**Key Takeaway:**
The seasonally adjusted FDI for November 2017 was 56.9 – moderating vs. October’s strong 62.2 reading but remaining well in expansionary territory overall. Similarly, selling conditions also decelerated slightly with the seasonally adjusted sales index coming in at a still strong 72.8 (October 80.1). Qualitative commentary on market conditions was a bit more mixed vs. recent trends with one respondent highlighting a strong backlog vs. prior year, while another expressed some skepticism on the sustainability of recent growth. The FDI Forward-Looking Indicator remained very positive, registering a seasonally adjusted reading of 57.7, but also came down modestly vs. October (59.1).

**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).

**November FDI decelerates but remains in expansionary territory.** The seasonally adjusted November FDI (56.9) was down m/m (October 62.2), consistent with last month’s drop in the forward-looking indicator. In the November survey, 50% of respondents indicated sales were “better” relative to seasonal expectations – down vs. a record 73% in October but nevertheless still much improved vs. average 2016 levels (31%). Relative to historical seasonal readings in the month of November, this month’s seasonally adjusted sales index of 72.8 suggests selling conditions still remain very strong overall. Pricing was again a solid tailwind as 63% of distributors saw higher prices y/y (up slightly vs. 60% in October). This produced an FDI y/y pricing index of 78.1, a modest acceleration vs. last month’s 75.0 reading and consistent with strong YTD levels. As it relates to customer inventories, a majority of respondents continue to view inventory levels as in line with expectations (75% of responses), while 25% see inventory levels as too low. This was relatively unchanged vs. October results of 80% and 20%, respectively.

**FDI Forward-Looking Indicator again slightly lags YTD average.** 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. The seasonally adjusted Forward-Looking Indicator decelerated for the second straight month in November to 57.7 vs. last month’s 59.1. For context, the Forward-Looking Indicator averaged 49.7 during 2016, but has averaged 61.0 year-to-date in 2017. Nevertheless, given solidly expansionary FDI and Forward-Looking Indicator readings, market conditions still appear likely to remain in growth mode in the coming months.
**Manufacturing employment modestly lower m/m.** Hiring sentiment was slightly lower m/m among survey respondents. 13% of respondents indicated employment was higher in November relative to seasonal expectations vs. 27% in October, while 81% saw hiring levels as in line with seasonal expectations (October 60%). This resulted in an FDI Employment Index of 53.1, down modestly vs. October’s 56.7 reading. The October US jobs report, meanwhile, was very solid at +261,000 jobs. Upward revisions to prior months (September revised to +18,000 adds vs. previous estimate -33,000, for example) may explain the delta vs. even more aggressive October consensus expectations of +310,000. Recent hurricane-related disruption that weakened September’s jobs report largely faded in October. Manufacturing employment was also up m/m (+24,000 jobs), with gains noted in computer and electronic products, chemicals, and fabricated metals – bringing the total number of manufacturing jobs added since November 2016 to +156,000. Average hours per work week for manufacturing employees was also up slightly at 41.0 hours (vs. September 40.8). November’s US jobs report is expected to be released on 12/8/17.

**November sentiment mixed.** Qualitative responses on current market conditions were fewer than typical this month. That being said, survey commentary was a bit more split in tone. One respondent expressed skepticism that current strong growth is sustainable throughout 2018 saying, “While it feels like the ride up is never ending, [I] can’t help but feel like it will run out by end of the 1st quarter 2018, level for a bit and then maybe fall off.” Another respondent, on the other hand, noted strong backlog as a cause for optimism, saying, “[We’re] maintaining a large backlog compared to [the] same time-frame last year.” Quantitative survey data still points to a mostly positive outlook with 94% of respondents expecting higher or similar activity levels over the next six months.

**Fastenal** reported November daily sales growth of 15.4% y/y, nicely ahead of our 14.4% estimate and reflecting growth in all end markets/product lines. Underlying “core” growth (excluding acquisitions and foreign exchange) was 13.4%, the sixth consecutive month of double-digit growth. Fasteners saw strong growth at 14.1% y/y (up vs. +11.5% last month), including the recent Mansco acquisition (+10.0% ex-Mansco). Based on FDI data and other research inputs, we expect a continued uptick in growth among the public industrial distributors this year, with Fastenal daily sales growth expected to sustain in the double-digits y/y for the remainder of 2017 and into 2018.

**FAST Risk Synopsis**

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.

**Industrial Distribution Risk Synopsis**

Risks include economic sensitivity, pricing power, online pressure/competitive threats, global sourcing, and exposure to durable goods manufacturing.
### Fastener Distribution Trends: November 2017

#### Fastener Distribution at a Glance

<table>
<thead>
<tr>
<th></th>
<th>Index Values</th>
<th>Rate of Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>PMI (Manufacturing Sector)</td>
<td>58.2 58.7 60.0 56.0 56.3 57.8 54.9 54.8</td>
<td>Growing Slower</td>
</tr>
<tr>
<td>FDI (Fastener Sector)</td>
<td>55.9 61.3 57.6 61.0 52.9 60.5 56.3 53.7</td>
<td>Growing Slower</td>
</tr>
<tr>
<td>FDI (Seasonally Adjusted)</td>
<td>56.9 62.2 61.5 62.7 55.1 60.8 64.6 50.2</td>
<td>Growing Slower</td>
</tr>
</tbody>
</table>

| Sales (SA)           | 72.8 80.1 77.3 77.1 69.0 86.6 79.6 43.8 | Growing Slower |
| Forward-Looking (SA) | 57.7 55.1 66.9 59.9 62.9 64.0 63.3 58.9 | Growing Slower |

**Other Metrics: NSA**

| Employment           | 53.1 56.7 57.1 62.1 53.3 68.0 73.6 57.4 | Growing Slower |
| Supplier Deliveries  | 68.8 65.0 69.6 65.2 65.0 64.0 72.2 66.2 | Growing Faster |
| Respondent Inventories| 53.1 51.7 48.2 62.1 51.7 52.0 58.3 52.9 | Growing Faster |
| Customer Inventories  | 37.5 40.0 37.5 39.4 35.0 32.0 36.1 38.2 | Declining Faster |
| Pricing, month-to-month | 64.1 62.3 73.2 72.7 65.0 52.0 59.7 60.8 | Growing Faster |
| Pricing, year-to-year  | 70.1 75.0 83.9 78.8 76.7 66.0 75.0 73.5 | Growing Faster |

**6-Month Outlook - November**

<table>
<thead>
<tr>
<th>Higher Same Lower</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.7% 47% 5%</td>
</tr>
</tbody>
</table>

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

**Source:** Robert W. Baird & Co., FCH Sourcing Network, Institute for Supply Management
Fastener Distributor Index (FDI); Seasonally Adjusted

FDI vs. Forward-Looking Indicator (Seasonally Adjusted)
Appendix – Important Disclosures and Analyst Certification

Covered Companies Mentioned
All stock prices below are as of 12/6/2017.

Fastenal Company (FAST-$53.38-Outperform)
W.W. Grainger Inc. (GWW-$221.53-Neutral)
MSC Industrial Direct Co. Inc (MSM-$89.52-Neutral)
(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 November 30, 2017, Baird U.S. Equity Research covered 710 companies, with 54% rated Outperform/Buy, 45% rated Neutral/Hold and 1% rated Underperform/Sell. Within these rating categories, 11% of Outperform/Buy-rated and 6% 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.** 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
https://bol.rwbaird.com/Login, but not all are sent directly to clients. Baird Associates may, at their discretion, choose whether to send these Posts and Flash Reports to Baird clients after they are posted online. Such decisions are based on, among other things, client interest, coverage, stock ownership and indicated email preferences. The incremental content and/or analysis contained in these pieces may be useful to investors as part of a broader investment thesis, but is not sufficient to warrant a change in the Research Analyst's published opinion, including rating, estimates and price targets. Access to https://bol.rwbaird.com/Login is available to all Baird Clients. Contact your Baird representative if you would like access to https://bol.rwbaird.com/Login.

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

The contents of this report may contain an “investment recommendation,” as defined by the Market Abuse Regulation EU No 596/2014 (“MAR”). 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. Please note, 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 which is available at https://baird.bluematrix.com/sellside/MAR.action.

This material is distributed in the UK and the European Economic Area (“EEA”) by RWBL, 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”).

For the purposes of the FCA requirements, this investment research report is classified as investment research and is objective. 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.

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.

Robert W. Baird Group and or one of its affiliates may at any time have a long or short position in the company/companies mentioned in this report. Where the Group 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 RWBL representative upon request.

Robert W. Baird & Co. Incorporated and RWBL have in place organizational and administrative arrangements for the disclosure and avoidance of conflicts of interest with respect to research recommendations. Robert W. Baird Group 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. An outline of the general approach taken by Robert W. Baird Limited in relation to conflicts of interest is available from your RWBL representative upon request. Baird’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. Analysts certify on a quarterly basis that such research reports accurately reflect their personal views.

This material is 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.

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.

RWBL is exempt from the requirement to hold an Australian financial services license. RWBL 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.

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.

For additional information: www.fdisurvey.com

*****