FASTENAL COMPANY

Fastenal is a leading distributor of industrial and construction supplies operating through a network of 3,283 selling locations in twenty-five countries with a primary concentration in North America. The company strives to be a provider of end-to-end supply chain solutions through a local market presence.

Founded in 1967, Fastenal rapidly expanded its store presence for over four decades, initially targeting small and mid-size communities that were underserved. Starting in 2014, the company shifted its focus to an onsite model where Fastenal maintains a presence within customer locations. As part of this strategy, over 100,000 industrial vending machines have been deployed over the past decade.

Boasting an enviable growth story spanning over a half century, Fastenal shares have long been assigned a premium valuation which has been fully justified in retrospect. This report examines the company's business model and long record of success with a focus on how the recent shift toward the onsite model and industrial vending might further solidify the company's strong moat.

 November 26, 2022

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Introduction

"People think focus means saying yes to the thing you've got to focus on. But that's not what it means at all. It means saying no to the hundred other good ideas that there are. You have to pick carefully. I'm actually as proud of the things we haven't done as the things I have done. Innovation is saying 'no' to 1,000 things."

— *Steve Jobs* [1]

Robert Kierlin grew up working in his father's auto parts store in Winona, Minnesota. After sweeping floors as a seven year old, he started to work at the front counter by the time he was eleven. Customers would often ask him for fasteners and other parts that were out of stock and he would have to refer them to a nearby hardware store which often also did not have the part. This early exposure to the hassle of spotty availability of parts left a strong impression on Kierlin and he dreamt of running his own business someday.

By 1967, Kierlin was ready to strike out on his own. Cigarettes had long been available from vending machines and offered consumers a great deal of convenience. Kierlin's idea was to use inexpensive vending machines to sell boxes of fasteners. With $31,500 of capital, Kierlin and four of his friends founded Fastenal and started to request quotes for vending machines. While waiting for the quotes, Kierlin decided to open a retail store in November 1967. The initial target market included farmers, contractors, and the general public. Fastenal's first location resembled a typical small-town hardware store and business was slow.

It quickly became apparent that customers wanted products that could not be dispensed by the vending machines which were available at the time. Kierlin and his partners focused on making the initial store successful and soon began opening new locations in nearby communities. Two additional stores opened between 1967 to 1971 and four stores opened from 1972 to 1977. Expansion accelerated rapidly in the late 1970s with fourteen openings between 1978 and 1982 followed by 39 openings between 1983 and 1987.[2]

By 1986, Fastenal had 45 stores and generated $15 million of sales, but limited capital was constraining further growth. The company did not have enough cash on hand to maintain optimal amounts of inventory and could not take advantage of supplier discounts. Management decided that a public offering of stock would raise capital needed to optimize inventory levels and fund expansion.

The IPO took place in August 1987 and raised $5 million. Although this seems like a modest amount of capital, it was sufficient to turbocharge growth. In 1992, just five years after the IPO, Fastenal had 200 locations and generated $81.3 million of sales.[3] By 1997, there were 644 stores that generated $398 million of sales.[4] Opening new stores continued to be the company's main growth strategy until 2013 when the store count peaked at

[1] The Focus to Say No (Farnam Street)
[2] Fastenal's 2013 annual report contains many details regarding the company's history.
[3] Fastenal's 1994 10-K lists store count and revenue data from 1985 to 1994.
[4] Fastenal's 1997 10-K

2,687 locations and the company generated $3.3 billion of revenue. Over the years, management modified the retail store model numerous times to make the format more customer friendly. The company's mostly small-box locations had the appearance of a hardware store based on photos included in the annual reports from the mid-1990s through the early 2010s.

Although the company started as a hardware store catering to retail customers, over time it evolved into a leading distributor of industrial and construction supplies. Retail walk-in business became less important compared to business-to-business transactions with customers who had established relationships with Fastenal. From a strategic perspective, management decided to focus on customers in manufacturing and construction by getting as close to them as possible. Does a leading industrial supplier need to continue rapid expansion of traditional storefronts with all of the costs associated with a large retail presence?

Starting in 2014, Fastenal's traditional store count began to shrink. As of September 30, 2022, there were only 1,716 store locations, down over 36% from the peak at the end of 2013. In place of traditional stores, Fastenal began opening locations *within* customer sites, a strategy that is known as the onsite model. There are now 1,567 onsite locations and it seems only a matter of time before there are more onsite locations than stores. Sales have continued to grow, surpassing $6 billion in 2021 and operating expenses as a percentage of sales has declined. Kierlin's original vision for vending machines is in use at many onsite locations today.

Fastenal's store network today clearly targets business customers. Many stores have very limited showrooms and some operate entirely as fulfillment centers rather than retail locations. Typical hours are Monday to Friday from 6:30 am to 4:00 pm. Fastenal's focus is clearly not on the retail consumer, which would put the company in direct competition with big box stores such as Home Depot and Lowes. Instead, management's singular focus is on serving business customers. The onsite model coupled with the store network, distribution centers, and the company's in-house trucking fleet makes it possible to get customers the parts they need when they need them.

Fastenal's retail locations that are open to the public will not turn away walk-in customers who are looking for a part, but management does little to target such customers. In order to execute a strategy of getting closer to business customers, it was necessary to de-emphasize the retail footprint and to forego sales to consumers.

Investors who purchased shares in Fastenal's IPO on August 20, 1987 have been handsomely rewarded. 1,000 shares of stock purchased for $9,000 in the IPO would have turned into 192,000 split-adjusted shares worth $12.3 million by the end of 2021, an annualized return of approximately 23.7%. In addition, a holder of those shares would have received $1.7 million of dividends since the IPO.[5]

This report examines Fastenal's business model with a focus on the shift toward the onsite model over the past decade. Strong past performance is evident based on a study of the company's operating history, capital structure, and capital allocation decisions. These positive attributes of the business have not been ignored by market participants who have been willing to pay up for the stock for decades. After examining the business in some detail, we will consider whether future growth prospects continue to justify a high valuation.

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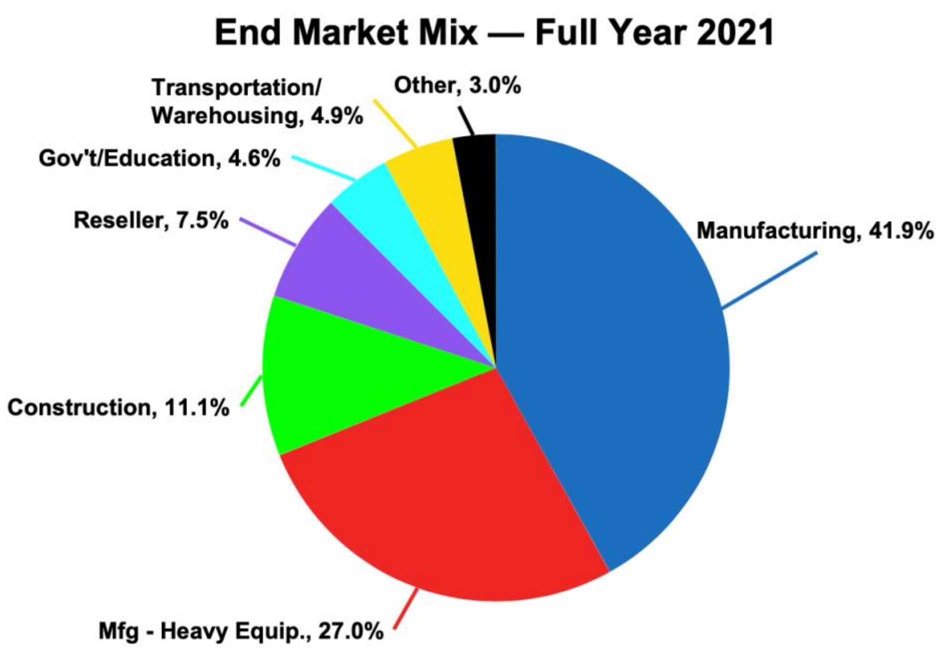
[5] Fastenal's 2021 Annual Report, page 9.

Business Model

Fastenal has modified its business model over the years, but the core value proposition has remained constant. The company's most important competency involves the efficient distribution of industrial supplies, but management has always sought to establish very close customer relationships with the goal of being regarded as a trusted end-to-end supply chain partner rather than merely as one of many middlemen.

The vast majority of Fastenal's business involves procuring industry standard products from suppliers and distributing these supplies to customers. In 2021, 96% of net sales were attributable to products manufactured by other companies. Fastenal has relationships with a large number of suppliers with no single supplier accounting for more than 5% of inventory purchases. However, a large number of suppliers are located in Asia with a significant concentration in China. As a result, Fastenal depends on global trade and can be adversely impacted by factors such as trade policy, including tariffs, as well as disruptions to global shipping networks.[6]

Fastenal has operations in twenty-five countries but the business is concentrated in North America. In 2021, 84% of revenue was in the United States with an additional 12% in Canada and Mexico. Sales to manufacturers accounted for 68.9% of revenue.[7] An additional 11.1% of revenue was attributable to the construction industry, primarily in the non-residential sector. The remaining 20% of sales are to other resellers, government, educational institutions, the transportation and warehousing industries, and to other types of customers, including a small amount of retail walk-in business at company stores that are open to the public.



Source: Q3 2022 Earnings Call Presentation

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[6] Unless otherwise specified, all figures cited as current in this section can be found in Fastenal's 2021 10-K report.

[7] In 2021, 41.9% of Fastenal's business was categorized as "manufacturing" while an additional 27% was categorized as manufacturers of "heavy equipment". See Fastenal's Q3 2022 earnings call presentation, page 13.

In addition to its primary business as a distributor, Fastenal has nine manufacturing facilities, with six located in the United States and one each in the United Kingdom, the Czech Republic, and Malaysia. The sale of manufactured, modified, or repaired products accounts for just 4% of sales but, more importantly, serves as an important point of differentiation because it helps to fulfill the company motto of “making the unavailable part available.”[8] Fastenal’s annual reports are full of anecdotes about going the extra mile when customers run into difficult situations, whether it involves fabricating a critical non-standard fastener holding up an assembly line or delivering key pieces of equipment. Here is an example from the 1996 letter:

> *“A customer in Ohio needed 75 large non-standard bolts within 26 hours. While they were being fabricated in Chicago, our people drove during the night to get the special parts and returned within 25 hours. Another customer on a Friday needed a stocked trailer on a job site the following Monday. Our people located a 45-foot trailer and installed racks and bins with the accompanying inventory over the weekend. And to close the year out, on December 31, our people in a Colorado store left at 3:30 a.m. to pick up a piece of equipment in Wyoming that a customer needed for a job.”* [9]

Fastenal reports results in a single segment, so we are not provided with granular data for operating income and margins for the distribution and manufacturing businesses. However, management indicates that the company engages in manufacturing “primarily as a service to our customers” which suggests that the primary motivation for maintaining manufacturing capability is to deepen existing distribution relationships and encourage customers to view Fastenal as their primary source of supplies rather than merely as one of many middleman.

Fastenal maintains a large network of highly automated distribution centers. The North American network has a total of fifteen geographically dispersed distribution centers, with twelve in the United States, two in Canada, and one in Mexico. In addition, there is a small distribution center in the Netherlands and a local redistribution center in China. In total, these distribution centers provide 4.9 million square feet of capacity. Eleven distribution centers operate automated storage and retrieval systems which account for 95% of total picking activity. Automation increases the density of inventory in warehouses and reduces labor requirements.[10]

The company maintains an extensive fleet of semi-trucks, vans, and pickup trucks that make it possible for 90% of product tonnage to be shipped using Fastenal trucks. This provides management with direct control over distribution of products to the company’s network of local inventory fulfillment terminals and 3,283 selling locations. Inventory is picked and packed during day shifts at distribution centers which are strategically located to allow for overnight deliveries to selling locations two to five times per week. Over 80% of locations receive deliveries four to five times per week, usually before opening for business. In order to utilize its trucking capacity more fully, Fastenal set up Blue Lane Freight, a common carrier that provides less-than-truckload service.[11]

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[8] In 2021, approximately 96% of net sales were attributable to products manufactured by other companies with the remaining 4% attributable to products Fastenal manufactured, modified, or repaired. Management expects manufacturing to contribute between 4-6% of sales in the future. Source: 2021 10-K
[9] Fastenal 1996 Annual Letter
[10] Fastenal has published a video showing how its automated distribution centers operate.
[11] The Blue Lane Freight section of the Fastenal website provides further details on the company’s LTL carrier services.

Now that we have a high level background regarding procurement and distribution, let's turn our attention to how Fastenal gets close to the customer. Historically, Fastenal's growth strategy involved rapid expansion of the store network, first to smaller communities and eventually to larger metropolitan regions. At the end of 2021, 52% of sales were in larger metropolitan areas with a population of over 500,000 while 21% of sales were in small metropolitans areas, and 27% of sales were in smaller towns and rural communities.

While the retail store network achieved its goal of being near customer locations, in 1992 management began experimenting with creating Fastenal locations *within* customer sites. These locations are not open to the general public and are tailored to the inventory requirements of a specific customer. By embedding its presence within a customer site, Fastenal is able to not only fulfill supply requirements but to have a direct window into business conditions and inventory replenishment needs. In addition, onsite locations are far more capital-light than stores. The main investment in an onsite location is comprised of inventory that Fastenal maintains for the customer and vending machines. The fixed costs associated with a store presence are dramatically reduced.

From 1992 to 2013, the onsite model existed but management continued to expand the retail store presence as its primary growth strategy. A major shift took place starting in 2014 when management decided to emphasize onsite locations as the company's growth driver. After decades of expansion, the retail store footprint peaked at 2,687 locations at the end of 2013. Since then, the store count has declined to 1,716 as of September 30, 2022. Management now refers to retail "stores" as "branches", and we will adopt the same terminology. Together, branch and onsite locations are referred to as "in-market" locations.

The exhibit below shows the number of branch and onsite locations since the shift toward the onsite model that began in 2014. While management states that although the onsite strategy may "influence" the trend in the traditional branch count over time, onsite expansion is not the "primary reason" for closings. However, at least in North America, it is quite apparent that the onsite expansion has reduced the need for many local branches.

<table>
<tr><th></th><th>9/30/22</th><th>12/31/21</th><th>12/31/20</th><th>12/31/19</th><th>12/31/18</th><th>12/31/17</th><th>12/31/16</th><th>12/31/15</th><th>12/31/14</th></tr>
<tr><td>Branch Locations</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>United States</td><td>1,402</td><td>1,476</td><td>1,689</td><td>1,806</td><td>1,924</td><td>2,076</td><td>2,194</td><td>2,320</td><td>2,336</td></tr>
<tr><td>Canada</td><td rowspan="2">236</td><td>173</td><td>179</td><td>183</td><td>186</td><td>195</td><td>198</td><td>200</td><td>202</td></tr>
<tr><td>Mexico and Caribbean</td><td>71</td><td>66</td><td>64</td><td>60</td><td>61</td><td>60</td><td>55</td><td>52</td></tr>
<tr><td>Central & South America</td><td rowspan="4">78</td><td>5</td><td>5</td><td>6</td><td>6</td><td>6</td><td>8</td><td>9</td><td>9</td></tr>
<tr><td>Asia</td><td>20</td><td>19</td><td>14</td><td>14</td><td>14</td><td>17</td><td>17</td><td>17</td></tr>
<tr><td>Europe</td><td>48</td><td>45</td><td>41</td><td>37</td><td>29</td><td>24</td><td>20</td><td>20</td></tr>
<tr><td>Africa</td><td>-</td><td>-</td><td>-</td><td>-</td><td>2</td><td>2</td><td>1</td><td>1</td></tr>
<tr><td>Total Branch Locations</td><td>1,716</td><td>1,793</td><td>2,003</td><td>2,114</td><td>2,227</td><td>2,383</td><td>2,503</td><td>2,622</td><td>2,637</td></tr>
<tr><td>Onsite Locations</td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>United States</td><td>1,289</td><td>1,173</td><td>1,044</td><td>925</td><td>732</td><td rowspan="7">605</td><td rowspan="7">401</td><td rowspan="7">264</td><td rowspan="7">214</td></tr>
<tr><td>Canada</td><td rowspan="2">212</td><td>89</td><td>81</td><td>71</td><td>60</td></tr>
<tr><td>Mexico and Caribbean</td><td>100</td><td>93</td><td>82</td><td>73</td></tr>
<tr><td>Central & South America</td><td rowspan="4">66</td><td>15</td><td>15</td><td>9</td><td>8</td></tr>
<tr><td>Asia</td><td>17</td><td>12</td><td>11</td><td>9</td></tr>
<tr><td>Europe</td><td>22</td><td>20</td><td>16</td><td>12</td></tr>
<tr><td>Africa</td><td>-</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Total Onsite Locations</td><td>1,567</td><td>1,416</td><td>1,265</td><td>1,114</td><td>894</td><td>605</td><td>401</td><td>264</td><td>214</td></tr>
<tr><td>In-Market Locations (Sum of Branch and Onsites)</td><td>3,283</td><td>3,209</td><td>3,268</td><td>3,228</td><td>3,121</td><td>2,988</td><td>2,904</td><td>2,886</td><td>2,851</td></tr>
</table>

Data sources: 10-K reports for annual data. Q3 2022 earnings call presentation slides (appendix) for 9/30/22 data.

Although the vast majority of Fastenal's business is with established customers, branch locations traditionally supported walk-in retail sales to the general public. Such locations underwent several evolutions over the years meant to make the shopping experience more customer friendly. Traditional branches are typically small format stores between 3,000 to 20,000 square feet and often located in strip malls or industrial areas. Today, locations that feature showrooms serving the general public are referred to as Customer Service Branches (CSBs) and have the appearance of hardware stores. At the end of 2021, 35% of branches operated as a CSB.

The other 65% of branch locations function as Customer Fulfillment Centers (CFCs) which typically have a limited showroom but function primarily as an industrial supply house with a focus on stocking inventory specific to nearby customers. The pandemic prompted conversions of branch locations from CSBs to CFCs as management decided to close the front doors of many branches and focus staff on fulfillment and delivery of orders to nearby customers with whom they had an existing relationship. The success of the pandemic-driven shift to CFCs resulted in retention of that operating model even after lockdowns ended and distancing requirements eased.

The onsite model deserves our attention given its increasing importance over the past eight years. In 2014, there were 214 onsite locations which were responsible for 10.4% of sales. The onsite count rose to 1,416 locations in 2021 responsible for 31.6% of sales. The following exhibit shows key statistics that reveal the growing importance of the onsite model:

	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14
Sales by Channel ($ millions)								
Branch revenue	3,726.2	3,587.1	3,660.1	3,625.8	3,399.6	3,198.1	3,281.8	3,225.3
Onsite revenue	1,898.0	1,485.6	1,391.7	1,081.7	770.2	569.2	454.3	387.7
Other revenue	386.7	574.6	281.9	257.6	220.7	194.7	133.1	120.5
Total revenue	**6,010.9**	**5,647.3**	**5,333.7**	**4,965.1**	**4,390.5**	**3,962.0**	**3,869.2**	**3,733.5**
Sales by Channel (percent of total)								
Branch revenue	62.0%	63.5%	68.6%	73.0%	77.4%	80.7%	84.8%	86.4%
Onsite revenue	31.6%	26.3%	26.1%	21.8%	17.5%	14.4%	11.7%	10.4%
Other revenue	6.4%	10.2%	5.3%	5.2%	5.0%	4.9%	3.4%	3.2%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Total branch locations	**1,793**	**2,003**	**2,114**	**2,227**	**2,383**	**2,503**	**2,622**	**2,637**
Branch revenue ($ millions)	3,726.2	3,587.1	3,660.1	3,625.8	3,399.6	3,198.1	3,281.8	3,225.3
Average sales per branch location/month ($ thousands)	163.6	145.2	140.5	131.1	116.0	104.0	104.0	101.0
Total onsite locations	**1,416**	**1,265**	**1,114**	**894**	**605**	**401**	**264**	**214**
Onsite revenue ($ millions)	1,898.0	1,485.6	1,391.7	1,081.7	770.2	569.2	454.3	387.7
Average sales per onsite location/month ($ thousands)	118.0	104.1	115.5	120.3	127.6	142.7	158.4	157.6

Source: Fastenal's 10-K reports

We can see that productivity of the branch network has significantly increased as measured by average sales per branch per month which rose from $101,000 in 2014 to $163,600 in 2021. Many of the closed branches were converted to the onsite model and those that remain have pulled up the average productivity of the branch network as a whole. At a surface level, we can see what looks like the opposite trend for onsite locations. As the number of onsites increased, average sales per onsite location per month fell from $157,600 in 2014 to $118,000 in 2021. Early onsite locations tended to be in customer locations that had higher volume. Over time, management has expanded the onsite model to smaller customers with a lower level of spending.

It is important to note that Fastenal retains ownership of inventory within onsite locations even though the inventory is within a customer location. This is actually a core part of the overall customer value proposition. Fastenal retains the value of inventory on its books until the moment the customer takes the inventory from a bin or vending machine. In many cases, inventory is actually located on an assembly line and the customer's employees are literally taking the inventory from bins placed next to the line and using that inventory immediately. This takes "just in time" inventory to a new level since, for such parts, the customer never has any inventory on its books at all before the supplies are consumed in manufacturing or construction.

How is the onsite model actually implemented? The company refers to its onsite customer inventory management model as Fastenal Managed Inventory (FMI). FMI seeks to provide customers and Fastenal with near-time or real-time visibility into product inventory levels, usage, spending, and replenishment needs. Depending on the customer's specific requirements and layout, inventory can be managed in three ways: [12]

1. **FASTStock** is a stocking service where manual bins are maintained. Inventory is monitored visually by the customer as well as Fastenal staff with replenishment orders submitted when parts fall below a certain minimum threshold. The onsite model was initially launched using manual bins.

2. **FASTBin** is similar to FASTStock except technology is used to provide constant electronic monitoring of the inventory level of parts as well as automation of reordering when inventory gets below a minimum level. Bluetooth enabled devices use either RFID, infrared, or weighted scales to measure and monitor inventory. Fastenal provides software allowing its employees as well as the customer to have 24/7 real-time monitoring capabilities as inventory is consumed in production.

3. **FASTVend** represents the company's investment in over 100,000 vending machines deployed at customer locations. Fastenal provides over twenty types of devices that offer secure inventory control. Vending machines can use the coil-type mechanisms that we've all seen in typical snack vending machines, but can also use sensors or lockers depending on the product's dimensions and weight.

In 2020, management began reporting sales figures for products sold using FMI technology:

	9/30/22	**12/31/21**	**12/31/20**
Fastenal Managed Inventory Sales ($ millions)			
FASTStock sales	621.7	587.6	323.0
FASTBin/FASTVend Sales	1,302.2	1,353.7	1,064.4
Total FMI Sales	**1,923.9**	**1,941.3**	**1,387.4**
Fastenal Managed Inventory Sales as % of Total Sales			
FASTStock sales	11.8%	9.8%	5.7%
FASTBin/FASTVend Sales	24.6%	22.5%	18.8%
Total FMI Sales	**36.4%**	**32.3%**	**24.6%**

Source: Fastenal's 10-K and 10-Q Reports

[12] Fastenal's website contains overviews of FMI Technology, FASTStock, FASTBin, and FASTVend including several videos.

The percentage of sales made through FASTStock, FASTBin, and FASTVend has been increasingly rapidly and management believes that this trend will continue, possibly rising to 70% of sales eventually.[13] We should note that Fastenal bears the cost of installing devices and targets monthly revenue per device ranging from $1,000 to over $3,000. As with any form of automation, the capital cost of purchasing and maintaining these machines is offset by lower labor costs due to less need for manual inventory counts and replenishment monitoring.

Until the early 1990s, Fastenal primarily sold threaded fasteners. Starting in 1993, the company began adding product lines as a means of diversification and growth. Over time, fasteners shrank from a dominant share of sales to roughly one-third of sales. Threaded fasteners are known to carry very high gross margins compared to other product lines, so over time margins have come under pressure as fasteners declined relative to other lines.

	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12	12/31/11
Sales by product line												
Fasteners	34.3%	33.3%	29.9%	34.2%	34.9%	35.6%	36.6%	38.3%	40.2%	42.1%	44.0%	46.9%
Tools	8.3%	8.5%	8.2%	9.9%	10.0%	10.1%	9.9%	9.5%	9.3%	9.2%	9.3%	9.4%
Cutting tools	5.0%	5.0%	4.7%	5.7%	5.7%	5.8%	5.7%	5.6%	5.5%	5.4%	5.1%	4.6%
Hydraulics & pneumatics	6.6%	6.4%	5.9%	6.8%	6.8%	6.8%	6.9%	7.2%	7.2%	7.3%	7.6%	7.8%
Material handling	5.7%	5.6%	5.1%	5.9%	5.8%	6.3%	6.4%	6.5%	6.1%	5.7%	6.0%	6.1%
Janitorial supplies	8.0%	8.2%	9.8%	7.8%	7.6%	7.6%	7.6%	7.5%	7.3%	7.0%	6.6%	6.2%
Electrical supplies	4.4%	4.3%	4.1%	4.7%	4.7%	4.9%	4.8%	4.7%	4.7%	4.6%	4.7%	4.7%
Welding supplies	3.8%	3.8%	3.5%	4.2%	4.1%	4.6%	4.6%	4.7%	4.7%	4.5%	4.3%	3.9%
Safety supplies	20.6%	21.2%	25.5%	17.9%	17.2%	15.2%	14.9%	13.9%	12.8%	11.2%	9.3%	7.9%
Metals	3.3%	3.7%	3.3%	2.9%	3.2%	0.5%	0.5%	0.5%	0.4%	0.5%	0.5%	0.5%
Direct ship (bypassing store network)						0.5%	0.5%	0.4%	1.0%	1.5%	1.6%	1.6%
Office supplies						0.1%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
Other						2.0%	1.5%	1.1%	0.7%	0.9%	0.9%	0.3%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Gross margin	**46.3%**	**46.2%**	**45.5%**	**47.2%**	**48.3%**	**49.3%**	**49.6%**	**50.4%**	**50.8%**	**51.7%**	**51.5%**	**51.8%**

Source: Fastenal's 10-K and 10-Q Reports

Fastenal's business model has increasingly shifted from retail branches to onsite locations, and within onside locations, technology has been leveraged to make the business less labor intensive. Although a relatively crude measure, we can see this efficiency trend represented by total sales per employee in the exhibit below.

	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13
Employees										
In-market locations (branches and onsites)	13,243	12,464	12,680	13,977	14,015	13,424	12,966	13,961	12,293	11,550
Non-in-market selling	2,419	2,106	1,952	1,854	1,772	1,711	1,575	1,566	1,349	1,242
Selling subtotal	15,662	14,570	14,632	15,831	15,787	15,135	14,541	15,527	13,642	12,792
Distribution/Transportation	3,907	3,675	3,583	4,012	3,830	3,575	3,403	3,459	3,120	2,931
Manufacturing	706	649	639	711	736	652	594	662	630	603
Administrative	1,750	1,613	1,511	1,394	1,291	1,203	1,086	1,098	1,025	951
Non-selling subtotal	6,363	5,937	5,733	6,117	5,857	5,430	5,083	5,219	4,775	4,485
Total	**22,025**	**20,507**	**20,365**	**21,948**	**21,644**	**20,565**	**19,624**	**20,746**	**18,417**	**17,277**
Employment productivity statistics:	*(9 months)*									
Total sales / Total employees ($)	239,955	293,115	277,304	243,015	229,398	213,494	201,896	186,503	202,721	192,516

Source: Fastenal's 10-K and 10-Q Reports

As we will see in the next section covering the company's operating history, shifts in the business model over the past decade have tended to pressure gross margin but operating margins have held up well due to greater scale and efficiency. Operating expenses have been held down over the years, and one reason is that employee growth has not risen commensurately with sales volume.

13 William Blair 40th Annual Growth Stock Conference presentation, June 10, 2020.

Fastenal believes that the total addressable market for its business strategy is approximately $140 billion which would imply that there are significant growth opportunities given the company's revenue of $6 billion in 2021. Management often refers to its vision for Fastenal when the company achieves annual revenue of $10 billion, although no projections are made regarding when that revenue level might be achieved.

The market for industrial supplies is fragmented and competitive. Although being competitive on cost is important, Fastenal aims to compete based on providing a differentiated level of service for its customers, primarily by maintaining a large number of branch locations that cannot be easily replicated by competitors:

> *"We believe that better service, and a competitive selling advantage, can be provided by maintaining a physical selling and stocking presence closer to the customers' location(s). As a result, we maintain branches in small, medium, and large markets, each offering a wide variety of products. The convenience of a large number of branches in a given area, combined with our ability to provide frequent deliveries to such branches from centrally located distribution centers, facilitates the prompt and efficient distribution of products. We also believe our FMI solutions, supported by an in-market location, provides a unique way to provide our customers convenient access to products and cost saving solutions using a business model not easily replicated by our competitors. Having trained personnel at each in-market location also enhances our ability to compete."*[14]

Grainger is usually cited as Fastenal's most significant competitor. A complete description of Grainger is beyond the scope of this report, but it is useful to point out a few facts based on the company's latest annual report. Grainger posted $13 billion of sales in 2021, but the business is characterized by lower margins compared to Fastenal.[15] Fastenal's branch network consists of a large number of relatively small locations of 3,000 to 20,000 square feet dispersed in small, medium, and large communities with the intention of being very close to customer locations. In contrast, Grainger has 246 branches with locations up to 109,000 square feet.

Grainger's strategy involves providing "high-touch" solutions for larger businesses using many of the same approaches as Fastenal, albeit through a more limited network of branches. For smaller businesses, Grainger has an "endless assortment" of over 30 million products that are offered primarily online. Grainger reports results for the "high touch" and "endless assortment" businesses in separate segments. As we might suspect, operating margins are higher in the "high touch" segment, which is more comparable to Fastenal's business, and lower in the "endless assortment" segment which has commodity-like features.

Now that we have a general sense of Fastenal's business and the competitive environment, let's turn our attention to the financial results delivered by company over the past several years, with a particular focus on how management navigated the shock of the COVID pandemic.

[14] Fastenal's 2021 10K, p. 12
[15] Grainger had $13 billion of net sales in 2021 with gross margin of 36.2%, operating margin of 11.9% and net margin of 8.6%. In comparison, Fastenal had $6 billion of net sales in 2021 with gross margin of 46.2%, operating margin of 20.3% and net margin of 15.4%. Fastenal's margin profile is discussed in more detail in the operating history section of this report.

Operating History

The previous section provided an overview of Fastenal's business model along with quantitative measures needed to understand how management's strategy has shifted over the past decade. The most important strategic shift was the identification of the onsite model as a growth driver and the simultaneous expansion of onsite locations and contraction of traditional branch locations that has taken place since 2014. Automation has also been a major story of the past decade, both at Fastenal's distribution centers as well as at onsite locations with the aggressive introduction of FASTBin and FASTVend. Product mix has also evolved over time, with less reliance on the traditional fastener line and recent gains in safety products prompted by the pandemic.

From a high level perspective, the combination of these strategic moves has resulted in gross margin compression that has been offset by efficiency-driven improvements in operating expenses. The result has been that the company's operating margin prior to 2014 has remained intact in spite of gross margin compression. As a result of the corporate income tax cut that took effect in 2018, net margins have increased substantially.

In this section, we begin with a multi-year examination of Fastenal's operating history with a focus on how the longer-term trends show up in the numbers. Then, we take a closer look at quarterly results over the past four years in order to study how the pandemic impacted Fastenal's results.

The following exhibit shows Fastenal's operating history over the past decade:

	Nine Monhts Ended		**Fiscal Years ending on December 31**										
Figures in thousands except per share amounts	**9/30/22**	**9/30/21**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**
Net sales	**5,285.0**	**4,479.0**	**6,010.9**	**5,647.3**	**5,333.7**	**4,965.1**	**4,390.5**	**3,962.0**	**3,869.2**	**3,733.5**	**3,326.1**	**3,133.6**	**2,766.9**
Cost of sales	2,837.6	2,414.7	3,233.7	3,079.5	2,818.3	2,566.2	2,226.9	1,997.2	1,920.3	1,836.1	1,606.7	1,519.1	1,332.7
Gross profit	2,447.4	2,064.3	2,777.2	2,567.8	2,515.4	2,398.9	2,163.6	1,964.8	1,948.9	1,897.4	1,719.4	1,614.5	1,434.2
Operating and administrative expenses	1,326.7	1,147.8	1,559.8	1,427.4	1,459.4	1,400.2	1,282.8	1,169.5	1,121.5	1,110.8	1,007.4	941.2	859.4
(Gain) Loss on sale of property and equipment	-	-	-	(1.4)	(1.2)	(0.5)	(1.0)	(0.5)	(1.4)	(1.0)	(0.6)	(0.4)	0.2
Operating income	1,120.7	916.5	1,217.4	1,141.8	1,057.2	999.2	881.8	795.8	828.8	787.6	712.7	673.7	574.6
Interest income	0.4	0.1	0.1	0.6	0.4	0.4	0.4	0.4	0.4	0.8	0.9	0.5	0.5
Interest expense	(9.3)	(7.3)	(9.7)	(9.7)	(13.9)	(12.6)	(9.1)	(6.5)	(3.1)	(0.9)	(0.1)	-	-
Earnings before tax	1,111.8	909.3	1,207.8	1,132.7	1,043.7	987.0	873.1	789.7	826.1	787.4	713.5	674.2	575.1
Income tax expense	270.5	215.5	282.8	273.6	252.8	235.1	294.5	290.3	309.7	293.3	264.8	253.6	217.2
Net earnings	**841.3**	**693.8**	**925.0**	**859.1**	**790.9**	**751.9**	**578.6**	**499.4**	**516.4**	**494.2**	**448.6**	**420.5**	**357.9**
Diluted shares (adj. for 2:1 split in 2011 & 2019)	576.6	576.9	577.1	575.7	574.4	574.3	576.7	578.4	584.0	594.6	595.4	594.3	590.1
Diluted net earnings per share	1.46	1.20	1.60	1.49	1.38	1.31	1.00	0.86	0.88	0.83	0.75	0.71	0.61

Source: Fastenal's 10-K and 10-Q Reports

From 2011 to 2022, net sales grew at an annualized rate of 8.1% while gross profit grew at 6.8% as gross margin compressed during this timeframe. Operating income grew at an annualized rate of 7.8% as operating margin held relatively constant. Net income grew at an annualized rate of 10% with higher interest expense more than offset by lower income tax expense due to the corporate income tax cut that took effect in 2018.

The exhibit on the next page shows Fastenal's gross margin from 2005 through the first nine months of 2022. Prior to 2014, gross margin was typically slightly above 50%. This trend predates the data shown in the chart. In 1992, the year before Fastenal began diversifying its product line beyond threaded fasteners, gross margin was 53.8%. Since fasteners represent the company's highest margin line, new categories were sure to lower gross margin, but this effect was muted for many years.[16] From year to year, gross margin can vary due to fluctuations in the cost of inventory. Fastenal's main value proposition for customers is to have plentiful inventory on hand at all times. This can result in a headwind for gross margin during periods of deflation and a tailwind in periods of inflation. However, the bottom line is that gross margin was steady in the low 50% range for many years.

Starting in 2014, we can see gross margin start to decline, bottoming at 45.5% in 2020. As we saw in an exhibit in the business model section, threaded fasteners as a percentage of sales declined from 46.9% in 2011 to 33.3% of sales in 2021. During the same period, safety supplies grew from 7.9% of sales to 21.2%. Safety supplies were particularly strong during the pandemic in 2020 and have remained strong since then. The lower margin profile of safety supplies relative to fasteners accounts for a significant portion of the gross margin decline.

Another factor behind the gross margin trend is the increasing importance of the onsite model. New onsite locations typically shift revenue from an existing branch location and involve larger customers. The sales mix at onsite locations tends to produce a lower gross margin than at branch locations. As we saw in the business model section, onsite locations as a percentage of sales rose from 10.4% in 2014 to 31.6% in 2022.

As discussed in the business model section, Fastenal's shift to the onsite model has fundamentally changed the profile of operating expenses. This has allowed the operating margin profile to exhibit far more stability than gross margins. Operating and administrative expenses as a percentage of sales fell from 31.1% in 2011 to 25.9% in 2021, and have fallen further to 25.1% for the first nine months of 2022.

The exhibit on the following page shows operating margin from 2005 through the first nine months of 2022. We can see that operating margin took a dip during the recession following the financial crisis of 2008 and then

[16] A 2014 article describes a meeting between Fastenal's then-CEO, Will Oberton, and Warren Buffett where Oberton said that threaded fasteners can carry margins of up to 80%.

rebounded to 21-22% in the years prior to the shift toward the onsite model in 2014. In contrast to the more significant drop in gross margin starting in 2014, operating margin held up quite well due a more efficient cost structure. This was driven not only by the lower costs due to inherent efficiencies of onsite locations relative to branch location, but also due to efficiencies in distribution brought about by automation.

In the third quarter 2022 conference call, Fastenal CEO Dan Florness made the following comments about the company's gross margin profile and recent trends in operating expenses:

> *"The -- one thing that is a positive, despite what it looks like in the numbers, it's a positive and that is the pre-pandemic margin profile of the business has reemerged. And back in 2016 and 2017 and 2018 when we were really telling the story of how we thought our growth was going to change in the future and those will be much more Onsite driven, it changes the profile of your gross margin, but it also changes the profile of your operating expenses. And we felt, over time, that was a great trade-off, because ultimately, it's about the level of profit and return you can generate and this is a faster way to grow and a better way to develop your talent and be special in the marketplace."* [17]

From reading through shareholder letters since the strategic shift toward the onsite model, it is apparent that management's guidance regarding operating expense trends have been consistent over time and we have seen increases in the efficiency of the cost structure materialize.

Fastenal's net income has benefited from a tailwind due to the 2018 corporate income tax cut. From 2013 to 2017, the effective tax rate averaged 36.5%. From 2018 to 2021, the effective tax rate averaged 23.9%. The share count has declined slightly resulting in annualized earnings per share growth of 10.1% from 2011 to 2021 compared to net income annualized growth of 10%.

[17] Third quarter 2022 conference call transcript, October 13, 2022

Let’s take a closer look at operating results on a quarterly basis since 2019. Although Fastenal’s business has some seasonality, there would be no particular reason to study quarterly trends in this report if it was not for the pandemic that resulted in massive business disruptions starting in the first quarter of 2020. It is important to examine the pandemic period to gauge the robustness of the business, management’s agility in responding to a shock, and to assess whether there have been any long-run impairments.

The following exhibit shows Fastenal’s results on a quarterly basis starting in 2019:

	Fiscal Quarters Ending On														
Figures in thousands except per share amounts	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	6/30/20	3/31/20	12/31/19	9/30/19	6/30/19	3/31/19
Net sales	**1,802.4**	**1,778.6**	**1,704.1**	**1,531.8**	**1,554.2**	**1,507.7**	**1,417.0**	**1,358.0**	**1,413.3**	**1,509.0**	**1,367.0**	**1,276.9**	**1,379.1**	**1,368.4**	**1,309.3**
Cost of sales	975.9	951.0	910.8	818.9	834.0	807.0	773.6	739.2	772.7	837.4	730.2	678.5	728.0	727.2	684.6
Gross profit	826.5	827.6	793.3	712.9	720.2	700.7	643.4	618.8	640.6	671.6	636.8	598.4	651.1	641.2	624.7
Operating and administrative expenses	447.3	444.2	435.3	412.0	401.8	382.9	363.1	354.7	351.5	355.3	365.9	359.9	369.2	366.7	363.6
(Gain) Loss on sale of property and equipment	-	-	-	-	-	-	-	(0.3)	(1.0)	0.3	(0.4)	(0.4)	-	(0.5)	(0.3)
Operating income	379.2	383.4	358.0	300.9	318.4	317.8	280.3	264.4	290.1	316.0	271.3	238.9	281.9	275.0	261.4
Interest income	0.2	0.1	0.1	-	0.1	-	-	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest expense	(4.1)	(2.8)	(2.4)	(2.4)	(2.4)	(2.6)	(2.4)	(2.5)	(2.6)	(2.4)	(2.2)	(2.6)	(3.6)	(3.7)	(4.0)
Earnings before tax	375.3	380.7	355.7	298.5	316.1	315.2	277.9	262.2	287.6	313.7	269.2	236.4	278.4	271.4	257.5
Income tax expense	90.7	93.6	86.1	67.3	72.6	75.5	67.3	66.1	66.1	74.8	66.6	57.7	64.9	66.8	63.4
Net earnings	**284.6**	**287.1**	**269.6**	**231.2**	**243.5**	**239.7**	**210.6**	**196.1**	**221.5**	**238.9**	**202.6**	**178.7**	**213.5**	**204.6**	**194.1**
Diluted shares (adj. for 2:1 split in 2019)	574.7	577.4	577.6	577.7	577.3	577.0	576.5	576.4	576.1	575.0	575.3	575.6	574.4	574.6	573.0
Diluted net earnings per share	0.50	0.50	0.47	0.40	0.42	0.42	0.37	0.34	0.38	0.42	0.35	0.31	0.37	0.36	0.34
Gross margin	45.9%	46.5%	46.6%	46.5%	46.3%	46.5%	45.4%	45.6%	45.3%	44.5%	46.6%	46.9%	47.2%	46.9%	47.7%
Operating margin	21.0%	21.6%	21.0%	19.6%	20.5%	21.1%	19.8%	19.5%	20.5%	20.9%	19.8%	18.7%	20.4%	20.1%	20.0%
Net margin	15.8%	16.1%	15.8%	15.1%	15.7%	15.9%	14.9%	14.4%	15.7%	15.8%	14.8%	14.0%	15.5%	15.0%	14.8%

Source: Fastenal’s 10-K and 10-Q Reports

There were two major factors that helped the company weather the pandemic storms. First, management shifted its branch model toward Customer Fulfillment Centers (CFCs) from Customer Service Branches (CSBs) which were described in the business model section. CFCs have less of a customer facing presence and run at a lower cost than CSBs. With 65% of branches still operating as CFCs, the cost structure has benefited beyond the mandated lockdown period. Second, while product categories related to industrial production and construction declined in 2020, this was offset by the sale of safety supplies including personal protective equipment. We can see the effect of this product shift in drop in gross margin from 46.6% in Q1 2020 to 44.5% in Q2 2020.

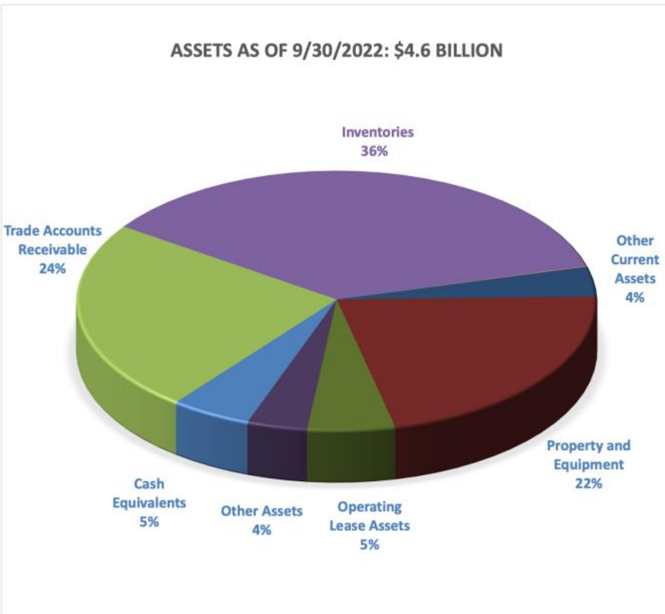
The following exhibit shows sales by product line by quarter. The precipitous drop in many categories between the first and second quarters of 2020 is evident, along with the jump in safety supplies. The pre-pandemic product mix re-emerged in 2021, although safety supplies are still running at a slightly higher level than in 2019. This shift in product mix continues to exert downward pressure on gross margin.

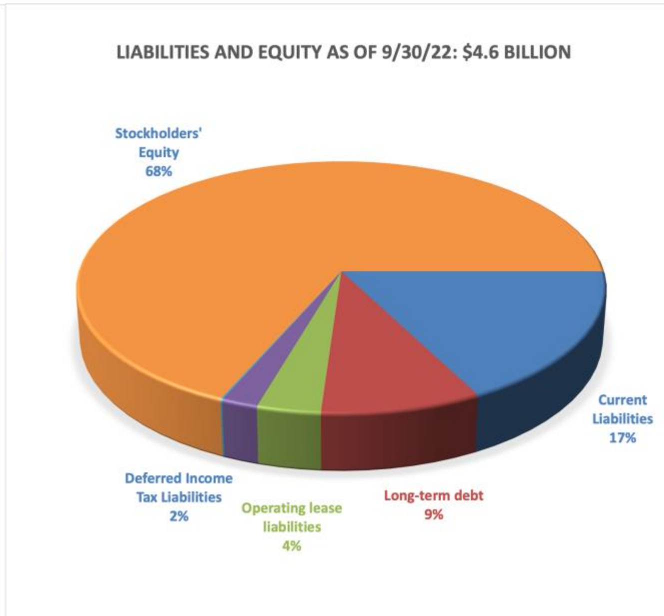
	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	6/30/20	3/31/20	12/31/19	9/30/19	6/30/19	3/31/19
Sales by product line															
Fasteners	34.1%	34.6%	34.3%	33.5%	33.4%	33.6%	32.5%	30.8%	30.5%	26.0%	32.9%	33.6%	33.7%	34.5%	34.8%
Safety supplies	20.5%	20.3%	21.0%	21.4%	21.1%	21.0%	21.5%	23.5%	23.8%	34.0%	19.8%	18.7%	18.2%	17.5%	17.2%
Tools	8.4%	8.2%	8.2%		8.5%	8.6%	8.6%		8.5%	6.6%	9.4%		10.2%	9.8%	9.9%
Cutting tools	5.0%	5.0%	5.0%		5.0%	5.1%	5.0%		4.7%	3.9%	5.4%		5.7%	5.8%	5.9%
Hydraulics & pneumatics	6.6%	6.7%	6.5%		6.5%	6.4%	6.3%		6.1%	5.0%	6.6%		6.8%	6.8%	6.9%
Material handling	5.6%	5.7%	5.6%	45.1%	5.5%	5.6%	5.5%	45.7%	5.1%	4.4%	5.7%	47.7%	5.9%	5.9%	5.8%
Janitorial supplies	8.1%	8.0%	7.9%		8.3%	7.9%	8.5%		10.7%	10.6%	8.3%		8.0%	7.7%	7.5%
Electrical supplies	4.5%	4.3%	4.4%		4.3%	4.4%	4.3%		3.9%	4.0%	4.6%		4.6%	4.7%	4.7%
Welding supplies	3.9%	3.8%	3.7%		3.8%	3.8%	3.8%		3.5%	2.9%	4.1%		4.2%	4.2%	4.1%
Other	3.3%	3.4%	3.4%		3.6%	3.6%	4.0%		3.2%	2.6%	3.2%		2.7%	3.1%	3.2%
Total	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Source: Fastenal’s 10-K and 10-Q Reports

Capital Structure

Fastenal strives to be a "supply chain partner" for its customers which requires a robust infrastructure for procurement and distribution of products as well as a significant ongoing investment in inventory. Balance sheet information for the past sixteen years can be found in the financial statements section of this report. The following exhibit is a graphical representation of Fastenal's balance sheet as of September 30, 2022:





We can see that inventories and trade accounts receivable account for 60% of assets, with net property and equipment at 22% of assets. Fastenal's investment in inventory is best viewed as part of the company's value proposition to customers. By accepting the need to carry significant inventory and receivables on its balance sheet, Fastenal reduces the need for customers to carry inventory on *their* balance sheets. The relentless drive for efficiency has led manufacturers to pursue "just in time" inventory models in order to reduce working capital needs. However, limited inventory increases the risk of supply chain disruptions, and it is Fastenal's job to use its balance sheet and distribution infrastructure to ensure a reliable flow of supplies to customers.

Until 2014, assets were funded entirely with shareholders' equity reflecting a balance sheet that was the product of the conservative nature of founder Robert Kierlin and Fastenal's early investors. Starting in 2014, the company has used a modest amount of leverage, taking on debt that can be viewed as primarily facilitating a modest share repurchase program, as we will discuss in more detail in the capital allocation section.

Fastenal's investment in working capital is something that the company monitors carefully. Carrying inventory exposes the company to the risk of write-downs in cases when customer demand shifts in unexpected ways.[18]

[18] For example, during the pandemic, Fastenal acquired significant amounts of personal protective equipment in high demand by customers. Masks were in short supply early in the pandemic and Fastenal found sources of supply and stocked up on inventory. As masks became more available in late 2020 and early 2021, the market price for masks declined and

Historically, the company has managed customer receivables well, with bad debt averaging $8 million per year in the ten year period from 2012 to 2021. The following exhibit displays Fastenal's trade working capital on a net basis over the past decade. Trade working capital is arrived at by adding inventory and accounts receivable and subtracting accounts payable. Typically, trade working capital has averaged slightly over 50% of total assets. Fastenal typically turns over its inventory slightly more than twice per year (2.3x for 2021).

Figures in millions except per share amounts	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
Trade Working Capital:											
Trade accounts receivable, net	1,110.6	900.2	769.4	741.8	714.3	607.8	499.7	468.4	462.1	414.3	372.2
Inventories	1,678.1	1,523.6	1,337.5	1,366.4	1,278.7	1,092.9	993.0	913.3	869.2	784.1	715.4
Less accounts payable	(277.2)	(233.1)	(207.0)	(192.8)	(193.6)	(147.5)	(108.7)	(126.0)	(103.9)	(91.3)	(78.0)
Trade Working Captial:	**2,511.5**	**2,190.7**	**1,899.9**	**1,915.4**	**1,799.4**	**1,553.2**	**1,384.0**	**1,255.7**	**1,227.4**	**1,107.1**	**1,009.5**
Change in trade working capital	*14.6%*	*15.3%*	*-0.8%*	*6.4%*	*15.9%*	*12.2%*	*10.2%*	*2.3%*	*10.9%*	*9.7%*	*10.8%*
Trade working capital as % of total assets	54.3%	51.0%	47.9%	50.4%	54.2%	53.4%	51.9%	49.6%	52.0%	53.3%	55.6%

Source: Fastenal's 10-K and 10-Q Reports

Despite investments in trade working capital and the physical infrastructure needed to distribute products to customers, Fastenal has posted very attractive return on equity and return on total capital figures, and these metrics have been improving in recent years due to improvements in operating income and a lower tax rate:

Figures in millions except per share amounts	9/30/22	12/31/21	12/31/20	12/31/19	12/31/18	12/31/17	12/31/16	12/31/15	12/31/14	12/31/13	12/31/12
Net income (annualized for Q1-Q3 22)	**1,121.7**	**925.0**	**859.1**	**790.9**	**751.9**	**578.6**	**499.4**	**516.4**	**494.2**	**448.6**	**420.5**
Return on equity	35.5%	30.4%	31.4%	29.7%	32.7%	27.6%	25.8%	28.7%	25.8%	25.3%	27.0%
Return on capital	30.2%	27.0%	27.4%	26.3%	26.8%	23.0%	21.5%	23.8%	24.6%	25.3%	27.0%

Source: Fastenal's 10-K and 10-Q Reports

As of September 30, 2022, Fastenal had $3,161.2 million of shareholders equity and $555 million of debt on the balance sheet. The following exhibit shows Fastenal's current debt outstanding:

Credit Facility, Notes Payable, and Commitments

Debt obligations and letters of credit outstanding at the end of each period consisted of the following:

	Average Interest Rate at September 30, 2022	Maturity Date	Debt Outstanding: September 30, 2022	Debt Outstanding: December 31, 2021
Unsecured revolving credit facility	3.94%	September 28, 2027	$ 225.0	25.0
Senior unsecured promissory notes payable, Series B	2.45%	July 20, 2022	—	35.0
Senior unsecured promissory notes payable, Series C	3.22%	March 1, 2024	60.0	60.0
Senior unsecured promissory notes payable, Series D	2.66%	May 15, 2025	75.0	75.0
Senior unsecured promissory notes payable, Series E	2.72%	May 15, 2027	50.0	50.0
Senior unsecured promissory notes payable, Series F	1.69%	June 24, 2023	70.0	70.0
Senior unsecured promissory notes payable, Series G	2.13%	June 24, 2026	25.0	25.0
Senior unsecured promissory notes payable, Series H	2.50%	June 24, 2030	50.0	50.0
Total			555.0	390.0
Less: Current portion of debt			(150.3)	(60.0)
Long-term debt			$ 404.7	330.0

Source: Fastenal's Q3 2022 10-Q Report

Fastenal took a $7.8 million write-down for mask inventory in Q1 2021. At the 2022 annual meeting, Fastenal's CEO Dan Florness defended the company's actions, indicating that this type of write-down risk is accepted to better serve customers.

Fastenal has drawn $225 million of a $835 committed unsecured revolving credit facility with an uncommitted option to increase the facility to $1.2 billion. The senior unsecured promissory notes have been issued under a master note agreement with an aggregate borrowing capacity of $900 million, although the institutional investors providing funding have not committed to purchase additional debt. The notes carry a fixed interest rate. Interest expense was $9.7 million in 2021 and $9.3 million for the first three quarters of 2022.

While Fastenal clearly does not *need* any debt in its capital structure, the modest use of debt that has been used is not problematic and has allowed management to modestly increase the return of cash to shareholders in the form of dividends and repurchases, as we discuss in more detail in the next section.

The financial statement section at the end of this report contains balance sheet information on a quarterly basis from December 31, 2018 to September 30, 2022. Fastenal's business is characterized by sufficient stability and the balance sheet is conservative, but it is worth examining how management handled the period surrounding the onset of the pandemic in the first quarter of 2020.

The exhibit below shows selected data from the balance sheets over the past twelve quarters:

Figures in millions except per share amounts	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	6/30/20	3/30/20	12/31/19
Current ratio	4.0	3.7	4.1	4.2	4.2	4.2	4.0	4.1	4.4	4.1	4.2	4.5
Total Capital												
Stockholders equity	3,161.2	3,178.7	3,142.0	3,042.2	2,964.7	2,880.8	2,786.7	2,733.2	2,885.6	2,783.0	2,656.6	2,665.6
Debt	555.0	505.0	365.0	390.0	365.0	405.0	405.0	405.0	405.0	405.0	455.0	345.0
Total Capital	**3,716.2**	**3,683.7**	**3,507.0**	**3,432.2**	**3,329.7**	**3,285.8**	**3,191.7**	**3,138.2**	**3,290.6**	**3,188.0**	**3,111.6**	**3,010.6**
Net income (from operating summary - quarterly)	284.6	287.1	269.6	231.2	243.5	239.7	210.6	196.1	221.5	238.9	202.6	178.7
Return on equity (annualized)	36.0%	36.1%	34.3%	30.4%	32.9%	33.3%	30.2%	28.7%	30.7%	34.3%	30.5%	26.8%
Return on capital (annualized)	30.6%	31.2%	30.7%	26.9%	29.3%	29.2%	26.4%	25.0%	26.9%	30.0%	26.0%	23.7%
Inventory Turns (quarterly cost of sales * 4) / average inventory	2.3	2.3	2.3	2.2	2.4	2.5	2.3	2.2	2.3	2.4	2.2	2.0
Trade Working Capital, Net (A/R + Inventories - A/P)	2,511.5	2,477.3	2,382.5	2,190.7	2,093.6	2,000.7	1,941.2	1,899.9	1,966.7	2,088.9	1,967.3	1,915.4
Change in trade working capital	*1.4%*	*4.0%*	*8.8%*	*4.6%*	*4.6%*	*3.1%*	*2.2%*	*-3.4%*	*-5.8%*	*6.2%*	*2.7%*	*-2.1%*
Trade working capital as a percentage of total assets	54.3%	53.9%	53.3%	51.0%	49.6%	48.0%	47.6%	47.9%	47.9%	51.1%	50.0%	50.4%

Source: Fastenal's 10-K and 10-Q Reports

As discussed in the operating history section, Fastenal's mix of business changed during the early part of the pandemic. An industrial decline resulted in lower sales for fasteners and most other product categories but safety and janitorial supplies were in high demand. This resulted in trade working capital increasing in the first and second quarters of 2020 before contracting in the third and fourth quarters.

Trade working capital as a percentage of total assets fell from 50% at the end of Q1 2020 to 47.6% at the end of Q1 2021 before rising steading over the subsequent six quarters to end at 54.3% of total assets at the end of Q3 2022. Inventory turns averaged 2.3x in the quarters after the pandemic started, quite similar to historical averages. Overall, Fastenal's balance sheet held up well over the course of the pandemic.

Capital Allocation

Let's begin our review of Fastenal's capital allocation by examining cash flow from operations, capital expenditures, and free cash flow over the 12 ¾ year period from 2012 to Q3 2022. Looking at cash flow data over a long period of time helps to reveal underlying economic characteristics of the business and smooths out factors that may impact individual reporting periods. For complete cash flow statements since 2007, please refer to the financial statements section at the end of this report.[19]

The exhibit below illustrates how Fastenal converted net income into free cash flow during this period:

Figures in millions except per share amounts	9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	Totals: 2010-Q3 2022
Net Income	**841.3**	**925.0**	**859.1**	**790.9**	**751.9**	**578.6**	**499.4**	**516.4**	**494.2**	**448.6**	**420.5**	**357.9**	**265.4**	**7,749.2**
Cash Flows from Operations	**639.1**	**770.1**	**1,101.8**	**842.7**	**674.2**	**585.2**	**519.9**	**550.3**	**499.4**	**416.1**	**396.3**	**268.5**	**240.5**	**7,504.1**
Net Capital Expenditures:														
Manufacturing, warehouse and packaging equipment, industrial vending, facilities		70.3	91.5	172.7	110.7	66.2	131.8	112.5	144.6	164.9	105.3	83.6	50.8	1,436.0
Shelving and supplies for openings & expansion at existing in-market locations		11.0	15.7	12.3	9.6	8.3	14.1	8.9	6.7	6.4	5.2	5.3	4.3	107.8
Data processing software and equipment	131.0	28.0	31.4	31.1	30.9	23.2	18.0	19.7	24.0	12.7	11.1	12.0	7.3	249.4
Real estate and improvements to branch locations		37.9	16.1	8.9	12.9	6.2	5.5	4.2	4.1	9.6	6.0	5.2	1.7	118.3
Vehicles		9.4	13.4	21.4	12.2	16.0	20.1	9.9	10.0	13.0	10.8	14.0	9.4	159.6
Total purchases of property and equipment	131.0	156.6	168.1	246.4	176.3	119.9	189.5	155.2	189.5	206.5	138.4	120.0	73.6	2,071.1
Less proceeds from sale of property and equipment	(10.1)	(8.4)	(10.6)	(6.6)	(9.5)	(7.4)	(6.5)	(9.9)	(5.8)	(5.0)	(4.5)	(3.6)	(4.5)	(92.3)
Net capital expenditures	**120.9**	**148.2**	**157.5**	**239.8**	**166.8**	**112.5**	**183.0**	**145.3**	**183.7**	**201.6**	**133.9**	**116.5**	**69.1**	**1,978.7**
Free Cash Flow:														
Cash flows from operations	639.1	770.1	1,101.8	842.7	674.2	585.2	519.9	550.3	499.4	416.1	396.3	268.5	240.5	7,504.1
Less net capital expenditures	(120.9)	(148.2)	(157.5)	(239.8)	(166.8)	(112.5)	(183.0)	(145.3)	(183.7)	(201.6)	(133.9)	(116.5)	(69.1)	(1,978.7)
Free Cash Flow	**518.2**	**621.9**	**944.3**	**602.9**	**507.4**	**472.7**	**336.9**	**405.0**	**315.7**	**214.6**	**262.4**	**152.0**	**171.4**	**5,525.4**
Free cash flow as % of net income	*62%*	*67%*	*110%*	*76%*	*67%*	*82%*	*67%*	*78%*	*64%*	*48%*	*62%*	*42%*	*65%*	*71%*

Source: Fastenal's 10-K and 10-Q Reports [20]

Over the 12 ¾ year period, Fastenal posted $7,749.2 million of net income, $7,504.1 million of cash flows from operations, and $5,525.4 million of estimated free cash flow.

Although Fastenal provides more granularity than many companies when it comes to capital expenditures, I have elected to deduct all capex from cash flows from operations in my free cash flow estimate. A certain portion of capex is related to expansion rather than maintenance requirements, but the dynamics of the company's shrinking count of traditional store/branch locations and the expansion of the onsite model makes it difficult to infer maintenance vs. expansion capex from the details that are provided.

The majority of capex involves the purchase of manufacturing, warehouse, and packaging equipment along with the company's investment in industrial vending machines. As the traditional branch footprint declines, capex related to such locations declines but investments in the onsite model, including vending, must increase.

Before examining how management has allocated free cash flow, we should consider a very important aspect of the business that shows up higher up on the cash flow statement under cash flows from operations. As Fastenal's sales increase over time, the business requires an ever-increasing investment in trade working capital.

[19] I have selected the 12 ¾ year period from 2010 to Q3 2022 because the company began providing more granular information on the components of capex in 2010 which is useful when thinking about free cash flow.

[20] Fastenal includes granular information for capital expenditures in 10-K reports but not in 10-Qs. As a result, it is not possible to present granular capex information for the first nine months of 2022. I have included the $131 million in capex for Q1-Q3 2022 in the manufacturing, warehouse and packaging equipment line in the exhibit.

As the business scales up, trade accounts receivable and inventories increase commensurately to support the increased level of sales, partially offset by a higher level of accounts payable.

Over the 12 ¾ year period discussed in this section, Fastenal used $1,176.4 million to expand inventories and $1,003.9 million on increasing accounts receivable which was partially offset by a $219.7 million increase in cash due to higher accounts payable. This works out to a cash outflow for trade working capital of $1,960.6 million. Trade working capital as a percentage of total assets rose from 52.2% at 12/31/2010 to 54.3% at 9/30/2022, so this use of cash should be viewed as a normal and necessary part of the expansion of the business over time.

Let's take a look at the major sources and uses of cash from 2010 through the third quarter of 2022:

Selected sources and uses of cash: 2010 to Q3 2022	
Free cash flow	5,525
Net borrowings	555
Proceeds from stock option issuance	282
Total selected sources of cash	**6,362**
Acquisitions	(216)
Stock repurchases	(797)
Dividends	(5,241)
Total selected uses of cash	**(6,254)**

Free cash flow was the main source of cash from 2010 to Q3 2022 along with $555 million of net borrowings and $282 million from the proceeds of stock issued upon option exercises. Other than minor acquisitions, management has allocated nearly all cash toward returning cash to shareholders, predominantly in the form of dividends (regular and special dividends) but also via a repurchase program.

Source: Fastenal's 10-K and 10-Q Reports, Author's estimates and calculations

The majority of cash has come from free cash flow of $5,525 million supplemented by net borrowings and cash received upon the exercise of employee stock options. Management has used the majority of cash to pay dividends to shareholders via a regular quarterly dividend supplemented by occasional special dividends. In addition, management has repurchased shares at certain times, with a stated intention of offsetting the dilutive impact of the stock option program.[21] Fastenal has historically avoided large acquisitions. In 2020, the company purchased certain assets of Apex Industrial Technologies related to industrial vending technologies.[22]

Over the 12 ¾ years in our analysis, management has returned $6,037 million to shareholders in dividends and repurchases against $5,525 million of free cash flow, with the difference funded by a modest amount of debt. This overall capital allocation profile indicates that management does not see major expansion opportunities that would warrant internal reinvestment or acquisitions.

Free cash flow has averaged just 71% of net income during this period. Net capex of $1,978.7 million was higher than the $1,303 millions of depreciation, but nearly $2 billion used to build up working capital was responsible for most of the delta between free cash flow and net income. To the extent that the business continues to grow sales over time and inventory turnover remains unchanged, we should expect trade working capital needs to continue to grow along with revenue. This will cause free cash flow to be lower than reported net income considering that capex has been running somewhat higher than depreciation. Another way of looking at this is Fastenal's free cash flow yield is likely to remain considerably lower than the earnings yield in the future.

[21] The 2021 annual report states a goal of "avoiding, if feasible, the potentially dilutive impact of our activities on our shareholders." (page 7)
[22] The 2020 annual report contains discussion of the acquisition. See p. 52 for financial details of the transaction.

Conclusion

Warren Buffett has often said that it is far better to buy a wonderful business at a fair price rather than a fair business at a wonderful price. It would be difficult to argue that Fastenal is not a wonderful business. However, the positive attributes of the business have not been lost on market participants.

Fastenal trades at a market capitalization of $30 billion which is approximately 28 times trailing twelve month earnings through September 30, 2022. Even during periods of intense market turmoil, the stock rarely gets very cheap. For example, on March 23, 2020, Fastenal's market cap hit a low of $15.1 billion at the height of the COVID sell-off. This was approximately 19 times 2019 earnings and the stock was only on sale very briefly.

From 2012 to 2021, Fastenal grew sales at an annualized rate of 8.1%. During the same period, nominal GDP grew at an annualized rate of 4.4%.[23] The overall market for industrial and construction supplies is likely to be highly correlated with nominal GDP growth over long periods of time. Management has estimated North American demand for its products at $140 billion which, if accurate, suggests that Fastenal has significant room for market share gains given that the company's 2021 sales of $6 billion.

While it is reasonable to assume that Fastenal will grow somewhat faster than nominal GDP growth, it does not seem likely that growth will vastly exceed growth of the domestic economy, at least not without sacrificing gross margin which has already compressed from 51.8% in 2011 to 46.2% in 2021. So far, improvements in operating efficiencies brought about by automation and the onsite model has allowed operating margins to remain intact. However, it is questionable whether management will be able to continue to drive costs down.

If nominal GDP grows at 4-5% over the next decade, it is reasonable for Fastenal to continue growing sales at around 8% annually which would imply sales of $13 billion ten years from now. If operating margin remains in the range of 20-21%, operating income might be $2.6 to $2.7 billion by 2032. Assuming that corporate income tax rates do not increase, it is reasonable to think that Fastenal could have net income in the $2 billion range by 2032. If the shares are still trading at 28 times earnings, the company would have a market cap of $56 billion. However, if the earnings multiple contracts to 20 times, the market cap might be $40 billion.

The trouble with high multiple stocks is that the prospect of multiple compression is ever-present. Fastenal's business is predictable and resilient even during a shock like a global pandemic. It seems very likely that Fastenal will continue to grow over the coming decade, but the terminal earnings multiple will depend on investor sentiment about the company's future prospects from the perspective of 2032.

The primary goal of the business profile series is to review excellent businesses that may be expensive today but could be a bargain in the future. Fastenal is an interesting company to watch since it does occasionally go on sale. In March 2020, Fastenal remained a wonderful business and it traded briefly at a fair price. There are sure to be market panics in the future that alert and prepared investors will be able to take advantage of.

[23] Nominal annualized GDP was running at $15,842 billion in Q4 2011 and $24,349 billion in Q4 2021 representing an annualized rate of ~4.4% Source: FRED Nominal GDP 2012 to 2022

Further Reading

Annual Reports from 1996 to 2021 The annual letters are very interesting to read sequentially.

SEC Filings found on the Securities and Exchange Commission's EDGAR website dating back to 1995.

2022 Annual Meeting Webcast. Registration is required to view the presentation.

Monthly Sales Information is provided by the company in news releases. For example, see October 2022 data.

Services and Solutions provides an overview of FMI Technology, FASTStock, FASTBin, and FASTVend, the onsite model, and other product offerings. There are several short videos illustrating how these solutions work.

Fastenal Virtual Tour: Manufacturing is a video showing the type of products and custom solutions the company builds for customers and the type of technology used in the process.

Fastenal Virtual Tour: Distribution is a video that focuses on the automated storage and retrieval systems that have allowed the company to gain increasing efficiencies from the warehouse footprint in recent years.

Who is Bob Kierlin – and Why is He So Successful? By Richard Teitelbaum, December 8, 1997. This article provides interesting information about how Fastenal started and grew over its first three decades. Robert Kierlin's frugality and work ethic established the culture and was sustained by his example. His salary in 1997 was $120,000, an amount that had remained unchanged for over a decade. **(Fortune Magazine/CNN Money)**

The Cheapest CEO in America by Marc Ballon, October 1997. Robert Kierlin was selected as the cheapest CEO in America by Inc. Magazine. Aside from the insight into the personality and business practices of the founder of Fastenal, I liked the fact that the article included quotes from Dan Florness who was CFO at the time and is now the company's CEO. The road trip Florness and Kierlin took to attend a conference in Chicago included dining at A&W and sharing a motel room in the Chicago suburbs to save money for the company. **(Inc. Magazine)**

Morningstar Selects Will Oberton of Fastenal as its 2006 CEO of the Year, January 4, 2007. Bob Kierlin turned over the reins to Will Oberton in 2002 and this transition was successful. This article is a brief profile of Oberton's background at Fastenal and accomplishments during his first few years as CEO. **(Morningstar)**

Fastenal Rehired Old CEO as Current One Steps Down, July 31, 2015. When Will Oberton retired in 2015, Leland Hein was named CEO but he only lasted seven months in the job before Oberton returned. A few months later, Oberton turned over the CEO position to Dan Florness who is still serving as CEO today. **(Twin Cities Business)**

Buffett Is Impressed by Fastenal by Dyan Machan, March 8, 2014. This is an article about a meeting between Warren Buffett and Will Oberton. *"Buffett asked Oberton about his profit margins on threaded fasteners, Fastenal's No. 1 product line, and erupted with glee when told they were as high as 80%."* **(Bamboo Innovator)**

Financial Statements

Balance Sheets: 2007 to Q3 2022

Figures in millions except per share amounts	**9/30/22**	**12/31/21**	**12/31/20**	**12/31/19**	**12/31/18**	**12/31/17**	**12/31/16**	**12/31/15**	**12/31/14**	**12/31/13**	**12/31/12**	**12/31/11**	**12/31/10**	**12/31/09**	**12/31/08**	**12/31/07**
ASSETS																
Current assets:																
Cash and cash equivalents	231.5	236.2	245.7	174.9	167.2	116.9	112.7	129.0	114.5	58.5	79.6	117.7	143.7	164.9	85.9	57.2
Marketable securities	-	-	-	-	-	-	-	-	-	0.5	0.4	27.2	26.1	24.4	0.9	0.2
Trade accounts receivable, net of allowance for credit losses	1,110.6	900.2	769.4	741.8	714.3	607.8	499.7	468.4	462.1	414.3	372.2	338.6	270.1	214.2	244.9	236.3
Inventories	1,678.1	1,523.6	1,337.5	1,366.4	1,278.7	1,092.9	993.0	913.3	869.2	784.1	715.4	646.2	557.4	508.4	564.2	504.6
Deferred income taxes	-	-	-	-	-	-	-	-	21.8	18.2	14.4	16.7	17.9	12.9	15.9	14.7
Prepaid income taxes	3.2	8.5	6.7	16.7	9.0	-	12.9	22.6	-	24.9	7.4	-	-	11.7	-	-
Other current assets	172.2	188.1	140.3	157.4	147.0	118.1	102.4	131.6	115.7	108.0	97.4	89.8	70.5	46.0	63.6	67.8
Total current assets	3,195.6	2,856.6	2,499.6	2,457.2	2,316.2	1,935.7	1,720.8	1,664.8	1,583.3	1,408.5	1,286.7	1,236.1	1,085.7	982.4	975.4	880.8
Marketable securities	-	-	-	-	-	-	-	-	-	-	-	-	5.2	6.2	0.8	2.0
Property and equipment, net	1,008.5	1,019.2	1,030.7	1,023.2	924.8	893.6	899.7	818.9	763.9	654.9	516.4	435.6	363.4	335.0	324.2	276.6
Operating lease right-of-use assets	249.8	242.3	243.0	243.2	-	-	-	-	-	-	-	-	-	-	-	-
Other assets, net	173.5	180.9	191.4	76.3	80.5	81.2	48.4	48.8	11.9	12.5	12.7	13.2	14.0	3.8	3.7	3.7
TOTAL ASSETS	**4,627.4**	**4,299.0**	**3,964.7**	**3,799.9**	**3,321.5**	**2,910.5**	**2,668.9**	**2,532.5**	**2,359.1**	**2,075.8**	**1,815.8**	**1,684.9**	**1,468.3**	**1,327.4**	**1,304.1**	**1,163.1**
LIABILITIES AND STOCKHOLDERS' EQUITY																
Current liabilities:																
Current portion of debt	150.3	60.0	40.0	3.0	3.0	3.0	10.5	62.1	90.0	-	-	-	-	-	-	-
Accounts payable	277.2	233.1	207.0	192.8	193.6	147.5	108.7	126.0	103.9	91.3	78.0	73.8	60.5	53.5	63.9	55.4
Accrued expenses	282.4	298.3	272.1	251.5	240.8	194.0	156.4	185.1	174.0	148.6	126.2	112.0	96.4	66.0	83.5	75.6
Current portion of operating lease liabilities	92.7	90.8	93.6	97.4	-	-	-	-	-	-	-	-	-	-	-	-
Income taxes payable	-	-	-	-	-	6.5	-	-	7.4	-	-	2.1	5.3	-	0.5	6.9
Total current liabilities	802.6	682.2	612.7	544.7	437.4	351.0	275.6	373.2	375.4	239.8	204.2	187.8	162.2	119.5	148.0	137.8
Long-term debt	404.7	330.0	365.0	342.0	497.0	412.0	379.5	303.0	-	-	-	-	-	-	-	-
Operating lease liabilities	161.2	156.0	151.5	148.2	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income tax liabilities	92.9	88.6	102.3	99.4	84.4	50.6	80.6	55.1	68.5	63.3	51.3	38.2	23.6	17.0	13.9	15.1
Other long-term liabilities	4.8	-	-	-	-	-	-	-								
Stockholders' equity:																
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	5.8	5.8	5.7	2.9	2.9	2.9	2.9	2.9	3.0	3.0	3.0	3.0	2.9	1.5	1.5	1.5
Additional paid-in capital	2.8	96.2	59.1	67.2	3.0	8.5	37.4	2.0	33.7	69.8	61.4	16.9	2.9	0.3	1.6	0.2
Retained earnings	3,239.7	2,970.9	2,689.6	2,633.9	2,341.6	2,110.6	1,940.1	1,842.8	1,886.4	1,688.8	1,477.6	1,424.4	1,258.2	1,175.6	1,134.2	996.1
Accumulated other comprehensive income (loss)	(87.1)	(30.7)	(21.2)	(38.4)	(44.8)	(25.1)	(47.3)	(46.4)	(7.8)	11.1	18.4	14.8	18.5	13.4	5.0	12.4
Total stockholders' equity	**3,161.2**	**3,042.2**	**2,733.2**	**2,665.6**	**2,302.7**	**2,096.9**	**1,933.1**	**1,801.3**	**1,915.2**	**1,772.7**	**1,560.4**	**1,459.0**	**1,282.5**	**1,190.8**	**1,142.3**	**1,010.2**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**4,627.4**	**4,299.0**	**3,964.7**	**3,799.9**	**3,321.5**	**2,910.5**	**2,668.9**	**2,532.5**	**2,359.1**	**2,075.8**	**1,815.8**	**1,684.9**	**1,468.3**	**1,327.4**	**1,304.1**	**1,163.1**
	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock outstanding (adj. for 2:1 splits in 2019 and 2011)	572.8	575.5	574.2	574.1	571.8	575.2	578.3	579.2	591.7	593.5	593.1	590.5	589.7	589.7	594.1	596.5
Book value per share	5.52	5.29	4.76	4.64	4.03	3.65	3.34	3.11	3.24	2.99	2.63	2.47	2.17	2.02	1.92	1.69

Balance Sheets: Q4 2018 to Q3 2022

Figures in millions except per share amounts	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	6/30/20	3/30/20	12/31/19	9/30/19	6/30/19	3/31/19	12/31/18
ASSETS																
Current assets:																
Cash and cash equivalents	231.5	247.9	234.2	236.2	250.5	321.8	333.9	245.7	331.8	201.5	160.7	174.9	191.2	175.0	185.4	167.2
Trade accounts receivable, net of allowance for credit losses	1,110.6	1,103.9	1,071.6	900.2	949.4	908.9	851.0	769.4	834.5	881.5	833.9	741.8	817.3	819.8	793.0	714.3
Inventories	1,678.1	1,665.2	1,600.8	1,523.6	1,401.1	1,327.9	1,305.3	1,337.5	1,342.6	1,401.5	1,345.5	1,366.4	1,354.7	1,345.7	1,293.9	1,278.7
Deferred income taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid income taxes	3.2	6.5	-	8.5	6.7	-	-	6.7	14.6	-	-	16.7	0.4	4.0	-	9.0
Other current assets	172.2	129.2	127.4	188.1	162.6	146.7	124.0	140.3	123.2	121.8	124.2	157.4	137.2	123.8	116.9	147.0
Total current assets	3,195.6	3,152.7	3,034.0	2,856.6	2,770.3	2,705.3	2,614.2	2,499.6	2,646.7	2,606.3	2,464.3	2,457.2	2,500.8	2,468.3	2,389.2	2,316.2
Property and equipment, net	1,008.5	1,008.7	1,008.4	1,019.2	1,019.2	1,015.8	1,022.0	1,030.7	1,023.7	1,029.7	1,027.7	1,023.2	997.7	975.1	943.3	924.8
Operating lease right-of-use assets	249.8	254.8	246.0	242.3	249.7	259.6	249.6	243.0	244.4	252.8	242.4	243.2	238.4	234.5	220.9	-
Other assets, net	173.5	176.1	178.3	180.9	183.3	185.9	188.6	191.4	193.8	196.4	200.3	76.3	77.3	78.5	98.4	80.5
TOTAL ASSETS	**4,627.4**	**4,592.3**	**4,466.7**	**4,299.0**	**4,222.5**	**4,166.6**	**4,074.4**	**3,964.7**	**4,108.6**	**4,085.2**	**3,934.7**	**3,799.9**	**3,814.2**	**3,756.4**	**3,651.8**	**3,321.5**
LIABILITIES AND STOCKHOLDERS' EQUITY																
Current liabilities:																
Current portion of debt	150.3	195.0	35.0	60.0	35.0	40.0	40.0	40.0	40.0	-	4.9	3.0	3.0	3.0	4.4	3.0
Accounts payable	277.2	291.8	289.9	233.1	256.9	236.1	215.1	207.0	210.4	194.1	212.1	192.8	215.2	203.8	183.9	193.6
Accrued expenses	282.4	268.7	268.2	298.3	278.0	277.9	265.8	272.1	258.2	238.2	227.5	251.5	241.3	226.0	232.8	240.8
Current portion of operating lease liabilities	92.7	93.5	91.3	90.8	92.6	94.8	93.1	93.6	94.4	96.7	96.4	97.4	95.6	95.1	91.8	-
Income taxes payable	-	-	61.1	-	-	1.4	47.2	-	-	102.3	39.5	-	-	-	41.7	-
Total current liabilities	802.6	849.0	745.5	682.2	662.5	650.2	661.2	612.7	603.0	631.3	580.4	544.7	555.1	527.9	554.6	437.4
Long-term debt	404.7	310.0	330.0	330.0	330.0	365.0	365.0	365.0	365.0	405.0	450.1	342.0	442.0	497.0	484.6	497.0
Operating lease liabilities	161.2	165.5	159.6	156.0	160.7	167.6	158.9	151.5	152.1	158.0	147.7	148.2	144.8	141.1	130.4	-
Deferred income tax liabilities	92.9	89.1	89.6	88.6	104.6	103.0	102.6	102.3	102.9	100.3	99.9	99.4	86.6	86.7	85.0	84.4
Other long-term liabilities	4.8	-	-	-	-	-	-	-	-	7.6	-	-	-	-		-
Stockholders' equity:																
Preferred stock	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Common stock	5.8	5.8	5.8	5.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Additional paid-in capital	2.8	55.7	101.6	96.2	90.6	78.4	70.0	61.9	57.8	44.4	24.2	67.2	50.3	46.0	22.7	3.0
Retained earnings	3,239.7	3,171.6	3,063.0	2,970.9	2,900.8	2,818.3	2,739.4	2,689.6	2,866.7	2,788.6	2,692.9	2,633.9	2,581.5	2,494.2	2,412.7	2,341.6
Accumulated other comprehensive income (loss)	(87.1)	(54.4)	(28.4)	(30.7)	(29.6)	(18.8)	(25.6)	(21.2)	(41.8)	(52.9)	(63.4)	(38.4)	(49.0)	(39.4)	(41.1)	(44.8)
Total stockholders' equity	**3,161.2**	**3,178.7**	**3,142.0**	**3,042.2**	**2,964.7**	**2,880.8**	**2,786.7**	**2,733.2**	**2,885.6**	**2,783.0**	**2,656.6**	**2,665.6**	**2,585.7**	**2,503.7**	**2,397.2**	**2,302.7**
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**4,627.4**	**4,592.3**	**4,466.7**	**4,299.0**	**4,222.5**	**4,166.6**	**4,074.4**	**3,964.7**	**4,108.6**	**4,085.2**	**3,934.7**	**3,799.9**	**3,814.2**	**3,756.4**	**3,651.8**	**3,321.5**

Income Statements: 2005 to Q3 2022

	Nine Monhts Ended		Fiscal Years ending on December 31																
Figures in thousands except per share amounts	**9/30/22**	**9/30/21**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**	**2008**	**2007**	**2006**	**2005**
Net sales	**5,285.0**	**4,479.0**	**6,010.9**	**5,647.3**	**5,333.7**	**4,965.1**	**4,390.5**	**3,962.0**	**3,869.2**	**3,733.5**	**3,326.1**	**3,133.6**	**2,766.9**	**2,269.5**	**1,930.3**	**2,340.4**	**2,061.8**	**1,809.3**	**1,523.3**
Cost of sales	2,837.6	2,414.7	3,233.7	3,079.5	2,818.3	2,566.2	2,226.9	1,997.2	1,920.3	1,836.1	1,606.7	1,519.1	1,332.7	1,094.6	946.9	1,104.3	1,014.2	901.7	765.2
Gross profit	2,447.4	2,064.3	2,777.2	2,567.8	2,515.4	2,398.9	2,163.6	1,964.8	1,948.9	1,897.4	1,719.4	1,614.5	1,434.2	1,174.8	983.4	1,236.1	1,047.6	907.7	758.1
Operating and administrative expenses	1,326.7	1,147.8	1,559.8	1,427.4	1,459.4	1,400.2	1,282.8	1,169.5	1,121.5	1,110.8	1,007.4	941.2	859.4	745.1	686.8	785.7	671.2	587.6	489.8
(Gain) Loss on sale of property and equipment	-	-	-	(1.4)	(1.2)	(0.5)	(1.0)	(0.5)	(1.4)	(1.0)	(0.6)	(0.4)	0.2	0.0	0.9	0.2	(0.1)	0.2	0.4
Operating income	1,120.7	916.5	1,217.4	1,141.8	1,057.2	999.2	881.8	795.8	828.8	787.6	712.7	673.7	574.6	429.7	295.8	450.2	376.4	319.8	267.9
Interest income	0.4	0.1	0.1	0.6	0.4	0.4	0.4	0.4	0.4	0.8	0.9	0.5	0.5	1.0	1.7	0.9	1.5	1.2	1.2
Interest expense	(9.3)	(7.3)	(9.7)	(9.7)	(13.9)	(12.6)	(9.1)	(6.5)	(3.1)	(0.9)	(0.1)	-	-	-	-	-	-	-	-
Earnings before tax	1,111.8	909.3	1,207.8	1,132.7	1,043.7	987.0	873.1	789.7	826.1	787.4	713.5	674.2	575.1	430.6	297.5	451.2	377.9	321.0	269.1
Income tax expense	270.5	215.5	282.8	273.6	252.8	235.1	294.5	290.3	309.7	293.3	264.8	253.6	217.2	165.3	113.1	171.5	145.3	122.0	102.2
Net earnings	**841.3**	**693.8**	**925.0**	**859.1**	**790.9**	**751.9**	**578.6**	**499.4**	**516.4**	**494.2**	**448.6**	**420.5**	**357.9**	**265.4**	**184.4**	**279.7**	**232.6**	**199.0**	**166.8**
Diluted shares (adj. for 2:1 split in 2011 & 2019)	576.6	576.9	577.1	575.7	574.4	574.3	576.7	578.4	584.0	594.6	595.4	594.3	590.1	589.7	593.4	595.3	602.2	604.7	606.0
Diluted net earnings per share	1.46	1.20	1.60	1.49	1.38	1.31	1.00	0.86	0.88	0.83	0.75	0.71	0.61	0.45	0.31	0.47	0.39	0.33	0.28
Gross margin	46.3%	46.1%	46.2%	45.5%	47.2%	48.3%	49.3%	49.6%	50.4%	50.8%	51.7%	51.5%	51.8%	51.8%	50.9%	52.8%	50.8%	50.2%	49.8%
Operating margin	21.2%	20.5%	20.3%	20.2%	19.8%	20.1%	20.1%	20.1%	21.4%	21.1%	21.4%	21.5%	20.8%	18.9%	15.3%	19.2%	18.3%	17.7%	17.6%
Net margin	15.9%	15.5%	15.4%	15.2%	14.8%	15.1%	13.2%	12.6%	13.3%	13.2%	13.5%	13.4%	12.9%	11.7%	9.6%	12.0%	11.3%	11.0%	11.0%
Operating and admin expenses as % of sales	25.1%	25.6%	25.9%	25.3%	27.4%	28.2%	29.2%	29.5%	29.0%	29.8%	30.3%	30.0%	31.1%	32.8%	35.6%	33.6%	32.6%	32.5%	32.2%
Effective tax rate	24.3%	23.7%	23.4%	24.2%	24.2%	23.8%	33.7%	36.8%	37.5%	37.2%	37.1%	37.6%	37.8%	38.4%	38.0%	38.0%	38.4%	38.0%	38.0%
Change in revenue	18.0%		6.4%	5.9%	7.4%	13.1%	10.8%	2.4%	3.6%	12.2%	6.1%	13.3%	21.9%	17.6%	-17.5%	13.5%	14.0%	18.8%	
Depreciation (from CF tab)	123.8		159.9	153.3	144.6	134.1	123.6	103.5	86.1	72.1	63.8	53.5	44.1	40.7	40.0	39.2	37.3		
As percentage of net sales	2.3%		2.7%	2.7%	2.7%	2.7%	2.8%	2.6%	2.2%	1.9%	1.9%	1.7%	1.6%	1.8%	2.1%	1.7%	1.8%		
Net Capex (from CF tab)	120.9		148.2	157.5	239.8	166.8	112.5	183.0	145.2	183.7	201.6	133.9	116.5	69.1	47.7	86.9	49.8		
As percentage of net sales	2.3%		2.5%	2.8%	4.5%	3.4%	2.6%	4.6%	3.8%	4.9%	6.1%	4.3%	4.2%	3.0%	2.5%	3.7%	2.4%		

Income Statements: Q1 2018 to Q3 2022

	Fiscal Quarters Ending On																		
Figures in thousands except per share amounts	9/30/22	6/30/22	3/31/22	12/31/21	9/30/21	6/30/21	3/31/21	12/31/20	9/30/20	6/30/20	3/31/20	12/31/19	9/30/19	6/30/19	3/31/19	12/31/18	9/30/18	6/30/18	3/31/18
Net sales	**1,802.4**	**1,778.6**	**1,704.1**	**1,531.8**	**1,554.2**	**1,507.7**	**1,417.0**	**1,358.0**	**1,413.3**	**1,509.0**	**1,367.0**	**1,276.9**	**1,379.1**	**1,368.4**	**1,309.3**	**1,231.6**	**1,279.8**	**1,267.9**	**1,185.8**
Cost of sales	975.9	951.0	910.8	818.9	834.0	807.0	773.6	739.2	772.7	837.4	730.2	678.5	728.0	727.2	684.6	643.8	664.0	650.2	608.2
Gross profit	826.5	827.6	793.3	712.9	720.2	700.7	643.4	618.8	640.6	671.6	636.8	598.4	651.1	641.2	624.7	587.8	615.8	617.7	577.6
Operating and administrative expenses	447.3	444.2	435.3	412.0	401.8	382.9	363.1	354.7	351.5	355.3	365.9	359.9	369.2	366.7	363.6	354.4	353.8	349.3	342.7
(Gain) Loss on sale of property and equipment	-	-	-	-	-	-	-	(0.3)	(1.0)	0.3	(0.4)	(0.4)	-	(0.5)	(0.3)	-	(0.3)	(0.6)	0.4
Operating income	379.2	383.4	358.0	300.9	318.4	317.8	280.3	264.4	290.1	316.0	271.3	238.9	281.9	275.0	261.4	233.4	262.3	269.0	234.5
Interest income	0.2	0.1	0.1	-	0.1	-	-	0.3	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Interest expense	(4.1)	(2.8)	(2.4)	(2.4)	(2.4)	(2.6)	(2.4)	(2.5)	(2.6)	(2.4)	(2.2)	(2.6)	(3.6)	(3.7)	(4.0)	(3.7)	(3.0)	(3.2)	(2.7)
Earnings before tax	375.3	380.7	355.7	298.5	316.1	315.2	277.9	262.2	287.6	313.7	269.2	236.4	278.4	271.4	257.5	229.8	259.4	265.9	231.9
Income tax expense	90.7	93.6	86.1	67.3	72.6	75.5	67.3	66.1	66.1	74.8	66.6	57.7	64.9	66.8	63.4	61.0	61.8	54.7	57.6
Net earnings	**284.6**	**287.1**	**269.6**	**231.2**	**243.5**	**239.7**	**210.6**	**196.1**	**221.5**	**238.9**	**202.6**	**178.7**	**213.5**	**204.6**	**194.1**	**168.8**	**197.6**	**211.2**	**174.3**
Diluted shares (adj. for 2:1 split in 2019)	574.7	577.4	577.6	577.7	577.3	577.0	576.5	576.4	576.1	575.0	575.3	575.6	574.4	574.6	573.0	572.6	574.5	574.5	575.8
Diluted net earnings per share	0.50	0.50	0.47	0.40	0.42	0.42	0.37	0.34	0.38	0.42	0.35	0.31	0.37	0.36	0.34	0.29	0.34	0.37	0.30
Gross margin	45.9%	46.5%	46.6%	46.5%	46.3%	46.5%	45.4%	45.6%	45.3%	44.5%	46.6%	46.9%	47.2%	46.9%	47.7%	47.7%	48.1%	48.7%	48.7%
Operating margin	21.0%	21.6%	21.0%	19.6%	20.5%	21.1%	19.8%	19.5%	20.5%	20.9%	19.8%	18.7%	20.4%	20.1%	20.0%	19.0%	20.5%	21.2%	19.8%
Net margin	15.8%	16.1%	15.8%	15.1%	15.7%	15.9%	14.9%	14.4%	15.7%	15.8%	14.8%	14.0%	15.5%	15.0%	14.8%	13.7%	15.4%	16.7%	14.7%
Operating and admin expenses as % of sales	24.8%	25.0%	25.5%	26.9%	25.9%	25.4%	25.6%	26.1%	24.9%	23.5%	26.8%	28.2%	26.8%	26.8%	27.8%	28.8%	27.6%	27.5%	28.9%
Effective tax rate	24.2%	24.6%	24.2%	22.5%	23.0%	24.0%	24.2%	25.2%	23.0%	23.8%	24.7%	24.4%	23.3%	24.6%	24.6%	26.5%	23.8%	20.6%	24.8%
Change in revenue	1.3%	4.4%	11.2%	-1.4%	3.1%	6.4%	4.3%	-3.9%	-6.3%	10.4%	7.1%	-7.4%	0.8%	4.5%	6.3%	-3.8%	0.9%	6.9%	

Cash Flow Statements: 2007 to Q3 2022

Figures in millions except per share amounts	9 Months 9/30/22	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
		Fiscal Years ending on December 31														
Cash flows from operating activities:																
Net earnings	**841.3**	**925.0**	**859.1**	**790.9**	**751.9**	**578.6**	**499.4**	**516.4**	**494.2**	**448.6**	**420.5**	**357.9**	**265.4**	**184.4**	**279.7**	**232.6**
Adjustments to reconcile net earnings to net cash provided by op. activities:																
Depreciation of property and equipment	123.8	159.9	153.3	144.6	134.1	123.6	103.5	86.1	72.1	63.8	53.5	44.1	40.7	40.0	39.2	37.3
Gain on sale of property and equipment	1.2	(1.1)	(1.4)	(1.2)	(0.5)	(1.0)	(0.5)	(1.4)	(1.0)	(0.6)	(0.4)	0.2	0.0	0.9	0.2	(0.1)
Bad debt expense	(0.9)	2.5	7.5	5.5	8.1	8.2	8.6	8.8	11.5	9.4	9.7	9.2	8.7	9.4	7.5	5.3
Deferred income taxes	4.3	(13.7)	2.9	15.0	33.8	(30.0)	25.6	8.3	1.8	8.1	15.4	15.7	1.6	6.1	(2.4)	(0.9)
Stock-based compensation	4.4	5.6	5.7	5.7	5.1	5.2	4.1	5.8	7.0	5.4	4.8	4.1	4.0	3.9	3.2	1.9
Excess tax benefits from stock-based compensation	-	-	-	-	-	-	-	-	(2.1)	(2.8)	(10.1)	-	-	-	-	-
Amortization of intangible assets	8.1	10.8	9.1	4.1	4.1	3.8	0.5	0.5	0.5	0.4	0.6	0.6	0.1	0.1	0.1	0.1
Changes in operating assets and liabilities:																
Trade accounts receivable	(222.9)	(135.2)	(29.7)	(30.4)	(120.3)	(103.7)	(40.5)	(20.6)	(63.4)	(51.6)	(43.3)	(77.7)	(64.6)	21.4	(16.1)	(32.1)
Inventories	(176.9)	(189.5)	36.0	(84.4)	(193.3)	(76.3)	(80.9)	(47.8)	(87.6)	(68.7)	(69.2)	(88.8)	(49.0)	60.4	(59.7)	(48.6)
Other current assets	15.9	(47.8)	17.1	(10.4)	(28.9)	(15.6)	29.1	(15.8)	(7.5)	(10.6)	(7.5)	(19.3)	(24.6)	17.7	4.2	(7.4)
Accounts payable	44.1	26.1	14.2	(0.8)	46.1	36.3	(17.2)	20.6	12.5	13.2	4.2	13.3	7.0	(14.2)	8.6	14.0
Accrued expenses	(15.9)	26.2	20.6	10.7	46.8	37.6	(28.6)	11.1	25.3	22.4	14.2	15.6	30.4	(17.5)	8.0	14.0
Income taxes	5.3	(1.8)	10.0	(7.7)	(15.5)	19.4	15.5	(26.6)	34.4	(14.7)	0.7	(3.2)	17.0	(12.2)	(6.4)	5.9
Other current assets	7.3	3.1	(2.6)	1.1	2.7	(0.9)	1.3	5.0	1.7	(6.3)	3.2	(3.2)	3.9	5.7	(6.2)	5.9
Net cash provided by operating activities	639.1	770.1	1,101.8	842.7	674.2	585.2	519.9	550.3	499.4	416.1	396.3	268.5	240.5	306.1	259.9	227.9
Cash flows from investing activities:																
Purchases of property and equipment	(131.0)	(156.6)	(168.1)	(246.4)	(176.3)	(119.9)	(189.5)	(155.2)	(189.5)	(206.5)	(138.4)	(120.0)	(73.6)	(52.5)	(95.3)	(55.8)
Cash paid for acquisitions	-	-	(125.0)	-	(3.7)	(58.7)	-	(23.5)	(5.6)	-	-	-	-	(5.0)	-	-
Proceeds from sale of property and equipment	10.1	8.4	10.6	6.6	9.5	7.4	6.5	9.9	5.8	5.0	4.5	3.6	4.5	4.9	8.4	5.9
Net decrease (increase) in marketable securities	-	-	-	-	-	-	-	-	0.5	(0.1)	26.8	4.1	(0.6)	(28.9)	0.4	12.4
Other	(0.7)	(0.3)	0.8	0.1	(3.4)	(8.1)	(5.1)	(11.9)	(0.0)	(0.1)	(0.1)	0.2	(10.3)	(0.1)	(0.1)	(0.3)
Net cash provided by (used in) investing activities	(121.6)	(148.5)	(281.7)	(239.7)	(173.9)	(179.3)	(188.1)	(180.6)	(188.8)	(201.8)	(107.2)	(112.2)	(80.0)	(81.7)	(86.6)	(37.7)
Cash flows from financing activities:																
Proceeds from debt obligations	1,390.0	525.0	1,000.0	910.0	980.0	1,015.0	950.0	1,215.0	705.0	260.0	-	-	-	-	-	-
Payments against debt obligations	(1,225.0)	(540.0)	(940.0)	(1,065.0)	(895.0)	(980.0)	(920.0)	(955.0)	(615.0)	(260.0)	-	-	-	-	-	-
Proceeds from exercise of stock options	7.8	31.6	41.0	58.5	13.4	9.5	29.3	19.1	7.7	9.3	29.6	8.9	-	-	-	-
Excess tax benefits from stock-based compensation	-	-	-	-	-	-	-	-	2.1	2.8	10.1	1.0	-	-	-	-
Purchases of common stock	(144.6)	-	(52.0)	-	(103.0)	(82.6)	(59.5)	(293.0)	(52.9)	(9.1)	-	-	-	(41.1)	(26.0)	(87.3)
Payments of dividends	(534.4)	(643.7)	(803.4)	(498.6)	(441.9)	(369.1)	(346.6)	(327.1)	(296.6)	(237.5)	(367.3)	(191.7)	(182.8)	(106.9)	(117.5)	(66.2)
Net cash provided by (used in) financing activities	(506.2)	(627.1)	(754.4)	(595.1)	(446.5)	(407.2)	(346.8)	(341.0)	(249.7)	(234.4)	(327.5)	(181.8)	(182.8)	(148.0)	(143.4)	(153.5)
Effect of exchange rate fluctuations on cash and cash equivalents	(16.0)	(4.0)	5.1	(0.2)	(3.5)	5.5	(1.3)	(14.2)	(4.9)	(1.0)	0.4	(0.5)	1.2	2.7	(1.2)	1.2
Net (decrease) increase in cash and cash equivalents	(4.7)	(9.5)	70.8	7.7	50.3	4.2	(16.3)	14.5	56.0	(21.1)	(38.1)	(26.0)	(21.2)	79.0	28.7	37.9
Cash and cash equivalents at beginning of year	236.2	245.7	174.9	167.2	116.9	112.7	129.0	114.5	58.5	79.6	117.7	143.7	164.9	85.9	57.2	19.3
Cash and cash equivalents at end of year	**231.5**	**236.2**	**245.7**	**174.9**	**167.2**	**116.9**	**112.7**	**129.0**	**114.5**	**58.5**	**79.6**	**117.7**	**143.7**	**164.9**	**85.9**	**57.2**