



I am proud to report that 2011 was another very good year for Fastenal. We grew our sales 21.9% and ended the year with \$2.77 billion in total revenue. We were able to accomplish this despite slower economic growth and difficult comparisons versus 2010. This is the best year of sales growth we have had since 2005. It's also the first time we have grown our sales over 20% with the reduced

store opening plan we introduced in 2007. Our team has worked very hard to develop new growth drivers which we believe will help us grow for many years.

Our net earnings for 2011 were \$358 million, up from \$265 million in 2010, an increase of 34.9%. This also pushed our pre-tax earnings, as a percent of sales, to 20.8%, an increase of 180 basis points over the 19.0% we achieved in 2010. This improvement was made possible by a combination of good sales growth and expense control. Our gross margin for the year was virtually unchanged from last year at 51.8%. We will continue to work hard on finding new and better manufacturers for the products we sell, with the goal of improving both our product quality and our gross margin in the future.

Expense control has always been a strong focus at Fastenal, and 2011 was no exception. Our overall expense growth was 15.3%.

Labor and related expenses, our largest expense category, grew at 19.7%, which was somewhat higher due to lower bonuses paid in the first half of 2010. The non-payroll expense category, which includes all of the general expenses, the largest of which are occupancy expenses, grew at just 6.7%. Even more impressive to me is that our two-year growth for the non-payroll expense category was only 4.9% compared to 43.3% sales growth over that same period. I believe this is a direct result of hard work and focus by employees throughout the company.

We continued to make good progress on our 'pathway to profit' strategic growth initiative (the reduced store opening plan I referred to above). Introduced in 2007, this plan calls for us to continue to add stores, but at a slower pace, and to use the savings to hire additional

sales people. Through this balanced approach, we originally projected that we could increase our average monthly store sales from \$72,000 to \$125,000 over a five-year period from 2007 to 2012, in turn increasing our pre-tax earnings one percentage point per year, from 18 to 23% of sales, by 2012. At the start of the 2008–2009 recession, we anticipated this timeline would need to be extended by 24 to 30 months due to the slowdown in revenue. But during the recession we also became more efficient, and we now believe we can achieve our 23% pre-tax earnings goal with average monthly store sales of \$100,000 to \$110,000. Based on our growth in 2011, we remain confident we can achieve this goal in 2013.

In 2010, we made a strategic decision to increase our investment in sales specialists – experts in various areas of our business who provide high-level support in the field. Based on the good results in 2010, we decided to continue this initiative in 2011, adding more than 120 sales specialists in four main areas: government, FAST SolutionsSM (industrial vending), national accounts, and product specialists (metalworking and safety). Most of these individuals worked in a store sales position

before taking on their new roles. We've spent a great deal of time and energy training and developing this group, and we believe this investment in the expertise of our people will repay us for years to come.

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Overall, we were able to add approximately 1,900 people to our team in 2011, in many different departments, states, and countries. For me, growing the team has always been one of the most rewarding aspects of working at Fastenal. Nearly every week I have the opportunity to visit with new employees when they come to Winona for training, and I always enjoy the experience. I use most of my time with them explaining our cultural values (Ambition, Innovation, Integrity, and Teamwork) and why these values are so important in a decentralized organization that relies on local people to make good decisions for their customers and the company. The rest of our time is spent answering questions, and in most cases these are focused on growth and opportunities. It's encouraging to see our newest members of the team thinking about how they can contribute and develop their own opportunities in the future.



Fastenal.com
Fastenal.com generated an average of 1.15 million visitors per month in 2011 (up from 727,000 per month in 2010), and the value of our web orders grew more than 500%.

Exclusive Brands
Fastenal's Exclusive Brands continued to build trust and momentum in the marketplace. Made by some of the world's leading industrial manufacturers, our nearly 25,000 Exclusive Brand SKUs provide better value for the customer and better margin for our stores.



We made great progress with our FAST SolutionsSM (industrial vending) during the year. In 2010, we installed 1,358 machines, representing a 240% increase over 2009. In 2011, we picked up the pace and installed 5,528 machines, an increase of 287% over the 2010 number. Why are so many customers utilizing our FAST SolutionsSM (industrial vending)? I believe it's simply a better way to buy industrial supplies. Think of it as a fully customized and automated Fastenal store within the customer's location. We install the machine and keep it filled with products they're currently using, and as we learn more about their specific needs, we adjust the inventories to ensure they always have what they need when they need it. That's the convenient part; the economic story is that in almost every case the customer is seeing a drop in product consumption due to the machines' controls and reporting capabilities. Using the system's software, customers can view how and where products are used. They can also view usage by group, job, and other meaningful criteria, giving them a much clearer picture of the costs involved with their operations.

Early in our vending initiative, our team recognized that if we wanted to be the best at this business, it would take a tremendous amount of internal support – essentially a full-service vending company within Fastenal. So, in the summer of 2010, we tapped a proven leader from within our company and challenged him to build the best vending company in the business. Since then, he has added more than 150 people to his team and organized them in different functions and geographies. Known as 'the machine behind the machine,' this team configures, tests, and installs each machine to meet the customer's unique needs. They also provide training and technical support for our customers and stores. At this time, I believe our FAST SolutionsSM (industrial vending) team is well positioned to support the growth we anticipate for our vending program in the year ahead.

Because of the success we've seen with industrial vending, we've continued to work with our vending technology partners to develop several new automated supply solutions. In 2011, we rolled out two machines specifically designed for metalworking products, the FAST 2000CTSM and FAST 4000CTSM. We also introduced a more compact

version of our FAST 5000SM coil vending machine. The benefit of this smaller machine – it's less expensive, so it's cost-effective to implement with smaller customers, further expanding the potential market for automated supply. We plan to continue introducing new machines in 2012 to help our customers operate more efficiently.

Since the early 1990s one of our main growth drivers has been product expansion. We've grown from being a fastener distributor with a few other lines into a truly full-line industrial supplier. In 2011, we continued this expansion with a strong focus on metalworking products. Our senior product manager for metalworking had been pushing me for several years to increase our investment in this area, and he insisted that it required more than just adding product. His business plan had three main components. First, we would need to expand our offering from the big industry brands. Before these companies

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would give us their full support, we would need to execute the second component of the plan by developing a well-trained field sales force dedicated to this product line. Finally, we would need to invest in a broad, deep inventory that could be shipped same-day to meet the demands of our customers. After spending time evaluating the market opportunity, we decided to move

forward with an aggressive plan to grow this area of our business. We have dramatically expanded our brand offering, identified and provided extensive industry training for our metalworking/manufacturing sales specialists, and added thousands of product SKUs to our already extensive inventory. Although it's very early in the game, we're pleased with the results and will stay very focused on this product offering in the coming years.

Back in 1982, our founder Bob Kierlin concluded that to provide better service for our customers we also needed to be able to manufacture hard-to-find parts. So, with one person and a few simple screw machines, we opened what would become known as Fastenal Manufacturing. Today, we have approximately 500 people dedicated to this high-service business. Working in eight locations, they produced nearly 70,000 unique jobs in 2011, each one representing a solution for a customer in need. Many of our manufacturing jobs are a simple



Manufacturing

Through our eight manufacturing locations, Fastenal produced nearly 70,000 unique jobs in 2011 that provided solutions for our customers. On a far greater scale than ever before, "We Make the Unavailable Part Available."

Sales Focus – Metalworking

During the year, we put the pieces in place to take share in the vast metalworking market. This includes three levels of industry training for our sales force, expansions with key suppliers, and our new 'FAST CT' cutting tool vending machines.



FAST 2000CT FAST 4000CT



reworking of a standard fastener, but many others involve highly specialized parts made out of exotic materials and designed for very specific purposes. Our sales related to products produced by Fastenal Manufacturing grew by 18.2% in 2011, representing approximately 5% of total company revenue. Besides being a profitable business, it's the kind of offering that distinguishes Fastenal from the competition and helps us achieve our goal of *Growth Through Customer Service*.

One of the foundations of our business is our ability to service customers with local people and inventory – something we're now doing not just across North America, but around the world. Our international business continued to grow much faster than the overall company, with 44.4% sales growth in 2011 on top of 35.6% sales growth in 2010. Having opened locations in Germany, Brazil, Italy, and the Czech Republic during 2011, we're now operating in 14 countries outside of the United States. Our international team has worked hard to hire and promote local people to lead these businesses, and they have been very successful. In fact, more than 95% of our international employees are working in their home countries. I believe this makes our international business stronger and should help us continue our growth in the future.

As we expanded internationally, we also focused on a distinctly domestic source of business – state and local governments. In last year's letter, I reported that our newly-appointed vice president of government sales was focused on bidding on cooperative contracts, a key channel for state and local government purchasing. In 2011, those efforts began to pay off. When 2011 began, we had contracts in place to supply products to state and local government entities in seven states. Today, we have 31 such contracts, enabling government customers to make much larger purchases from our stores without having to go through a complex bid process. In late 2010, we were awarded a separate contract with a cooperative of local government entities (The Cooperative Purchasing Network, or TCPN), which was very successfully introduced in 2011 alongside our new state contracts.

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To help our stores understand and capitalize on these new opportunities, we added a team of state government specialists in the field dedicated to activating government business and supporting our store personnel when they have questions. With our specialists and stores working together, we were able to grow this area of our business substantially during the year, particularly during the latter months as our contracts and field personnel gained traction. We look forward to continuing this momentum in 2012.

Another focus for investment in 2011 was our national accounts team, dedicated to servicing large, multi-site corporate customers. We added more than 30 people to this team in 2011 and were rewarded with good results. With 186 new national account customers signed during the year, this area of our business continued to outpace the company in terms of sales growth. What we're hearing is that more companies are trying to narrow their supplier base, and we are very well positioned to service them with our broad product offering and our proximity to their facilities through our network of approximately 2,600 stores.

During 2010, our web development team worked very hard to improve our web site and make it easier for customers to buy from us online. Our redesigned site rolled out in the second half of that year, and we saw a nice increase in the number of web orders. Then, in the first quarter of 2011, we ran an internal contest incentivizing stores to introduce Fastenal.com to their customers. This proved to be the spark we needed to energize our web initiative at the store level, and during 2011 the value of our web orders grew more than 500%. Having established ourselves as a legitimate player in the industrial web landscape, we look forward to taking another big step forward in the year ahead.

At our core, Fastenal is a distribution company, so I'm particularly proud of the great job our distribution team did in 2011. At the beginning of the year, we challenged them to grow their expenses at half the rate of sales growth. We also raised the bar on our expectations for service to the stores; basically, we asked for better service at a lower price. We knew these were very aggressive goals, but with the



International

During the year, Fastenal launched operations in Germany, Brazil, Italy, and the Czech Republic. With potential openings in Australia, Romania, and other strategic locations, our goal is to continue to 'paint the world blue' in 2012.



Government

Fastenal began the year with seven state contracts and finished with 31. With these contracts in place and our 35 State Government Specialists in the field, we saw sharp monthly sales increases with state and local government.

high-quality leadership we have in our distribution centers, we knew it was possible. Sure enough, they came through: our distribution expenses grew at less than half the rate of sales growth, and our service (based on shipping accuracy) improved. During the year, our distribution personnel also designed and started construction on a warehouse expansion for our Winona distribution center. Due to be completed in the third quarter of 2012, this will be a highly automated storage and picking system designed to lower our costs while improving accuracy, speed, and ultimately service to our customers.

During the year our marketing team was busy working to make Fastenal a more recognized name. The ultimate goal of these efforts is to increase our credibility in the eyes of potential customers who may not know a lot about us, making them more likely to see our sales people and try our products. To that end, we executed our first-ever national advertising campaign, placing a series of ads in *USA Today* to promote our industrial vending programs. We also changed the look of many of our large semi trailers by painting them Fastenal blue (see photo on the cover). This new design really stands out on the road, and we've received great feedback. A similar blue paint job is featured on our FAST SolutionsSM (industrial vending) machines installed at thousands of customer sites, representing another powerful way to brand our business.

That said, our most successful branding effort of 2011 was our NASCAR program with Roush Fenway Racing and driver Carl Edwards. We won eight Nationwide Series races in 2011, garnering over 16 hours of television coverage of our car and brand. Carl also won the Nationwide Series Owner's Championship, giving us even more recognition. Because of this success, we decided to become

the primary sponsor of Carl's No. 99 Ford in the Sprint Cup Series in 2012. The Sprint Cup Series is the top level of NASCAR racing, with a much larger following than the Nationwide Series. We look forward to presenting the Fastenal brand to tens of millions of race fans this season, starting with the Daytona 500 on Sunday, February 26th.

"I'm convinced this is the best team, from top to bottom, that we've ever had, and I believe we will only get better in the year ahead."

As you read through this letter, you'll notice a common theme: everything we accomplish as a company can be attributed to Fastenal people. Because of our belief in our people and their potential, we've continued to make training a top priority. The Fastenal School of Business (FSB) trained more people in 2011 than in any previous year. To keep pace with the ever-changing needs

of our company, FSB's leaders are continually developing new courses and new ways to train. Case in point: when we made the decision to increase our investment in the metalworking product line, they evaluated our needs and the resources available to meet those needs. After a lot of research, they recommended that we hire an outside firm to help us deliver the training. Based on the feedback I've heard from people who've participated in this third-party training, it appears to have been a very good decision. I think this is a prime example of why FSB is so valuable – they're always searching for the best ways to improve the company and position our people for success.

In closing, I want to thank the Fastenal employees for another great year. We had good sales growth, good earnings growth, and because of this we were able to create many opportunities for new and existing team members. I'm convinced this is the best team, from top to bottom, that we've ever had, and I believe we will only get better in the year ahead. I also want to thank our long-term shareholders for your support and assure you that our team is committed to continuing to grow our business and create opportunities for all stakeholders. I look forward to another year of *Growth Through Customer Service*.

Willard D. Oberton

Willard D. Oberton
President & CEO



Green

Our green product offering more than doubled over the course of 2011. We will continue to expand and evolve our green program to meet the changing needs of our customers.

NATIONAL ACCOUNTS

National accounts (i.e., large, multi-site corporate customers) currently represent approximately 40% of our total business. During 2011, we added 186 national account customers, while expanding our team of national account personnel.

