**Key Takeaway:**

The seasonally-adjusted FDI for July 2017 was 55.1 – decelerating slightly from June’s strong 60.8 reading but remaining well in expansionary territory. Similarly, sales momentum cooled off somewhat from a record reading in June, with a still very strong seasonally-adjusted sales index of 69.8 coming down vs. a record 86.6 last month. Commentary on market conditions was a bit more mixed this month, with some respondents continuing to see growth accelerating, while others noted a slight leveling off of activity. The FDI Forward-Looking Indicator also remains well in expansionary territory, registering a seasonally-adjusted 62.9, but saw a modest deceleration vs. June (64.0).

**Key Points:**

**About the Fastener Distributor Index (FDI).** The FDI is a monthly survey of North American fastener distributors, conducted with the FCH Sourcing Network and the National Fastener Distributors Association. It offers insights into current industry trends/outlooks. As a diffusion index, 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).

**July FDI decelerates slightly from June.** The seasonally-adjusted July FDI (55.1) ticked down from June’s strong 60.8 reading, mainly driven by a slight moderation in sales momentum relative to a record June. In the July survey, 47% of respondents indicated sales were “better” relative to seasonal expectations, down slightly vs. June (64%). Relative to historical seasonal readings in the month of July, this month’s seasonally-adjusted sales index of 69.8 suggests selling conditions still remain very strong overall. Encouragingly, pricing was higher on a y/y basis for a majority of respondents (53%) – driving the FDI y/y pricing index to the highest level since August 2014. As it relates to customer inventory levels, most respondents believe inventories are relatively in line with expectations (70% of responses), while 30% indicated inventory levels are too low. This compares to June results of 48% and 44%, respectively, as well as 8% who viewed customer inventories as too high in June.

**FDI Forwarding-Looking Indicator remains solidly in growth mode.** The FDI Forward-Looking Indicator is based on a weighted average of four forward-looking inputs from the FDI survey. This indicator is designed to provide directional perspective on future expectations for fastener market conditions. July’s seasonally-adjusted Forward-Looking Indicator ticked down slightly to 62.9 vs. 64.0 in June. The Forward-Looking Indicator averaged 49.7 during 2016, but has averaged 61.0 year-to-date in 2017. Given a solidly expansionary Forward-Looking Indicator and FDI, market conditions appear likely to remain in growth mode in the months ahead.
Manufacturing employment remains stable. Following a notably more bullish turn in hiring sentiment in May, respondents have indicated relatively stable hiring conditions for two straight months. 73% of distributors indicated hiring levels were unchanged relative to seasonal expectations, while 17% saw hiring pick up (vs. 21% in April, 47% in May, and 36% in June). This result in a FDI Employment Index reading of 53.3, down vs. June's strong 68.0 reading but still coming in above the 2016 average (48.9). July's US jobs report, meanwhile, came in solidly above expectations (+209,000 adds vs. +180,000 consensus). Domestic manufacturing employment was up slightly at +16,000 m/m, while average hours per work week for manufacturing employees was flat vs. June (40.9 hours).

July sentiment somewhat mixed. Commentary on current market conditions was more mixed this month vs. recent bullish commentary. Some noted continued strong trends, while others are seeing a possible leveling off of activity levels after several strong months (although nevertheless still solidly higher y/y). As one distributor put it, “The last couple of months things have evened out… not the huge growth of the first several months, but absolutely higher sales than last year.” Another respondent characterized July as “slow compared to June,” while some attributed a loss of momentum to “more people [taking] time off” in July. Others continue to see consistently strong trends, noting “Sales are picking up and deliveries from some US companies are moving out!” The outlook for the remainder of the year remains largely positive, as 57% of respondents expect higher activity levels over the next six months vs. today, while just 3% expect lower.

Fastenal reported July daily sales growth of +12.9% y/y, nicely ahead of our +11.5% estimate and reflecting growth in all end markets/product lines. Underlying “core” growth (excluding acquisitions and foreign exchange) was +11.3%, the second consecutive month of double-digit growth. Fasteners saw strong growth at +11.3% y/y, including the recent Mansco acquisition (+7.4% ex-Mansco). Based on FDI data and other research inputs, we continue to expect a substantial uptick in growth among the public industrial distributors this year, with Fastenal daily sales growth expected to average double-digit y/y growth rates for the remainder of 2017.
Fastener Distribution Trends: July 2017

<table>
<thead>
<tr>
<th>Table: Fastener Distribution at a Glance</th>
<th>July 2017</th>
<th>Index Values</th>
<th>Rate of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>PMI (Manufacturing Sector)</td>
<td>56.3</td>
<td>57.8</td>
<td>54.9</td>
</tr>
<tr>
<td>FDI (Fastener Sector)</td>
<td>62.3</td>
<td>60.5</td>
<td>66.3</td>
</tr>
<tr>
<td>FDI (Seasonally Adjusted)</td>
<td>55.1</td>
<td>60.8</td>
<td>64.6</td>
</tr>
<tr>
<td>Sales (SA)</td>
<td>69.8</td>
<td>86.6</td>
<td>79.5</td>
</tr>
<tr>
<td>Forward-Looking (SA)</td>
<td>82.9</td>
<td>64.0</td>
<td>63.3</td>
</tr>
<tr>
<td>(Other Metrics; NSA)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment</td>
<td>53.3</td>
<td>63.0</td>
<td>73.5</td>
</tr>
<tr>
<td>Supplier Deliveries</td>
<td>55.0</td>
<td>64.0</td>
<td>72.2</td>
</tr>
<tr>
<td>Respondent Inventories</td>
<td>51.7</td>
<td>52.0</td>
<td>58.3</td>
</tr>
<tr>
<td>Customer Inventories</td>
<td>35.0</td>
<td>32.0</td>
<td>36.1</td>
</tr>
<tr>
<td>Pricing, month-to-month</td>
<td>65.0</td>
<td>52.0</td>
<td>59.7</td>
</tr>
<tr>
<td>Pricing, year-to-year</td>
<td>76.7</td>
<td>66.0</td>
<td>75.0</td>
</tr>
</tbody>
</table>

*FDI and Pricing are diffusion indexes. At 50, the performance of the category met expectations. A reading above 50 suggests the category outperformed expectations, while a reading below 50 suggests the category underperformed expectations.*

Fastener Distributor Index (FDI); Seasonally Adjusted

![Graph of Fastener Distributor Index (FDI); Seasonally Adjusted]

Source: Robert W. Baird & Co., FCH Sourcing Network, company reports

FDI vs. Forward-Looking Indicator (Seasonally Adjusted)

![Graph of FDI vs. Forward-Looking Indicator (Seasonally Adjusted)]

Source: Robert W. Baird & Co., FCH Sourcing Network
Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned
All stock prices below are as of 8/4/2017.

Fastenal Company (FAST- $43.68)
WW Grainger Inc. (GWW- $172.07)
MSC Industrial Direct Co. Inc (MSM- $71.10)
(See recent research reports for more information)
Robert W. Baird & Co. Incorporated makes a market in the securities of FAST, GWW, and MSM.

Robert W. Baird & Co. Incorporated and/or its affiliates have been compensated by Fastenal Company for non-investment banking-securities related services in the past 12 months.

Robert W. Baird & Co. Incorporated 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.

Robert W. Baird & Co. Incorporated 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. 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 July 31, 2017, Baird U.S. Equity Research covered 712 companies, with 54% rated Outperform/Buy, 45% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 11% of Outperform/Buy-rated, 7% of Neutral/Hold-rated and 11% of Underperform/Sell 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.** Analyst compensation is based on: 1) the correlation between the 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 analyst's productivity, including the quality of the analyst's research and the analyst's contribution to the growth and development of our overall research effort and 4) compliance with all of Robert W. Baird's internal policies and procedures. 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.

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/research-disclosure.aspx](http://www.rwbaird.com/research-insights/research/coverage/research-disclosure.aspx). You can also call 800-792-2473 or write: Robert W. Baird & Co., Equity Research, 777 E. Wisconsin Avenue, Milwaukee, WI 53202.

**Analyst Certification**

The senior research analyst(s) certifies that the views expressed in this research report and/or financial model accurately reflect such senior 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 opinions expressed here reflect our judgment at this date and are subject to change. The information has been obtained from sources we consider to be reliable, but we cannot guarantee the 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.

**Copyright 2017 Robert W. Baird & Co. Incorporated**

**Other Disclosures**

The information and rating included in this report represent the Analyst's long-term (12 month) view as described above. 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 analyst considers relevant to the client. As such, these perspectives and strategies may differ from the analyst's views contained in this report.

Robert W. Baird & Co. Incorporated and/or its affiliates (Baird) 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 Analyst's ratings and recommendations contained in more broadly disseminated standard research reports.

Baird Research Analysts may provide incremental data points or views regarding covered companies in the form of Research Posts and Flash Reports. All Posts and Flash Reports are available to clients via
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.

*****