

COMMERCIAL AND INDUSTRIAL

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COMPANIES MENTIONED

Fastenal Company FAST - \$43.09 - Hold (2)

MSC Industrial Direct Co., Inc. MSM - \$68.84 - Hold (2)

W.W. Grainger, Inc. GWW - \$205.29 - Buy (1)

BB&TCM'S FASTENER DISTRIBUTOR INDEX (FDI) - JULY CONTINUES TREND OF BROADENING NEGATIVE SENTIMENT

Key Points

- About the Fastener Distributor Index (FDI). The FDI is a monthly survey of NorAm fastener
 distributors, conducted in partnership with the FCH Sourcing Network, which aims to provide
 insights into current trends/outlooks. As a diffusion index, readings 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).
- Mirroring the PMI, July's FDI signals contraction (45.1, vs. 51.6 in June). Building on a June that reflected slowing (51.6, from 56.3 in May), July's FDI fell to 45.1 (Exhibit 1, next page). Being below 50 suggests more fastener distributors are experiencing worse-than-expected conditions that point to conditions that are or may soon be contracting. Again, Sales was the highlighter, reflecting far worse than expected performance with a reading of 38.2 (from 42.2 in June). But for the first month since the series started Employment was not up (50.0 in July). It is also notable that Supplier Deliveries (51.3, vs. 60.9 in June) sped up, suggesting that demands on production are moderating. Automotive was clearly a stronger end market. After a stronger start to the year, Construction was mixed in July. Mirroring many broader economic measures, more fastener distributors saw worse than expected performance in July, representing a risk to the cycle.
- **Outlook: Pessimism rises sharply, again**. Erosion of optimism in recent months continued in July: 18% of respondents expect higher activity in six months (25% in June), vs. 45% that expect lower (38% in June). *Confidence continued to fail, in our view.*
- **Pricing, at least, remains stable.** Still no sign of fresh price (but who expects it at this point?), but nor is there any sign that pricing is sliding. Respondents with positive annual gains (36.8% of total) still easily outpace those feeling pricing pressure (13.2% of respondents); those seeing annual price as the same has swelled to 50% of the total. All this makes the trend in the annual rate of change unsurprising: point-of-sale pricing was ~1.5% in July, consistent with June but half the rate of growth through the first part of 2011 (~3.0%). With no impetus to raise prices and past increases anniversarying, annual pricing is drifting toward 0%. But it could be worse.
- The July FDI continues to cast a negative pall on distributor results. Fastenal posted a sluggish looking July, so that would seem consistent with the FDI result. However, Fastenal felt this was due to the July 4 holiday more than further slowing in the economy. The result would seem to suggest the issue is more durable than that. Given that the distributors are highly correlated, we would expect MSC Industrial and Grainger to have had a tough July as well. However, Grainger, with less production exposure and possibly benefiting from seasonal products (hot temperatures), may prove more resilient than its distribution peers.

Additional Discussion

Exhibit 1. A broader swathe of fastener distributors are experiencing subpar results in June, the first time that has been true in 2012

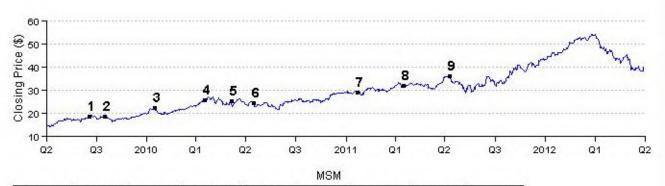
FASTENER DISTRIBUTION AT A GLANCE July 2012									
	Index -	Index -	Index -	Index -	Index -	Index -	Index -	June> July	
	July	June	May	Apr.	Mar.	Feb.	Jan.	Change	Direction
PMI (Overall mftring sector)	49.8	49.7	53.5	54.8	53.4	52.4	54.1	(3.8)	Declining
FDI (Fastener distribution)	45.1	51.6	56.3	53.8	55.9	55.9	57.3	(4.7)	Declining
Sales	38.2	42.2	58.8	55.1	69.4	64.5	79.1	(16.6)	Declining
Employment	50.0	54.7	58.8	59.0	63.9	59.2	58.1	(4.1)	Declining
Supplier Deliveries	51.3	60.9	61.3	59.0	48.6	52.6	52.3	(0.3)	Slowing
Respondent Inventories	57.9	60.9	55.0	62.8	59.7	53.9	58.1	5.9	Too High
Customer Inventories	40.8	48.4	46.3	42.3	41.7	47.4	39.5	2.2	Too Low
Pricing, month-to-month	55.3	57.8	51.3	55.1	61.1	57.9	50.0	6.6	Higher
Pricing, year-to-year	61.8	56.3	65.0	70.5	70.8	71.1	65.1	(8.8)	Higher
	<u>Higher</u>	<u>Same</u>	Lower					-	
6-Month Outlook - July	18%	37%	45%						

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.

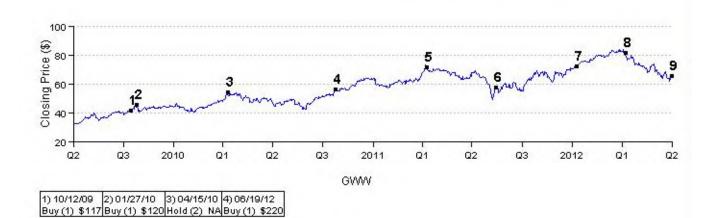
Source: BB&T Capital Markets' estimates, FCH Sourcing Network, Institute for Supply Management

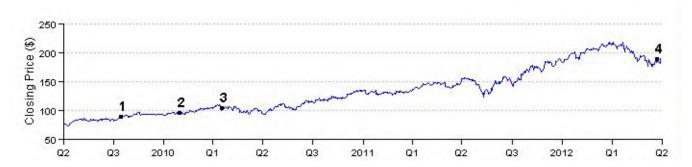


1) 09/15/09 | 2) 10/13/09 | 3) 01/13/10 | 4) 04/14/10 | 5) 06/03/10 | 6) 07/14/10 | 7) 01/19/11 | 8) 04/13/11 | 9) 07/07/11 | Buy (1) \$45 Buy (1) \$47 Buy (1) \$54 Buy (1) \$60 Buy (1) \$63 Buy (1) \$65 Buy (1) \$69 Buy (1) \$74 Hold (2) NA



1) 10/12/09 2) 10/22/09 3) 04/08/10 4) 10/22/10 5) 04/07/11 6) 08/12/11 7) 01/06/12 8) 04/05/12 9) 06/29/12 Buy (1) \$52 Buy (1) \$54 Buy (1) \$67 Buy (1) \$69 Hold (2) NA Buy (1) \$80 Buy (1) \$83 Buy (1) \$95 Buy (1) \$81





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Buy (1)	53.8%	Buy (1)	10.6%	
Hold (2)	45.6%	Hold (2)	6.9%	
Underweight/Sell (3)	0.6%	Underweight/Sell (3)	0.0%	
Not Rated (NR)	0.0%	Not Rated (NR)	0.0%	

Suspended (SP) 0.0% Suspended (SP) 0.0%

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MSC Industrial Direct Co., Inc. (MSM)	1, 6
W.W. Grainger, Inc. (GWW)	6, 9

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