

COMPANIES MENTIONED

Fastenal

FAST - \$49.35 - Hold

W.W. Grainger

GWW - \$224.65 - Hold

MSC Industrial Direct

MSM - \$82.59 - Hold

BB&TCM's Fastener Distributor Index (FDI) - March Settles Into a Stable Pattern**KEY TAKEAWAY**

The March FDI was 52.8, a good if unspectacular number indicating a slow growth pattern after a couple months of big swings. But it should be said the Q1'13 average reading is the best since Q2'12. This seems in line with the tone from distributors at BB&TCM's Commercial & Industrial Conference: demand is improved from December, but overall still growing just slowly. Pricing is still minimal. Significant acceleration does not seem to yet be in evidence.

KEY POINTS

About the Fastener Distributor Index (FDI). The FDI is a monthly survey of NorAm fastener distributors, conducted with the FCH Sourcing Network, which 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).

March (52.8, vs. 48.7 in Feb.) settles it. After sharp moves in January/February, which made sense directionally but with wider swings than we imagined, March suggests slow growth. Indeed, by averaging 52.8 in Q1'13, the FDI approximated the PMI (52.9). Sales (58.3, vs. 48.7 in Feb.) improved while supplier deliveries were a little slower, suggesting a bit better demand. *We believe this is a good reading. It is not robust, but it should be considered that the Q1'13 average is the strongest since Q2'12. It should ease worries, and be a comfortable environment in which to operate.*

Optimism returns to strong levels. Optimism bounced back in March. The ratio of respondents that were pessimistic about the six-month outlook remained low and largely unchanged (13.9%, vs. 10.3% in February). But many cautious respondents shifted back to optimistic in March (63.9%, vs 38.5% in February). *The outlook has been solid the last four months, and the percentage of respondents expecting higher activity in six months is at its highest level since March 2012.*

Pricing: not enough to change anything. One thing that never seems to change is pricing. Sequential pricing remains meager, and while annual pricing remains up, the range looks to be up 0%-1%. *Pricing in the fastener industry remains largely directionless, as the degree of demand improvement thus far in 2013 seems to be insufficient to inspire fresh hikes.*

Supplemental query: a bit of benchmarking. At a suggestion, we asked a couple benchmarking questions. First, what is average ticket size? At the retail level, the answer fell into the \$300-\$330 range. Second, what is the cost per sales call. Again, at the retail level the median cost was ~\$75.

What does this mean for other distributors? We think this reading suggests that March may exhibit the typical seasonal improvement. It does not translate into a better than seasonal showing, which would suggest accelerating growth. That is largely how we have modeled Fastenal, so we would not expect a top line surprise in that name based on March. Grainger, and to a lesser extent possibly MSC Industrial, is a harder read because the government exposure may partially offset the otherwise decent industrial backdrop.

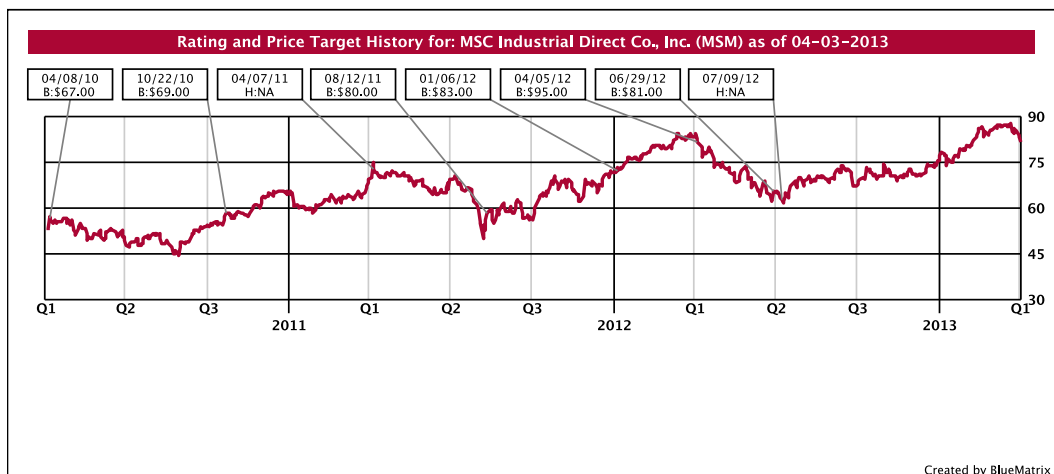
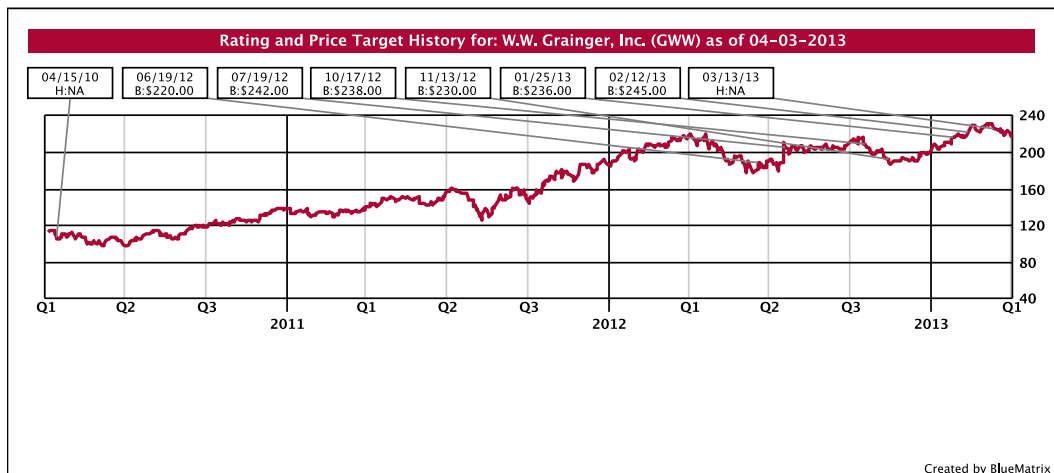
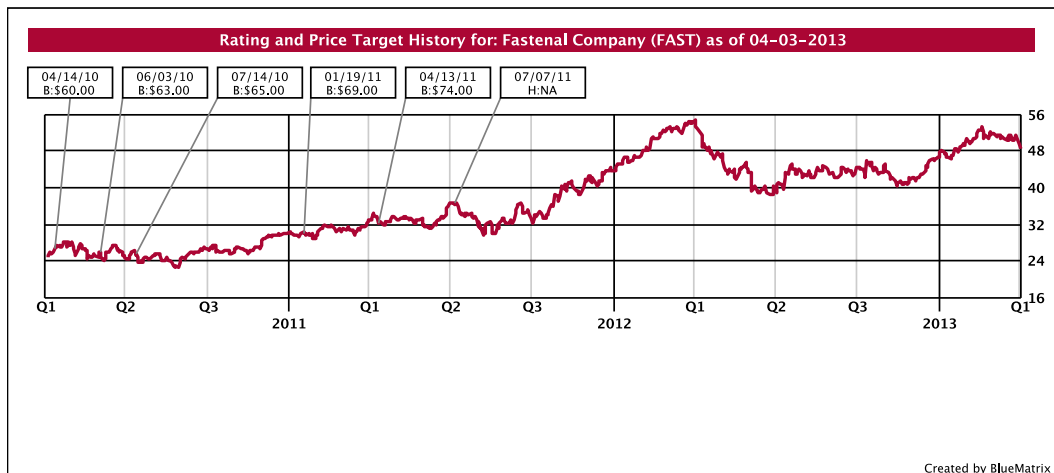
FASTENER DISTRIBUTION AT A GLANCE								
March 2013								
	Index - Mar.	Index - Feb.	Index - Jan.	Index - Dec.	Index - Nov.	Index - Oct.	Feb.-->Mar. Change	Direction
PMI (Overall mftring sector)	51.3	54.2	53.1	50.7	49.5	51.7	(2.9)	Growing
FDI (Fastener distribution)	52.8	48.7	56.9	48.4	46.1	46.8	4.1	Growing
Sales	58.3	48.7	82.8	32.8	34.4	48.6	9.6	Growing
Employment	56.9	56.4	60.3	53.1	50.0	51.4	0.5	Growing
Supplier Deliveries	52.8	47.4	44.8	60.9	56.3	48.6	5.3	Slowing
Respondent Inventories	68.1	60.3	65.5	64.1	59.4	62.9	7.8	Too High
Customer Inventories	43.1	42.3	39.7	46.9	43.8	38.6	0.7	Too Low
Pricing, month-to-month	50.0	52.6	56.9	51.6	48.4	50.0	(2.6)	Lower
Pricing, year-to-year	56.9	62.8	60.3	57.8	53.1	58.6	(5.9)	Higher
	<u>Higher</u>	<u>Same</u>	<u>Lower</u>					
6-Month Outlook - Mar.	64%	22%	14%					

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.

Sources: BB&T Capital Markets, FCH Sourcing Network, Institute for Supply Management

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Price Chart



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Hold (2)	52.41%	Hold (2)	5.17%
Underweight/Sell (3)	1.81%	Underweight/Sell (3)	0.00%
Not Rated (NR)	0.00%	Not Rated (NR)	0.00%

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Buy (1): estimated total return potential greater than or equal to 10%, Hold (2): estimated total return potential greater than or equal to 0% and less than 10%, Underweight (3): estimated total return potential less than 0%

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