LETTER TO **SHAREHOLDERS** AND **EMPLOYEES**

Thank you for being a shareholder of Fastenal. We hope you find this annual report useful in explaining our business, our future, but most importantly, the *something special* that is the culture of the Blue Team at Fastenal. We believe if you truly understand our culture, there's a good chance you will remain a shareholder for the long term.

If a reader of this annual report were unaware of the chaotic environment of 2020, our financial statements would appear unremarkable. Our sales grew 5.9%, and our operating income grew 8.0%. At first glance, you might conclude we simply did a nice job managing expenses in a year with weaker sales growth. This performance, combined with less interest expense, allowed our diluted net earnings per share to grow a bit better, at 8.4%. Again, solid numbers, but unremarkable. What *is* remarkable is our team's ability to produce them during a global crisis.

As a distribution business, our cash flow is directly linked to our rate of growth and the corresponding need to fund working capital. With lower sales growth, and solid execution by the team, our net cash provided by operations grew 30.7%. In regards to the execution comment, the team performed well in managing accounts receivable and inventory.

The last five years have seen a rapid expansion of the square footage in our distribution and manufacturing facilities. (This expansion also included extensive automation within our distribution centers.) Given the uncertainty of the year, and with this rapid facilities expansion largely behind us, we lowered our net investment in fixed capital by $82 million, or about 34.3%. Not surprisingly, our free cash flow improved significantly, growing by 36.0%. (See the footnote on page 5 for a reconciliation of this measure to net cash provided by operating activities, the most directly comparable GAAP measure.)

In addition to funding our regular quarterly dividends, our strong cash flow also funded: (1) the acquisition of the technology used in our vending platform (including providing direct access to the supply chain for the vending equipment) and (2) a supplemental dividend paid in the fourth quarter. Item 2 represents the third time we have paid a supplemental dividend late in the year. The first time was during the chaos of the financial meltdown late in 2008, the second time was during the chaotic income tax climate late in 2012, and the third time was in late 2020. In all three cases, we had cash we believed wasn't needed to fund future growth investments, and we felt the responsible action was to return the cash to our shareholders. We are very excited about the strategic value of item 1. This will give us the ability to better manage and illuminate our customers' supply chains, and to do so in a more cost-effective fashion – always a plus.

Every year we produce two annual reports. The first report, an internal item published in January, is our *Annual Report to Employees*. This document provides an overview of the year, a look at our future, and a celebration of our employees' accomplishments. This year we celebrated the *Class of 1995*, 74 new additions to our ever-growing group of 25-year employees. The second report, portions of which are filed with the Securities and Exchange Commission in early February, is this *Annual Report to Shareholders*. We felt the best way to describe 2020 would be to use our internal words. Think of it as full transparency. If you have a moment, please take a look at the next two pages, which are excerpted from the employee report. The left-hand column is a list of the articles and topics included in the employee publication, and perhaps you might notice the final article was contributed by Bob Kierlin. Even in retirement, Bob continues to give of himself to the organization. The rest of the two pages is my attempt to convey a sense of gratitude and respect for the Blue Team family.

Some will choose to remember 2020 for all of its negative events; and yes, there were many. We don't believe this provides much of a foundation on which to build a future. It is our sincere wish most will choose to focus on the positive events they witnessed, perhaps remembering individual acts of caring for a fellow human or of personal sacrifices made.

Good luck in 2021, and thank you for your belief in the Blue Team at Fastenal.

Dan

DANIEL L. FLORNESS
President and Chief Executive Officer

TURN THE PAGE TO READ DAN'S MESSAGE TO EMPLOYEES FROM OUR

2020 EMPLOYEE ANNUAL REPORT

THIS YEAR'S
ARTICLES & TOPICS

DAN FLORNESS
President & Chief Executive Officer

WHAT WILL **YOU** **REMEMBER** FROM 2020?

I have a challenge for the group: How many Fastenal storylines can you list from 2020 without including the name of a certain virus? For me, there are five things about the Blue Team that really stand out. Please send me others I've missed.

1. We run faster (and learn faster) than anyone else.
When hiring new employees, we generally have some core values in mind, so perhaps we have a natural advantage. These core values include a willingness to always try (Ambition), a willingness to solve problems (Innovation), a willingness to be trustworthy (Integrity), and a willingness to help each other succeed (Teamwork). If we ever have a day when we forget our core values, each of us is blessed to be surrounded by 20,000+ people to remind us.

2. We don't fracture, we rally to support each other.
The Blue Team grew closer in the toughest moments we encountered in 2020. There's a comfort that comes from having a family to help in times of need. Thanks for being there when the world was scared and uncertain. Thanks for always trying to focus on what we *can* do, and then solving what we can't. We started the year as a cohesive group of people willing to learn and change, and we ended the year better than we started. Thank you for that.

3. When we point a finger, it's usually at ourselves.
This builds off of item 2 above. We improve every situation we encounter, and we don't place blame; however, we do take ownership. Perhaps that finger is pointed inward to indicate we've got you covered. If you've ever watched the 1995 movie *Apollo 13*, you might understand why I often thought of a certain line spoken by the Gene Kranz character:

"Let's look at this thing from a … um, from a standpoint of status. What do we got on the spacecraft that's good?"

It didn't matter that we didn't have everything anticipated and figured out. With every moment of frustration, a calm perspective quickly emerged within the Blue Team. It could start with anyone, regardless of their role. In that moment, one shining example convinces others it's okay to shine. With this mindset, the team becomes more resourceful.

4. We have the skill set to help others, and the confidence to stay focused.
Because of our dedication to learning every day, our willingness to embrace new ideas and new ways of thinking, and our decentralized operating style, our skills get honed continuously. Because our chain of command is short and agile, and because we have 20,000+ tested leaders, we naturally moved quickly in 2020.

AN **EXCERPT** FROM THE 2020 **EMPLOYEE** ANNUAL REPORT...

5. We always build for the future.

This often means frugality at Fastenal. If I don't waste something today, we will have more resources to solve a problem tomorrow. But it also involves things like training (willingness to learn). As I write this, I honestly don't know how many hours of training we will end up completing in 2020 – there's a chance it could exceed 2019, even though in-person instructor led training was removed from our offering. What I do know is that we quickly reinvented our ability to train, and I believe we will improve our participation in training every year. This reinventing of our training methods should have happened years ago. I'm sorry it took the chaos of 2020 to realize its importance – that's on me. *[Editor's note: The final numbers showed the Blue Team's training hours increased 11% in 2020.]*

Building for the future also means investing in ways to improve how we operate (willingness to change). I honestly believe the biggest opportunities from 2020 will center on mobility technology. With mobility we can identify and streamline highly repetitive transactions – this will create scale in our business, enabling us to become more efficient as we grow. With mobility we can also gather transactional details – this will illuminate cost-saving activities and ideas for us and, by extension, for our customers.

Perhaps there are some of you who scratch your head when you hear the phrase *create scale*. To me, this simply means identifying the things we do a lot, or could do a lot, and finding ways to do them more efficiently as an organization. A great example is how (and where) we pick the replenishment for vending and bin stocks. Perhaps the best place to do that is in a local site (a branch or Onsite location), or perhaps it's in a traditional distribution center. Today we are exploring a third option, something in between, which we're referring to as LIFT (short for "Local Inventory Fulfillment Terminal"). These LIFTs might be located in our distribution centers or in metro areas – only time will tell. The idea is to free up time for our local teams, but we need a certain critical mass of transactions (in other words, a large enough number of vending devices and bin stocks) to create scale and make the model cost-effective. As we figure this out, both you and the marketplace will benefit. Creating scale will help the Blue Team grow faster, and this creates opportunities for everyone.

Warning to the reader, the next two paragraphs go into the weeds a bit; sorry for all the details.

Cost savings isn't a confusing topic; however, identifying and quantifying the opportunities and successes can be incredibly difficult and time consuming. This is where mobility can lend a helping hand. Mobility can help us tell a story about how we create value, and it can illuminate ways to operate more efficiently. This isn't just about Fastenal. It does allow us to be more efficient – the old adage "work smarter, not harder" comes to mind – but it's really about serving our customers and providing the best supply chain. While this isn't intended to be an infomercial about cost savings, I would challenge each of you to understand the concept and to learn about what we've developed. Since the topic centers on tools in our point of sale system, most of the learning will be done at the branch or Onsite location, but everyone touches multiple elements of the supply chain, so the challenge applies to the entire Blue Team.

We have made big strides within our system in 2020, including the introduction of *Cost Savings Projects*. This tool takes much of the complexity out of cost savings reporting and provides flexibility to morph to the needs of the individual customer. Since the usefulness and understandability of cost savings information is always about the customer's perspective, the *Group Creation Onboarding Tool* is being built in 2021 to help you better define and assemble the information to be included in your cost savings analysis, to better manage the date ranges used, and to do it all without jumping in and out of multiple screens (we all know how frustrating that can be). Later in the year, the *Restock/Service Visit* details from our mobility platform will be expanded to include more of the savings you provide your customers through managing bin stocks. Please dive into mobility and start creating the source data today.

Pulling back out of the weeds, we achieved several milestones in 2020. First off, we exceeded $1 billion in safety sales for the first time. (Prior to 2020, only our fastener product line had hit the $1 billion mark in a calendar year.) Our European business surpassed $100 million in sales for the first time. We also surpassed $500 million in eCommerce sales for the first time, and eCommerce exceeded 10% of net sales for the year.

Please note, this is eCommerce as measured in a narrow and somewhat misguided way: strictly as sales through the web and EDI (electronic data interchange). eCommerce really should be measured in a much broader sense, which is why we add things like vending, infrared bins (IR), radio frequency identification bins (RFID), and Fast Stock (traditional bins with labels) to our thought process. These elements are redefining the basket of technology deployed within the supply chain and are moving beyond the notion of "ordering stuff." In a truly efficient supply chain, planned spend shouldn't always require an order – perhaps it should just be there when it's needed. That's our goal, and thank you for creating that change. If you add these old and new ideas together, we estimate about 35% of our sales are electronic, and we believe this will increase to 70%-plus in the years to come. For the analytical folks reading this, the 35% estimate consists of: about 20% for vending, about 10% for bin stocks (IR, RFID, and Fast Stock), and about 10% for traditional eCommerce (web and EDI), less a little bit of double counting since some of the vending and bins get billed via EDI.

What will the marketplace remember about Fastenal from 2020? I believe it boils down to this: *You can trust the Blue Team to solve problems.*

Good luck in 2021, and Go Blue!

Dan