



Fastenal Company (FAST)

Updated January 19th, 2022, by Eli Inkrot

Key Metrics

Current Price:	\$58	5 Year CAGR Estimate:	1.3%	Market Cap:	\$34 B
Fair Value Price:	\$41	5 Year Growth Estimate:	6.0%	Ex-Dividend Date:	02/01/22
% Fair Value:	142%	5 Year Valuation Multiple Estimate:	-6.8%	Dividend Payment Date:	03/02/22
Dividend Yield:	2.1%	5 Year Price Target	\$55	Years Of Dividend Growth:	23
Dividend Risk Score:	C	Retirement Suitability Score:	D	Last Dividend Increase:	10.7%

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 1,793 public branches, 1,416 active Onsite locations and over 92,000 managed inventory devices. The \$34 billion market cap company employees over 20,000 people and generated \$6 billion sales last year.

On January 18th, 2022, Fastenal increased its dividend 10.7% to \$0.31 per quarter.

On January 19th, 2022, Fastenal reported Q4 and full year 2021 results. For the quarter the company generated net sales of \$1.53 billion, a 12.8% increase compared to Q4 2020, driven by demand for manufacturing and construction equipment and supplies. Net earnings equaled \$231.2 million or \$0.40 per share compared to \$196.1 million or \$0.34 per share previously.

For the year Fastenal generated sales of \$6.01 billion, a 6.4% increase compared to 2020. Net income equaled \$925.0 million or \$1.60 per share compared to \$859.1 million or \$1.49 per share last year. Fastenal signed 274 new Onsite locations during 2021, for a total of 1,416. Meanwhile, the number of public branches continues to decline, from 2,114 in Q4 2019 to 2,003 in Q4 2020 to 1,793 in Q4 2021. Weighted Fastenal Managed Inventory (FMI) devices totaled 92,874, up from 83,951 in Q4 2020.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	\$0.71	\$0.76	\$0.84	\$0.89	\$0.87	\$1.01	\$1.31	\$1.38	\$1.49	\$1.60	\$1.70	\$2.27
DPS	\$0.37	\$0.40	\$0.50	\$0.56	\$0.60	\$0.64	\$0.77	\$0.86	\$1.00	\$1.12	\$1.24	\$1.66
Shares¹	593	594	592	579	578	575	572	574	576	578	578	578

From 2008 through 2021, Fastenal grew earnings-per-share by an average compound rate of 9.7% per annum. This was driven by a variety of factors, including sales more than doubling, an improvement in margins and tax reform. The COVID-19 pandemic impacted many businesses, but Fastenal proved resilient in 2020. The traditional business faced challenges, but the Safety segment more than made up for lost sales. We expect 6% growth over the intermediate term.

Fastenal is in the midst of a transformation from the traditional public branches leading the business to Onsite locations and managed inventory (mostly 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.

On the flip side, the large, national accounts 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.

¹ In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	31.7	32.3	27.9	23.2	25.3	23.3	20.8	23.6	28.0	33.0	34.1	24.0
Avg. Yld.	1.6%	1.6%	2.1%	2.7%	2.7%	2.7%	2.8%	2.6%	2.4%	2.1%	2.1%	3.0%

Over the past decade shares of Fastenal have traded hands with an average P/E ratio of 27 times earnings. Even during the depths of the last 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.) Against an assumed fair value of 24 times earnings, the current valuation near 34 times earnings implies the potential for a significant total return headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	52%	53%	60%	63%	69%	63%	59%	62%	67%	70	73%	73%

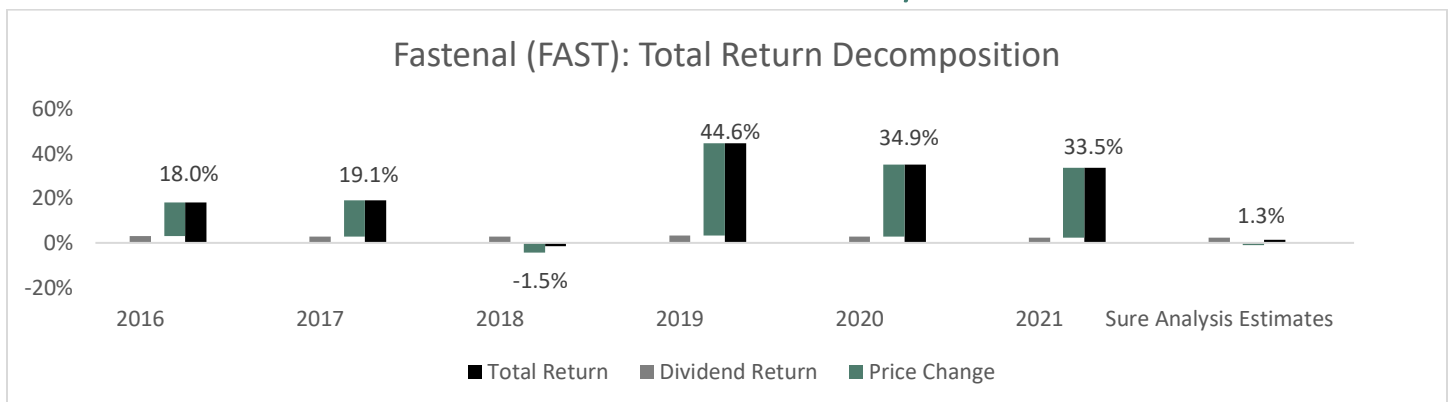
Fastenal has a first mover competitive advantage in its industrial vending and Onsite locations, creating a very sticky and well-attuned customer relationship with high switching costs. Moreover, the company's scale allows for the company to continue its growth path, adjusting to business preferences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

During the Great 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 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. Indeed, the company actually paid a special dividend in 2020, citing high cash balances and a favorable outlook.

Final Thoughts & Recommendation

Shares are up 18% in the last year. 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 the elevated valuation gives us pause. Total return potential comes in at 1.3% per annum, driven by 6% growth and a 2.1% dividend yield offset by the potential for a significant valuation headwind. We are enthused about the quality of the business and growth prospects, but we are not excited about the security's valuation. Shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	2767	3134	3326	3734	3869	3962	4391	4965	5334	5647
Gross Profit	1434	1615	1719	1897	1949	1965	2164	2399	2515	2568
Gross Margin	51.8%	51.5%	51.7%	50.8%	50.4%	49.6%	49.3%	48.3%	47.2%	45.5%
SG&A Exp.	859	941	1007	1111	1122	1170	1283	1400	1459	1427
D&A Exp.	45	54	64	73	87	104	127	138	149	162
Operating Profit	575	673	712	787	827	795	881	999	1056	1140
Operating Margin	20.8%	21.5%	21.4%	21.1%	21.4%	20.1%	20.1%	20.1%	19.8%	20.2%
Net Profit	358	421	449	494	516	499	579	752	791	859
Net Margin	12.9%	13.4%	13.5%	13.2%	13.3%	12.6%	13.2%	15.1%	14.8%	15.2%
Free Cash Flow	148	258	210	310	395	330	465	498	596	934
Income Tax	217	254	265	293	310	290	295	235	253	274

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	1685	1816	2076	2359	2532	2669	2911	3322	3800	3965
Cash & Equivalents	118	80	59	114	129	113	117	167	175	246
Accounts Receivable	339	372	414	462	468	500	608	714	742	769
Inventories	646	715	784	869	913	993	1093	1279	1366	1338
Goodwill & Int. Ass.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	226	255	303	444	731	736	814	1019	1134	1232
Accounts Payable	74	78	91	104	126	109	148	194	193	207
Long-Term Debt	0	0	0	90	365	390	415	500	345	405
Shareholder's Equity	1459	1560	1773	1915	1801	1933	2097	2303	2666	2733
D/E Ratio	0	0	0	0	0.2	0.2	0.2	0.2	0.13	0.15

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	22.7%	24.0%	23.1%	22.3%	21.1%	19.2%	20.7%	24.1%	22.2%	22.1%
Return on Equity	26.1%	27.9%	26.9%	26.8%	27.8%	26.7%	28.7%	34.2%	31.8%	31.8%
ROIC	26.1%	27.9%	26.9%	26.2%	24.8%	22.2%	23.9%	28.3%	27.2%	27.9%

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

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