



# Fastenal Company (FAST)

Updated April 14<sup>th</sup>, 2020 by Eli Inkrot

## Key Metrics

<b>Current Price:</b>	\$34	<b>5 Year CAGR Estimate:</b>	5.4%	<b>Market Cap:</b>	\$19.2 B
<b>Fair Value Price:</b>	\$27	<b>5 Year Growth Estimate:</b>	7.0%	<b>Ex-Dividend Date:</b>	04/27/20
<b>% Fair Value:</b>	124%	<b>5 Year Valuation Multiple Estimate:</b>	-4.2%	<b>Dividend Payment Date:</b>	05/26/20
<b>Dividend Yield:</b>	3.0%	<b>5 Year Price Target</b>	\$38	<b>Years Of Dividend Growth:</b>	20
<b>Dividend Risk Score:</b>	C	<b>Retirement Suitability Score:</b>	D	<b>Last Dividend Increase:</b>	13.6%

## Overview & Current Events

Fastenal began in 1967 when Bob Kierlin and four friends pooled together \$30,000 to open the first store. The original intent was to dispense nuts and bolts via vending machine, but it would take a few decades before that idea got off the ground. The company went public in 1987, and today provides fasteners, tools and supplies to its customers via 2,091 public branches, 1,179 active Onsite locations and over 92,000 industrial vending devices. The \$19 billion market cap company employs over 22,000 people and generates over \$5 billion in annual sales.

On April 14<sup>th</sup>, 2020 Fastenal reported Q1 2020 results for the period ending March 31<sup>st</sup>, 2020. For the quarter, the company reported net sales of \$1.367 billion, a 4.4% increase compared to the year ago period, driven by higher unit sales and strong performance from the industrial vending and Onsite locations. The company stated that sales in January, February and the first half of March remained sluggish; in-line with what Fastenal was seeing in the second half of 2019. The second half of March provided a bit of a mixed bag, with sales in the fastener business declining -10.1% on a daily basis, as many Onsite locations were closed as a result of the coronavirus. However, the safety business grew 31% as the company was able to source and deliver personal protective equipment supplies to the marketplace.

Net earnings totaled \$202.6 million, a 4.4% increase compared to Q1 2019, while earnings-per-share equaled \$0.35 compared to \$0.34 previously. The company's net margin began to be affected by the differential between the decline in the higher margin fastener business compared to the lower margin safety business.

During Q1 2020 Fastenal signed 4,798 industrial vending units and 85 Onsite locations, bringing the totals up to 92,124 and 1,179 respectively. Meanwhile, the number of public branches continues to decline, from 2,187 in Q1 2019 to 2,091 in Q1 2020. Fastenal also pulled its guidance for vending and Onsite signings as a result of recent uncertainty. Total debt on the balance sheet equaled \$455 million, up from \$345 million last quarter, or 14.6% of total capital.

## Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
<b>EPS</b>	\$0.45	\$0.61	\$0.71	\$0.76	\$0.84	\$0.89	\$0.87	\$1.01	\$1.31	\$1.38	<b>\$1.35</b>	<b>\$1.89</b>
<b>DPS</b>	\$0.21	\$0.33	\$0.37	\$0.40	\$0.50	\$0.56	\$0.60	\$0.64	\$0.77	\$0.87	<b>\$1.00</b>	<b>\$1.28</b>
<b>Shares<sup>1</sup></b>	590	591	593	594	592	579	578	575	572	574	<b>574</b>	<b>570</b>

From 2008 through 2019, Fastenal grew earnings-per-share by an average compound rate of 10.1% per annum. This was driven by a variety of factors, including sales basically doubling over this period, an improvement in margins and most recently as a result of tax reform. While Q1 earnings were in-line with expectations, we have reduced our earnings estimate slightly for this year due to demand uncertainty. Meanwhile, our 7% growth estimate remains intact.

Fastenal is in the midst of a transformation from the traditional public branches leading the business to Onsite locations and vending devices heading the growth story (public store count topped out in 2014 and has since been declining, while Onsite and vending have increased materially). We believe this is a prudent move, establishing stickier relationships with customers. This is especially true since only a small fraction of the company's business is from walk-in customers while the majority is done business-to-business.

<sup>1</sup> In millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Fastenal Company (FAST)

Updated April 14<sup>th</sup>, 2020 by Eli Inkrot

On the flip side, the large, national accounts that the company is pursuing are tougher for margins, but this should be made up for in incremental volume. Moreover, the company is exposed to a fair amount of cyclicity as over half of the business is in construction and heavy manufacturing. Something to watch as economic conditions teeter on recession.

## Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	27.9	28.2	31.7	32.3	27.9	23.2	25.3	23.3	20.8	22.7	24.8	20.0
Avg. Yld.	1.6%	1.9%	1.6%	1.6%	2.1%	2.7%	2.7%	2.7%	2.8%	2.8%	3.0%	3.4%

Over the past decade shares of Fastenal have traded hands with an average P/E ratio of 26 times earnings. Even during the depths of the recession, shares did not trade below 15 times earnings. And since 2010 you would be hard pressed to find shares trading under 20 times earnings. Fastenal, it seems, has always traded at a premium valuation.

This premium has implications on the shareholder return side, as the dividend yield will remain average (even with an elevated payout ratio) and share buybacks do not look particularly attractive. (The last time a meaningful number of shares were retired was in 2015, when the company took on debt to buy shares that had dropped from 28 times earnings down to 21 or 22.) With our slightly cautious fair value assumption, this could imply a moderate headwind.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	47%	54%	52%	53%	60%	63%	69%	63%	59%	63%	74%	67%

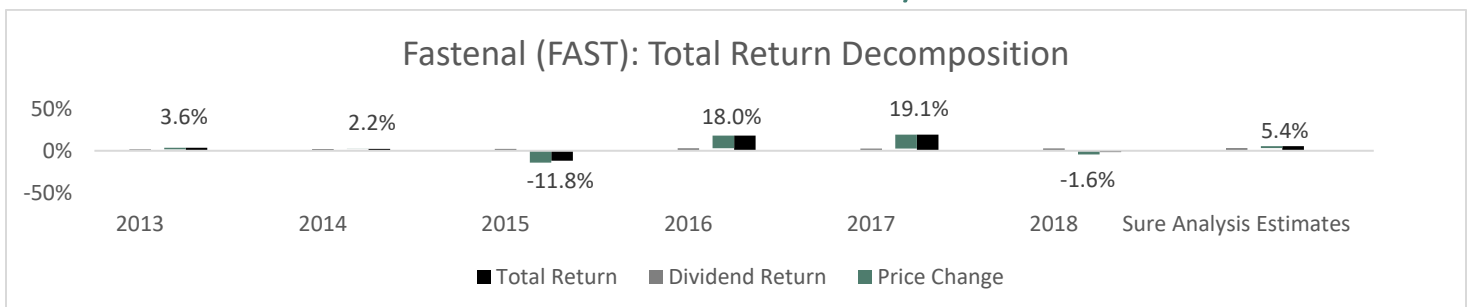
Fastenal has a first mover competitive advantage in its industrial vending and Onsite locations, creating a very sticky and well-attuned customer relationship with high switching costs. Moreover, the company's scale allows for the company to continue on its growth path, adjusting to business preferences and reliably delivering needed goods.

During the last recession, Fastenal reported earnings-per-share of \$0.39, \$0.48, \$0.31 and \$0.45 for the 2007 through 2010 period. Moreover, the dividend kept on increasing during this time. While we note some cyclical possibilities in the construction industry, thus far the company has proven itself to be well prepared to survive financial storms. We note that the dividend payout ratio is elevated, but we believe this is reasonable considering the strong financial position.

## Final Thoughts & Recommendation

Shares are down -8% since our last report. Fastenal has proven itself to be a great business, with earnings and dividends growing consistently over the years. Moreover, the company is executing moves to better cement itself as a go-to supplier. It's the sort of business that you would be proud to own. However, on the security side you have to get comfortable with the elevated valuation. Total return potential comes in at 5.4% per annum, driven by 7% growth and a 3.0% dividend offset by a moderate valuation headwind. We are enthused about the quality of the business and growth prospects, but we are not overly excited about the security's valuation and continue to rate shares as a hold.

## Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



# Fastenal Company (FAST)

Updated April 14<sup>th</sup>, 2020 by Eli Inkrot

## Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Revenue</b>	2269	2767	3134	3326	3734	3869	3962	4391	4965	5334
<b>Gross Profit</b>	1175	1434	1615	1719	1897	1949	1965	2164	2399	2515
<b>Gross Margin</b>	51.8%	51.8%	51.5%	51.7%	50.8%	50.4%	49.6%	49.3%	48.3%	47.2%
<b>SG&amp;A Exp.</b>	745	859	941	1007	1111	1122	1170	1283	1400	1459
<b>D&amp;A Exp.</b>	41	45	54	64	73	87	104	127	138	149
<b>Operating Profit</b>	430	575	673	712	787	827	795	881	999	1056
<b>Operating Margin</b>	18.9%	20.8%	21.5%	21.4%	21.1%	21.4%	20.1%	20.1%	20.1%	19.8%
<b>Net Profit</b>	265	358	421	449	494	516	499	579	752	791
<b>Net Margin</b>	11.7%	12.9%	13.4%	13.5%	13.2%	13.3%	12.6%	13.2%	15.1%	14.8%
<b>Free Cash Flow</b>	167	148	258	210	310	395	330	465	498	596
<b>Income Tax</b>	165	217	254	265	293	310	290	295	235	253

## Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Total Assets</b>	1468	1685	1816	2076	2359	2532	2669	2911	3322	3800
<b>Cash &amp; Equivalents</b>	144	118	80	59	114	129	113	117	167	175
<b>Accounts Receivable</b>	270	339	372	414	462	468	500	608	714	742
<b>Inventories</b>	557	646	715	784	869	913	993	1093	1279	1366
<b>Goodwill &amp; Int. Ass.</b>										
<b>Total Liabilities</b>	186	226	255	303	444	731	736	814	1019	1134
<b>Accounts Payable</b>	60	74	78	91	104	126	109	148	194	193
<b>Long-Term Debt</b>	0	0	0	0	90	365	390	415	500	345
<b>Shareholder's Equity</b>	1283	1459	1560	1773	1915	1801	1933	2097	2303	2666
<b>D/E Ratio</b>	0	0	0	0	0	0.2	0.2	0.2	0.2	0.13

## Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
<b>Return on Assets</b>	19.0%	22.7%	24.0%	23.1%	22.3%	21.1%	19.2%	20.7%	24.1%	22.2%
<b>Return on Equity</b>	21.5%	26.1%	27.9%	26.9%	26.8%	27.8%	26.7%	28.7%	34.2%	31.8%
<b>ROIC</b>	21.5%	26.1%	27.9%	26.9%	26.2%	24.8%	22.2%	23.9%	28.3%	27.2%

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.