Fastenal Company (FAST)

2Q13: Focusing on Core Selling Principles

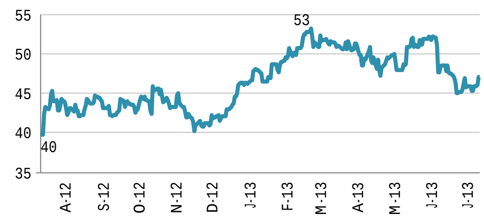
Maintain Outperform rating and $53 price target. FAST traded moderately lower after reporting in-line 2Q13 results, as bears seemingly seized on vending metrics vs. the company's prior targets. We are incrementally bullish, however, as planned store-level headcount additions, softening of the laser-like focus on vending in favor of "regular-way" sales, and expected T-Hub efficiencies appear to signal that the company is focusing on core Fastenal sales principles, a significant positive, in our view.

- **Maintain Outperform rating and $53 price target** representing ~16x EV/2014E EBITDA and 28.5x 2014E EPS.
- **Estimate changes.** Fine-tuning our underlying assumptions, but no changes to our EPS estimates.
- **Store-level headcount additions planned.** Over the remainder of 2013, the company plans to make additions to the store-level part-time labor force (1.5% incremental hours to be added each month), which should free store managers to focus more on selling and less on logistical tasks – and is expected to drive improved sales growth.
- **"Regular-way" sales re-emphasized.** Management is also softening the laser-like focus on growing vending near-term (due to its longer sales cycle), in favor of creating immediate "regular-way" sales. While bears seemingly view this as a shortfall vs. prior targets, we believe significant natural momentum for vending continues, and that the increased "regular-way" sales represent a very favorable offset.
- **T-Hub also set to ramp.** Finally, the vending-specific T-Hub is set to ramp over the next 9-12 months. This will also effectively add selling energy at the store level by more efficiently centralizing labor related to stocking vending machines, equating to "hundreds" of additional store-level FTE positions.
- **Refocusing on core "Pathway to Profit" principles overall.** Overall, we are incrementally bullish on the stock, as the sales and operational initiatives noted above appear to refocus the company on the core principles embodied in "Pathway to Profit." Consistent with Fastenal's long-term secular growth rate, management suggested that these initiatives could drive sales growth into the high-teens or even 20%+ by 1Q14 (vs. our +13.6% estimate for 2014).
- **2Q13 results.** EPS $0.41 vs. $0.41 estimate. Sales $847.6 million vs. $847.6 million estimate. Gross margin 52.2% vs. 52.4% estimate. EBIT margin 22.7% vs. 22.9% estimate.

Fastenal is a leading national distributor of industrial and construction supplies, with 14 distribution centers and nearly 2,700 store sites.

RESEARCH UPDATE

1-Year Price Chart



Stock Data

Rating:	Outperform
Suitability:	Lower Risk
Price Target:	$53
Price (7/10/13):	$45.77
Market Cap (mil):	$13,626
Shares Out (mil):	297.7
Average Daily Vol (mil):	1.77
Dividend Yield:	2.2%

Estimates

FY Dec	2012A	2013E	2014E
Q1	0.34 A	0.37 A	
Q2	0.38 A	0.41 A	
Q3	0.37 A	0.42 E	
Q4	0.33 A	0.38 E	
Fiscal EPS	**1.42 A**	**1.58 E**	**1.86 E**
Fiscal P/E	32.2x	29.0x	24.6x

Chart/Table Sources: Bloomberg and Baird Data

Please refer to Appendix - Important Disclosures and Analyst Certification

David J. Manthey, CFA
dmanthey@rwbaird.com
414.465.8020

Luke L. Junk, CFA
ljunk@rwbaird.com
414.298.5084

Elliot B. Strumlauf
estrumlauf@rwbaird.com
414.298.5077

Details

Fastenal Company (FAST - NASDAQ) Quarterly Results and Variance Sheet								
	Quarterly Results					Percent of Revenue		
	2Q13	2Q12	Change	Baird/	Variance	2Q13	2Q12	Baird/
Net Sales	$ 847,596	$ 804,890	5%	$ 847,592	0%			
Cost of Sales	404,875	389,739	4%	403,750	0%			
Gross Profit	442,721	415,151	7%	443,841	(0%)	52.2%	51.6%	52.4%
SG&A	250,507	236,256	6%	249,335	0%	29.6%	29.4%	29.4%
Operating Income	192,214	178,895	7%	194,507	(1%)	22.7%	22.2%	22.9%
Other Exp (Inc)	(165)	(144)	15%	(250)	(34%)			
Pretax Income	192,379	179,039	7%	194,757	(1%)	22.7%	22.2%	23.0%
Taxes	71,370	66,733	7%	73,517	(3%)	37.1%	37.3%	37.7%
Net Income	$ 121,009	$ 112,306	8%	$ 121,240	(0%)	14.3%	14.0%	14.3%
Diluted EPS	$ 0.41	$ 0.38		$ 0.41				
Diluted Shares	297,722	294,862		297,652				

Source: Company reports, Robert W. Baird & Co. estimates

2Q13 results in line

- **EPS.** EPS was $0.41 vs. $0.38 y/y, in line with our $0.41 estimate (also consensus).
- **Sales.** Sales were $847.6 million vs. $804.9 million y/y (+5% y/y), exactly in line with our $847.6 million estimate ($857.1 million consensus).
- **June ADS.** June average daily sales growth of +6.0% was in line with our +6.0% estimate, as daily sales growth accelerated slightly vs. May (+5.3%). Sequentially, June daily sales were +3.2% vs. May, slightly above the +2.7% long-run average sequential increase.
- **End-market commentary.** Sales to the company's manufacturing customers were +5.9% y/y (April +5.1%, May +5.3% and June +6.4%), while sales to non-residential customers were +0.7% y/y (April +0.4%, May -0.2% and June +0.6%).
- **Gross margin.** Gross margin of 52.2% (-10bps q/q) was slightly below our 52.4% estimate, reflecting slightly lower transactional gross margin.
- **Operating expenses.** Operating expenses of $250.5 million were 29.6% of sales, slightly above our 29.4% estimate.
- **EBIT margin.** EBIT margin of 22.7% was just below our 22.9% estimate. Resulting contribution margin was solid at 31.2%.
- **Store openings.** The company added 22 stores during the quarter and store count stands at 2,677 or +1.6% y/y as of quarter-end.

Selling energy set to ramp

- **Overview.** Management believes that recent lackluster growth is attributable not only to current sluggish industrial trends, but also to subdued selling energy at the store level. This seems to have been partially driven by a laser-like focus on placing vending machines, hard line on headcount additions, and the labor requirements associated with operating the vending installations. As such, the company is planning additions to the part-time labor force and is moving away from a laser-like focus on vending near-term based upon feedback from store managers, in addition to other vending-related logistical initiatives already in the works (mainly expected relating to T-Hub). Overall, management believes these initiatives could drive a return to high-teens or even 20%+ growth by 1Q14 – consistent with Fastenal's long-term secular growth rate.
- **FTE headcount additions.** Plans call for the addition of 100-150 FTEs per month over the remainder of 2013, representing a ~1.5% increase in hours at the store level each month (and nearly +10% cumulatively by year-end, positioning the company to achieve the targeted growth levels for 1Q14 noted above). The additions will consist of part-time associates in support functions, thereby freeing the store manager and other salespeople to focus more on selling and less on logistical tasks (which have increased with vending). We view this as a very cost-efficient and high-return approach, as related additions to fixed SG&A will be minimal, while productivity gains

related to freeing up time for the company's sales engine should be significant.

- **Near-term vending emphasis softening slightly.** The company is also moving away from a laser-like focus on vending near-term (due to its longer sales cycle), favoring immediate sales growth via "regular way" sales. Here too, the aim is to build momentum towards the targeted growth levels for 1Q14 noted above – likely with a focus on October daily sales near-term (recall, October daily sales dollars are generally equal to the following January). Additional details on this near-term de-emphasis below.
- **T-Hub ramp set to begin.** Finally, the company's vending-specific T-Hub is set to open in July and ramp over the next 9-12 months. T-Hub will help to add selling energy at the store level by taking labor out of the store centralizing it, thus driving improved efficiency. Upon full implementation, it's estimated that time savings will equate to "hundreds" of FTE positions at the store level, likely reducing the need for incremental headcount additions, even as we believe revenues will be re-accelerating next year.

Vending update

- **Contract signing pace deliberately slowed.** As alluded to above, the pace of vending machine signings was deliberately slowed in 2Q13 (5,357 vs. 5,728 q/q), reflecting both a desire to free up selling energy to drive "regular-way" sales and to instill a more stringent "quality of install" mentality into the vending sales process. This practice will be continued, and management indicated that the company's previous 7,500/quarter signing target for 2013 is off the table for now. While bears may seize on this as an apparent shortfall, we believe there is significant natural momentum for vending, which should continue to drive quarterly signing and installation activity at a high rate going forward.
- **Sales growth again moderates, but remains strong.** Daily sales growth to customers with vending was strong at +18.9%, moderating further (down vs. +23.9% q/q) as the install base continues to mature. Sales to customers with vending (vending + non-vending sales) now account for 30.0% of total company sales, with sales directly through vending accounting for 6%+ of total company sales (~20% of total vending customer spend).
- **Store-level dynamics continue to improve.** To date approximately 44% of the company's stores have placed at least 10 vending machines. While the company has not disclosed this metric in the past, this appears to compare favorably to last quarter's comment that 40-50% of stores were "meaningfully" involved with vending.
- **Net installations down slightly.** 2Q13 net vending machine installations (4,102) were down slightly sequentially, but still up nicely vs. 3,238 y/y (+27%). We continue to see room for further progress as the company pursues its targeted 90-day lead time between contract signing and installation, especially with nearly half the store base having now placed at least 10 machines.
- **Mix of install base not meaningful.** While the install base continues to shift away from the base FAST 5000 model (52.2% of installed machines, down vs. 54.3% q/q), the pace of decline has slowed meaningfully vs. recent quarters. Furthermore, much of the decline to date has been attributable to the fact that lockers and other non-base units were not available on a stand-alone basis until recently. Also, recall that the company counts smaller lockers at 0.5 machines when reporting signings and installations, reflecting their lower sales potential.
- **Implied earnings tailwind.** We believe the roughly 8,500 vending machines installed over the past six months and 12,000 contracted machines that have yet to be installed represent a near-term earnings tailwind, as the total number of machines currently at the full run-rate (we assume cumulative installations through 4Q12) numbers just over 21,000 machines.

Other sales initiatives

- **Metalworking/Government.** Fastenal continues to target metalworking (12% of 2012 sales) and government growth (4% of 2012 sales) 10% ahead of overall company trends, representing a targeted low single-digit tailwind to overall sales growth.
- **OEM fasteners.** This initiative has a longer sales cycle, as the new business being targeting is typically tied to 3-5 year contracts. As such, Fastenal is currently focused on laying the groundwork for future sales opportunities by making introductions to key decision makers at target customers and highlighting the company's importing, specialty manufacturing, and local distribution

capabilities. Our recent channel checks indicate that Fastenal is making progress on this front, as the company has been seen blanketing particular regions for 90-day periods.

- **Store-level inventory initiatives.** The company also has a smaller initiative at the store level targeting select industries, supported by increased inventory investment in fasteners, construction products and safety products. The program has been piloted in a limited number of stores with good early success, and appears to be set for a wider roll-out.

Gross margin

- **2H13 outlook.** Management continues to see upside vs. current gross margin levels in 2H13, and specifically noted that district managers have been told that planned FTE headcount additions noted above must be funded with gross margin/gross profit.
- **Pricing management system.** We continue to see the potential for further upside relating to the company's new pricing management system. However, the modest dip in transactional gross margin noted above was driven by a slightly lower contribution from the company's new pricing management system due to a "slip in habits." We expect the issue to be addressed quickly, restoring the positive trajectory that had been established in 1Q13.
- **Product pricing.** The company again noted some minor deflation in fastener pricing, consistent with our recent channel checks, offset by slightly higher pricing on non-fastener products.
- **Vending-related headwind.** Sustained momentum in vending growth remains a modest structural headwinds to gross margin, due to the larger customer and non-fastener product focus. We continue to believe these headwinds are manageable, however, as the company has successful offset substantial increases in both larger customers and non-fastener products sales in the past.

Expense leverage / "Pathway to Profit"

- **Employee costs.** The company further slowed headcount growth in response to continued moderate sales growth, while at the same time driving the company's various targeted growth initiatives. Employee costs were only +2.7% in 2Q13, nicely leveraged vs. +5.3% daily sales growth. We continue to believe employee costs represent the single-biggest lever under "Pathway to Profit," especially in light of current slower growth. Looking forward, with FTE headcount up only 0.7% y/y at quarter-end, Fastenal appears well positioned to further leverage employee costs even while making tactical additions at the store level to re-energize growth.
- **Occupancy costs.** The 10.6% increase in occupancy costs was largely attributable to vending machines, as well as slightly higher store count and recent distribution center investments.
- **Transportation costs.** Finally, transportation costs decreased +2.6% y/y, well below +5.3% daily sales growth, reflecting slightly lower y/y fuel prices and lower vehicle ownership costs (i.e. higher usage of used store trucks). Looking forward, we continue to believe the company will be able to drive permanent cost reductions through route rationalization and logistical optimization.

Balance sheet remains healthy

- **DSOs.** TTM DSOs were approximately 46.3 days vs. 44.9 days y/y.
- **Allowance for doubtful accounts.** Allowance for doubtful accounts was 0.9% of sales vs. 0.7% y/y.
- **Inventory turns.** TTM inventory turns were 2.2x vs. 2.3x y/y and 2.2x q/q, consistent with the historical 2.0-2.2x band.
- **Free cash flow.** Free cash flow was $16.6 million vs. $35.5 million y/y.
- **Dividend/Share repurchases.** Fastenal has not repurchased any shares since 2009 and has 1,800,000 remaining under authorization. Into the foreseeable future, we would expect Fastenal to favor returning cash to shareholders via dividends over share repurchase, and the just-raised $0.25 quarterly dividend appears consistent with this methodology.

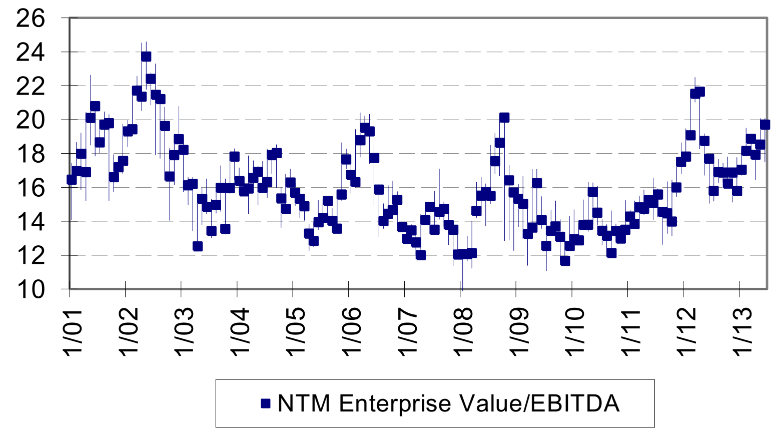
Fastenal Company (FAST - NASDAQ)
Estimate Changes

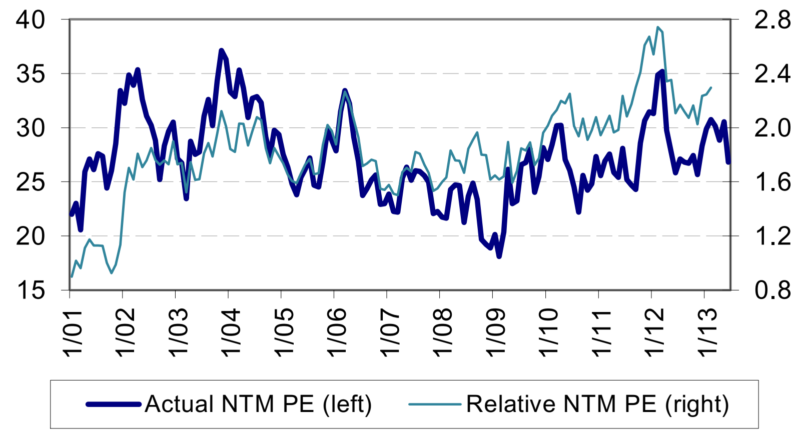
3Q13E	New	Old	Change
Sales (millions)	$878.2	$878.2	n/c
Sales Growth	9.4%	9.4%	n/c
Gross Margin	52.3%	52.4%	(4bp)
Op Ex	$257.8	$257.4	$0.3
Op Ex % of Sales	29.4%	29.3%	4bp
EBIT Margin	23.0%	23.0%	(8bp)
Diluted EPS	$0.42	$0.42	n/c

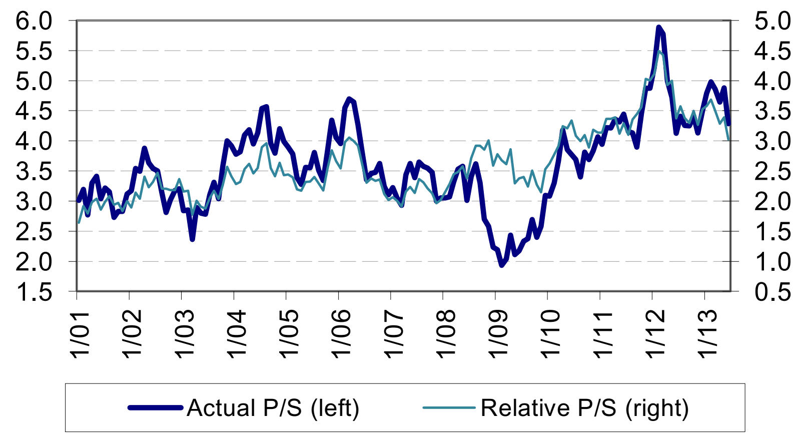
2013E	New	Old	Change
Sales (millions)	$3,373.5	$3,373.5	$0.0
Sales Growth	7.7%	7.7%	0bp
Gross Margin	52.3%	52.3%	(6bp)
Op Ex	$1,013.5	$1,011.6	$1.9
Op Ex % of Sales	30.0%	30.0%	6bp
EBIT Margin	22.3%	22.4%	(11bp)
Diluted EPS	$1.58	$1.58	n/c

2014E	New	Old	Change
Sales (millions)	$3,833.3	$3,830.4	$2.9
Sales Growth	13.6%	13.5%	0bp
Gross Margin	52.5%	52.6%	(6bp)
Op Ex	$1,123.0	$1,126.3	-$3.3
Op Ex % of Sales	29.3%	29.4%	(11bp)
EBIT Margin	23.2%	23.2%	5bp
Diluted EPS	$1.86	$1.86	n/c

Source: Robert W. Baird & Co. estimates







Source: FactSet, Robert W. Baird & Co.

Investment Thesis

The call. We rate FAST Outperform. Our $53 price target is based on approximately 16x EV/2014E EBITDA (slightly below the 16.5x two-year NTM average) and 28.5x 2014E EPS (also slightly below the 29x two-year NTM average). We believe there is outperformance over the next 1-2 years based upon our mid-cycle thesis, augmented by several growth catalysts and excellent execution overall. We are incrementally bullish following 2Q13 results, as planned store-level headcount additions, movement away from a laser-like focus on vending in favor of “regular-way” sales, and expected T-Hub efficiencies appear to signal that the company is refocusing on the core “Pathway to Profit” principles, a significant positive in our view. We believe this change adds another "self-help" angle to the already positive cyclical recovery story at Fastenal.

Fastenal is a leader in a large, fragmented, and attractive market. Fastenal has a low-single-digit share of the $100+ billion market for industrial and construction supplies. Approximately 2/3 of the market is made up of local "mom and pop" distributors, leaving ample room for consolidation. We estimate that Fastenal also has a low-double-digit share of the threaded fastener market with TTM fastener sales of nearly $1.4 billion.

Consolidation trends favors large players. As the industry continues to consolidate, large distributors like Fastenal should continue to gain share due to national capabilities, IT and management resources, broad product lines, superior fill rates/product availability, value-added services, ample access to capital, etc. Fastenal has not historically been an acquisitive company.

Cyclical thesis. We believe current trends are consistent with our mid-cycle thesis. Based on this outlook, we would expect growth to re-accelerate in later 2013, driving outperformance.

"Pathway to Profit." Over the long term, this initiative is designed to leverage incremental selling resources without additional spending on occupancy and inventory while still maintaining historical sales growth rates (+15-20%). Absent an economic downturn, the company believes this model can drive at approximately 23% EBIT margins in 2013 from the upper-teens range, when the program was introduced. The company has recently indicated that the model is set up for pretax margins in the 25-30% range, implying that Pathway to Profit is only the beginning of margin improvement at Fastenal.

Vending. While Fastenal's preliminary goal was to sign approximately 2,500 vending machines per quarter, actual signings have been roughly 2x this level in recent quarters, prompting management to increase the targeted levels to 7,500 per quarter. Most importantly, the company continues to see outsized revenue growth at customers with vending machines and we estimate this initiative now represents a mid-single-digit+ tailwind to y/y growth.

Metalworking/Government. The company has recently increased staffing to support its metalworking and government businesses, which are both currently driving incremental growth in excess of the company's 10%+ target.

Balance sheet/share repurchase. Fastenal has a rock-solid balance sheet (no debt), solid cash flow, a 2.2% dividend yield and 1.8 million shares remaining under its repurchase authorization.

Risks to our Outperform thesis. Continued lackluster or further deceleration in revenue growth, slowing vending trends, gross margin downside, failure of progress of "Pathway to Profit," inability to maintain historically high valuation parameters.

Risks & Caveats

Maintaining growth. As Fastenal matures, growth at historical rates will be more difficult to achieve and cyclicality may increase. We expect approximate secular revenue growth in the mid- to upper-teens, driven by initiatives to add sales resources to the existing store base and vending.

Maintaining margins. Gross margins are targeted in the range of 51-53%. Although an increasing mix of non-fastener product lines and national accounts customers represent a mix headwind, Fastenal has mostly offset gross margin pressure with margin-enhancing initiatives like FASTCO (direct sourcing), I-Hub, sales force compensation, and other programs, in addition to improved operating leverage, which has driven EBIT margin enhancement. In April 2007, Fastenal set a five-year EBIT target of 23% based on "Pathway to Profit" initiative. The company appears to be on track to achieve this target in 2013, delayed only one year by recession.

Internet-only industrial supply sources. The recent entry of Amazon.com into the industrial supply market is mainly headline risk, in our opinion, due to the very large market, complexity of many products, high levels of customer service and support provided by companies like Fastenal, etc. While there are undoubtedly some customers who may try to search for cheaper items, increasingly, large customers are consolidating with national players like Fastenal due to one-stop-shop convenience for the myriad of MRO supplies, sales support and higher level services like vending and integrated supply. Overall, we do not expect Amazon to derail the Fastenal growth story.

General economy. As the company gets larger, cyclicality has increased, somewhat offset by growth initiatives aimed at gaining share in a huge, fragmented market. While there are clearly cyclical aspects to the model, we believe secular growth will remain well above industry averages.

Relatively high valuation. We believe that Fastenal's proven track record, solid secular growth, high margins, clean balance sheet and potential for continued earnings growth continue to warrant a premium valuation, particularly as current initiatives continue to gain traction.

Company Description

Fastenal is a leading national distributor of industrial and construction supplies, with 14 distribution centers and more than 2,650 store sites in all 50 states, Canada, Mexico, and Puerto Rico as well as Europe (Czech Republic, Germany, Hungary, Italy, Netherlands, Romania, UK), Asia-Pacific (China, Guam, Malaysia, Singapore), and Latin America (Brazil, Panama). Fastenal's over 1 million products consist of threaded fasteners (44% of revenue) as well as a broad line of industrial MRO supplies including tools, safety supplies, hydraulics and pneumatics, material handling equipment, janitorial supplies, cutting tools, welding supplies, electrical supplies and a variety of related value-added services (including industrial vending).

Fastenal Company

(FAST - NASDAQ)

($ in thousands, except per share)

David J. Manthey, CFA
414.465.8020
Luke L. Junk, CFA
414.298.5084
Elliot B. Strumlauf
414.298.5077

Recent Price	$46.00
Fiscal Year End	December
Date Printed	July 10, 2013

Fiscal	Revenue		Gross Profit			Operating Expenses			EBITDA		Operating Income		
Year	$	Chg	$	%	Chg	$	%	Chg	$	%	$	%	Chg
1991	**63,024**	***20.5%***	**32,927**	**52.2%**	***16.3%***	**22,679**	**36.0%**	***22.8%***			**10,248**	**16.3%**	***4.1%***
1992	**82,465**	***30.8%***	**43,683**	**53.0%**	***32.7%***	**29,260**	**35.5%**	***29.0%***			**14,423**	**17.5%**	***40.7%***
1993	**112,085**	***35.9%***	**58,314**	**52.0%**	***33.5%***	**38,456**	**34.3%**	***31.4%***	**22,514**	**20.1%**	**19,858**	**17.7%**	***37.7%***
1994	**164,696**	***46.9%***	**85,938**	**52.2%**	***47.4%***	**54,974**	**33.4%**	***43.0%***	**34,636**	**21.0%**	**30,964**	**18.8%**	***55.9%***
1995	**226,478**	***37.5%***	**119,084**	**52.6%**	***38.6%***	**73,588**	**32.5%**	***33.9%***	**50,936**	**22.5%**	**45,496**	**20.1%**	***46.9%***
1996	**292,311**	***29.1%***	**152,677**	**52.2%**	***28.2%***	**99,270**	**34.0%**	***34.9%***	**60,891**	**20.8%**	**53,407**	**18.3%**	***17.4%***
1997	**404,248**	***38.3%***	**209,143**	**51.7%**	***37.0%***	**141,939**	**35.1%**	***43.0%***	**76,786**	**19.0%**	**67,204**	**16.6%**	***25.8%***
1998	**511,233**	***26.5%***	**265,179**	**51.9%**	***26.8%***	**178,079**	**34.8%**	***25.5%***	**98,360**	**19.2%**	**87,100**	**17.0%**	***29.6%***
1999	**618,191**	***20.9%***	**319,460**	**51.7%**	***20.5%***	**213,774**	**34.6%**	***20.0%***	**117,683**	**19.0%**	**105,686**	**17.1%**	***21.3%***
2000	**755,618**	***22.2%***	**388,118**	**51.4%**	***21.5%***	**258,561**	**34.2%**	***21.0%***	**141,534**	**18.7%**	**129,557**	**17.1%**	***22.6%***
2001	**818,283**	***8.3%***	**412,427**	**50.4%**	***6.3%***	**300,696**	**36.7%**	***16.3%***	**126,478**	**15.5%**	**111,731**	**13.7%**	***(13.8%)***
2002	**905,438**	***10.7%***	**448,476**	**49.5%**	***8.7%***	**334,884**	**37.0%**	***11.4%***	**130,537**	**14.4%**	**113,592**	**12.5%**	***1.7%***
2003	**994,928**	***9.9%***	**489,067**	**49.2%**	***9.1%***	**353,767**	**35.6%**	***5.6%***	**155,744**	**15.7%**	**135,300**	**13.6%**	***19.1%***
2004	**1,238,492**	***24.5%***	**615,886**	**49.7%**	***25.9%***	**408,729**	**33.0%**	***15.5%***	**230,800**	**18.6%**	**207,157**	**16.7%**	***53.1%***
2005	**1,523,333**	***23.0%***	**758,102**	**49.8%**	***23.1%***	**490,238**	**32.2%**	***19.9%***	**296,870**	**19.5%**	**267,864**	**17.6%**	***29.3%***
2006	**1,809,337**	***18.8%***	**907,675**	**50.2%**	***19.7%***	**587,833**	**32.5%**	***19.9%***	**353,372**	**19.5%**	**319,842**	**17.7%**	***19.4%***
2007	**2,061,819**	***14.0%***	**1,047,574**	**50.8%**	***15.4%***	**671,149**	**32.6%**	***14.2%***	**413,757**	**20.1%**	**376,425**	**18.3%**	***17.7%***
2008	**2,340,425**	***13.5%***	**1,236,092**	**52.8%**	***18.0%***	**777,747**	**33.2%**	***15.9%***	**497,546**	**21.3%**	**458,345**	**19.6%**	***21.8%***
2009	**1,930,330**	***(17.5%)***	**983,435**	**50.9%**	***(20.4%)***	**687,642**	**35.6%**	***(11.6%)***	**335,813**	**17.4%**	**295,793**	**15.3%**	***(35.5%)***
2010	**2,269,471**	***17.6%***	**1,174,836**	**51.8%**	***19.5%***	**740,748**	**32.6%**	***7.7%***	**474,776**	**20.9%**	**434,088**	**19.1%**	***46.8%***
Q1	640,583	*23.0%*	333,380	52.0%	*25.4%*	204,717	32.0%	*16.7%*	139,144	21.7%	128,663	20.1%	*42.3%*
Q2	701,730	*22.9%*	366,233	52.2%	*23.0%*	216,127	30.8%	*16.3%*	160,988	22.9%	150,106	21.4%	*34.2%*
Q3	726,742	*20.4%*	377,381	51.9%	*20.7%*	222,156	30.6%	*16.6%*	166,303	22.9%	155,225	21.4%	*27.1%*
Q4	697,804	*21.6%*	357,178	51.2%	*19.6%*	216,563	31.0%	*14.6%*	152,287	21.8%	140,615	20.2%	*28.2%*
2011	**2,766,859**	***21.9%***	**1,434,172**	**51.8%**	***22.1%***	**859,563**	**31.1%**	***16.0%***	**618,722**	**22.4%**	**574,609**	**20.8%**	***32.4%***
Q1	768,875	*20.0%*	394,177	51.3%	*18.2%*	233,144	30.3%	*13.9%*	173,448	22.6%	161,033	20.9%	*25.2%*
Q2	804,890	*14.7%*	415,151	51.6%	*13.4%*	236,256	29.4%	*9.3%*	192,192	23.9%	178,895	22.2%	*19.2%*
Q3	802,577	*10.4%*	414,375	51.6%	*9.8%*	238,656	29.7%	*7.4%*	189,160	23.6%	175,719	21.9%	*13.2%*
Q4	757,235	*8.5%*	390,821	51.6%	*9.4%*	232,777	30.7%	*7.5%*	172,350	22.8%	158,044	20.9%	*12.4%*
2012	**3,133,577**	***13.3%***	**1,614,524**	**51.5%**	***12.6%***	**940,833**	**30.0%**	***9.5%***	**727,150**	**23.2%**	**673,691**	**21.5%**	***17.2%***
Q1	806,326	*4.9%*	421,880	52.3%	*7.0%*	247,121	30.6%	*6.0%*	189,911	23.6%	174,759	21.7%	*8.5%*
Q2	847,596	*5.3%*	442,721	52.2%	*6.6%*	250,507	29.6%	*6.0%*	208,031	24.5%	192,214	22.7%	*7.4%*
Q3E	878,164	*9.4%*	459,473	52.3%	*10.9%*	257,779	29.4%	*8.0%*	217,788	24.8%	201,694	23.0%	*14.8%*
Q4E	841,440	*11.1%*	440,031	52.3%	*12.6%*	258,053	30.7%	*10.9%*	199,050	23.7%	181,978	21.6%	*15.1%*
2013E	**3,373,526**	***7.7%***	**1,764,105**	**52.3%**	***9.3%***	**1,013,460**	**30.0%**	***7.7%***	**814,780**	**24.2%**	**750,645**	**22.3%**	***11.4%***
2014E	**3,833,324**	***13.6%***	**2,012,427**	**52.5%**	***14.1%***	**1,123,011**	**29.3%**	***10.8%***	**966,003**	**25.2%**	**889,415**	**23.2%**	***18.5%***

Fiscal	Other Exp	Pretax Income			Income Taxes		Net Income			Diluted EPS		Comm	Avg
Year	(Inc)	$	%	Chg	$	Rate	$	%	Chg	$	Chg	Div	Shares
1991	**(500)**	**10,748**	**17.1%**	***4.2%***	**4,142**	***38.5%***	**6,606**	**10.5%**	***4.5%***	**0.02**	***4.5%***	**0.00**	**303,508**
1992	**(312)**	**14,735**	**17.9%**	***37.1%***	**5,902**	***40.1%***	**8,833**	**10.7%**	***33.7%***	**0.03**	***33.7%***	**0.00**	**303,508**
1993	**(217)**	**20,075**	**17.9%**	***36.2%***	**8,165**	***40.7%***	**11,910**	**10.6%**	***34.8%***	**0.04**	***34.8%***	**0.00**	**303,508**
1994	**(427)**	**31,391**	**19.1%**	***56.4%***	**12,725**	***40.5%***	**18,666**	**11.3%**	***56.7%***	**0.06**	***56.7%***	**0.00**	**303,508**
1995	**(710)**	**46,206**	**20.4%**	***47.2%***	**18,795**	***40.7%***	**27,411**	**12.1%**	***46.8%***	**0.09**	***46.8%***	**0.00**	**303,508**
1996	**(1,025)**	**54,432**	**18.6%**	***17.8%***	**21,893**	***40.2%***	**32,539**	**11.1%**	***18.7%***	**0.11**	***18.7%***	**0.00**	**303,508**
1997	**(132)**	**67,336**	**16.7%**	***23.7%***	**26,502**	***39.4%***	**40,834**	**10.1%**	***25.5%***	**0.13**	***25.5%***	**0.00**	**303,508**
1998	**977**	**86,123**	**16.8%**	***27.9%***	**33,170**	***38.5%***	**52,953**	**10.4%**	***29.7%***	**0.17**	***29.7%***	**0.00**	**303,508**
1999	**(793)**	**106,479**	**17.2%**	***23.6%***	**41,024**	***38.5%***	**65,455**	**10.6%**	***23.6%***	**0.22**	***23.6%***	**0.00**	**303,508**
2000	**(1,873)**	**131,430**	**17.4%**	***23.4%***	**50,699**	***38.6%***	**80,731**	**10.7%**	***23.3%***	**0.27**	***23.3%***	**0.00**	**303,508**
2001	**(1,903)**	**113,634**	**13.9%**	***(13.5%)***	**43,522**	***38.3%***	**70,112**	**8.6%**	***(13.2%)***	**0.23**	***(13.2%)***	**0.01**	**303,508**
2002	**(7,615)**	**121,207**	**13.4%**	***6.7%***	**46,381**	***38.3%***	**74,826**	**8.3%**	***6.7%***	**0.25**	***6.7%***	**0.01**	**303,508**
2003	**(1,036)**	**136,336**	**13.7%**	***12.5%***	**52,216**	***38.3%***	**84,120**	**8.5%**	***12.4%***	**0.28**	***12.4%***	**0.03**	**303,568**
2004	**(1,179)**	**208,336**	**16.8%**	***52.8%***	**77,342**	***37.1%***	**130,994**	**10.6%**	***55.7%***	**0.43**	***55.5%***	**0.05**	**303,944**
2005	**(1,191)**	**269,055**	**17.7%**	***29.1%***	**102,242**	***38.0%***	**166,813**	**11.0%**	***27.3%***	**0.55**	***27.7%***	**0.08**	**303,016**
2006	**(1,187)**	**321,029**	**17.7%**	***19.3%***	**121,991**	***38.0%***	**199,038**	**11.0%**	***19.3%***	**0.66**	***19.6%***	**0.20**	**302,330**
2007	**(1,474)**	**377,899**	**18.3%**	***17.7%***	**145,277**	***38.4%***	**232,622**	**11.3%**	***16.9%***	**0.77**	***17.3%***	**0.22**	**301,110**
2008	**(930)**	**459,275**	**19.6%**	***21.5%***	**174,611**	***38.0%***	**284,664**	**12.2%**	***22.4%***	**0.96**	***23.8%***	**0.40**	**297,669**
2009	**(1,697)**	**297,490**	**15.4%**	***(35.2%)***	**113,133**	***38.0%***	**184,357**	**9.6%**	***(35.2%)***	**0.62**	***(35.0%)***	**0.36**	**296,721**
2010	**(952)**	**435,040**	**19.2%**	***46.2%***	**165,284**	***38.0%***	**269,756**	**11.9%**	***46.3%***	**0.91**	***47.2%***	**0.62**	**294,931**
Q1	(148)	128,811	20.1%	*42.1%*	49,264	*38.2%*	79,547	12.4%	*42.0%*	0.27	*41.7%*	0.13	295,428
Q2	(76)	150,182	21.4%	*33.9%*	56,070	*37.3%*	94,112	13.4%	*36.1%*	0.32	*35.6%*	0.13	295,926
Q3	(94)	155,319	21.4%	*27.0%*	58,521	*37.7%*	96,798	13.3%	*26.4%*	0.33	*25.9%*	0.13	295,895
Q4	(154)	140,769	20.2%	*28.0%*	53,297	*37.9%*	87,472	12.5%	*28.7%*	0.30	*28.7%*	0.14	295,231
2011	**(472)**	**575,081**	**20.8%**	***32.2%***	**217,152**	***37.8%***	**357,929**	**12.9%**	***32.7%***	**1.21**	***32.4%***	**0.53**	**295,620**
Q1	(96)	161,129	21.0%	*25.1%*	60,935	*37.8%*	100,194	13.0%	*26.0%*	0.34	*25.3%*	0.17	296,927
Q2	(144)	179,039	22.2%	*19.2%*	66,733	*37.3%*	112,306	14.0%	*19.3%*	0.38	*19.3%*	0.17	296,110
Q3	(117)	175,836	21.9%	*13.2%*	66,516	*37.8%*	109,320	13.6%	*12.9%*	0.37	*12.4%*	0.19	297,179
Q4	(107)	158,151	20.9%	*12.3%*	59,435	*37.6%*	98,716	13.0%	*12.9%*	0.33	*12.1%*	0.71	297,339
2012	**(464)**	**674,155**	**21.5%**	***17.2%***	**253,619**	***37.6%***	**420,536**	**13.4%**	***17.5%***	**1.42**	***17.0%***	**1.24**	**296,889**
Q1	(413)	175,172	21.7%	*8.7%*	66,124	*37.7%*	109,048	13.5%	*8.8%*	0.37	*8.6%*	0.10	297,652
Q2	(165)	192,379	22.7%	*7.5%*	71,370	*37.1%*	121,009	14.3%	*7.7%*	0.41	*7.2%*	0.20	297,722
Q3E	(150)	201,844	23.0%	*14.8%*	76,095	*37.7%*	125,749	14.3%	*15.0%*	0.42	*14.8%*	0.25	297,722
Q4E	(150)	182,128	21.6%	*15.2%*	68,662	*37.7%*	113,466	13.5%	*14.9%*	0.38	*14.8%*	0.25	297,722
2013E	**(878)**	**751,523**	**22.3%**	***11.5%***	**282,251**	***37.6%***	**469,272**	**13.9%**	***11.6%***	**1.58**	***11.3%***	**0.80**	**297,705**
2014E	**(800)**	**890,215**	**23.2%**	***18.5%***	**335,611**	***37.7%***	**554,604**	**14.5%**	***18.2%***	**1.86**	***18.2%***	**1.04**	**297,705**

Source: Company reports, Robert W. Baird & Co. estimates

Note: All figures exclude non-recurring items.

All figures restated to reflect the reclassification of shipping an handling costs billed to customer and sales incentives paid to customers which were previously included in operating expenses in accordance with the Emerging Issues Task Force (EITF).

Reflects adoption of SFAS 123R as of 1QF06. Historical figures have not been restated.

Please refer to Appendix - Important Disclosures and Analyst Certification

Fastenal Company

(FAST - NASDAQ)

($ in thousands, except per share)

David J. Manthey, CFA
414.465.8020
Luke L. Junk, CFA
414.298.5085
Elliot B. Strumlauf
414.298.5077

Recent Price $46.00
Fiscal Year End December
Date Printed July 10, 2013

Balance Sheet	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2Q13**
ASSETS								
Cash & Equivalents	30,181	57,379	86,743	189,252	169,760	144,841	79,965	123,290
Receivables	209,532	236,331	244,940	214,169	270,133	338,594	372,159	436,452
Inventory	455,997	504,592	564,247	508,405	557,369	646,152	715,383	725,107
Other	72,066	82,469	79,473	70,538	88,436	106,551	119,149	120,469
Total Current	767,776	880,771	975,403	982,364	1,085,698	1,236,138	1,286,656	1,405,318
Fixed Assets	264,030	276,627	324,182	335,004	363,419	435,601	516,427	575,571
Intangibles	-	-	-	-	-	-	-	-
Other Assets	7,210	5,663	4,564	9,990	19,166	13,209	12,749	12,554
Total Assets	1,039,016	1,163,061	1,304,149	1,327,358	1,468,283	1,684,948	1,815,832	1,993,443
LIABILITIES & EQUITY								
Current Debt	-	-	-	-	-	-	-	-
Payables	41,371	55,353	63,949	53,490	60,474	73,779	78,019	89,753
Other	62,525	82,438	84,044	66,019	101,711	114,039	126,155	146,387
Total Current	103,896	137,791	147,993	119,509	162,185	187,818	204,174	236,140
LT Debt & Lease	-	-	-	-	-	-	-	-
Deferred Taxes	13,027	15,109	13,897	17,006	23,586	38,154	51,298	51,251
Common Equity	922,093	1,010,161	1,142,259	1,190,843	1,282,512	1,458,976	1,560,360	1,706,052
Total Liabilities & Equity	1,039,016	1,163,061	1,304,149	1,327,358	1,468,283	1,684,948	1,815,832	1,993,443

Ratios	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2Q13**
Days In Inventory	165	173	177	207	178	165	164	160
Days Sales Outstanding (DSO)	40	39	38	43	39	40	41	46
Days Payables Outstanding (DPO)	(15)	(17)	(19)	(24)	(18)	(17)	(17)	(17)
Cash Conversion Days	**190**	**196**	**195**	**226**	**198**	**188**	**188**	**189**
Current Ratio	7.4	6.4	6.6	8.2	6.7	6.6	6.3	6.0
Quick Ratio	2.3	2.1	2.2	3.4	2.7	2.6	2.2	2.4
Inventory Turns	2.2	2.1	2.1	1.8	2.1	2.2	2.2	2.3
TTM Return On Assets	20.6%	21.1%	23.1%	14.0%	19.3%	22.7%	24.0%	23.0%
TD/Cap	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
TTM EBITDA Interest Cov	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m
TTM EBITDA/TD	n/m	n/m	n/m	n/m	n/m	n/m	n/m	n/m

Du Pont Formula	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**LTM**
Net Margins (N/S)	11.0%	11.3%	12.2%	9.6%	11.9%	12.9%	13.4%	13.6%
Asset Turnover (S/A)	1.9	1.9	1.9	1.5	1.6	1.8	1.8	1.7
Leverage (A/E)	1.1	1.1	1.1	1.1	1.1	1.2	1.2	1.2
Return On Equity	**23.3%**	**24.1%**	**26.5%**	**15.8%**	**21.8%**	**26.1%**	**27.9%**	**26.8%**

Market Capitalization (MM)	$13,692.0
Insider Ownership	8%
Institutional Ownership	92%
Average Daily Volume	1,731,000

Cash Flow Statement	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013E**	**2014E**
Net Income	232,622	279,705	184,357	265,356	357,929	420,536	469,272	554,604
D&A	37,332	39,201	40,020	40,688	44,113	53,459	64,135	76,588
Inventory	(48,595)	(59,655)	60,425	(48,964)	(88,783)	(69,231)	(57,014)	(84,278)
A/R	(32,142)	(16,107)	21,362	(64,622)	(77,678)	(43,291)	(47,214)	(54,139)
A/P	13,982	8,596	(14,172)	6,984	13,305	4,240	5,235	8,050
Other	24,695	8,155	14,079	41,046	19,603	30,579	17,315	812
Operating Cash Flow	227,894	259,895	306,071	240,488	268,489	396,292	451,730	501,636
Capital Expenditures	(55,759)	(95,306)	(52,538)	(73,597)	(120,043)	(138,406)	(191,530)	(205,157)
Dividends	(66,216)	(117,474)	(106,943)	(182,814)	(191,741)	(367,306)	(237,861)	(309,631)
Free Cash Flow	105,919	47,115	146,590	(15,923)	(43,295)	(109,420)	22,339	(13,151)

Per Share Data	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013E**	**2014E**
Diluted Average Shares	301,110	297,669	296,721	294,931	295,620	296,889	297,705	297,722
EPS	0.77	0.96	0.62	0.91	1.21	1.42	1.58	1.86
Free Cash Flow (FCF)	0.35	0.16	0.49	(0.05)	(0.15)	(0.37)	0.08	(0.04)
EBITDA	1.37	1.67	1.13	1.61	2.09	2.45	2.74	3.24
Cash	0.19	0.29	0.64	0.58	0.49	0.27	0.39	0.37
Tangible Book Value	3.35	3.84	4.01	4.35	4.94	5.26	6.03	6.86

Valuation Measures	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**PT/13E**	**PT/14E**
Price - High	$26.47	$27.73	$21.14	$30.20	$44.32	$54.59		
Price - Low	$16.53	$15.04	$12.94	$14.63	$28.81	$38.37	**Price Target**	
Price - Average	$20.61	$21.84	$17.68	$23.63	$34.01	$44.98	**$53**	
TTM P/E - High	34.3	29.0	34.0	33.0	36.6	38.5		
TTM P/E - Low	21.4	15.7	20.8	16.0	23.8	27.1		
TTM P/E - Average	26.7	22.8	28.5	25.8	28.1	31.8	33.6	28.5
FTM P/E - High	27.7	44.6	23.1	24.9	31.3	34.6		
FTM P/E - Low	17.3	24.2	14.1	12.1	20.3	24.3		
FTM P/E - Average	21.5	35.1	19.3	19.5	24.0	28.5		
FCF Yield - Average	1.7%	0.7%	2.8%	-0.2%	-0.4%	-0.8%	0.1%	-0.1%
EV/TTM Sales - Average	3.0	2.7	2.6	3.0	3.6	4.2	(0.0)	(0.0)
Price / TTM Sales - Average	3.0	2.8	2.7	3.1	3.6	4.3	4.7	4.1
Price / TTM TBV - Average	6.1	5.7	4.4	5.4	6.9	8.6	8.8	7.7
Dividend Yield - Average	1.1%	1.8%	2.0%	2.6%	1.6%	2.8%	1.5%	2.0%

Enterprise Value	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**PT/13E**	**PT/14E**
Market Value	6,205,300	6,500,171	5,247,450	6,967,831	10,054,201	13,355,489	$15,778,339	$15,778,339
Total Debt	-	-	-	-	-	-	-	-
Other Long-Term Liabilitie	-	-	-	-	-	-	-	-
Cash & Equivalents	(57,379)	(86,743)	(189,252)	(169,760)	(144,841)	(79,965)	(116,599)	(109,996)
EV	6,147,921	6,413,428	5,058,198	6,798,071	9,909,360	13,275,524	15,661,739	15,668,343
EBITDA	413,757	497,546	335,813	474,776	618,722	727,150	814,780	966,003
EV/EBITDA	**14.9x**	**12.9x**	**15.1x**	**14.3x**	**16.0x**	**18.3x**	**19.2x**	**16.2x**

Source: Company reports, Robert W. Baird & Co. estimates

BAIRD

Fastenal Company

(FAST - NASDAQ)

David J. Manthey, CFA
414.465.8020
Luke L. Junk, CFA
414.298.5084
Elliot B. Strumlauf
414.298.5077

Recent Price $46.00
Fiscal Year End December
Date Printed July 10, 2013

($ in thousands, except per share)

Average Daily Sales

	Jan	Feb	Mar	April	May	June	July-E	Aug-E	Sept-E	Oct-E	Nov-E	Dec-E
2013	6.7%	8.2%	5.1%	4.8%	5.3%	6.0%	7.0%	8.5%	7.5%	12.0%	11.0%	10.5%
2012	21.3%	20.0%	19.3%	17.3%	13.1%	14.0%	12.1%	12.0%	12.9%	6.8%	8.2%	9.7%
2011	18.8%	21.5%	22.8%	23.2%	22.6%	22.5%	22.4%	20.0%	18.8%	21.4%	22.2%	21.2%
2010	2.4%	4.4%	12.1%	18.6%	21.1%	21.1%	24.4%	22.1%	23.5%	22.4%	17.9%	20.9%
2009	(8.5%)	(10.5%)	(17.4%)	(21.0%)	(20.7%)	(22.5%)	(22.9%)	(21.4%)	(20.8%)	(18.7%)	(12.0%)	(8.6%)

Stores 5+ Years Old

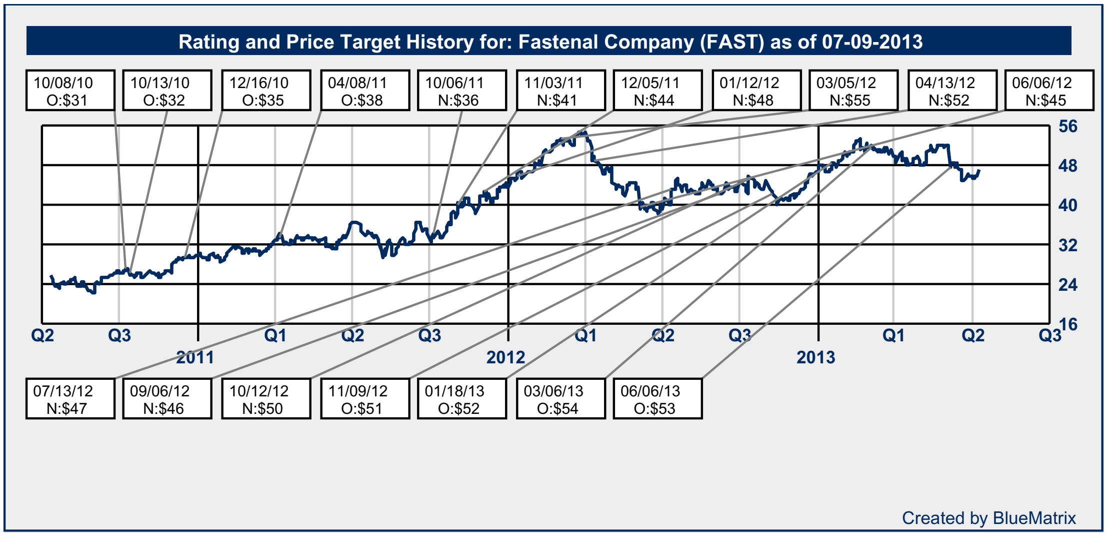
	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
2013	3.2%	5.6%	2.3%	2.0%	2.7%	3.4%						
2012	17.4%	15.8%	15.7%	13.7%	9.0%	10.2%	8.3%	7.9%	8.5%	2.6%	4.6%	
2011	15.3%	17.9%	19.2%	19.1%	17.9%	18.2%	17.3%	15.2%	14.5%	17.0%	17.4%	16.9%
2010	(2.1%)	(0.5%)	7.4%	14.9%	17.3%	16.2%	19.8%	18.2%	18.9%	17.9%	13.2%	16.0%
2009	(12.4%)	(14.3%)	(21.5%)	(25.2%)	(25.2%)	(26.3%)	(26.6%)	(24.7%)	(24.2%)	(21.7%)	(15.0%)	(0.1%)

Stores 2+ Years Old

	Jan	Feb	Mar	April	May	June	July	Aug	Sept	Oct	Nov	Dec
2013	5.0%	6.5%	3.4%	3.1%	3.5%	4.3%						
2012	18.8%	17.1%	16.8%	14.5%	10.1%	11.1%	9.1%	8.6%	9.8%	3.8%	5.1%	
2011	16.0%	18.4%	19.4%	19.6%	19.2%	19.1%	18.7%	16.5%	15.2%	18.0%	18.5%	17.2%
2010	0.6%	2.3%	9.6%	16.3%	18.5%	18.3%	21.3%	19.2%	19.8%	18.8%	14.1%	16.8%
2009	(11.2%)	(13.8%)	(20.1%)	(24.0%)	(23.7%)	(25.1%)	(25.4%)	(24.0%)	(23.1%)	(20.9%)	(13.7%)	(0.1%)

Source: Company reports, Robert W. Baird & Co. estimates

Appendix - Important Disclosures and Analyst Certification



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