

Thank you FOR BEING A Shareholder OF FASTENAL

It's been just over seven years

since I stepped into this role (in mid-October 2015). The Blue Team made the transition *easier*, but it wasn't easy. If you recall, some industrial headwinds had started earlier in the year; however, we found our footing by focusing on simple things: take care of our customers' needs (and find more customers), take care of our fellow Blue Team members (and find more to join the team), watch our expenses with a close eye (but continue to build for the future), expand our investments in technology (we need great technology to support our customers and to become more productive), and enjoy what we do! In 2015, our sales were \$3.9 billion. In 2022, our sales approached \$7.0 billion. I hope you are proud of every member of the Blue Team – I certainly am.

We achieved successful growth in 2022. Our sales grew 16.1%, and our operating income grew 19.4%. However, behind these headline numbers there's a deeper story to tell.

From a cash flow perspective, it's helpful to develop benchmarks and to understand the counter-cyclical nature of our *operating cash flow* (i.e., the "Net cash provided by operating activities" line in our cash flow statement). We believe the best cash flow benchmark is the relationship of our operating cash flow to our net earnings. For simplicity's sake, we prefer our annual operating cash flow to be greater than 100% of our net earnings.

For perspective on the cyclical nature of our cash flow, let's take a look at some recent years. In the last seven, our operating cash flow has exceeded 100% of net earnings four times and has fallen short three. The three sub-100% years were 2022 (86.6%), 2021 (83.3%), and 2018 (89.7%).

Our business enjoyed robust growth in 2022 and 2018, and we needed cash to fund working capital. We call this a good problem.

Our markets experienced significant inflation and supply chain disruption in 2022 and 2021. These two issues consumed cash by causing our inventory costs to increase and by prompting us to expand the quantity of safety stock on the shelf. Many organizations can simply shrug their shoulders and say, "Sorry, we're out of stock." However, we are a supply chain partner to our customers. We don't know how to shrug our shoulders, but we *do* know how to operate a reliable supply chain – something we believe is central to our success.

In the final months of 2022, the inflation began to moderate and the reliability of supply chains improved. Our fourth quarter operating cash flow benefitted from this change and grew 93.0% over the same quarter in 2021.

The historical reliability of our strong cash flow generation has allowed us to invest in the business for half a century. It has also allowed us to step forward quickly and decisively to benefit our shareholders on three separate occasions in the past 15 years.

The most recent example was a supplemental dividend declaration late in 2020 – the year COVID-19 rapidly infected our global society. We grew the size of our business, and our operating cash flow, relative to net earnings, hit a 10-year high. The oldest example was a supplemental dividend declaration late in 2008. I suspect most readers recall the global financial crisis. In keeping with the counter-cyclical pattern, in 2009 our operating cash flow, relative to net earnings, also hit a 10-year high. A third supplemental dividend declaration occurred late in 2012; however, let's credit this dividend to political arguing within the United States government about raising dividend income tax rates.

In short, we have used a strong balance sheet and an ability to generate strong operating cash flow over the years to improve our service to

our customers, to create opportunities for our employees, and to provide an attractive return for our shareholders.

To reiterate recent letters, we hope you find this annual report useful in explaining our business, our future, and most importantly, the "something special" that is the culture of the Blue Team. We also hope you take the time to read our Environmental, Social, and Governance (ESG) Report. (See the QR code on the inside cover of this annual report.)

In the interest of full transparency, and similar to the last several years, we felt it helpful to share a section from the *Blue Team Report* (our internal annual report to employees). The next two pages include the lead-in letter from the current report. And yes, this year's publication once again includes an article by our retired founder, Bob Kierlin. Bob typically stops in for a weekly visit, and he always has something insightful to share (he's a very avid reader). On a recent visit, Bob was a bit more comical and suggested his gravestone could include a short quote: "I'd rather be at Fastenal." Rest assured, Bob's health is excellent, but we agree with his sentiment.

As stated in prior years, we will always approach things in a simple way at Fastenal: believe in people; stay focused on a common goal (*Growth Through Customer Service*); and enhance our ability to serve by finding great people, asking them to join, and then giving them a reason to stay.

Good luck in 2023, and thank you for your belief in the Blue Team at Fastenal. [Go Blue!](#)



DANIEL L. FLORNESS
President and Chief Executive Officer

Each year has its memories and themes. For me, 2022 was about getting reintroduced to an old friend – the Blue Team. Video technology, now a normal part of our workdays, made many more conversations possible. Meanwhile, the return to more frequent travel made many more conversations in-person and more impactful.

In regards to the Blue Team, several story lines emerged during the year. The first centers on our 240 district managers (DMs) scattered across 25 countries. During the previous three years, a subset of this group, and their regional vice presidents (RVPs), shared an overview of our business in about 110 metro markets across North America. This primarily included larger metro areas with populations greater than 500,000 people. In addition, the Blue Team outside of North America shared their stories on select markets. Unfortunately, this left many DMs out of the conversation, those who operate in rural areas or in smaller metro areas. (Please note: These two areas represent about 48% of our revenue.) To make the discussion more inclusive, we expanded the business reviews to every district. This “project” has consumed about 15% to 20% of my time in 2022; however, it has been one of the best uses of my time in the last decade.

To widen everyone’s comfort zone, these conversations typically start with three simple questions and two requests. The questions: “How did you find Fastenal, or perhaps how did Fastenal find you?” “What did you know about Fastenal before you started?” “Did you expect Fastenal to become your career when you joined?” And the requests: “Please share anything you’re comfortable sharing – this can be personal or professional.” “After we finish, please share the story of your district with your local team – it will inspire them.”

As I discovered, most of the group found Fastenal through a friend or a teacher. Most didn’t know anything about Fastenal before they started, but they typically needed a job while in school. Most had no plan to spend their career with Fastenal; however, the way they were challenged, trusted, and treated kept them focused on building the Blue Team. Some general themes emerged, and they typically pointed to our cultural values (Ambition, Innovation, Integrity, and Teamwork). If you’re curious about some statistics, here are a few: 36% of our DMs joined the organization as part-time employees, 79% have been with the organization more than ten years, and 23% joined more than 20 years ago. If you do the math, the latter two numbers represent a much larger percentage of the much smaller organization (and DM group) those individuals joined years ago. It’s a great example of creating opportunity and longevity!

Opportunity is amplified when promotion from within is the norm. Here is a list of the “**top 10 reasons to join Fastenal**” that emerged from their comments (and was later shared with our regional recruiters). They’re all pretty powerful; however, #10 is a great finish to the list.

1. **Belief in people.** Everyone is welcome/opportunity for all.
2. **Belief in decentralized leadership.**
People make decisions and learn faster.
3. **We operate in 26 countries** (including 25 with in-market locations).
4. **Operate in large metro markets (52%).**
Small metro markets & rural markets (48%).
5. **Build for the future every day.**
6. **Invest in lifelong education and building confidence** (risk taking).
7. **Demonstrated resilience.** Supply chain is essential.
8. **Digital footprint (50%+).** Illuminate the supply chain.
9. **World-class information technology.**
10. **We promote from within.**
We promote leaders.

From a business unit perspective, times have changed. Back in 2007, our average DM led a business with annual revenues of \$11.3 million. In 2022, our average DM led a business with annual revenues of \$26.9 million. It’s always fun to provide a DM with some historical context regarding their role. Today, a DM leading an average size district in Fastenal is the “CEO” of a business that is approximately 35% larger than the entire Fastenal organization was when we went public in 1987. The point of this observation is simple: Every district leader should view their business on equal footing with our founder (and CEO in 1987), Bob Kierlin. It’s not magic – just work hard every day, believe in people, and be willing to grow and learn.

Midway through 2021, we resumed our in-person training classes within the Fastenal School of Business (FSB). In so doing, we re-established an important aspect of learning: direct engagement. Don’t get me wrong, online and virtual training are great tools. They speed up the process for knowledge acquisition, and they open new doors for delivering training to a geographically dispersed audience. However, I believe *leadership* training is best handled in a more engaging environment, and this typically means in person. For those of you not familiar with Fastenal’s 24 Leadership Competencies, here you go: ►

24 LEADERSHIP COMPETENCIES

DEVELOP OTHERS

7. Empathy
8. Effective Communication
9. Mentors and Coaches Employees
10. Empowers Employees
11. Works With a Variety of Individuals

ALIGN PEOPLE AND RESOURCES

17. Business Perspective
18. Systems Thinking
19. Builds Collaborative Relationships
20. Organized

DEVELOP SELF

1. Self-Awareness
2. Integrity
3. Openness to Learning
4. Resilience
5. Work-Life Balance
6. Professional Demeanor

LEADING DIRECTION

12. Strategic Planning
13. Change Management
14. Courage
15. Innovation
16. Sound Judgment

INSPIRE COMMITMENT

21. Results Oriented
22. Motivates
23. Addresses Problem Areas
24. Leads Dispersed Teams



2022 also saw a return to in-person events. In April, we held our 2022 Customer Expo, our first large-scale customer event since 2019. This included a large group of customers visiting to learn about supply chain opportunities from both our employees and our suppliers. In December, we gathered for our 2022 Employee Expo, our first large-scale employee event since 2019. This included approximately 2,000 employees from 22 countries, about 145 family members of the 25-year employees being recognized, and about 725 individuals representing our supplier base.

During the “kick off” for the Employee Expo, a challenge was extended to the Blue Team in attendance: Please stop me (Dan) as you’re walking around the show, and please share your story or share how someone helped your career. One story was shared by a young employee who described her journey from a support role to a sales role. She talked about her hesitation, and how she found the courage to make the transition. Life is about taking some risk every day. Our government sales team is fortunate to have people like her, and she was fortunate to have some great mentors willing to invest in her.

Her story speaks to our “belief system.” Fastenal believes in people – this is our first builder. Fastenal also believes in decentralized decision-making – this is our second builder. However, this requires a two-way engagement, and people need to take a risk (which can be very uncomfortable but will become easier and more natural with practice). Building confidence requires several things: trust, the realization a decision can’t wait until it’s perfect (because perfect never arrives), the realization it’s okay to make a mistake and then solve it (or try again, but don’t give up), a supportive team (including the leader), and an honest look in the mirror. The last item can lead to a realization of how much you have changed in the previous five years. If you haven’t changed much, you might need to get outside your comfort zone and take some risk. Most people find the result worth the uncertainty.

There’s an old saying about two certainties in life (“death” and “taxes”); but I think there is a third – the “opportunity” presented to those willing (or pushed) to stretch themselves beyond what they believe to be possible. There are a lot of great stories out there to challenge and inspire you. Please start with the stories from (and about) your local team. Learn how we have found success in your market, or in your area of expertise. Keep asking questions to discover ten specific ways you can bring a new value to your customer, or to someone in the supply chain you support.

As discussed in last year’s letter, we are becoming more comfortable sharing elements of ESG (environmental, social, and governance) and DEI (diversity, equity, and inclusion) in our organization. Becoming more comfortable includes doing a little bit of bragging to highlight things we do every day (which doesn’t come naturally to Fastenal). It also includes challenging each other where we need to improve (this, on the other hand, is a Fastenal strength). If you get a chance, please read through our 2022 ESG Report. It does an excellent job conveying the most recent chapter in our story. The story has a consistent theme: The Blue Team at Fastenal is both pragmatic and inspirational. Pragmatic people focus on finding great people, asking them to join, and giving them a reason to stay. Pragmatic people also understand some simple truths: No single group (geography, gender, ethnicity, or any other category) has a monopoly on talent; and it always makes good sense, for all involved, to make our business more efficient and sustainable. Progress in all things requires inspiration – inspirational people believe anything is possible!

We hire locally, we promote from within, and we strive to create an environment that is welcoming to anyone who is looking for an opportunity and is willing to learn and change. We also understand the demographics of where we operate and the outcomes achievable in our regional markets. We believe, after reading

our 2022 ESG Report, you will respect the sincerity and the results we convey. We also believe you will share some ways we can improve.

Each year has some milestones. Let’s recap a handful from 2022:



In October, our eCommerce business hit **20% of total sales**. (This was an estimated 5% in 2015.)



Also in October, our eCommerce sales exceeded **\$1 billion** (year to date).



In October, our Digital Footprint hit **52% of total sales**. (This was approximately 36% before Covid-19 hit the globe, and was 46% at the start of the year.)



In November, our international sales exceeded **\$1 billion** (year to date).



In 2022, our net income company-wide exceeded **\$1 billion** (year to date).



We signed **356 new Onsite relationships**. (Technically this isn’t a milestone – our signing record was 362 in 2019, the year before Covid-19 hit the globe – but it shows how far we’ve bounced back. Let’s crush this number in 2023.)

Before closing, please indulge me with a bit of Digital Footprint talk (and some repetition). For background, our Digital Footprint is how we illuminate the supply chain for our customers and bring greater efficiency in the process. It includes eCommerce (transacting electronically using web verticals, eProcurement, etc.) and FMI Technology (Fastenal Managed Inventory): FASTStock, FASTBin, and FASTVend. As stated a year ago, we believe 85% of our customers’ spend could eventually become part of our Digital Footprint. As highlighted in the milestone list, our Digital Footprint was about 36% of sales three years ago and hit 52% of sales in October. (As noted in last year’s letter, the 36% stat is an estimate; the reporting from our pre-mobility scanning technology wasn’t as crisp as what we’re able to capture today through our FASTStock solution.)

Also noted in last year’s letter, a large Digital Footprint provides incredible amounts of usage information – what is being used, where it’s being used, when it’s being used, and who’s using it. This knowledge allows us to be more strategic with our customers about planning their supply chain, about staging our supply chain assets to efficiently serve the market, and about aligning with world-class supply partners to create the most resilient and efficient supply chain.

Let me close by saying thank you. Thank you especially for preparing yourself for our mutual future.

Good luck in 2023,
and **GO BLUE!**

Dan

DANIEL L. FLORNESS

President and Chief Executive Officer