THANK YOU
For Being a Shareholder of Fastenal

Sometimes the best insight into an organization is to understand how they think about themselves (versus the image they present to the outside world). We have always operated under the premise there is no façade, and we openly share ourselves (warts included). To that end, we started sharing a section from the *Blue Team Report*, our internal annual report to employees, several years ago. Page three includes the lead-in letter from the current report.

The Fastenal culture could be characterized as a "glass half-full" mindset or, stated more directly, a "group of pragmatic optimists." One of the goals in writing this year's letter to employees, and in sharing some insight into our January 2024 earnings call, was to remind us of the work we've completed and to use this reminder as a means to shed some of the unneeded baggage that may have come along for the ride. Another goal was simply to reset our view towards our opportunity – a big market in need of a great supply chain partner like Fastenal. Shifting gears to our message to *you*, our valued shareholders, here are three items which were either noted in the earnings call or are relevant to a discussion about 2023 (and beyond).

First, our global footprint has evolved. In 2022, our total international business exceeded $1 billion for the first time. In 2023, our international business *in just the Americas* exceeded $1 billion for the first time. This business is primarily in Canada and Mexico, and it's operated with locally grown talent. Our international business outside the Americas continues to progress, and today we think of it as a $200-million business poised for the future.

At this size, the depth of employee talent is large enough to benefit from an increase in investment. The first step to this increased investment involved splitting our international business into two pieces – *Americas* (outside the United States) and *Eurasia* (Europe and Asia). We then elevated two successful international leaders to lead these new business units. Next, we challenged everyone within our supporting infrastructure, which is primarily United States-based, to spend some time traveling internationally and to actively invest more time and attention to helping their "international cousins." Our international business units represent about 17% of our revenue and should receive at least 17% of our attention. Build for the future!

Second, we completed a large-scale multi-year branch optimization initiative in the United States, and to a lesser degree in Canada, which began a decade ago (and which occurred largely unnoticed). As highlighted in our January 2024 earnings call, our United States and Canada branch network peaked in 2013 at just over 2,600 locations. In 2013 and 2014, we had a slight reduction because we weren't pushing the team to open branches. During this time, we also gained momentum with the expansion of our Onsite locations (the subset of our business dedicated to one customer versus a local market). There was a separate component of our business also gaining momentum: our industrial vending business (a service channel we now refer to as FASTVend, a subset of Fastenal Managed Inventory, or FMI).

Since 2015, our local sales leadership actively contracted their branch network. To assist, we provided our district managers with a 10,000-foot view of the marketplace. (As noted, much of the reduction occurred in the United States. This subset represented about 2,400 of our 2,600 United States and Canadian locations a decade ago.) At our peak United States branch count, we estimate we were within a 30-minute drive of about 95% of the United States manufacturing marketplace. At today's count of 1,441, we believe we still have 30-minute access to roughly 93.5% of the U.S. manufacturing marketplace (with a similar presence in Canada) based on our prior analysis of a target branch count of 1,450. The contraction lowered our occupancy expense in the field and was a necessary part of our Onsite expansion; however, the work of consolidating and relocating also distracted our local team. It's nice to have this distraction behind us.

The branch optimization initiative was a major undertaking, but we believe the most significant change of the last decade is our expanded Onsite location network. (See the chart on the following page, which was previously provided in our January 2024 earnings call flip book.)

The best way to think of our Onsite network is a business model adaptation that enhances our ability to pursue the total addressable market. In full disclosure, the Onsite network encompasses three main variations: (1) a dedicated business unit with people and inventory primarily placed in the customer's facility, (2) a dedicated business unit with people and inventory primarily placed in a facility located *near* the customer site, or (3) a dedicated business unit primarily located in the back of an existing Fastenal branch. The latter two types are usually a result of a customer's lack of space for us in their facility. We prefer option one but will adjust to any of the three.

The evolution of our branch and Onsite network unlocks our *energy to pursue* by freeing up time for greater engagement with our customers. It also allows us to lower our cost structure. The former is about inquiry and customer service, and the latter is about expanding the basket of products (or customer needs) available to us based on situational economics. (The operational efficiency of the Onsite model allows us to do and supply things for our customers that traditionally would not have been cost-effective.)

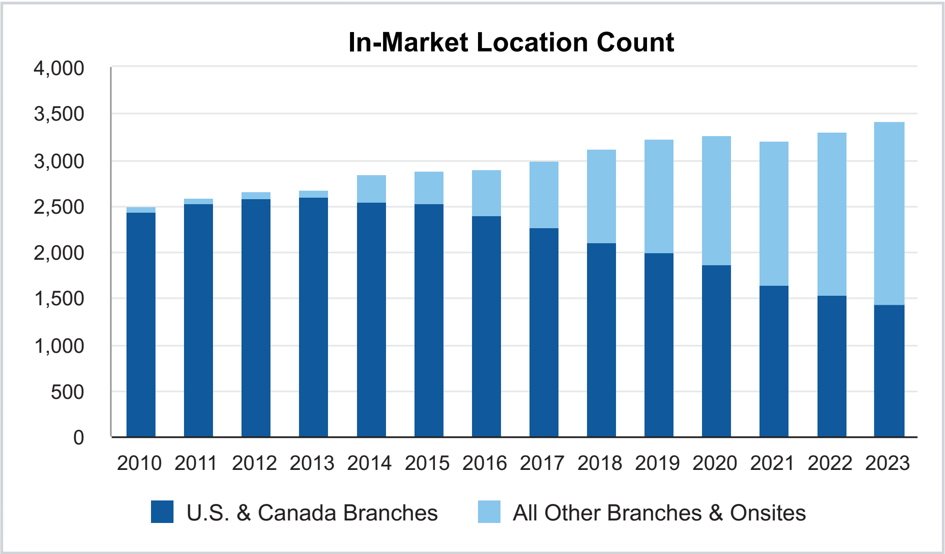
Here is an example of the impact based on four of our oldest markets (Minnesota, Wisconsin, Iowa, and Illinois). These four U.S. states represented about 19% of our global revenue in 2007 (our 40th year as a business). From 2007 to 2017, our revenue in this geography had a compound annual growth rate (CAGR) of 5.7%, and our pre-tax earnings had a CAGR of 5.6%. In 2023, these four American states represented about 15% of our global revenue; and from 2017 to 2023, this revenue expanded to a CAGR of 8.2%, while our pre-tax earnings expanded to an 8.5% CAGR. Simply put, our local team enhanced our ability to grow in a very mature market by changing their approach. Part of the change involved reducing the number of branch locations in these four states by almost 30% versus a decade ago while expanding the Onsite location count roughly seven-fold. In these four states, our Onsite business grew from about 18% of revenue to about 46%. If we want to be more wonky on the view and look at our six oldest metropolitan markets touching these four states (Minneapolis, Madison, Milwaukee, Omaha, Des Moines, and Chicago), a similar story emerges. The branch count drop is slightly greater than 30%, and the Onsite count expansion is more pronounced, with a greater than 10-fold increase. Similarly, our CAGR for revenue and pre-tax earnings expanded, and the percent of our business operated through an Onsite expanded.

Again, the details are a little wonky, but the point is simple: The Blue Team in these markets challenged the status quo, redefined their approach, and improved an already-great business. I believe this enhances our future potential in every market in which we operate. Time will demonstrate if this belief is correct.

The third and final item is our operating cash flow – i.e., the *Net cash provided by operating activities* line in our cash flow statement (and the ultimate health of a business' long-term potential). The improvement to operating cash flow we enjoyed in the fourth quarter of 2022 continued in 2023.

was sent to you in the form of a supplemental dividend paid in December 2023, the fourth such supplemental dividend in our history. (The other three were explained in greater detail in last year's letter to shareholders.) Rest assured, this supplemental dividend is a statement about confidence in the business, not about opportunities to invest.

We believe our ability to generate cash in the future, and our ability to supplement available cash with debt if needed (given our conservative balance sheet), will allow us to invest in opportunities as we continue our pursuit of ***Growth Through Customer Service.***



For background, during 2021 and most of 2022, we dramatically increased our inventory to support our customers in a period plagued by global supply bottlenecks. As conditions started to improve in late 2022, we started to unwind this inventory expansion. Given the cash flow dynamics of a distribution business, this unwind dramatically improved our operating cash flow.

This cash belongs to you – thank you for giving us the opportunity to use it over the last several years to support our customers. The cash

Good luck in 2024, and thank you for your belief in the Blue Team at Fastenal.

Go Blue!

Dan

DANIEL L. FLORNESS
President and Chief Executive Officer

Harnessing Our SUPERPOWER

You could write a book on what's special within Fastenal. Come to think of it, Bob Kierlin already did – it's titled *The Power of Fastenal People*. It's an interesting read, and I would highly recommend it. Even if you've read it before, a refresher never hurts. To be honest, every employee in Fastenal (me included) would have been well served to have read it in 2022 and in 2023. It would have reminded us how important it is to (1) support each other and (2) stay focused on our common goal. As it turned out, we wavered on both fronts, and as a result, we underperformed in both years.

It wasn't as obvious in 2022. The global economy was mending from the pandemic, supply chains were constrained, and inflation was running hot. Our strength in supply chain really shined through, and we grew well; however, under the surface we knew we were losing something. We started to forget about our priorities and purpose, and we became a bit too focused on ourselves. As 2023 progressed, it became apparent, and then a weaker global marketplace amplified the problem.

There's a quote credited to Winston Churchill from the World War II era, and it goes something like this: "You can always count on the Americans to do the right thing – after they've tried everything else." I'm not sure why this quote popped into my head, but it seemed to aptly describe the Blue Team's approach to 2023. The good news: After some soul searching and structural changes, we've progressed from "tried everything else" to "do the right thing," which for us means refocusing on our core strengths as an organization.

Fastenal has a superpower. I believe the essence of this power can be summarized as our ability to ***find great people, ask them to join, and give them a reason to stay***. In an era when it's easy to find differences and separation, we excel at the opposite, and the members of the Blue Team cherish the unique humanness in each other. We also care enough to push each other to learn, to change, and to grow; and this creates a winning culture. Yes, we sometimes drive each other crazy with our speed of change, but that's okay – our customers like this about us. We harness this superpower every day by remembering some simple truths:

1. **Get everyone pursuing a common goal and you can accomplish great things.**
2. **Understand our obligations to each other.**
3. **Goals matter!**

The first truth is about our desire to deliver great ***customer service***, knowing the market's reward for this service is ***growth***. As alluded to above, we lost sight of this truth in 2022 and 2023. In 2024, our common goal is serving the customer well. Fortunately, our motto is easy to remember: ***Growth Through Customer Service***.

The second truth is understanding our obligations to each other. We directly serve our customers through the local Blue Team in our branch and Onsite network. Everyone else provides the assist by focusing on helping the local Blue Team. This keeps it simple, and we find success together.

If you listen to our quarterly earnings calls, you might have been taken aback by the bluntness in our January 18th call. Don't get me wrong, we provided some context by discussing the weak economy: 14 consecutive months of economic contraction in the manufacturing sector, as indicated by a sub-50 Purchasing Managers' Index (PMI), the longest period of contraction since the Great Recession. But we spent more time discussing our poor execution and the steps taken to address the problem.

On this and on earlier calls we spoke about some needed course corrections, and about asking some people to step into new roles. We also spoke about the positives – our success with FMI, our celebration of 20 years in China (and my recent visit to the Blue Team there to recognize the milestone), and our upcoming ten-year celebration in India. If the schedule works out, I hope to visit our Blue Team in India later this year.

Speaking of new roles, Jeff Watts (who was promoted to chief sales officer in 2023) laid out three simple concepts for 2024 when he spoke at our recent Employee Expo: **(1) Alignment** – working together toward a common goal, **(2) Accountability** – embracing a culture of ownership, and **(3) Execution** – translating plans into action. The concepts are simple and direct.

As we move into 2024, I'm excited by what I see:

- We are focused on our strength: **driving planned/managed spend.**
- We are acknowledging and addressing our deficiencies: **improving our capabilities around unplanned/unmanaged spend.** This includes addressing weakness in our eCommerce capabilities and creating PO automation to simplify daily processes. We're also improving our knowledge capabilities (i.e., IT/data capabilities) to view our business through a holistic "customer" lens versus an individual "account" lens.
- We have a clear sales focus: **Target 5, Onsite growth, FMI, and the Customer Solutions Consultant (CSC) program.** We've also simplified the language we use to describe our diverse customer base: "contract" and "non-contract" customers.

Earlier I mentioned a recent trip to China (so recent I'm still experiencing a bit of jet lag). There were many highlights from the trip – meeting the team in person, seeing their facilities and how they support their local customers and their Blue Team cousins across the globe, spending time with a long-term supplier. However, what stood out to me is the number of people recognized for five, ten, fifteen, and twenty years of service. We are still a very young organization in China, and it's amazing how many people have decided to make Fastenal a career.

As always, good luck in 2024 … and **GO BLUE!**

Dan

DANIEL L. FLORNESS
President and Chief Executive Officer