") and/or its affiliates expect to receive or intend to seek investment-banking related compensation from the company or companies mentioned in this report within the next three months.

A complete listing of all companies covered by Baird U.S. Equity Research and applicable research disclosures can be accessed at http://www.rwbaird.com/research-insights/research/coverage/third-party-research-disclosures.aspx. You can also call 800-792-2473 or write: Robert W. Baird & Co., Equity Research, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

Baird may not be licensed to execute transactions in all foreign listed securities directly. Transactions in foreign listed securities may be prohibited for residents of the United States. Baird may act as principal for its own account or as agent for another person in connection with securities transactions effected through Baird. Please contact a Baird representative for more information.

Investment Ratings: Outperform (O) - Expected to outperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months. **Neutral (N)** - Expected to perform in line with the broader U.S. equity market over the next 12 months. **Underperform (U)** - Expected to underperform on a total return, risk-adjusted basis the broader U.S. equity market over the next 12 months.

Risk Ratings: L - Lower Risk – Higher-quality companies for investors seeking capital appreciation or income with an emphasis on safety. Company characteristics may include: stable earnings, conservative balance sheets, and an established history of revenue and earnings. **A - Average Risk** – Growth situations for investors seeking capital appreciation with an emphasis on safety. Company characteristics may include: moderate volatility, modest balance-sheet leverage, and stable patterns of revenue and earnings. **H - Higher Risk** – Higher-growth situations appropriate for investors seeking capital appreciation with the acceptance of risk. Company characteristics may include: higher balance-sheet leverage, dynamic business environments, and higher levels of earnings and price volatility. **S - Speculative Risk** – High growth situations appropriate only for investors willing to accept a high degree of volatility and risk. Company characteristics may include: unpredictable earnings, small capitalization, aggressive growth strategies, rapidly changing market dynamics, high leverage, extreme price volatility and unknown competitive challenges.

Valuation, Ratings and Risks. The recommendation and price target contained within this report are based on a time horizon of 12 months but there is no guarantee the objective will be achieved within the specified time horizon. Price targets are determined by a subjective review of fundamental and/or quantitative factors of the issuer, its industry, and the security type. A variety of methods may be used to determine the value of a security including, but not limited to, discounted cash flow, earnings multiples, peer group comparisons, and sum of the parts. Overall market risk, interest rate risk, and general economic risks impact all securities. Specific information regarding the price target and recommendation is provided in the text of our most recent research report.

Distribution of Investment Ratings. As of February 28, 2025, Baird U.S. Equity Research covered 727 companies, with 61% rated Outperform/Buy, 38% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 7% of Outperform/Buy-rated, and 4% of Neutral/Hold-rated companies have compensated Baird for investment banking services in the past 12 months and/or Baird managed or co-managed a public offering of securities for these companies in the past 12 months.

Analyst Compensation. Research analyst compensation is based on: (1) the correlation between the research analyst's recommendations and stock price performance; (2) ratings and direct feedback from our investing clients, our institutional and retail sales force (as applicable) and from independent rating services; (3) the research analyst's productivity, including the quality of such analyst's research and such analyst's contribution to the growth and development of our overall research effort; (4) compliance with all of Baird's internal policies and procedures; and (5) other considerations, such as Baird's assessment of the prevailing market rates for talent in the sector the research analyst covers, but excluding the analyst's contributions to Baird's investment banking services activities. This compensation criteria and actual compensation is reviewed and approved on an annual basis by Baird's Research Oversight Committee. Analyst compensation is derived from all revenue sources of the firm, including revenues from investment banking. Baird does not compensate research analysts based on specific investment banking transactions.

Analyst Certification

The research analyst primarily responsible for the preparation of this research report certifies that the views expressed in this research report and/or financial model accurately reflect such research analyst's personal views about the subject securities or issuers and that no part of his or her compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report.

Disclaimers

Baird prohibits analysts from owning stock in companies they cover.

This is not a complete analysis of every material fact regarding any company, industry or security. The information, opinions, estimates, and forecasts contained herein are as of the date hereof and are subject to change without prior notification. The information has been obtained from sources we consider to be reliable, but we cannot guarantee its accuracy.

ADDITIONAL INFORMATION ON COMPANIES MENTIONED HEREIN IS AVAILABLE UPON REQUEST

The Dow Jones Industrial Average, S&P 500, S&P 400 and Russell 2000 are unmanaged common stock indices used to measure and report performance of various sectors of the stock market; direct investment in indices is not available. Baird is exempt from the requirement to hold an Australian financial services license. Baird is regulated by the United States Securities and Exchange Commission, FINRA, and various other self-regulatory organizations and those laws and regulations may differ from Australian laws. This report has been prepared in accordance with the laws and regulations governing United States broker-dealers and not Australian laws.

Other Disclosures

The information and rating included in this report represent the research analyst's views based on a time horizon of 12 months, as described above, unless otherwise stated. In some of our research reports, the subject company may be designated as a "Fresh Pick", representing that, until the expiration date specified in the report or until the analyst removes such designation, certain news, events or catalysts could have a near or medium term impact on the market price of the security discussed in that report, which may be directionally opposite (i.e., bullish/bearish) to the analyst's published, 12-month rating and/or price target contained in the report. The Fresh Pick designation is not a rating and has no impact on the analyst's fundamental rating or price target as defined herein. Baird seeks to keep all our research current, but numerous factors such as rapid changes in market conditions, current events or regulations can impact our analyst's ability to do so. Most of our reports are published at irregular intervals, at the sole discretion of the research analyst. The research analyst(s) named in this report may, at times and at the request of clients or their Baird representatives, provide particular investment perspectives or trading strategies based primarily on the analyst's understanding of the individual client's objectives. These perspectives or trading strategies generally are responsive to client inquiries and based on criteria the research analyst considers relevant to the client. As such, these perspectives and strategies may differ from the research analyst's views contained in this report.

Baird and/or its affiliates may provide to certain clients additional or research supplemental products or services, such as outlooks, commentaries and other detailed analyses, which focus on covered stocks, companies, industries or sectors. Not all clients who receive our standard company-specific research reports are eligible to receive these additional or supplemental products or services. Baird determines in its sole discretion the clients who will receive additional or supplemental products or services, in light of various factors including the size and scope of the client relationships. These additional or supplemental products or services may feature different analytical or research techniques and information than are contained in Baird's standard research reports. Any ratings and recommendations contained in such additional or research supplemental products are consistent with the research analyst's ratings and recommendations contained in more broadly disseminated standard research reports. Baird disseminates its research reports to all clients simultaneously by posting such reports to Baird's password-protected client portal, https://bol.rwbaird.com/Login ("BairdOnline"). All clients may access BairdOnline and at any time. All clients are advised to check BairdOnline for Baird's most recent research reports. After research reports are posted to BairdOnline, such reports may be emailed to clients, based on, among other things, client interest, coverage, stock ownership and indicated email preferences, and electronically distributed to certain third-party research aggregators, who may make such reports available to entitled clients on password-protected, third-party websites. Not all research reports posted to BairdOnline will be emailed to clients or electronically distributed to such research aggregators. To request access to Baird Online, please visit https://bol.rwbaird.com/Login/RequestInstLogin or contact your Baird representative.

Dividend Yield. As used in this report, the term "dividend yield" refers, on a percentage basis, to the historical distributions made by the issuer relative to its current market price. Such distributions are not guaranteed, may be modified at the issuer's discretion, may exceed operating cash flow, subsidized by borrowed funds or include a return of investment principal.

United Kingdom ("UK") disclosure requirements for the purpose of distributing this research into the UK and other countries for which Robert W. Baird Limited holds a MiFID passport.

The contents of this report may contain an "investment recommendation", as defined by the Market Abuse Regulation EU No 596/2014 ("MAR"). This report does not contain a "personal recommendation" or "investment advice", as defined by the Market in Financial Instruments Directive 2014/65/EU ("MiFID"). Please therefore be aware of the important disclosures outlined below. Unless otherwise stated, this report was completed and first disseminated at the date and time provided on the timestamp of the report. If you would like further information on dissemination times, please contact us. The views contained in this report: (i) do not necessarily correspond to, and may differ from, the views of Robert W. Baird Limited or any other entity within the Baird Group, in particular Robert W. Baird & Co. Incorporated; and (ii) may differ from the views of another individual of Robert W. Baird Limited.

This material is distributed in the UK and the European Economic Area ("EEA") by Robert W. Baird Limited, which has an office at Finsbury Circus House, 15 Finsbury Circus, London EC2M 7EB and is authorized and regulated by the Financial Conduct Authority ("FCA") in the UK.

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. This material is only directed at and is only made available to persons in the EEA who would satisfy the criteria of being "Professional" investors under MiFID and to persons in the UK falling within Articles 19, 38, 47, and 49 of the Financial Services and Markets Act of 2000 (Financial Promotion) Order 2005 (all such persons being referred to as "relevant persons"). Accordingly, this document is intended only for persons regarded as investment professionals (or equivalent) and is not to be distributed to or passed onto any other person (such as persons who would be classified as Retail clients under MiFID).

All substantially material sources of the information contained in this report are disclosed. All sources of information in this report are reliable, but where there is any doubt as to reliability of a particular source, this is clearly indicated. There is no intention to update this report in future. Where, for any reason, an update is made, this will be made clear in writing on the research report. Such instances will be occasional only.

Please note that this report may provide views which differ from previous recommendations made by the same individual in respect of the same financial instrument or issuer in the last 12 months. Information and details regarding previous recommendations in relation to the financial instruments or issuer referred to in this report are available at https://baird.bluematrix.com/sellside/MAR.action.

Robert W. Baird Limited or one of its affiliates may at any time have a long or short position in the company or companies mentioned in this report. Where Robert W. Baird Limited or one of its affiliates holds a long or short position exceeding 0.5% of the total issued share capital of the issuer, this will be disclosed separately by your Robert W. Baird Limited representative upon request.

Investment involves risk. The price of securities may fluctuate and past performance is not indicative of future results. Any recommendation contained in the research report does not have regard to the specific investment objectives, financial situation and the particular needs of any individuals. You are advised to exercise caution in relation to the research report. If you are in any doubt about any of the contents of this document, you should obtain independent professional advice.

Robert W. Baird Limited and Robert W. Baird & Co. Incorporated have in place organisational and administrative arrangements for the prevention, avoidance, and disclosure of conflicts of interest with respect to research recommendations. Robert W. Baird Limited's Conflicts of Interest Policy, available here, outlines the approach Robert W. Baird Limited takes in relation to conflicts of interest and includes detail as to its procedures in place to identify, manage and control conflicts of interest. Robert W. Baird Limited and or one of its affiliates may be party to an agreement with the issuer that is the subject of this report relating to the provision of services of investment firms. Robert W. Baird & Co. Incorporated's policies and procedures are designed to identify and effectively manage conflicts of interest related to the preparation and content of research reports and to promote objective and reliable research that reflects the truly held opinions of research analysts. Robert W. Baird & Co. Incorporated's research analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is strictly confidential to the recipient and not intended for persons in jurisdictions where the distribution or publication of this research report is not permitted under the applicable laws or regulations of such jurisdiction.

Robert W. Baird Limited is exempt from the requirement to hold an Australian financial services license and is regulated by the FCA under UK laws, which may differ from Australian laws. As such, this document has not been prepared in accordance with Australian laws.

*****