



Fastenal Company (FAST)

Updated October 14th, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$47	5 Year CAGR Estimate:	7.8%	Market Cap:	\$27 B
Fair Value Price:	\$46	5 Year Growth Estimate:	6.0%	Ex-Dividend Date¹:	10/26/22
% Fair Value:	103%	5 Year Valuation Multiple Estimate:	-0.6%	Dividend Payment Date¹:	11/23/22
Dividend Yield:	2.6%	5 Year Price Target	\$61	Years Of Dividend Growth:	23
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

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 that idea got off the ground after 20 years. The company went public in 1987 and today provides fasteners, tools and supplies to its customers via 1,760 public branches, 1,567 active Onsite locations and over 94,000 managed inventory devices. It has a market capitalization of \$27 billion.

On January 18th, 2022, Fastenal raised its quarterly dividend by 10.7%, from \$0.28 to \$0.31.

In mid-October, Fastenal reported (10/13/22) financial results for the third quarter of fiscal 2022. The company grew its net sales 16% over last year's quarter thanks to strong demand for industrial goods and the meaningful price hikes implemented in the first quarter of this year. Price hikes comprised approximately 35% of revenue growth while the rest of growth came from higher volumes. Earnings-per-share grew 21%. The increase in sales volumes amid material price hikes is a testament to the strong demand for the products of Fastenal.

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	\$1.90	\$2.54
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
Shares²	593	594	592	579	578	575	572	574	576	578	578	578

From 2008 through 2021, Fastenal grew its earnings-per-share at a 9.7% average annual rate. 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 offset lost sales. We expect 6% growth of earnings-per-share over the next five years.

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 its business is in construction and heavy manufacturing.

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	35.6	24.7	24.0
Avg. Yld.	1.6%	1.6%	2.1%	2.7%	2.7%	2.7%	2.8%	2.6%	2.4%	2.1%	2.6%	2.7%

¹ Estimated date.

² In millions.

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Over the past decade, shares of Fastenal have traded hands with an average price-to-earnings ratio of 27.2. Even during the depths of the Great Recession, shares did not trade below 15 times earnings. The stock has rarely traded with a price-to-earnings ratio below 20 since 2010. Overall, Fastenal 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 enhance shareholder value. (The last time a meaningful number of shares was retired was in 2015, when the company took on debt). Assuming a fair price-to-earnings ratio of 24.0 for 2027, the stock is likely to incur a modest -0.6% annualized valuation drag over the next five years.

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%	65%	65%

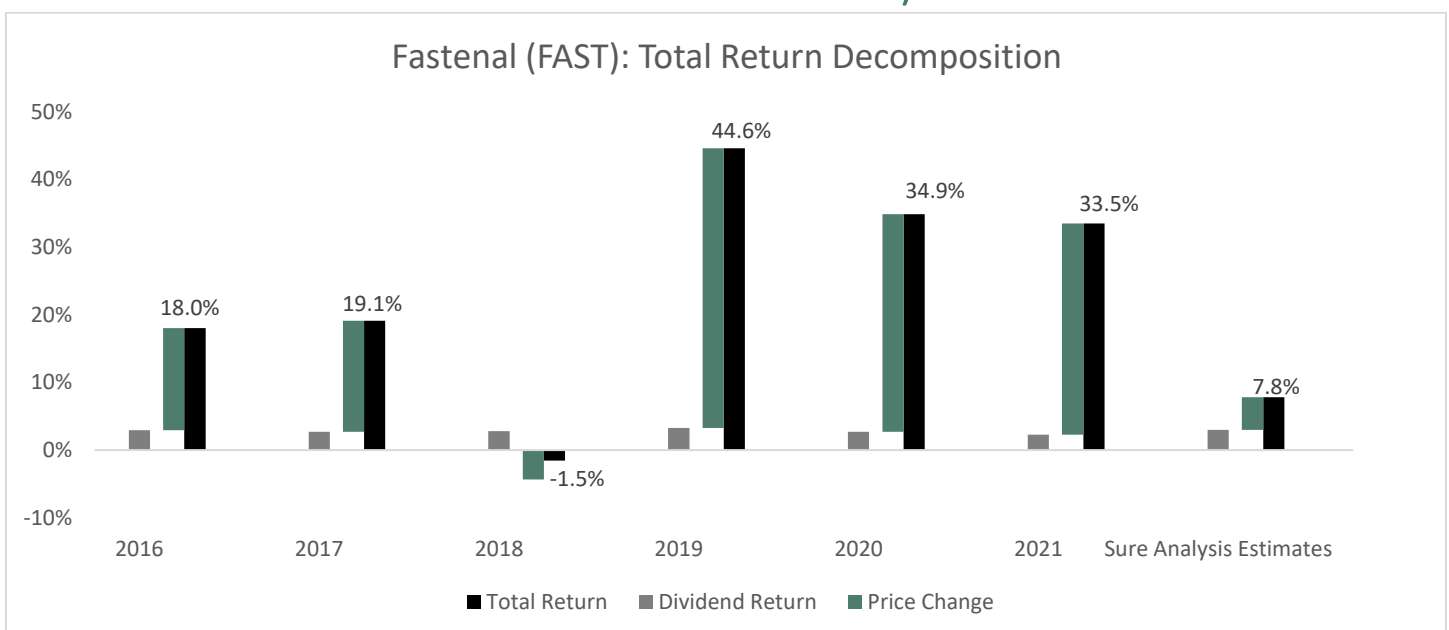
Fastenal has a first mover competitive advantage in its industrial vending and Onsite locations, creating a very sticky and well-attuned customer relationship with high switching costs. Moreover, its scale allows the company to continue its growth path, adjust to business preferences and reliably deliver 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 rising during that period. While we note some cyclical possibilities in the construction industry, thus far the company has proven itself to be well prepared to endure financial storms. We note that the dividend payout ratio is elevated, but we believe this is reasonable considering the debt-free balance sheet. Indeed, the company actually paid a special dividend in 2020, citing high cash balances and a favorable outlook.

Final Thoughts & Recommendation

Fastenal has declined -25% this year, almost in tandem with the S&P 500. It has proven itself to be a great business, with consistent growth of earnings and dividends. Moreover, Fastenal 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, the stock remains richly valued, in line with its historical valuation. We expect the stock to offer a 7.8% average annual total return over the next five years thanks to 6.0% earnings growth and a 2.6% dividend, partly offset by a -0.6% valuation headwind. The stock receives a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3134	3326	3734	3869	3962	4391	4965	5334	5647	6011
Gross Profit	1615	1719	1897	1949	1965	2164	2399	2515	2568	2777
Gross Margin	51.5%	51.7%	50.8%	50.4%	49.6%	49.3%	48.3%	47.2%	45.5%	46.2%
SG&A Exp.	941	1007	1111	1122	1170	1283	1400	1459	1427	1560
D&A Exp.	54	64	73	87	104	127	138	149	162	171
Operating Profit	673	712	787	827	795	881	999	1056	1140	1217
Operating Margin	21.5%	21.4%	21.1%	21.4%	20.1%	20.1%	20.1%	19.8%	20.2%	20.2%
Net Profit	421	449	494	516	499	579	752	791	859	925
Net Margin	13.4%	13.5%	13.2%	13.3%	12.6%	13.2%	15.1%	14.8%	15.2%	15.4%
Free Cash Flow	258	210	310	395	330	465	498	596	934	614
Income Tax	254	265	293	310	290	295	235	253	274	283

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	1816	2076	2359	2532	2669	2911	3322	3800	3965	4299
Cash & Equivalents	80	59	114	129	113	117	167	175	246	236
Accounts Receivable	372	414	462	468	500	608	714	742	769	900
Inventories	715	784	869	913	993	1093	1279	1366	1338	1524
Goodwill & Int. Ass.	---	---	---	---	---	---	---	---	---	---
Total Liabilities	255	303	444	731	736	814	1019	1134	1232	1257
Accounts Payable	78	91	104	126	109	148	194	193	207	233
Long-Term Debt	0	0	90	365	390	415	500	345	405	390
Shareholder's Equity	1560	1773	1915	1801	1933	2097	2303	2666	2733	3042
LTD/E Ratio	0	0	0	0.2	0.2	0.2	0.2	0.13	0.15	0.13

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	24.0%	23.1%	22.3%	21.1%	19.2%	20.7%	24.1%	22.2%	22.1%	22.4%
Return on Equity	27.9%	26.9%	26.8%	27.8%	26.7%	28.7%	34.2%	31.8%	31.8%	32.0%
ROIC	27.9%	26.9%	26.2%	24.8%	22.2%	23.9%	28.3%	27.2%	27.9%	28.2%

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

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