

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(Mark One)

**Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the fiscal year ended December 31, 2019

or

**Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-16125

**FASTENAL COMPANY**

(Exact name of registrant as specified in its charter)

Minnesota

(State or other jurisdiction of incorporation or organization)

41-0948415

(I.R.S. Employer Identification No.)

2001 Theurer Boulevard, Winona, Minnesota 55987-1500  
(Address of principal executive offices) (Zip Code)  
(507) 454-5374  
(Registrant's telephone number, including area code)

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value \$.01 per share	FAST	The Nasdaq Stock Market LLC

**Securities registered pursuant to Section 12(g) of the Act:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer   
Non-accelerated Filer  Smaller Reporting Company   
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes  No

The aggregate market value of the Common Stock held by non-affiliates of the registrant as of June 28, 2019, the last business day of the registrant's most recently completed second fiscal quarter, was \$18,623,405,521, based on the closing price of the registrant's Common Stock on that date. For purposes of determining this number, all executive officers and directors of the registrant as of June 28, 2019 are considered to be affiliates of the registrant. This number is provided only for the purposes of this report on Form 10-K and does not represent an admission by either the registrant or any such person as to the status of such person.

As of January 22, 2020, the registrant had 574,226,297 shares of Common Stock issued and outstanding.

**FASTENAL COMPANY  
ANNUAL REPORT ON FORM 10-K  
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## DOCUMENTS INCORPORATED BY REFERENCE

Portions of our Proxy Statement for the annual meeting of shareholders to be held Saturday, April 25, 2020 ('Proxy Statement') are incorporated by reference in Part III. Portions of our 2019 Annual Report to Shareholders are incorporated by reference in Part II.

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Form 10-K, or in other reports of the company and other written and oral statements made from time to time by the company, do not relate strictly to historical or current facts. As such, they are considered 'forward-looking statements' that provide current expectations or forecasts of future events. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Such statements can be identified by the use of terminology such as anticipate, believe, should, estimate, expect, intend, may, will, plan, goal, project, hope, trend, target, opportunity, and similar words or expressions, or by references to typical outcomes. Any statement that is not a purely historical fact, including estimates, projections, trends, and the outcome of events that have not yet occurred, is a forward-looking statement. Our forward-looking statements generally relate to our expectations regarding the business environment in which we operate, our projections of future performance, our perceived marketplace opportunities, and our strategies, goals, mission and vision. You should understand that forward-looking statements involve a variety of risks and uncertainties, known and unknown, and may be affected by inaccurate assumptions. Consequently, no forward-looking statement can be guaranteed and actual results may vary materially. Factors that could cause our actual results to differ from those discussed in the forward-looking statements include, but are not limited to, economic downturns, weakness in the manufacturing or commercial construction industries, competitive pressure on selling prices, changes in trade policies or tariffs, changes in our current mix of products, customers, or geographic locations, changes in our average branch size, changes in our purchasing patterns, changes in customer needs, changes in fuel or commodity prices, inclement weather, changes in foreign currency exchange rates, difficulty in adapting our business model to different foreign business environments, failure to accurately predict the market potential of our business strategies, the introduction or expansion of new business strategies, increased competition in industrial vending or Onsite, difficulty in maintaining installation quality as our industrial vending business expands, the leasing to customers of a significant number of additional industrial vending devices, the failure to meet our goals and expectations regarding branch openings, branch closings, or expansion of our industrial vending or Onsite operations, changes in the implementation objectives of our business strategies, difficulty in hiring, relocating, training, or retaining qualified personnel, difficulty in controlling operating expenses, difficulty in collecting receivables or accurately predicting future inventory needs, dramatic changes in sales trends, changes in supplier production lead times, changes in our cash position or our need to make capital expenditures, credit market volatility, changes in tax law or the impact of any such changes on future tax rates, changes in the availability or price of commercial real estate, changes in the nature, price, or availability of distribution, supply chain, or other technology (including software licensed from third parties) and services related to that technology, cyber-security incidents, potential liability and reputational damage that can arise if our products are defective, and other risks and uncertainties detailed in this Form 10-K under the heading 'Item 1A. Risk Factors'. Each forward-looking statement speaks only as of the date on which such statement is made, and we undertake no obligation to update any such statement to reflect events or circumstances arising after such date.

**PRESENTATION OF DOLLAR AMOUNTS**

All dollar amounts in this Form 10-K are presented in millions, except for share and per share amounts or where otherwise noted. Throughout this document, percentage and dollar change calculations, which are based on non-rounded dollar values, may not be able to be recalculated using the dollar values in this document due to the rounding of those dollar values.

**STOCK SPLIT**

All information contained in this Form 10-K reflects the two-for-one stock splits in both 2019 and 2011.

**PART I****ITEM 1. BUSINESS**

Note – Information in this section is as of year end unless otherwise noted. The year end is December 31, 2019 unless additional years are included or noted.

**Overview**

Fastenal Company (together with our subsidiaries, hereinafter referred to as 'Fastenal' or the company or by terms such as we, our, or us) began as a partnership in 1967, and was incorporated under the laws of Minnesota in 1968. We opened our first branch in 1967 in Winona, Minnesota, a city with a population today of approximately 27,000. We began with a marketing strategy of supplying threaded fasteners to customers in small, medium-sized, and, in subsequent years, large cities. Over time, that mandate has expanded to a broader range of industrial and construction supplies spanning more than nine major product lines (described later in this document). The large majority of our transactions are business-to-business, though we also have some walk-in retail business. At the end of 2019, we had 3,228 in-market locations (defined in the table below) in 25 countries supported by 15 distribution centers in North America (12 in the United States, two in Canada, and one in Mexico), and we employed 21,948 people. We believe our success can be attributed to the high quality of our employees and their convenient proximity to our customers, and our ability to offer customers a full range of products and services to reduce their total cost of procurement.

The following table shows our consolidated net sales for each fiscal year as well as the number of public branches, Onsite locations, and total in-market locations at the end of each of the last ten years:

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
Net sales	\$ 5,333.7	4,965.1	4,390.5	3,962.0	3,869.2	3,733.5	3,326.1	3,133.6	2,766.9	2,269.5
Public branches	2,114	2,227	2,383	2,503	2,622	2,637	2,687	2,652	2,585	2,490
Onsite locations <sup>(1)</sup>	1,114	894	605	401	264	214				
Total in-market locations <sup>(2)</sup>	3,228	3,121	2,988	2,904	2,886	2,851	2,687	2,652	2,585	2,490

<sup>(1)</sup> Onsite location information prior to 2014 is intentionally omitted. While such locations have existed since 1992, we did not specifically track their number until we identified our Onsite program as a growth driver in 2014.

<sup>(2)</sup> 'In-market locations' is defined as the sum of the total number of public branches and the total number of Onsite locations.

One of Fastenal's guiding principles since inception is that we can improve our service by getting closer to the customer. Through much of our history, this was achieved by opening branches, and more recently through new Onsite locations. Today we believe there are few companies that offer our North American in-market location coverage. In 2019, roughly 53% of our sales and 53% of our in-market locations were in major Metropolitan Statistical Areas ('MSAs'; populations in the United States and Canada greater than 500,000 people), while 19% of our sales and 17% of our in-market locations were in small MSAs (populations under 500,000 people), and 28% of our sales and 30% of our in-market locations were not in an MSA. In our view, this has proven to be an efficient means of providing customers with a broad range of products and services on a timely basis. Branches have represented, and continue to represent, the foundation of our service approach. However, we are constantly evaluating the efficacy of our branch network and, in recent years, we have developed additional models that get us still closer to the customer, including vending, bin stocks, and Onsite locations.

We currently have several versions of selling locations: (1) a 'traditional (or public) branch' typically services a wide variety of customers and stocks a wide selection of products we offer, both as part of our standard stocking model and tailored to specific customer needs, (2) an 'overseas branch' focuses on manufacturing customers and our fastener product line (though non-fasteners are becoming more common in these markets) and is the format we typically deploy outside the United States and Canada, and (3) an 'Onsite location' provides dedicated sales and service from within, or in close proximity to, the customer's facility. We utilize additional types of selling locations within our network, but these tend to be more specialized in nature and relatively few in number, comprising less than five percent of our total selling locations.

Traditional and overseas branches sell to multiple customers, and together comprise the majority of our total selling locations. Onsite locations, which serve a single customer, are not included in our total branch counts. However, outside of the fact that they serve a single customer, we believe the function and operation of an Onsite location is similar to that of a branch. This model also represents a meaningful portion of the company's total revenue, and we expect that share to grow materially over time. As a result, we refer to our network in terms of in-market locations, which includes our total branches and Onsite locations.

**Branch locations** are selected primarily based on their proximity to our distribution network, population statistics, and employment data for manufacturing and non-residential construction companies. We stock all branches with inventory drawn

from all of our product lines, and over time, where appropriate, our district and branch personnel may tailor the inventory offering to the needs of the local customer base. Since Fastenal's founding and through 2013, branch openings were a primary growth driver for the company, and we experienced net openings each year over that time span. We have long maintained that marketplace demographics could support a North American network of 3,500 traditional branches. However, since establishing this figure, new growth drivers and business models (Onsite, vending, digital solutions) have emerged and diminished the direct role of traditional branch openings in our growth. It is now unlikely that we will operate the total traditional branch locations we previously believed would be the potential of North America. We will continue to open traditional branches as the company sees fit. However, in each year since 2013, the company has experienced a net decline in its total branch count including net declines of 113 branches in 2019, 156 branches in 2018, and 120 branches in 2017.

**Onsite locations** may influence the trend in total branch count over time, but are not the primary reason for our branch closings. The Onsite concept is not new, in that we entered into the first such arrangement in 1992. However, we identified it as a growth driver in 2014 and have made substantial investments toward accelerating its traction in the marketplace since 2015. In this model, we service a customer from a location that is physically within the customer's facility (or, in some cases, at a strategically placed off-site location), with inventory that is specific to the customer's needs. In many cases, we are shifting revenue with the customer from an existing branch, though we are beginning to see more new customer opportunities arise as a result of our Onsite capabilities. The model is best suited to larger companies, though we believe we can provide a higher degree of service at a lower level of revenue than most of our competitors. It has been our experience that gross profit percentages at Onsite locations tend to be lower than at branches, but we gain significant revenue with the customer and our cost to serve is materially lower. We have identified over 15,000 customer locations with potential to implement the Onsite service model. These include customers with which we have an existing national account relationship today, as well as potential customers we are aware of due to our local market presence. We expect revenues from Onsite arrangements to increase meaningfully over time. We experienced net increases of 220, 289, and 204 Onsite locations in 2019, 2018, and 2017, respectively, and signed 362, 336, and 270 new Onsite locations in 2019, 2018, and 2017, respectively. We had 1,114 Onsite locations as of December 31, 2019, and anticipate signing 375 to 400 new Onsite locations in 2020.

We first went **international** when we opened a branch in Canada in 1994. Since then, we have continued to expand our global footprint and at the end of 2019, we operated in 24 countries outside of the United States. Canada and Mexico are the largest of these, representing approximately 11% of total sales collectively, and we also operate in Europe, Asia, and Central and South America. This remaining international business is approximately 3% of total sales. Our go-to-market strategy in countries outside of North America focuses primarily on servicing large, national account customers. From a product perspective, these customers are more heavily oriented toward planned fastener spend. Though in recent years the international business has been growing faster than the U.S. business, we are not as well recognized in many of our foreign locations as we are in the U.S. and, to a lesser extent, Canada. However, our ability to provide a consistent service model, including vending, bin stocks, and Onsites, on a global basis is attractive to our foreign customer base, much of which are the foreign operations of U.S.-based companies. Our international subsidiaries now have 479 in-market locations, including 179 Onsite locations, have over 11,800 vending devices installed, and employ over 3,600 people from around the world.

The following table provides a summary of the public branches and Onsite locations we operated at the end of each year, as well as the openings, closings, and conversions during each year:

	North America					Outside North America					Total
	United States	Canada	Mexico	Puerto Rico and Dominican Republic	Subtotal	Central & South America (1)	Asia (2)	Europe (3)	Africa (4)	Subtotal	
<b>In-Market Locations - 2017</b>	2,561	238	104	13	2,916	13	23	34	2	72	2,988
Starting Branches - 2017	2,076	195	53	8	2,332	6	14	29	2	51	2,383
Opened Branches	2	1	—	—	3	—	—	8	—	8	11
Closed/Converted Branches <sup>(5)</sup>	(154)	(10)	(1)	—	(165)	—	—	—	(2)	(2)	(167)
<b>Ending Branches - 2018</b>	1,924	186	52	8	2,170	6	14	37	—	57	2,227
Starting Onsites - 2017	485	43	51	5	584	7	9	5	—	21	605
Opened Onsites	273	20	14	2	309	1	1	7	—	9	318
Closed/Converted Onsites <sup>(5)</sup>	(26)	(3)	1	—	(28)	—	(1)	—	—	(1)	(29)
<b>Ending Onsites - 2018</b>	732	60	66	7	865	8	9	12	—	29	894
<b>In-Market Locations - 2018</b>	2,656	246	118	15	3,035	14	23	49	—	86	3,121
Starting Branches - 2018	1,924	186	52	8	2,170	6	14	37	—	57	2,227
Opened Branches	1	1	5	—	7	—	1	4	—	5	12
Closed/Converted Branches <sup>(5)</sup>	(119)	(4)	(1)	—	(124)	—	(1)	—	—	(1)	(125)
<b>Ending Branches - 2019</b>	1,806	183	56	8	2,053	6	14	41	—	61	2,114
Starting Onsites - 2018	732	60	66	7	865	8	9	12	—	29	894
Opened Onsites	271	18	13	3	305	2	1	4	—	7	312
Closed/Converted Onsites <sup>(5)</sup>	(78)	(7)	(7)	—	(92)	(1)	1	—	—	—	(92)
<b>Ending Onsites - 2019</b>	925	71	72	10	1,078	9	11	16	—	36	1,114
<b>In-Market Locations - 2019</b>	2,731	254	128	18	3,131	15	25	57	—	97	3,228

<sup>(1)</sup> Panama, Brazil, Colombia, and Chile

<sup>(2)</sup> Singapore, China, Malaysia, and Thailand

<sup>(3)</sup> The Netherlands, Hungary, United Kingdom, Germany, Czech Republic, Italy, Romania, Sweden, Poland, Austria, Switzerland, Ireland, Spain, and France

<sup>(4)</sup> South Africa

<sup>(5)</sup> The net impact of non-in-market locations or Onsite locations converted to branches, branches converted to Onsite locations or non-in-market locations, and closures of branches or Onsite locations.

In 1995, we developed a **national accounts** program aimed at making our products and services more competitive with customers that operate multiple facilities. These customers tend to have more complex supply chains and structures for managing the original equipment manufacturing ('OEM') and maintenance, repair, and operations ('MRO') products we provide while at the same time, by virtue of their size and opportunity, have more negotiating power. We believe our local presence as part of a national, and increasingly international, footprint, our ability to provide a consistent level of high-touch service and broad product availability, and our ancillary capabilities around manufacturing, quality control, and product knowledge, are attractive to these larger customers. We believe our advantage with these customers has only been strengthened as we have added other channels, such as industrial vending, Onsite, Fastenal Managed Inventory ('FMI<sup>®</sup>'), digital solutions, and resources to serve these customers' unique demands. As a result, in 2019, national accounts represented 53.6% of our sales, compared to 50.7% and 48.2% in 2018 and 2017, respectively. We believe sales to national accounts customers will continue to increase as a percent of our total sales over time.

We introduced **industrial vending** in 2008. Vending provides our customers the benefits of reduced consumption, reduced purchase orders, reduced product handling, and 24-hour product availability, and we believe our company has a market advantage by virtue of our extensive in-market network of inventory and local personnel. For these reasons, the initiative began to gain significant traction in 2011 and we finished 2019 with approximately 105,000 devices in the field (90,000 generating product revenue and 15,000 in a locker lease program). Our discussion generally focuses on the 90,000 product revenue devices. We believe vending has proven its effectiveness in strengthening our relationships with customers and helped to

streamline the supply chain where it has been utilized. We also believe there remains considerable room to grow our current installed base before it begins to approach the number of units we believe the market can support. We estimate the market could support as many as 1.7 million industrial vending devices, and as a result we anticipate continued growth in installed devices over time. We anticipate signing 22,000 to 24,000 new devices in 2020.

Our industrial vending portfolio consists of 23 different vending devices, with 15 of these being in either a helix or locker format. Our most utilized models include the helix-based FAST 5000, which is approximately 40% of our installed base of devices, and our 12- and 18-door lockers, which combined are approximately 35% of our installed base of devices. The lockers are available in multiple configurations and the helix format is configurable to accommodate the various sizes and forms of products that will be dispensed to match the unique needs of our customers. Target monthly revenues per device typically range from under \$1,000 to in excess of \$3,000, depending on the type of device and products dispensed. The following two tables provide two views of our data: (1) actual device count regardless of the type of device and (2) 'machine equivalent' count based on the weighted target monthly revenue of each device (compared to the FAST 5000 device, which has a \$2,000 monthly revenue target). For example, the 12-door locker, with target monthly revenue of \$750, would be counted as '0.375 machine equivalent' ( $0.375 = \$750/\$2,000$ ).

The industrial vending (product revenue devices) information related to contracts signed during each period was as follows:

		Q1	Q2	Q3	Q4	Annual
Device count signed during the period	2019	5,603	5,439	5,671	5,144	21,857
	2018	5,679	5,537	5,877	4,980	22,073
	2017	5,437	4,881	4,771	4,266	19,355
'Machine equivalent' count signed during the period	2019	5,213	5,058	5,354	4,938	20,563
	2018	5,271	5,250	5,251	4,610	20,382
	2017	4,476	4,032	4,010	3,640	16,158

The industrial vending (product revenue devices) information related to installed devices at the end of each period was as follows:

		Q1	Q2	Q3	Q4
Device count installed at the end of the period	2019	83,410	85,871	88,327	89,937
	2018	73,561	76,069	78,706	81,137
	2017	64,430	66,577	69,058	71,421
'Machine equivalent' count installed at the end of the period	2019	69,258	71,942	74,686	76,792
	2018	58,571	61,405	64,205	66,784
	2017	49,921	51,950	54,215	56,436

In addition to industrial vending noted above, which primarily relates to our non-fastener business, we also provide **Fastenal Managed Inventory ('FMI')** programs, (also known as 'keep fill' or 'bin stock' programs in the industry) to numerous customers. This business relates to both our maintenance customers (MRO fasteners and non-fasteners) and original equipment manufacturers (OEM fasteners). FMI is like our industrial vending business in that it involves moving product closer to the point of customer use within their facilities. However, the device is typically an open bin which is clustered with other bins in a racking system, each of which holds OEM fasteners, MRO fasteners, and/or non-fastener products that are consumed in the customer's operations. These bins utilize a variety of technologies. For instance, some bins are organized and labeled into customer plan-o-grams which allow for the scanning of product when product is at a minimum desired level and requires replenishment, while other systems utilize scales to measure the volume of a bin's content by its weight. In 2019, Fastenal introduced additional technology utilizing Remote Frequency Identification ('RFID') and Infrared ('IR') systems to bring additional value to the supply chain. RFID automates a standard Kanban program and IR automates the replenishment of individualized work stations. We believe our fully integrated distribution network allows us to manage the supply chain for all sizes of customers. FMI programs tend to generate a higher frequency of business transactions and, coupled with our fully integrated distribution network that allows us to manage these programs for all sizes of customers, foster a strong relationship with customers, as we are often their preferred supplier.

We also invest in **digital solutions** that aim to deliver strategic value for our customers, leverage local inventory for same-day solutions, and provide efficient service. These solutions take many forms. For instance, the above noted technologies (vending and FMI), provide locational data that we can utilize to provide strategic value to our customers. An example of this is FAST 360, which surfaces data around our managed services, providing our customers with one central source of information as we



manage their OEM and MRO products. We also provide eProcurement Solutions (Electronic Data Interface, or 'EDI' and 'punchouts'). These provide system-to-system exchange of documents (such as purchase orders, advance shipping notices, and invoices for direct and indirect spend) through a direct integration into our customer's Enterprise Resource Planning (ERP) systems or through a third party procurement network or marketplace. This creates an efficient, accurate, and streamlined procure-to-pay process. We also have an e-commerce offering that allows us to provide same-day solutions for online orders. We believe our integrated physical and virtual model, when paired with our national (and increasingly international) scope, represents a unique capability in industrial distribution when compared to e-commerce as an independent sales channel. One of our web solutions, Fastenal EXPRESS, guides our customers to products that are locally stocked, capitalizing on our existing location footprint, in order to provide same-day service for online orders. This positions us to outperform what is more typically a 24 to 48 hour fulfillment expectation for MRO and unplanned transactions. We expect to continue to build out and develop our digital solutions over time.

We believe our current growth drivers – Onsite locations, international expansion, national accounts, industrial vending, FMI, and digital solutions – on a global basis represent alternative means to address the requirements of certain customer groups. They get us closer to the customer and to where the product is actually consumed. This is consistent with our strategy and offers significant value by providing differentiated and 'sticky' service. Combined with ongoing strategic investments in end market initiatives as well as selling (in-market and otherwise) and non-selling (engineering, product specialists, manufacturing, etc.) employees, we offer a range of capabilities that is difficult for large and small competitors to replicate.

We remain committed to a large, robust service network, including traditional branches; it remains the indispensable foundation of our business. In any given year, it is difficult to predict whether our total branch count will rise or fall. However, with the growth we anticipate in Onsite locations, we believe our total in-market locations will increase over time.

We believe the profitability of our in-market locations is affected by the average revenue produced by each site. In any in-market location, certain costs related to growth are at least partly variable, such as employee-related expenses, while others, like rent and utility costs, tend to be fixed. As a result, it has been shown that as an in-market location increases its sales base over time it typically will achieve a higher operating profit margin. This ability to increase our operating profit margin is influenced by: (1) general growth based on end market expansion and/or market share gains, (2) the age of the in-market location (new locations tend to be less profitable due to start-up costs and, in the case of a traditional branch, the time necessary to generate a customer base), and/or (3) rationalization actions, as in the past several years we have seen a net decline in our traditional branch base. There are many reasons why local or regional management might decide to close a location. Key customers may have migrated to a different part of the market, factories may have closed, our own supply chain capabilities in a market may have evolved to allow us to service some areas with fewer traditional branches, and/or our customers may have transitioned to our Onsite model. The paths to higher operating profit margins are slightly different in a traditional branch versus an Onsite location, as the former will tend to have more fixed costs to leverage while the latter will tend to have a smaller fixed cost burden but have greater leverage of its employee-related expenses. In the short term, the Onsite program can hurt the profitability of our existing branch network as it can pull established revenue away from an existing branch even as its fixed expenses are largely unchanged.

We operate twelve regional distribution centers in the United States – Minnesota, Indiana, Ohio, Pennsylvania, Texas, Georgia, Washington, California, Utah, North Carolina, Kansas, and Mississippi – and three outside the United States – Ontario, Canada; Alberta, Canada; and Nuevo Leon, Mexico. These fifteen distribution centers give us approximately 4.5 million square feet of distribution capacity. These distribution centers are located so as to permit deliveries of two to five times per week to our in-market locations using our trucks and overnight delivery by surface common carrier, with approximately 87% of our North American in-market locations receiving service four to five times per week. The distribution center in Indiana also serves as a 'master' hub, with those in California, North Carolina, and Kansas serving as 'secondary' hubs to support the needs of the in-market locations in their geographic regions as well as provide a broader selection of products for the in-market locations serviced by the other distribution centers.

We currently operate our Minnesota, Indiana, Ohio, Pennsylvania, Texas, Georgia, Washington, California, North Carolina, Kansas, and Ontario, Canada distribution centers with automated storage and retrieval systems ('ASRS'). These eleven distribution centers operate with greater speed and efficiency, and currently handle approximately 97% of our picking activity. We expect to add and/or expand new distribution centers over time as our scale and the number of our in-market locations increases.

Our information systems department develops, implements, and maintains the computer based technology used to support business functions within Fastenal. Corporate, digital, distribution center, and vending systems are primarily supported from central locations, while each selling location uses a locally installed Point-Of-Sale (POS) system. The systems consist of both customized, purchased, and licensed software. A dedicated Wide Area Network (WAN) is used to provide connectivity between systems and authorized users.

## **Trademarks and Service Marks**

We conduct business under various trademarks and service marks, and we utilize a variety of designs and tag lines in connection with each of these marks, including *Growth Through Customer Service*<sup>®</sup>. Although we do not believe our operations are substantially dependent upon any of our trademarks or service marks, we consider the 'Fastenal' name and our other trademarks and service marks to be valuable to our business. We have registered, or applied for the registration of, various trademarks and service marks. Our registered trademarks and service marks are presumed valid in the United States as long as they are in use, their registrations are properly maintained, and they have not been found to have become generic. Registrations of trademarks and service marks can also generally be renewed indefinitely as long as the trademarks and service marks are in use.

## **Products**

Fastenal was founded as a distributor of fasteners and related industrial and construction supplies. This includes threaded fasteners, bolts, nuts, screws, studs, and related washers, as well as miscellaneous supplies and hardware, such as pins, machinery keys, concrete anchors, metal framing systems, wire rope, strut, rivets, and related accessories. Our fastener product line, which is primarily sold under the Fastenal product name, represented 34.2%, 34.9%, and 35.6% of our consolidated net sales in 2019, 2018, and 2017, respectively.

Fastener distribution is complex. In most cases, the product has low per unit value but high per unit weight. This presents challenges in moving product from suppliers, most of whom are outside of North America, to our distribution centers, as well as from our distribution centers to our branch, Onsite, and customer locations. At the same time, fasteners are ubiquitous in manufactured products, construction projects, and maintenance and repair while at the same time exhibiting great geometric variability based on use and application. In many cases, a fastener is a critical part in machine uptime and/or effective use. These features have greatly influenced our logistical development, training and educational programs, support capabilities, and inventory decisions, which we believe would be difficult for competitors to replicate.

In 1993, we began to aggressively add additional product lines, and these represented 65.8%, 65.1%, and 64.4% of our consolidated sales in 2019, 2018, and 2017, respectively. These products, which we refer to as non-fastener product lines, tend to move through the same distribution channel, get used by the same customers, and utilize the same logistical capabilities as the original fastener product line. This logic is as true today as it was when we first began to diversify our product offering. However, over time, the supply chain for these product lines has evolved in ways independent of the fastener line. For instance, non-fastener product lines benefit disproportionately from our development of industrial vending.

The most significant category of non-fastener products is our safety supplies product line, which accounted for 17.9%, 17.2%, and 16.3% of our consolidated sales in 2019, 2018, and 2017, respectively. This product line has enjoyed dramatic sales growth in the last ten years (nearly tripling as a percentage of sales over that ten-year time frame). This is directly related to our success in industrial vending. Our tools product line accounts for approximately 10% of consolidated net sales, representing 9.9%, 10.0%, and 10.1% in 2019, 2018, and 2017, respectively.

In the last several decades we have added 'private label' brands (often referred to as 'Exclusive Brands', or brands sold exclusively through Fastenal) to our non-fastener offering. These private label brands represented approximately 13%, 13%, and 12% of our consolidated net sales in 2019, 2018, and 2017, respectively. We believe it is also appropriate to think about our private label sales as a percentage of our non-fastener sales for two reasons: (1) branded vs. private label dynamics of fasteners differ from those of non-fasteners; and (2) non-fastener data is more comparable to information reported by our peers, who do not generally have our significant mix of fastener business. Private label brands represented approximately 19%, 19%, and 20% of our total non-fastener sales in 2019, 2018, and 2017, respectively. Over the last few years, we have seen increases in sales of private label products as a percentage of total non-fastener sales when looking at specific sales channels such as Onsite locations, branches, and vending. However, these increases were masked by the relative sales growth we are experiencing with Onsite locations, which typically have a lower percentage of total sales being private label than is the case in branches or sales through vending devices.

We plan to continue to add other product lines in the future.

Detailed information about our sales by product line is provided in Note 2 of the Notes to Consolidated Financial Statements included later in this Form 10-K. Each product line may contain multiple product categories.

## **Inventory Control**

Our inventory stocking levels are determined using our computer systems, by our sales personnel at in-market locations, by our district and regional leadership, and by our product development team. The data used for this determination is derived from sales activity from all of our selling locations, from individual selling locations, and from different geographic areas. It is also derived from supplier information and from customer demographic information. The computer system monitors the inventory level for all stock items and triggers replenishment, or prompts a buyer to purchase, as necessary, based on an established

minimum-maximum level. All branches stock a base inventory and may expand beyond preset inventory levels as deemed appropriate by the district and branch personnel. Non-branch selling locations (primarily Onsites) stock inventory based on customer-specific arrangements. Inventories in distribution centers are established from computerized data for the selling locations served by the respective distribution center. Inventory quantities are continuously re-balanced utilizing an automated transfer mechanism we call 'inventory re-distribution'.

Inventory held at our selling locations, close to customers and available on a same-day basis, accounted for approximately 60%, 61%, and 65% of our total inventory at the end of 2019, 2018, and 2017, respectively. Inventory held at our distribution centers and manufacturing locations accounted for approximately 40%, 39%, and 35% of our total inventory at the end of 2019, 2018, and 2017, respectively. The distribution center and manufacturing location inventory, when combined with our trucking network, allows for fast, next-day service at a very competitive cost.

#### **Manufacturing and Support Services Operations**

In 2019, approximately 96% of our consolidated net sales were attributable to products manufactured by other companies to industry standards or to customer specific requirements. The remaining 4% related to products manufactured, modified or repaired by our manufacturing businesses or our support services. The manufactured products consist primarily of non-standard sizes of threaded fasteners and hardware made to customers' specifications at one of our nine manufacturing locations, or standard sizes manufactured under our Holo-Krome<sup>®</sup>, Cardinal Fasteners<sup>®</sup>, and Spensall<sup>®</sup> product lines. The services provided by the support services group include, but are not limited to, the repair of tools and hoists, the fabrication of chain sling and hose, band saw blade welding, and other light manufacturing and fabrication. We may add additional services in the future. However, we engage in these activities primarily as a service to our customers and expect them to continue to contribute in the range of 4% to 6% of our consolidated net sales in the future.

#### **Sources of Supply**

We use a large number of suppliers for the standard stock items we distribute. Most items distributed by our network can be purchased from several sources, although preferred sourcing is used for some stock items to facilitate quality control. No single supplier accounted for more than 5% of our inventory purchases in 2019.

In the case of fasteners and our private label non-fastener products, we have a large number of suppliers but these suppliers are heavily concentrated in a single geographic area, Asia. Within Asia, suppliers in China represent a significant source of product. As a result, the cost and effectiveness of our supply chain is dependent on relatively unfettered trade across geographic regions.

Beyond inventory, we have some concentration of purchasing activity. For example, we utilize a limited number of suppliers for our distribution equipment and our vehicle fleet, and primarily one supplier for our industrial vending equipment. However, we believe there are viable alternatives to each of these, if necessary.

#### **Customers and Marketing**

We believe our success can be attributed to our ability to offer customers a full line of quality products, our convenient locations and diverse methods of providing those products, and the superior service orientation and expertise of our employees. Most of our customers are in the manufacturing and non-residential construction markets. The manufacturing market includes both OEM and MRO customers. The non-residential construction market includes general, electrical, plumbing, sheet metal, and road contractors. Other users of our products include farmers, truckers, railroads, oil exploration companies, oil production and refinement companies, mining companies, federal, state, and local governmental entities, schools, and certain retail trades.

Based on our customer profile being oriented toward manufacturing and non-residential construction, our business has historically been cyclical. However, we believe our model has certain protections that moderate the volatility of our results around cyclical changes. First, we have a large number of customers that serve a wide range of segments within the broader manufacturing and non-residential construction market, although slumps in one industry served by us can rapidly spread to other, interrelated industries, locally or globally. However, we still believe this customer and market segment diversity provides some insulation from economic changes that are not across multiple industries and geographic regions. In addition, while a meaningful part of our revenue is derived from products that are incorporated into final products, we also have a significant portion of revenue that is derived from products used to maintain facilities. This latter source of revenue tends to be directly influenced by cyclical changes, but its rate of change tends to be less dramatic.

In an in-market location, our customer's business activity is tracked through 'active accounts'. Customers often have more than one active account at a single in-market location, reflecting their utilization of different Fastenal services, and frequently have active accounts at many in-market locations across our global network. During the fourth quarter of 2019, our total number of active customer accounts (defined as accounts having purchase activity totaling at least \$100 within the last 90 days) was approximately 247,000, while our total 'core accounts' (defined as the average number of accounts with purchase activity of at least \$500 per month within the last 90 days) was approximately 80,000. In 2019, no one customer accounted for more than 5% of our sales.

Direct marketing continues to be the backbone of our business through our local in-market selling personnel, as well as our non-branch selling personnel. We support our sales team with multi-channel marketing including direct mail and digital marketing, print and radio advertising, catalogs, promotional flyers, events, and branch signage. In recent years, our national advertising has been focused on a NASCAR® sponsorship through our partnership with Roush Fenway Racing® as the primary sponsor of the No. 17 car in the Monster Energy® NASCAR® Cup Series.

#### **Seasonality**

Seasonality has some impact on our sales. The first and fourth quarters are typically our lowest volume periods, given their overlap with winter months in North America during which our direct and indirect sales to customers in the non-residential construction market typically slow due to inclement weather. The fourth quarter also tends to be more greatly affected by the Thanksgiving (October in Canada and November in the United States), Christmas, and New Year holiday periods, due to plant shut downs. In contrast, the second and third quarters typically have higher revenues due to stronger non-residential construction activity and relatively fewer holidays (although Good Friday will sometimes fall in the second quarter and the 4th of July will always fall in the third quarter).

#### **Competition**

Our business is highly competitive, and includes large competitors located primarily in large cities and smaller distributors located in many of the same smaller markets in which we have branches. We believe the principal competitive factors affecting the markets for our products, in no particular order, are customer service, price, convenience, product availability, and cost saving solutions.

Market strategies in industrial distribution are varied. Where products are concerned, while many larger distributors have trended toward a broad-line offering over time, they are often still closely associated with a specific product that can influence their ability to capture market share. This association with a specific product line is often even more pronounced among smaller competitors, though many smaller competitors do deploy a broad-line model. Means of serving the customer are even more diverse. For instance, many competitors maintain a local, branch-based presence in their markets, while others use vans to sell products in markets away from their main warehouses, while still others rely on catalogs or telemarketing sales. Recent years have seen the emergence of e-commerce solutions, such as websites, and while this channel has been embraced by many traditional distributors it also has introduced non-traditional, web-based competitors into the marketplace. The diversity of product and service models supported in the marketplace is a reflection of the equally diverse product and service needs of the customer base. The large majority of our customers utilize multiple channels, from a single distributor or from a range of distributors, to procure the products they need in their operations.

We believe that better service, and a competitive selling advantage, can be provided by maintaining a physical presence closer to the customer's location(s). As a result, we maintain branches in small, medium, and large markets, each offering a wide variety of products. The convenience of a large number of branches in a given area, combined with our ability to provide frequent deliveries to such branches from centrally located distribution centers, facilitates the prompt and efficient distribution of products. We also believe our industrial vending and bin stock solutions, supported from an in-market (branch or Onsite) location, provides a unique way to provide our customers convenient access to products and cost saving solutions using a business model not easily replicated by our competitors. Having trained personnel at each in-market location also enhances our ability to compete (see 'Employees' below).

Our Onsite service model provides us with a strategic advantage with our larger customers. Building on our core business strategy of the local branch, the Onsite model provides value to our customers through customized service while giving us a competitive advantage through stronger relationships with those customers, all with a relatively low investment given the existing branch and distribution structure.

**Employees**

At the end of 2019, we employed 21,948 full and part-time employees. Of these, approximately 72% held an in-market or non-branch selling role. We characterize these personnel as follows:

	2019	2018
In-market locations	13,977	14,015
Non-branch selling	1,854	1,772
<b>Selling subtotal</b>	<b>15,831</b>	<b>15,787</b>
Distribution	4,012	3,830
Manufacturing	711	736
Administrative	1,394	1,291
<b>Non-selling subtotal</b>	<b>6,117</b>	<b>5,857</b>
<b>Total</b>	<b>21,948</b>	<b>21,644</b>

Note – In materials released on January 17, 2019 related to our fourth quarter and full year 2018 earnings results, we undercounted our total employees by 25. We corrected this in the table above, and throughout this document, and as a result some of the figures will not match the comparable figures in our previously published fourth quarter and full year 2018 earnings results.

We believe the quality of our employees is critical to our ability to compete successfully in the markets we currently serve and to our ability to develop new markets and customer relationships. We foster the growth and education of skilled employees throughout the organization by operating training programs and by decentralizing decision-making. Wherever possible, our goal is to 'promote from within'. For example, most new branch and Onsite managers are promoted from an outside sales position, and district managers (who supervise a number of in-market locations) are usually former branch managers.

The Fastenal School of Business (our internal corporate university program, known as FSB) develops and delivers a comprehensive array of industry and company-specific training and development programs that are offered to our employees. The programs are offered through a combination of both classroom training and online learning. FSB provides core curricula focused on key competencies determined to be critical to the success of our employees' performance. In addition, we provide specialized educational tracks within various institutes of learning. These institutes of learning are advanced levels that provide specific concentrations of education and development and have been designed to focus on critical aspects of our business, such as leadership, effective branch best practices, sales and marketing, product education, and distribution.

Our selling personnel are compensated with a base salary and an incentive bonus arrangement that places emphasis on achieving increased sales on a branch, Onsite, district, regional, and national account basis, while still attaining targeted levels of, among other things, gross profit, inventory management, and trade accounts receivable collections. As a result, a significant portion of our total employment cost varies with sales volume. We also pay incentive bonuses to our leadership personnel based on one or more of the following factors: sales growth, earnings growth (before and after taxes), profitability, and return on assets improvement, and to our other personnel for achieving predetermined departmental, project, and cost-containment goals.

Our employees are not subject to any collective bargaining agreements and we have experienced no work stoppages. We believe our employee relations are good.

**Available Information**

Our Internet address for corporate and investor information is [www.fastenal.com](http://www.fastenal.com). The information contained on our website or connected to our website is not incorporated by reference into this annual report on Form 10-K and should not be considered part of this report.

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge on or through our website at [www.fastenal.com](http://www.fastenal.com) as soon as reasonably practicable after such reports have been filed with or furnished to the SEC.

## ITEM 1A. RISK FACTORS

In addition to the other information in this Form 10-K, the following factors should be considered in evaluating our business. Our operating results depend upon many factors and are subject to various risks and uncertainties. The most significant risks and uncertainties known to us which may cause our operating results to vary from anticipated results or which may negatively affect our operating results and profitability are as follows:

### Company Risks

***Products that we sell may expose us to potential material liability for property damage, environmental damage, personal injury, or death linked to the use of those products by our customers.*** Some of our customers operate in challenging industries where there is a material risk of catastrophic events. We are actively seeking to expand our sales to certain categories of customers, some of whose businesses may entail heightened levels of such risk. If any of these events are linked to the use by our customers of any of our products, claims could be brought against us by those customers, by governmental authorities, and by third parties who are injured or damaged as a result of such events. In addition, our reputation could be adversely affected by negative publicity surrounding such events regardless of whether or not claims against us are successful. While we maintain insurance coverage to mitigate a portion of this risk and may have recourse against our suppliers for losses arising out of defects in products procured from them, we could experience significant losses as a result of claims made against us to the extent adequate insurance is not in place, the products are manufactured by us or legal recourse against our suppliers is otherwise not available, or our insurers or suppliers are unwilling or unable to satisfy their obligations to us.

***Interruptions in the proper functioning of information systems or the inability to maintain or upgrade our information systems, or convert to alternate systems in a timely and efficient manner, could disrupt operations, cause unanticipated increases in costs and/or decreases in revenues, and result in less efficient operations.*** The proper functioning of our information systems is critical to many aspects of our business and we could be adversely affected if we experience a disruption or data loss relating to our information systems and are unable to recover in a timely manner. Our information systems are protected with robust backup systems and processes, including physical and software safeguards and remote processing capabilities. Still, information systems are vulnerable to natural disasters, power losses, unauthorized access, telecommunication failures, and other problems. In addition, certain software used by us is licensed from, and certain services related to our information systems are provided by, third parties who could choose to discontinue their products or services or their relationship with us. It is also possible that we are unable to improve, upgrade, maintain, and expand our information systems. Our ability to process orders, maintain proper levels of inventories, collect accounts receivable, pay expenses, and maintain the security of company and customer data, as well as the success of our growth drivers, is dependent in varying degrees on the effective and timely operation and support of our information technology systems. If critical information systems fail or these systems or related software or services are otherwise unavailable, or if we experience extended delays or unexpected expenses in securing, developing, and otherwise implementing technology solutions to support our growth and operations, it could adversely affect our profitability and/or ability to grow.

***In the event of a cyber security incident, we could experience certain operational interruptions, incur substantial additional costs, become subject to legal or regulatory proceedings, or suffer damage to our reputation in the marketplace.*** The nature of our business requires us to receive, retain, and transmit certain personally identifying information that our customers provide to purchase products or services, register on our websites, or otherwise communicate and interact with us. While we have taken and continue to undertake significant steps to protect our customer and confidential information, a compromise of our data security systems or those of businesses we interact with could result in information related to our customers or business being obtained by unauthorized persons. We develop and update processes and maintain systems in an effort to try to prevent this from occurring and have established and maintained disclosure controls and procedures that would permit us to make accurate and timely disclosures of any material event, including any cyber security event, but the development and maintenance of these processes and systems are costly and require ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Consequently, despite our efforts, the possibility of cyber security incidents cannot be eliminated entirely. There can be no assurance that we will not experience a cyber security incident that may materially impact our consolidated financial statements. While we also seek to obtain assurances that third parties we interact with will protect confidential information, there is a risk the confidentiality of data held or accessed by third parties may be compromised. If a compromise of our data security were to occur, it could interrupt our operations, subject us to additional legal, regulatory, and operating costs, and damage our reputation in the marketplace.

***We may be unable to meet our goals regarding the growth drivers of our business.*** Our sales growth is dependent primarily on our ability to attract new customers and increase our activity with existing customers. Historically, the most effective way to attract new customers has been opening new branches. In recent years, however, we have devoted increased resources to other growth drivers, including our industrial vending business, our Onsite business, our national accounts team, and our international operations. While we have taken steps to build momentum in the growth drivers of our business, we cannot assure you those steps will lead to additional sales growth. Failure to achieve any of our goals regarding industrial vending, FMI, Onsite locations, national accounts signings, digital solutions, international operations, or other growth drivers could negatively impact our long-term sales growth. Further, failure to identify appropriate targets for our Onsite and industrial vending

businesses or failure to find suitable locations for them once appropriate targets are identified may adversely impact our goals regarding the number of new Onsite locations we are able to open or the number of industrial vending devices we are able to deploy.

**Changes in customer or product mix, downward pressure on sales prices, and changes in volume of orders could cause our gross profit percentage to fluctuate or decline in the future.** Changes in our customer or product mix could cause our gross profit percentage to fluctuate or decline. For example, the portion of our sales attributable to fasteners has been decreasing in recent years. That has adversely affected our gross profit percentage as our non-fastener products generally carry lower gross profit margins than our fastener products. Similarly, in recent years, revenues from national accounts customers, which typically have lower gross profit margins by virtue of their scale and available business, have tended to grow faster than revenues from smaller customers. This factor has become more significant as revenues from Onsite locations have grown in the mix. Customer and product mix have contributed to the decline in our gross profit percentage over time, including in 2019 and 2018, and will likely continue to affect our gross profit percentage in 2020 and beyond. However, whether this adverse mix impact will result in a decline of our gross profit percentage in any given year will depend on the extent to which they are, or are not, offset by positive impacts to gross profit margin during such year. Downward pressure on sales prices, changes in the volume of our orders, and an inability to pass higher product costs on to customers could also cause our gross profit percentage to fluctuate or decline. We can experience downward pressure on sales prices as a result of deflation, pressure from customers to reduce costs, or increased competition. Reductions in our volume of purchases can adversely impact gross profit by reducing supplier volume allowances. We may not be able to pass rising product costs to customers if those customers have ready product or supplier alternatives in the marketplace.

**Our operating and administrative expenses could grow more rapidly than net sales which could result in failure to achieve our goals related to leveraging revenue growth into higher net earnings.** Over time, we have generally experienced an increase in our operating and administrative expenses, including costs related to payroll, occupancy, freight, and information technology, among others, as our net sales have grown. However, historically, a portion of these expenses has not increased at the same rates as net sales, allowing us to leverage our growth and sustain or expand our operating profit margins. There are various scenarios where we may not be able to continue to achieve this leverage as we have been able to do in the past. For instance, it is typical that when demand declines, most commonly from cyclical factors (though it could be due to customer losses or some other company-specific event), our operating and administrative expenses do not fall as quickly as net sales. It is also possible that in the future we will elect to make investments in operating and administrative expenses that would result in costs growing faster than net sales. In addition, market variables, such as labor rates, energy costs, and legal costs, could move in such a way as to cause us to not be able to manage our operating and administrative expenses in a way that would enable us to leverage our revenue growth into higher net earnings. Should any of these scenarios, or a combination of them, occur in the future, it is possible that our operating and pre-tax profit margins could decline even if we are able to grow revenue.

**Our competitive advantage in our industrial vending business could be eliminated and the loss of key suppliers of equipment and services for that business could be disruptive and could result in failure to deploy devices.** We believe we have a competitive advantage in industrial vending due to our vending hardware and software, our local branch presence (allowing us to service devices more rapidly), our 'vendible' product depth, and, in North America, our distribution strength. These advantages have developed over time; however, other competitors could respond to our expanding industrial vending business with highly competitive platforms of their own. Such competition could negatively impact our ability to expand our industrial vending business or negatively impact the economics of that business. In addition, we currently rely on a limited number of suppliers for the vending devices used in, and certain software and services needed to operate, our industrial vending business. While these devices, software, and services can be obtained from other sources, loss of our current suppliers could be disruptive and could result in us failing to meet our goals related to the number of devices we are able to deploy in the next twelve to eighteen months.

**The ability to identify new products and product lines, and integrate them into our selling locations and distribution network, may impact our ability to compete, our ability to generate additional sales, and our profit margins.** Our success depends in part on our ability to develop product expertise at the selling location level and identify future products and product lines that complement existing products and product lines and that respond to our customers' needs. We may not be able to compete effectively unless our product selection keeps up with trends in the markets in which we compete or trends in new products. In addition, our ability to integrate new products and product lines into our branches and distribution network could impact sales and profit margins.

**Our ability to successfully attract and retain qualified personnel to staff our selling locations could impact labor costs, sales at existing selling locations, and the successful execution of our growth drivers.** Our success depends in part on our ability to attract, motivate, and retain a sufficient number of qualified employees, including inside and outside branch associates, Onsite managers, national account sales representatives, and support personnel, who understand and appreciate our culture and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas, and the turnover rate in the industry is high, particularly for less tenured employees. If we are unable to hire and retain personnel capable of consistently providing a high level of customer

service, as demonstrated by their enthusiasm for our culture and product knowledge, our sales could be materially adversely affected. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. An inability to recruit and retain a sufficient number of qualified individuals in the future may also delay the planned expansion of our various selling channels.

***Our inability to attract or transition key executive officers may divert the attention of other members of our senior leadership and adversely impact our existing operations.*** Our success depends on the efforts and abilities of our key executive officers and senior leadership. In the event of voluntary or involuntary vacancies in our executive team in the future, the extent to which there is disruption in the oversight and/or leadership of our business will depend on our ability to either transition internal, talented individuals or recruit suitable replacements to serve in these roles. In addition, difficulties in smoothly implementing any transition to new members of our executive team, or recruiting suitable replacements, could divert the attention of other members of our senior leadership team from our existing operations.

***We may not be able to compete effectively against traditional or non-traditional competitors, which could cause us to lose market share or erode our gross and/or operating income profit and/or percentage.*** The industrial, construction, and maintenance supply industry, although slowly consolidating, still remains a large, fragmented, and highly competitive industry. Our current or future competitors may include companies with similar or greater market presence, name recognition, and financial, marketing, technological, and other resources, and we believe they will continue to challenge us with their product selection, financial resources, technological advancements, and services. Increased competition from brick-and-mortar retailers could cause us to lose market share or reduce our prices or increase our spending. Similarly, the emergence of on-line retailers, whether as extensions of our traditional competition or in the form of major, non-traditional competitors, could result in easier and quicker price discovery and the adoption of aggressive pricing strategies and sales methods. These pressures could have the effect of eroding our gross and/or operating income profit and/or percentage over time.

***Our business is subject to a wide array of operating laws and regulations in every jurisdiction where we operate. Compliance with these laws and regulations increases the cost of doing business and failure to comply could result in the imposition of fines or penalties and the termination of contracts.*** We are subject to a variety of laws and regulations including without limitation; import and export requirements, anti-bribery and corruption laws, product compliance laws, environmental laws, foreign exchange controls and cash repatriation restrictions, advertising regulations, data privacy and cyber security requirements, regulations on suppliers regarding the sources of supplies or products, labor and employment laws, and anti-competition regulations. In addition, as a supplier to federal, state, and local government agencies, we must comply with certain laws and regulations relating specifically to the formation, administration, and performance of our governmental contracts. We are also subject to governmental audits and inquiries in the normal course of business. Ongoing audit activity and changes to the legal and regulatory environments could increase the cost of doing business, and such costs may increase in the future as a result of changes in these laws and regulations or in their interpretation. While we have implemented policies and procedures designed to facilitate compliance with these laws and regulations, there can be no assurance that our employees, contractors, or agents will not violate such laws and regulations, or our policies. Any such violations could result in the imposition of fines and penalties, damage to our reputation, and, in the case of laws and regulations relating specifically to governmental contracts, the loss of those contracts.

***Tax laws and regulations require compliance efforts that can increase our cost of doing business and changes to these laws and regulations could impact financial results.*** We are subject to a variety of tax laws and regulations in the jurisdictions in which we operate. Maintaining compliance with these laws can increase our cost of doing business and failure to comply could result in audits or the imposition of fines or penalties. Further, our future effective tax rates in any of these jurisdictions could be affected, positively or negatively, by changing tax priorities, changes in statutory rates, or changes in tax laws or the interpretation thereof. The most significant recent example of this is the comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"), which was enacted in the United States in December 2017. The Tax Act reduced the U.S. federal corporate income tax rate, included a one-time tax on accumulated offshore earnings, eliminated certain deductions for which we had previously qualified, requires a current inclusion in U.S. federal income of certain earnings of controlled foreign corporations, allows a domestic corporation an immediate deduction in U.S. taxable income for a portion of its foreign-derived intangible income, and introduced a base erosion anti-abuse tax. There is also a longer term risk that the beneficial aspects of the Tax Act on our business could be reversed depending on changes in future fiscal or political priorities.

***We may not be successful in integrating acquisitions and achieving intended benefits and synergies.*** We have completed several acquisitions of businesses in recent years. We expect to continue to pursue strategic acquisitions that we believe will either expand or complement our business in new or existing markets or further enhance the value and offerings we are able to provide to our existing or future potential customers. Acquisitions involve numerous risks and challenges, including, among others, a risk of potential loss of key employees of an acquired business, inability to achieve identified operating and financial synergies anticipated to result from an acquisition, diversion of our capital and our management's attention from other business issues, and risks related to the integration of the acquired business including unanticipated changes in our business, our industry, or general economic conditions that affect the assumptions underlying the acquisition. Any one or more of these factors could cause us to not realize the benefits anticipated to result from the acquisitions.



## Industry and General Economic Risks

***A downturn in the economy or in the principal markets served by us and other factors may affect customer spending, which could harm our operating results.*** In general, our sales represent spending on discretionary items or consumption needs by our customers. This spending is affected by many factors, including, among others:

- general business conditions,
- business conditions in our principal markets,
- interest rates,
- inflation,
- liquidity in credit markets,
- taxation,
- government regulations and actions, including around trade policy,
- energy and fuel prices and electrical power rates,
- unemployment trends,
- terrorist attacks and acts of war,
- weather conditions, and
- other matters that influence customer confidence and spending.

A downturn in either the national or local economy where we operate, or in the principal markets served by us, or changes in any of the other factors described above, could negatively impact sales at our in-market locations, sales through our other selling channels, and the level of profitability of those in-market locations and other selling channels.

This risk was most recently demonstrated in 2019. After experiencing strong demand in 2017 and 2018 that produced double-digit sales growth for Fastenal, our growth slowed into the mid-single digits beginning in the second quarter of 2019. During that period, many of our customers involved in the manufacture of components, capital goods, and heavy equipment were impacted by higher costs and reduced confidence stemming from global trade uncertainty. When this happens, these customers tend to cut back on spending which yields a slowdown in our business with these customers.

***Trade policies could make sourcing product from overseas more difficult and/or more costly, and could adversely impact our gross and/or operating profit percentage.*** We source a significant amount of the products we sell from outside of the United States, primarily Asia. We have made significant structural investments over time to be able to source both directly from Asia through our wholly-owned, Asia-based subsidiary, FASTCO Trading Co., Ltd. and indirectly from suppliers that procure product from international sources. This was initially necessary due to the absence of significant domestic fastener production, but over time we have expanded our non-fastener sourcing as well, and at this time it may be difficult to adjust our sourcing in the short term. In light of this, changes in trade policies could affect our sourcing operations, our ability to secure sufficient product to serve our customers and/or impact the cost or price of our products, with potentially adverse impacts on our gross and operating profit percentages and financial results. These risks are particularly acute currently in light of an increase in tariffs, either directly on products we trade in or indirectly on industries we sell into, between the United States and its trading partners, as well as greater uncertainty around regional and global trade agreements generally. China and Canada represent significant sources of product and Canada and Mexico represent our two largest markets in terms of revenue generation after the United States, and each of these countries are currently and/or have been previously subject to disruption due to historical trade policies. There can be no assurances that these disruptions will not continue or increase in the future, with the previously mentioned countries or additional countries with which we do business. The degree to which these changes in the global marketplace affect our financial results will be influenced by the specific details of the changes in trade policies, their timing and duration, and our effectiveness in deploying tools to address these issues. In particular, the tariffs levied on most of our products originating in China have caused us to review and implement potential solutions to the increase in our product costs with our customers. The first of these actions occurred on September 24, 2018, but since that date there have been additional actions to both increase the number of products covered by tariffs and to raise the tariff rates themselves. We have taken actions, including increasing product prices, re-sourcing product, and seeking exemptions for certain products, that have been mostly effective at offsetting the impacts of tariffs on our financial results. The effectiveness of these strategies in response to any future tariffs is unknown.

***Trade policies could have an adverse impact on industries we sell into, negatively affecting our net sales and profits.*** Considerable political uncertainty in the United States may result in changes to trade policies that could create disruption in geographic demand trends. To the extent that the United States government enacts tariffs or taxes that penalize imports to benefit domestic manufacturing, we may improve our domestic sales which may have an overall positive impact on us given that 86% of our total revenue is derived from the United States. However, any such action may adversely impact our foreign sales, which may, in turn, adversely impact our ability to expand our overseas branches in the future. In addition, should a foreign government engage in its own trade protection, independent of or in response to another nation's action, it could have a negative direct or, more likely, indirect effect on our net sales and profits by reducing demand for exports by United States companies. Such changes could adversely affect our financial results.

**Products manufactured in foreign countries may cease to be available for reasons unrelated to trade policy, which could adversely affect our inventory levels and operating results.** We obtain certain of our products, and our suppliers obtain certain of their products, from China, Taiwan, South Korea, Mexico, and other foreign countries. Our suppliers could discontinue selling products manufactured in foreign countries at any time for reasons that may or may not be in our control or our suppliers' control, including foreign government regulations, domestic government regulations, political unrest, war, disruption or delays in shipments, or changes in local economic conditions. Additionally, the shipment of goods from foreign countries could be delayed by container shipping companies encountering financial or other difficulties. Our operating results and inventory levels could suffer if we are unable to promptly replace a supplier or shipper who is unwilling or unable to satisfy our requirements with another supplier or shipper providing equally appealing products and services.

**Changes in energy costs and the cost of raw materials used in our products could impact our net sales, cost of sales, gross profit percentage, distribution expenses, and occupancy expenses, which may result in lower operating income.** Costs of raw materials used in our products (e.g., steel) and energy costs can fluctuate significantly over time. Increases in these costs result in increased production costs for our suppliers. These suppliers typically look to pass their increased costs along to us through price increases. The fuel costs of our distribution and branch operations have fluctuated as well. While we typically try to pass higher supplier prices and fuel costs through to our customers or to modify our activities to mitigate the impact, we may not be successful, particularly if supplier prices or fuel costs rise rapidly. Failure to fully pass any such increased prices and costs through to our customers or to modify our activities to mitigate the impact would have an adverse effect on our operating income. While increases in the cost of fuel or raw materials could be damaging to us, decreases in those costs, particularly if severe, could also adversely impact us by creating deflation in selling prices, which could cause our gross profit to decline, or by negatively impacting customers in certain industries, which could cause our sales to those customers to decline.

**The industrial, construction, and maintenance supply industry is consolidating, which could cause it to become more competitive and could negatively impact our market share, gross profit, and operating income.** The industrial, construction, and maintenance supply industry in North America is consolidating. This consolidation is being driven by customer needs and supplier capabilities, which could cause the industry to become more competitive as greater economies of scale are achieved by suppliers, or as competitors with new business models are willing and able to operate with lower gross profit on select products. Customers are increasingly aware of the total costs of fulfillment and of the need to have consistent sources of supply at multiple locations. We believe these customer needs could result in fewer suppliers as the remaining suppliers become larger and capable of being a consistent source of supply.

There can be no assurance we will be able in the future to take effective advantage of the trend toward consolidation. The trend in our industry toward consolidation could make it more difficult for us to maintain our current gross profit and operating income. Furthermore, as our industrial customers face increased foreign competition, and potentially lose business to foreign competitors or shift their operations overseas in an effort to reduce expenses, we may face increased difficulty in growing and maintaining our market share.

**Inclement weather and other disruptions to the transportation network could adversely impact our distribution system and demand for our products.** Our ability to provide efficient distribution of core business products to our branch network is an integral component of our overall business strategy. Disruptions at distribution centers or shipping ports may affect our ability to both maintain core products in inventory and deliver products to our customers on a timely basis, which may in turn adversely affect our results of operations. In addition, severe weather conditions could adversely affect demand for our products in particularly hard hit regions. In August and September 2017, we experienced temporary disruptions in our distribution network in our Gulf Coast, Florida, Georgia, and Puerto Rico regions due to hurricanes Harvey, Irma, and Maria. These storms adversely impacted our product demand and revenues, as well as our gross and operating profit percentages, due to an increase in demand for storm-related products which have a lower gross profit margin, and inefficiencies in delivery services in the immediate aftermath of the storms. In September 2018, hurricane Florence had a similar impact in our Carolinas region, and in the first quarter of 2019, severe winter weather had a similar impact across the northern part of the United States.

**Our current estimates of total market potential as well as the market potential of our business strategies could be incorrect.** We believe we have a significant opportunity for growth based on our belief that North American market demand for the products we sell is estimated to exceed \$140 billion. This figure is not derived from an independent organization or data source that aggregates and publishes widely agreed-upon demand and market share statistics. Instead, we have identified this figure based on our own experience in the marketplace for our products and by evaluating estimates from other sources. If we have overestimated the size of our market, and in doing so, underestimated our current share of it, the size of our opportunity for growth may not be as significant as we currently believe. Similarly, we have provided estimates of the opportunities we have with some of our specific growth strategies, such as industrial vending and Onsite locations. We believe the potential market opportunity for industrial vending is approximately 1.7 million devices and we have identified over 15,000 customer locations with the potential to implement our Onsite service model. Similar to the case for total market size, we use our own experience and data to arrive at the size of these potential opportunities and not independent sources. These estimates are based on our business model today, and the introduction or expansion of other business strategies, such as on-line retailing, could cause them to change. In addition, the market potential of a particular business strategy may vary from expectations due to a change in the

marketplace (such as changes in customer concentration or needs), a change in the nature of that business strategy, or weaker than anticipated acceptance by customers of that business strategy. We cannot guarantee that our market potential estimates are accurate or that we will ultimately decide to expand our industrial vending or Onsite service models as we anticipate to reach the full market opportunity.

***We are exposed to foreign currency exchange rate risk, and changes in foreign exchange rates could increase the cost of purchasing products and impact our foreign sales.*** Because the functional currency related to most of our foreign operations is the applicable local currency, we are exposed to foreign currency exchange rate risk arising from transactions in the normal course of business. Fluctuations in the relative strength of foreign economies and their related currencies could adversely impact our ability to procure products overseas at competitive prices and our foreign sales. Historically, our primary exchange rate exposure has been with the Canadian dollar. There can be no assurance that currency exchange rate fluctuations with the Canadian dollar and other foreign currencies will not adversely affect our results of operations, financial condition, and cash flows. While the use of currency hedging instruments may provide us with protection from adverse fluctuations in currency exchange rates, we are not currently using these instruments and we have not historically hedged this exposure. If we decide to do so in the future, we could potentially forego the benefits that might result from favorable fluctuations in currency exchange rates.

***Tight credit markets could impact our ability to obtain financing on reasonable terms or increase the cost of existing or future financing and interest rate fluctuations could adversely impact our results.*** As of December 31, 2019, we had \$345.0 of outstanding debt obligations, including loans outstanding under our revolving credit facility (the 'Credit Facility') of \$210.0 and senior unsecured promissory notes issued under our master note agreement (the 'Master Note Agreement') in the aggregate principal amount of \$135.0. Loans under the Credit Facility bear interest at a rate per annum based on the London Interbank Offered Rate ('LIBOR') and mature on November 30, 2023. The notes issued under our Master Note Agreement consist of three series. The first is in an aggregate principal amount of \$40.0, bears interest at a fixed rate of 2.00% per annum, and is due and payable on July 20, 2021. The second is in an aggregate principal amount of \$35.0, bears interest at a fixed rate of 2.45% per annum, and is due and payable on July 20, 2022. The third is in an aggregate principal amount of \$60.0, bears interest at a fixed rate of 3.22% per annum, and is due and payable on March 1, 2024. Our aggregate borrowing capacity under the Credit Facility is \$700.0. Our aggregate borrowing capacity under the Master Note Agreement is \$600.0; however, none of the institutional investors that are parties to that agreement are committed to purchase notes thereunder.

During periods of volatility and disruption in the United States credit markets, financing may become more costly and more difficult to obtain. Although the credit market turmoil of 2008 and 2009 did not have a significant adverse impact on our liquidity or borrowing costs given our low level of indebtedness at that time, the availability of funds tightened and credit spreads on corporate debt increased. Our indebtedness has increased since 2009 and we have the capacity under our Credit Facility and Master Note Agreement to increase borrowings in the future. If credit market volatility were to return, the cost of servicing our existing debt could increase due to the LIBOR-based interest rate provided for under our Credit Facility. In addition, borrowing additional amounts to finance stock purchases, dividends, capital expenditures, and other liquidity needs or to refinance our existing indebtedness could be difficult and the cost of doing so could be high.

#### **Investment Risk**

***There can be no assurance that our stock price will continue to reflect the current multiple of earnings over time.*** Stock prices, including ours, are commonly thought to be a function of earnings multiplied by a multiple. Historically, investors have given our earnings a higher multiple, or premium, than is typical of the broader industrial sector of which we are typically associated. We believe we have earned this premium by virtue of a long history of superior growth, profitability, and returns. However, to the extent that we fail to successfully execute our growth strategies and/or poorly navigate the risks that surround our business, including those described throughout this section, or to the extent our industry (industrial distribution, or industrial stocks in general) loses favor in the marketplace, there can be no assurance that investors will continue to afford a premium multiple to our earnings which could adversely affect our stock price.

***We cannot provide any guaranty of future dividend payments or that we will continue to purchase shares of our common stock pursuant to our share purchase program.*** Although our board of directors has historically authorized the payment of quarterly cash dividends on our common stock and indicated an intention to do so in the future, there are no assurances that we will continue to pay dividends in the future or continue to increase dividends at historic rates. In addition, although our board of directors has authorized share purchase programs and we purchased shares in 2018, 2017, and prior years through these programs, we may discontinue doing so at any time. Any decision to continue to pay quarterly dividends on our common stock, to increase those dividends, or to purchase our common stock in the future will be based upon our financial condition and results of operations, the price of our common stock, credit conditions, and such other factors as are deemed relevant by our board of directors.

#### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

Note – Information in this section is as of December 31, 2019, unless otherwise noted.

We own the following facilities in Winona, Minnesota:

Purpose	Tote Locations (ASRS) <sup>(1)</sup>	Approximate Square Feet
Distribution center and home office <sup>(2)</sup>	246,000	259,000
Manufacturing facility		100,000
Computer support center		13,000
Winona branch		15,000
Winona product support facility		55,000
Rack and shelving storage		42,000
Multi-building complex which houses certain operations of the distribution group, the support services group, and the home office support group		30,000
Customer Experience Center		100,000

<sup>(1)</sup> Total number of tote locations for small parts storage included in facilities with an ASRS.

<sup>(2)</sup> During 2018, we acquired land for future expansion of our home office.

We own the following facilities, excluding selling locations, outside of Winona, Minnesota:

Purpose	Location	Tote Locations (ASRS) <sup>(1)</sup>	Approximate Square Feet
Distribution center	Indianapolis, Indiana	547,000 <sup>(2)</sup>	1,039,000
Manufacturing facility	Indianapolis, Indiana		220,000
Distribution center	Akron, Ohio	103,000	182,000
Distribution center	Scranton, Pennsylvania	104,000	189,000
Distribution center	Denton, Texas	41,000 <sup>(3)</sup>	176,000
Manufacturing facility (built in 2019)	Houston, Texas		120,000
Distribution center	Atlanta, Georgia	77,000	198,000
Distribution center (built in 2019)	Seattle, Washington	140,000	246,000
Distribution center and manufacturing facility	Modesto, California	69,000	328,000
Distribution center	High Point, North Carolina	132,000	301,000
Distribution center <sup>(4)</sup>	High Point, North Carolina	—	350,000
Distribution center	Kansas City, Kansas	170,000	468,000
Distribution center <sup>(5)</sup>	Kitchener, Ontario, Canada	128,000	142,000
Distribution center (built in 2019)	Jackson, Mississippi	—	269,000
Manufacturing facility	Wallingford, Connecticut		187,000
Manufacturing facility	Rockford, Illinois		100,000
Local re-distribution center and manufacturing facility	Johor, Malaysia		27,000

<sup>(1)</sup> Total number of tote locations for small parts storage included in facilities with an ASRS.

<sup>(2)</sup> This property contains an ASRS with capacity of 52,000 pallet locations, in addition to the 547,000 tote locations for small parts.

<sup>(3)</sup> This facility contains an ASRS with capacity of 14,000 pallet locations, in addition to the 41,000 tote locations for small parts.

<sup>(4)</sup> In late December 2018, we purchased an additional distribution center in High Point, North Carolina with approximately 750,000 total square feet. Approximately 400,000 square feet will continue to be leased by the previous owner for three years. We began utilizing approximately 350,000 square feet for distribution activities in early 2019.

<sup>(5)</sup> In late 2019, we began an expansion project at our Kitchener, Ontario, Canada distribution center. This project will add approximately 80,000 square feet of distribution capacity and is scheduled for completion in 2020.

In addition, we own 173 buildings that house our in-market locations in various cities throughout North America.

All other buildings we occupy are leased. Leased branches range from approximately 3,000 to 10,000 square feet, with lease terms of up to 60 months (most initial lease terms are for 36 to 48 months). In addition to our leased branch locations, we also lease the following facilities:

Purpose	Location	Approximate Square Feet	Lease Expiration Date	Remaining Lease Renewal Options
Distribution center	Salt Lake City, Utah	74,000	July 2022	One
Distribution center	Salt Lake City, Utah	56,000	July 2022	One
Distribution center and packaging facility	Salt Lake City, Utah	26,000	July 2022	One
Distribution center and manufacturing facility	Edmonton, Alberta, Canada	45,000	July 2020	None
Distribution center	Apodaca, Nuevo Leon, Mexico	46,000	March 2020	Three
Local re-distribution center and manufacturing facility	Modrice, Czech Republic	17,000	April 2022	None

We currently own land for future distribution center expansion and development. If economic conditions are suitable in the future, we will consider purchasing branch locations to house our older branches. It is anticipated the majority of new branch locations will continue to be leased. It is our policy to negotiate relatively short lease terms to facilitate relocation of particular branch operations, when desirable. Our experience has been that there is sufficient space suitable for our needs and available for leasing.

### ITEM 3. LEGAL PROCEEDINGS

A description of our legal proceedings, if any, is contained in Note 10 of the Notes to Consolidated Financial Statements.

### ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

**Common Stock Data**

Dollar amounts in this section are stated in whole numbers.

Our shares are traded on The Nasdaq Stock Market under the symbol 'FAST'. As of January 22, 2020, there were approximately 1,000 record holders of our common stock, which includes nominees or broker dealers holding stock on behalf of an estimated 275,000 beneficial owners.

**Issuer Purchases of Equity Securities**

The table below sets forth information regarding purchases of our common stock during each of the last three months of 2019:

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1)	(d) Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (1)
October 1-31, 2019	0	—	0	4,800,000
November 1-30, 2019	0	—	0	4,800,000
December 1-31, 2019	0	—	0	4,800,000
<b>Total</b>	<b>0</b>	<b>—</b>	<b>0</b>	<b>4,800,000</b>

<sup>(1)</sup> On July 11, 2017, our board of directors established a new authorization for us to repurchase up to 10,000,000 shares of our common stock. The repurchase program has no expiration date. As of December 31, 2019, we had remaining authority to repurchase 4,800,000 shares under this authorization.

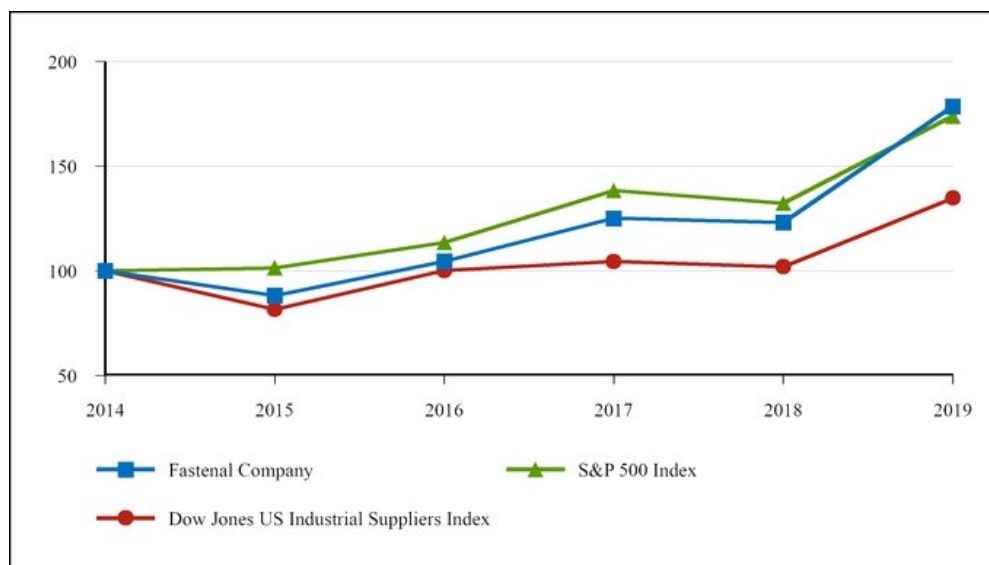
Purchases of shares of our common stock throughout 2019 are described later in this Form 10-K under the heading 'Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations'.

**Fastenal Company Common Stock Comparative Performance Graph**

Set forth below is a graph comparing, for the five years ended December 31, 2019, the yearly cumulative total shareholder return on our common stock with the yearly cumulative total shareholder return of the S&P 500 Index and the Dow Jones US Industrial Suppliers Index.

The comparison of total shareholder returns in the performance graph assumes that \$100 was invested on December 31, 2014 in Fastenal Company, the S&P 500 Index, and the Dow Jones US Industrial Suppliers Index, and that dividends were reinvested when and as paid.

**Comparison of Five-Year Cumulative Total Return Among Fastenal Company, the S&P 500 Index, and the Dow Jones US Industrial Suppliers Index**



	2014	2015	2016	2017	2018	2019
Fastenal Company	\$ 100.00	88.19	104.51	125.07	123.11	<b>178.55</b>
S&P 500 Index	100.00	101.38	113.51	138.29	132.23	<b>173.86</b>
Dow Jones US Industrial Suppliers Index	100.00	81.52	100.14	104.41	101.89	<b>134.72</b>

Note - The graph and index table above were obtained from Zachs SEC Compliance Services Group.

**ITEM 6. SELECTED FINANCIAL DATA**

Incorporated herein by reference is Ten-Year Selected Financial Data on pages 4 and 5 of Fastenal's 2019 Annual Report to Shareholders of which this Form 10-K forms a part, a portion of which is filed as Exhibit 13 to this annual report on Form 10-K.

## ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following is management's discussion and analysis of certain significant factors which have affected our financial position and operating results during the periods included in the accompanying consolidated financial statements.

### Business and Operational Overview

Fastenal is a North American leader in the wholesale distribution of industrial and construction supplies. We distribute these supplies through a network of over 3,200 in-market locations. Most of our customers are in the manufacturing and non-residential construction markets. The manufacturing market includes both OEM and MRO customers. The non-residential construction market includes general, electrical, plumbing, sheet metal, and road contractors. Other users of our products include farmers, truckers, railroads, oil exploration companies, oil production and refinement companies, mining companies, federal, state, and local governmental entities, schools, and certain retail trades. Geographically, our branches, Onsite locations, and customers are primarily located in North America.

It is helpful to appreciate several aspects of our marketplace: (1) It's big. We estimate the North American marketplace for industrial supplies is in excess of \$140 billion per year (and we have expanded beyond North America) and no company has a significant portion of this market. (2) Many of the products we sell are individually inexpensive, but the cost and time to manage, procure, and transport these products can be quite meaningful. (3) Purchasing professionals often expend disproportionate effort managing the high SKU count of low-volume, low value MRO supplies which is better allocated to their higher volume, higher value OEM supplies. (4) Many customers prefer to reduce their number of suppliers to simplify their business, while also utilizing various technologies and models (including our local branches when they need something quickly or unexpectedly) to improve availability and reduce waste. (5) We believe the markets are efficient. To us, this means we can grow our market share if we provide the greatest value to our customer.

Our approach to addressing these aspects of our marketplace is captured in our motto *Growth through Customer Service*. The concept of growth is simple: find more customers every day and increase our activity with them. However, execution is hard work. First, we recruit service-minded individuals to support our customers and their business. Second, we operate in a decentralized fashion to help identify the greatest value for our customers. Third, we have a great team behind our customer-facing resources to operate efficiently and to help identify new business solutions. Fourth, we strive to generate strong profits, which produce the cash flow necessary to fund our growth and to support the needs of our customers. Lastly, we identify drivers that allow us to get closer to our customers and gain market share.

We believe our ability to grow is amplified if we can serve our customers at the closest economic point of contact. At one point, the closest economic point of contact was the local branch. Today, in some cases, we have moved the branch inside the customer's facility. We also are frequently positioned right at the point of consumption within customers' facilities through our industrial vending or FMI capabilities. Therefore, our focus centers on understanding our customers' day, their opportunities, and their obstacles. By doing these things every day, Fastenal remains a growth-centric organization.

### Executive Overview

Net sales increased \$368.6, or 7.4%, in 2019 relative to 2018. Our gross profit as a percentage of net sales declined to 47.2% in 2019 from 48.3% in 2018. Our operating income as a percentage of net sales declined to 19.8% in 2019 from 20.1% in 2018.

Our net earnings in 2019 were \$790.9, an increase of 5.2% when compared to 2018. Our diluted net earnings per share were \$1.38 in 2019 compared to \$1.31 in 2018, an increase of 5.2%. Discrete tax items benefited net earnings by \$7.1 in 2018.

We continued to focus on our growth drivers in 2019. Daily sales to our national account customers (defined as customer accounts with a multi-site contract) grew 11.9% in the period. Additionally, we signed 362 new Onsite customer locations (defined as dedicated sales and service provided from within, or in close proximity to, the customer's facility) and 21,857 new industrial vending devices. We experienced sales growth in the mid-teens through both our vending devices and our Onsite locations (excluding sales transferred from a branch).



The table below summarizes our total employee headcount, our investments in in-market locations (defined as the sum of the total number of public branch locations and the total number of active Onsite locations), and industrial vending devices at the end of the periods presented and the percentage change compared to the end of the prior period.

	Q4 2019	Q4 2018	Twelve-month % Change
In-market locations - absolute employee headcount	13,977	14,015	-0.3 %
Total absolute employee headcount	21,948	21,644	1.4 %
Number of public branch locations	2,114	2,227	-5.1 %
Number of active Onsite locations	1,114	894	24.6 %
Number of in-market locations	3,228	3,121	3.4 %
Industrial vending devices (installed count) <sup>(1)</sup>	89,937	81,137	10.8 %
<i>Ratio of industrial vending devices to in-market locations</i>	<i>28:1</i>	<i>26:1</i>	

<sup>(1)</sup> This number primarily represents devices which principally dispense product and produce product revenues, and excludes approximately 15,000 devices that are part of a locker lease program where the devices are principally used for the check-in/check-out of equipment.

During the last twelve months, we reduced our absolute employee headcount by 38 people in our in-market locations and increased by 304 people in total. The reduction in our absolute employee headcount in our in-market locations reflects actions taken by leadership in our public branches over the past couple of quarters to control expenses in response to weaker demand, which was only partly offset by increases to support growth in our number of Onsite locations. The increase in our total absolute employee headcount is mostly from additions we have made to support customer acquisition, implementation, and growth in the field, particularly as it relates to our growth drivers and to support general corporate and hub functions.

We opened twelve branches and closed 125 branches, net of conversions, in 2019. We activated 312 Onsite locations and closed 92, net of conversions, in 2019. The number of closings reflects both normal churn in our business, whether due to exiting customer relationships, the shutting or relocation of a customer facility, or a customer decision, as well as a review of certain underperforming locations. Our in-market network forms the foundation of our business strategy, and we will continue to open or close locations as is deemed necessary to sustain and improve our network, support our growth drivers, and manage our operating expenses.

### Results of Operations

The following sets forth consolidated statements of earnings information (as a percentage of net sales) for the periods ended December 31:

	2019	2018	2017
Net sales	100.0 %	100.0 %	100.0 %
Gross profit	47.2 %	48.3 %	49.3 %
Operating and administrative expenses	27.4 %	28.2 %	29.2 %
Gain on sale of property and equipment	0.0 %	0.0 %	0.0 %
Operating income	19.8 %	20.1 %	20.1 %
Net interest expense	-0.3 %	-0.3 %	-0.2 %
Earnings before income taxes	19.6 %	19.9 %	19.9 %

Note – Amounts may not foot due to rounding difference.

**Net Sales**

Note – Daily sales are defined as the total net sales for the period divided by the number of business days (in the United States) in the period. The table below sets forth net sales and daily sales for the periods ended December 31, and changes in such sales from the prior period to the more recent period:

	2019	2018	2017
Net sales	\$ 5,333.7	4,965.1	4,390.5
Percentage change	7.4 %	13.1%	10.8%
Business days	254	254	254
Daily sales	\$ 21.0	19.5	17.3
Percentage change	7.4 %	13.1%	11.3%
Daily sales impact of currency fluctuations	-0.3 %	0.1%	0.1%
Daily sales impact of acquisitions	0.1 %	0.4%	1.0%

The increases in net sales noted above for both 2019 and 2018 were a result of higher unit sales and, to a lesser degree, higher prices. Higher product prices were realized throughout 2019 and 2018 as a result of actions (beginning initially in late 2017) taken to offset increases in product costs, and we believe these increases contributed 0.9% to 1.0% and 0.7% to 0.8% to sales growth during 2019 and 2018, respectively. The increase in net sales for 2017 was driven primarily by higher unit sales. Price increases were not a material factor in 2017.

The higher unit sales in 2019 and 2018 resulted primarily from two sources. The first is higher underlying market demand, which we believe is reflected in a number of metrics. For instance, the U.S. Purchasing Managers Index, published by the Institute for Supply Chain Management, averaged 51.2 in 2019 and 58.8 in 2018. Readings above 50 are indicative of growing demand, and we believe these levels are consistent with the sales growth rates we experienced in the respective periods. In addition, U.S. Industrial Production, which is published by the Federal Reserve, increased 0.8% in 2019 and increased 3.9% in 2018. We believe U.S. Industrial Production is a good proxy for the state of our marketplace and that the growth in this metric is consistent with the sales growth rates we experienced in the respective periods. This was reflected as well in daily sales of fasteners, our most cyclical product line, which grew 5.5% and 11.2% in 2019 and 2018, respectively. We also experienced growth in sales to 75 of our top 100 customers in 2019, which compares to growth in sales to 84 of our top 100 customers in 2018.

Another explanation for our results is that while underlying demand throughout 2018 was stable at high levels, underlying demand in 2019 began strong but weakened throughout the year. For instance, the U.S. Purchasing Managers Index averaged 55.4 in the first quarter of 2019 but averaged 47.9 in the fourth quarter of 2019. In addition, U.S. Industrial Production increased 2.9% in the first quarter of 2019 but decreased 0.9% in the fourth quarter of 2019. The slowing in these metrics from the start to the end of 2019 mirrors the slowing growth we experienced in our unit sales over the same period.

A relatively greater contributor to our growth in 2019 was the success of our growth initiatives. We signed 21,857 industrial vending devices during 2019. While this represented a slight decrease in signings of 1.0% from 2018, it also contributed to growth in our installed base to 89,937 vending devices at the end of 2019, an increase of 10.8% over 2018. Growth in our installed base was primarily responsible for sales growth through our vending devices in the mid-teens during 2019. We signed 362 new Onsite locations in 2019, an increase of 7.7% over 2018, and had 1,114 active sites on December 31, 2019, an increase of 24.6% over December 31, 2018. Growth in our number of active sites was primarily responsible for sales growth through our Onsites in the mid-teens during 2019. The contribution of new national account contracts and strong penetration of existing national account customers resulted in daily sales from our national account customers growing 11.9% in 2019 compared to 2018.

We signed 22,073 industrial vending devices during 2018, an increase of 14.0% over 2017. In addition to an increase in our installed base, we achieved a low-single digit increase in average sales per device. These variables combined to generate sales growth through our vending devices in excess of 20% in 2018. We signed 336 new Onsite locations in 2018, an increase of 24.4% over 2017, and had 894 active sites on December 31, 2018, an increase of 47.8% over December 31, 2017. We signed 152 new national account contracts in 2018. The contribution of these new contracts and strong penetration of existing national account customers resulted in daily sales from our national account customers growing 18.1% in 2018 compared to 2017.

We signed 19,355 industrial vending devices during 2017, an increase of 7.2% over 2016. In addition to an increase in our installed base, we were also more efficient with the existing base, resulting in a modest increase in average sales per device and a decrease in our device removals of 3.8%. Combined sales through our vending devices accelerated throughout 2017, finishing with growth in the high teens. We signed 270 new Onsite locations in 2017, an increase of 53.4% over 2016, and had 605 active sites on December 31, 2017, an increase of 50.9% over December 31, 2016. We signed 168 new national account contracts in 2017. The contribution of these new contracts and strong penetration of existing national account customers resulted in daily

sales from our national account customers growing 14.5% in 2017 compared to 2016.

**Sales by Product Line**

The approximate mix of sales from fasteners, safety supplies, and all other product lines was as follows:

	2019	2018	2017
Fasteners	34.2%	34.9%	35.6%
Safety supplies	17.9%	17.2%	16.3%
Other product lines	47.9%	47.9%	48.1%

The decrease in our fastener sales as a percentage of total sales arises from two factors. First, we believe non-fastener products represent a larger market opportunity than fasteners, and that we are relatively under-represented in this market. Over time, this has led to faster growth in the non-fastener product lines, a trend amplified by the growth of our industrial vending program through which we sell primarily non-fastener products. We believe this factor impacted each year shown and will continue to promote a lower mix of fasteners in our total sales over time. Second, a weak industrial production environment has a disproportionately negative effect on fastener sales, particularly OEM fasteners sales, relative to non-fastener sales (which relates more to plant operations than production). This weakness is more of a cyclical factor than a structural one, and as such was relevant in 2019, but not in 2018 or 2017 when a better economic environment at least partially mitigated the first factor discussed.

**Annual Sales Changes, Sequential Trends, and End Market Performance**

This section focuses on three distinct views of our business – annual sales changes by month, sequential trends, and end market performance. The first discussion regarding sales changes by month provides a good mechanical view of our business. The second discussion provides a framework for understanding the sequential trends (that is, comparing a month to the immediately preceding month, and also looking at the cumulative change from an earlier benchmark month) in our business. Finally, we believe the third discussion regarding end market performance provides insight into activities with our various types of customers.

**Annual Sales Changes, by Month**

During the months noted below, all of our selling locations, when combined, had daily sales growth rates of (compared to the same month in the preceding year):

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
2019	13.3%	10.5%	12.7%	7.4%	9.5%	7.0%	6.1%	6.3%	5.8%	4.3%	5.7%	1.0%
2018	12.0%	14.8%	13.1%	13.4%	12.5%	13.5%	12.0%	13.7%	13.5%	12.4%	12.3%	14.5%
2017	3.8%	6.1%	8.4%	8.9%	9.7%	13.0%	12.9%	12.8%	15.3%	13.8%	15.4%	14.7%

**Sequential Trends**

**We find it helpful to think about the monthly sequential changes in our business using the analogy of climbing a stairway** – This stairway has several predictable landings where there is a pause in the sequential gain (i.e. April, July, and October to December), but generally speaking, climbs from January to October. The October landing then establishes the benchmark for the start of the next year.

History has identified these landings in our business cycle. They generally relate to months where certain holidays impair business days and/or seasons impact certain end markets, particularly non-residential construction. The first landing centers on Easter and the Good Friday holiday that precedes it, which alternates between March and April (Good Friday occurred in April 2019, March 2018, and April 2017, and will fall in April in 2020), the second landing centers on July 4th, and the third landing centers on the approach of winter with its seasonal impact on primarily our non-residential construction business and with the Christmas/New Year holidays. The holidays we noted impact the trends because they either move from month-to-month or because they move around during the week.

The table below shows the pattern to the sequential change in our daily sales. The line labeled 'Benchmark' is an historical average of our sequential daily sales change for the trailing five year average (2014-2018). We believe this time frame serves to show the historical pattern and could serve as a benchmark for current performance. The '2019', '2018', and '2017' lines represent our actual sequential daily sales changes. The '19Delta', '18Delta', and '17Delta' lines indicate the difference between the 'Benchmark' and the actual results in the respective year.

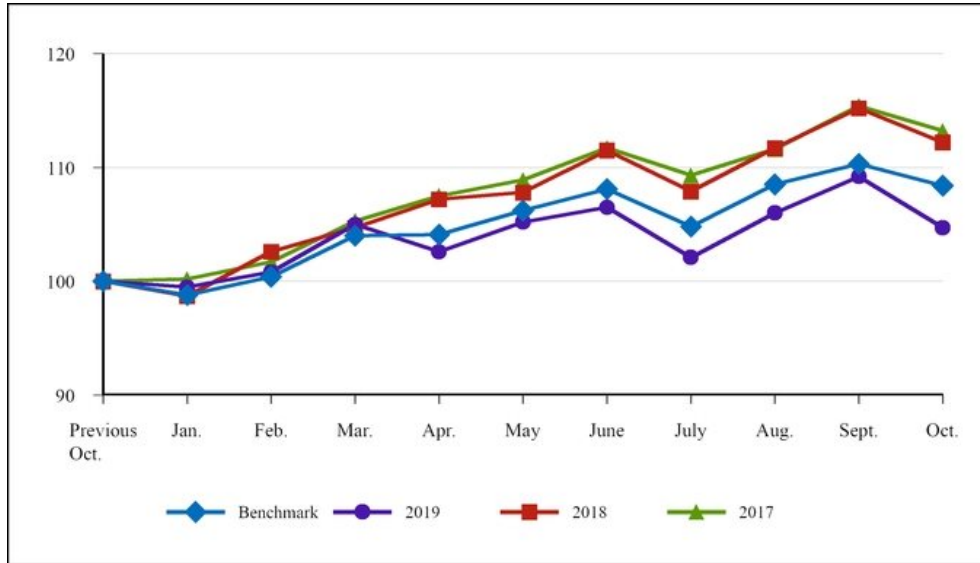
It is important to note that these benchmarks are historical averages. In a year where demand is strong, our daily sales growth rates will tend to have more months that exceed the benchmark than fall below it. In a year where demand is weak, we will tend to have more months that fall short of the benchmark than exceed it. In both cases, there is a random element that makes it difficult to know how any single month will perform.

	Jan. <sup>(1)</sup>	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Cumulative Change from Jan. to Oct.
Benchmark	-1.2 %	1.5 %	3.7 %	0.1 %	2.0 %	2.0 %	-3.3 %	3.7 %	1.8%	-1.9 %	9.8 %
2019	<b>-0.5 %</b>	<b>1.4 %</b>	<b>4.2 %</b>	<b>-2.4 %</b>	<b>2.5 %</b>	<b>1.4 %</b>	<b>-4.4 %</b>	<b>3.9 %</b>	<b>3.1%</b>	<b>-4.4 %</b>	<b>4.9 %</b>
19Delta	<b>0.6 %</b>	<b>-0.1 %</b>	<b>0.5 %</b>	<b>-2.5 %</b>	<b>0.5 %</b>	<b>-0.6 %</b>	<b>-1.1 %</b>	<b>0.3 %</b>	<b>1.3%</b>	<b>-2.5 %</b>	<b>-4.9 %</b>
2018	-1.3 %	4.0 %	2.1 %	2.4 %	0.6 %	3.7 %	-3.6 %	3.8 %	3.6%	-3.0 %	13.9 %
18Delta	-0.2 %	2.5 %	-1.6 %	2.4 %	-1.5 %	1.8 %	-0.3 %	0.1 %	1.7%	-1.1 %	4.2 %
2017	0.2 %	1.5 %	3.6 %	2.2 %	1.4 %	2.8 %	-2.4 %	2.2 %	3.8%	-2.1 %	13.5 %
17Delta	1.4 %	0.0 %	-0.1 %	2.1 %	-0.6%	0.9 %	0.9 %	-1.4 %	2.0%	-0.2 %	3.8 %

<sup>(1)</sup> The January figures represent the percentage change from the previous October, whereas the remaining figures represent the percentage change from the previous month.

Note – Amounts may not foot due to rounding difference.

A graph of the sequential daily sales change patterns discussed above, starting with a base of '100' in the previous October and ending with the next October, would be as follows:



**End Market Performance**

The sequential trends noted above were directly linked to fluctuations in our end markets. To place this in perspective – we estimate approximately 65% of our business has historically been with customers engaged in some type of manufacturing, a significant subset of which finds its way into the heavy equipment market. The daily sales growth rates to these manufacturing customers, when compared to the same period in the prior year, were as follows<sup>(1)</sup>:

	Q1	Q2	Q3	Q4	Annual
<b>2019</b>	<b>13.4%</b>	<b>9.1%</b>	<b>7.7%</b>	<b>5.1%</b>	<b>8.8%</b>
2018	14.3%	13.3%	13.0%	13.3%	13.5%
2017	6.2%	11.5%	15.3%	16.6%	12.3%

<sup>(1)</sup> In July 2017, we reclassified certain end market designations. The daily sales growth rates in the above table for all periods through the second quarter of 2017 differ from prior disclosures.

Our manufacturing business consists of two subsets: the industrial production business (this is business where we supply products that become part of the finished goods produced by our customers and is sometimes referred to as OEM - original equipment manufacturing) and the maintenance portion (this is business where we supply products that maintain the facility or the equipment of our customers engaged in manufacturing and is sometimes referred to as MRO - maintenance, repair, and operations). The industrial business is more fastener centered, while the maintenance portion is represented by all product categories.

The best way to understand the change in our industrial production business is to examine the results in our fastener product line (approximately 35% of our business) which is heavily influenced by changes in our business with heavy equipment manufacturers. From a company perspective, daily sales growth rates of fasteners, when compared to the same period in the prior year, were as follows (note: this information includes all end markets):

	Q1	Q2	Q3	Q4	Annual
<b>2019</b>	<b>11.8%</b>	<b>5.5%</b>	<b>3.0%</b>	<b>1.8%</b>	<b>5.5%</b>
2018	11.8%	11.1%	10.8%	11.3%	11.2%
2017	0.8%	7.9%	12.1%	13.4%	8.4%

The daily sales growth rates of fasteners noted in the table above for first quarter of 2018, and the second, third, and fourth quarters of 2017, include 3.7, 3.6, 3.8, and 3.9 percentage points, respectively, attributable to Mansco (acquired on March 31, 2017).

By contrast, the best way to understand the change in the maintenance portion of the manufacturing business is to examine the results in our non-fastener product lines. From a company perspective, daily sales growth rates of non-fasteners, when compared to the same period in the prior year, were as follows (note: this information includes all end markets):

	Q1	Q2	Q3	Q4	Annual
<b>2019</b>	<b>12.7%</b>	<b>9.5%</b>	<b>8.0%</b>	<b>5.1%</b>	<b>8.8%</b>
2018	14.5%	14.8%	14.9%	14.6%	14.7%
2017	9.4%	12.2%	14.6%	16.1%	13.1%

While not immune to the impact of a weak industrial environment as was experienced in the latter half of 2019, our non-fastener business did demonstrate greater relative resilience when compared to our fastener business and to the distribution industry in general. Non-fastener growth slowed, but remained above the growth of the fastener business. The strong relative performance of the non-fastener business when compared to the fastener business and to the distribution industry in general was also evident during the strong 2018 and 2017 periods. We believe this is due to both the growth of our vending business and our lower penetration of the non-fastener marketplace relative to our penetration of the fastener marketplace.

Our non-residential construction and reseller customers have historically represented 20% to 25% of our business. The daily sales growth rates to these customers, when compared to the same period in the prior year, were as follows<sup>(1)</sup>:

	Q1	Q2	Q3	Q4	Annual
<b>2019</b>	<b>12.1%</b>	<b>6.0%</b>	<b>0.6%</b>	<b>0.7%</b>	<b>4.7%</b>
2018	11.7%	17.6%	19.2%	16.4%	16.3%
2017	6.9%	8.8%	9.4%	11.6%	9.1%

<sup>(1)</sup> In July 2017, we reclassified certain end market designations. The daily sales growth rates in the above table for all periods through the second quarter of 2017 differ from prior disclosures.

Our non-residential construction and reseller business is heavily influenced by the manufacturing economy as well as infrastructure spending. In 2019, the slowing production environment, as described above, and the accompanying worsening trends for commodities, caused the growth in our non-residential construction and reseller customers to slow. In 2018 and 2017, improving trends for commodities such as metals and energy, industrial capital spending, and the state of the broader economy contributed to an improvement in growth for these end markets.

### Gross Profit

The gross profit percentage during each period was as follows:

	Q1	Q2	Q3	Q4	Annual
2019	47.7%	46.9%	47.2%	46.9%	47.2%
2018	48.7%	48.7%	48.1%	47.7%	48.3%
2017	49.4%	49.8%	49.1%	48.8%	49.3%

Our gross profit, as a percentage of net sales, was 47.2% in 2019 and 48.3% in 2018. The gross profit percentage for 2019 declined by 110 basis points based on three items. (1) A change in product and customer mix. Fasteners are our largest and highest gross profit margin product line due to the high transaction cost surrounding the sourcing and supply of the product for customers. Our fastener product line declined to 34.2% of sales in 2019 from 34.9% of sales in 2018. Larger customers (for which national accounts are a good proxy), whose more focused buying patterns allow us to offer them better pricing, also influence the gross profit margin. Sales to our national account customers increased to 53.6% in 2019 from 50.7% of sales in 2018. The combination of relatively slower growth in our fastener product line and relatively faster growth in sales to our largest customers contributed to the decline in our overall gross profit margin in 2019. (2) We operate our own fleet of trucks for moving product between suppliers, our distribution centers, and our in-market locations. We believe this provides us a competitive advantage in terms of our ability to move product efficiently and quickly. There is a cost to supporting and maintaining these assets, which we traditionally attempt to minimize by charging freight. During periods of weaker business conditions it can be more difficult to charge freight, and as a result our freight revenues were down in 2019. At the same time, the overall cost of our fleet assets is relatively stable, resulting in reduced absorption of our fixed costs. (3) We experienced an increase in the cost of our products due to generalized inflation and tariffs resulting from disputes between the United States and its trade partners. We implemented several actions to mitigate the impact of these cost increases in 2019, including price increases. For the full year, the net impact of these actions was minor. However, the impact through the year differed, with a larger negative impact on the gross profit percentage in the first half of 2019 and a relatively modest impact in the second half of 2019.

During 2018 and 2017, our gross profit, as a percentage of net sales, decreased when compared to the prior year. In each year, the decrease was primarily caused by the changes in product and customer mix noted above and rising freight expense as a result of costs related to transporting products, particularly shipping fees, driver wages, and fuel. In 2018, our gross profit percentage was also affected by rising product costs as a result of generalized inflation and tariffs. In 2017, our gross profit percentage was also affected by the acquisition of Mansco, the customer mix of which is more heavily oriented toward larger customers and its product mix tends to carry a lower gross profit product mix than the company's other products.

### Operating and Administrative Expenses

Our operating and administrative expenses (including the gain on sales of property and equipment), as a percentage of net sales, improved to 27.3% in 2019 from 28.2% in 2018. This improvement was a function of the growth in employee-related, occupancy-related, and all other operating and administrative expenses being more modest than the growth in sales. Employee-related expenses reduced the ratio of operating and administrative expenses as a percentage of sales by approximately 40 to 45 basis points in 2019 from 2018. Occupancy-related and all other operating and administrative expenses each reduced the ratio of operating and administrative expenses as a percentage of sales by approximately 20 to 25 basis points each in 2019 from 2018.

The growth in employee-related, occupancy-related, and all other operating and administrative expenses (including the gain on sales of property and equipment) compared to the same periods in the preceding year, is outlined in the table below.

	Approximate Percentage of Total Operating and Administrative Expenses	Twelve-month Period		
		2019	2018	2017
Employee-related expenses	65% to 70%	5.1%	11.1%	10.2%
Occupancy-related expenses	15% to 20%	2.8%	5.0%	1.3%
All other operating and administrative expenses	15% to 20%	1.5%	5.2%	21.4%

Employee-related expenses include: (1) payroll (which includes cash compensation, stock option expense, and profit sharing), (2) health care, (3) personnel development, and (4) social taxes. Our employee-related expenses increased in 2019. This was related to: (1) an increase in full-time equivalent ('FTE') headcount related to efforts to support growth in our business, (2) higher performance bonuses and commissions due to growth in net sales and net earnings, (3) an increase in our profit sharing contribution and options awards, (4) increases in hourly base wages, and (5) increased health care costs. The increase in 2018, when compared to 2017, was related to: (1) an increase in FTE headcount related to efforts to support growth in our business, (2) higher performance bonuses and commissions due to growth in net sales and net earnings, (3) an increase in our profit sharing contribution, (4) increases in hourly base wages, and (5) increased health care costs. The increase in 2017, when compared to 2016, was related to: (1) an increase in FTE headcount related to efforts to support growth in our business, (2) higher performance bonuses and commissions due to growth in net sales and net earnings, as well as regulatory driven incremental compensation, (3) an increase in our profit sharing contribution and options awards, (4) increased health care costs, and (5) the inclusion of Mansco personnel.

The table below summarizes the percentage change in our FTE headcount at the end of the periods presented compared to the end of the prior period:

	Twelve-month Period		
	2019	2018	2017
In-market locations	0.2 %	5.7%	7.0%
Total selling (includes in-market locations)	0.8 %	5.4%	7.3%
Distribution	2.2 %	12.2%	8.4%
Manufacturing	-2.7 %	12.0%	8.4%
Administrative	8.5 %	7.3%	10.7%
Total	1.4 %	6.8%	7.7%

Occupancy-related expenses include: (1) building rent and depreciation, (2) building utility costs, (3) equipment related to our branches and distribution locations, and (4) industrial vending equipment (we consider the vending equipment, excluding leased locker equipment, to be a logical extension of our in-market operations and classify the depreciation and repair costs as occupancy expense). The increase in occupancy-related expenses in 2019, when compared to 2018, was mainly driven by increases related to industrial vending equipment. The increase in occupancy-related expenses in 2018, when compared to 2017 was mainly driven by increases related to industrial vending equipment and non-branch occupancy and utility costs, only partly offset by a slight decline in branch occupancy costs from a lower public branch count. The slight increase in 2017, when compared to 2016, was mainly driven by increases in costs related to industrial vending equipment, FMI bins, and automation equipment at our distribution centers. The most significant components of our occupancy-related expenses, facility costs and utility expenses, were mostly flat in 2017, when compared to 2016 due to a reduction in our number of public branches.

All other operating and administrative expenses include: (1) selling-related transportation, (2) information technology (IT) expenses, (3) general corporate expenses, which consists of legal expenses, general insurance expenses, travel and marketing expenses, etc., and (4) the gain on sales of property and equipment. Combined, all other operating and administrative expenses increased in 2019 when compared to 2018. This was primarily due to higher IT spending. The increase in 2018 when compared to 2017, was due to an increase in selling-related transportation expenses, consisting of both higher vehicle movement and fuel costs, as well as higher IT spending. General corporate expenses were slightly down. The increase in 2017 when compared to 2016, was driven by increases in selling-related transportation, including higher vehicle movement and fuel costs, IT spending, and general corporate expenses.

#### Net Interest Expense

Our net interest expense was \$13.6 in 2019 compared to \$12.3 in 2018, and \$8.7 in 2017. The increase in 2019, when compared to 2018, was mainly caused by higher average interest rates and a higher average debt balance during the period. The increase in 2018, when compared to 2017, was mainly caused by higher average interest rates and a higher average debt balance during the period.

#### Income Taxes

We recorded income tax expense of \$252.8 in 2019, or 24.2% of earnings before income taxes. Our income tax expense was reduced by \$2.6 as a result of applying guideline clarifications issued by the IRS on certain aspects of tax reform as well as tax benefits associated with the exercise of stock options. This reduced our tax rate in the period by 30 basis points.

We recorded income tax expense of \$235.1 in 2018, or 23.8% of earnings before income taxes. The effective income tax rate was significantly impacted by the following two items: (1) The lower corporate tax rate provided by the Tax Act resulted in a

lower tax rate beginning in the first quarter of 2018. The effective income tax rate includes the immaterial impact of the U.S. tax on certain offshore earnings referred to as Global Intangible Low-Taxed Income (GILTI), a new deduction for Foreign Derived Intangible Income (FDII), and the new alternative U.S. tax on certain Base Erosion Anti-Avoidance (BEAT) payments from a U.S. company to any foreign related party. (2) Discrete income tax items to adjust our transition tax liability, reflect the impacts of accelerating depreciation for certain physical assets, and remeasure the impact of the U.S. tax rate on certain inter-company transactions. These discrete items resulted in approximately \$7.1 of income tax benefit during 2018. The accounting for the income tax effects of the Tax Act is complete as of December 31, 2018.

We recorded a provisional income tax expense of \$294.5 in 2017, or 33.7% of earnings before income taxes. This amount reflects a provisional estimate for the reduction in our deferred income tax liabilities of \$30.8 as a result of the income tax rate decrease included in the Tax Act, partially offset by an estimated increase in income tax payable in the amount of \$6.5 as a result of the transition tax on cash and cash equivalent balances related to accumulated earnings associated with our international operations, also included in the Tax Act. The decrease in our income tax rate from 2016 to 2017 was also related to changes in our reserve for uncertain tax positions and the adoption of the Financial Accounting Standards Board (FASB) Accounting Standard Update ('ASU') 2016-09, *Improvements to Employee Share-Based Payment Accounting*, in the first quarter of 2017.

### Net Earnings

Net earnings, net earnings per share ('EPS'), the percentage change in net earnings, and the percentage change in EPS, were as follows:

Dollar Amounts	2019	2018 <sup>(1)</sup>	2017
Net earnings	\$ 790.9	751.9	578.6
Basic EPS	1.38	1.31	1.00
Diluted EPS	1.38	1.31	1.00
Percentage Change	2019	2018 <sup>(1)</sup>	2017
Net earnings	5.2%	29.9%	15.8%
Basic EPS	5.3%	30.5%	16.1%
Diluted EPS	5.2%	30.5%	16.2%
Tax Rate	2019	2018	2017
Tax Rate	24.2%	23.8%	33.7%

<sup>(1)</sup> As a result of the Tax Act, discrete tax items benefited our net earnings by \$7.1 during 2018.

During 2019, net earnings increased, primarily due to stronger sales and operating profits, and were only partly offset by an increase in income tax expense. During 2018, net earnings increased, primarily due to stronger sales and operating profits combined with a reduction in income tax expense. The increase in basic and diluted earnings per share also reflected the purchase of our shares of common stock in 2018. During 2017, net earnings increased, primarily due to stronger sales and operating profits combined with a reduction in income tax expense. The slightly higher increase in basic and diluted earnings per share was primarily due to the purchase of our shares of common stock in 2017.

### Liquidity and Capital Resources

#### Net Cash Provided by Operating Activities

Net cash provided by operating activities in dollars and as a percentage of net earnings were as follows:

	2019	2018	2017
Net cash provided	\$ 842.7	674.2	585.2
% of net earnings	106.5%	89.7%	101.1%

In 2019, the increase in our operating cash flow as a percentage of net earnings reflects a reduced drag from working capital investment than was experienced in 2018 and, to a lesser degree, higher net income. In 2018, the increase in net cash provided by operating activities was primarily due to our net earnings growth, which resulted from pre-tax earnings growth and a lower tax rate as a result of the Tax Act. The decline in our operating cash flow as a percentage of net earnings largely reflects working capital trends, as further described below. In 2017, the increase in net cash provided by operating activities was primarily due to our net earnings growth.



**Operational Working Capital Assets**

Operational working capital assets, which we define as accounts receivable, net and inventories, is highlighted below. The annual dollar change and the annual percentage change were as follows:

Dollar change	2019	2018
Accounts receivable, net	\$ 27.5	106.4
Inventories	87.7	185.8
Operational working capital assets	\$ 115.2	292.2
Annual percentage change	2019	2018
Accounts receivable, net	3.9%	17.5%
Inventories	6.9%	17.0%
Operational working capital assets	5.8%	17.2%

Note – Amounts may not foot due to rounding difference.

In 2019, the annual growth in net accounts receivable reflects not only our growth in sales, but also the fact that our growth is being driven disproportionately by our national accounts program where our customers tend to have longer payment terms than our customer base as a whole. Growth was also relatively stronger with customers outside the U.S., which similarly tend to have longer payment terms than our customer base as a whole. The rate of growth in receivables did slow throughout 2019, largely reflecting the impact on receivables of softer business activity. In 2018, the annual growth in net accounts receivable reflects accelerating growth in sales throughout the course of the year combined with relatively stronger growth of our national accounts and international business. In addition, two trends emerged among our customer base that increased our net accounts receivable. The first was a push from our customers to contractually increase the period between when they are invoiced and when payment is due. The second was customers delaying payments beyond the end of the applicable quarter. We saw these behaviors intensify throughout 2018.

Our inventory balances over time will respond to business activity, though various factors produce a looser relationship to our monthly sales patterns than we tend to experience in accounts receivable. One reason for this is cyclical. We source significant quantities of product from overseas, and the lead time involved in procuring these products is typically longer than the visibility we have into future monthly sales patterns. As a result, trends in our inventory will often lag trends in economic conditions. Another reason inventories may fluctuate independently of monthly sales patterns is based on strategic decisions. For instance, at various times we have increased our relative inventory levels to enhance product breadth and availability in our branches and distribution centers, expand direct sourcing, and broaden Fastenal brands. Our growth drivers, including industrial vending solutions, national accounts, and Onsite and international locations, have also required significant investments in inventory. In 2019, our inventories increased to support higher sales, largely reflecting large increases in the number of installed vending devices and active Onsite locations, and from inflation and tariffs. We intend to continue to invest in the inventory necessary to support our vending and Onsite initiatives. However, over the course of the year we did reduce other spending, both reflecting proactive efforts to reduce inventory and in reaction to the effect of softer business activity, which allowed us to meaningfully decelerate inventory growth in the fourth quarter of 2019. In 2018, our inventories increased as a result of growth in general demand and successful execution of our growth drivers. Inflation had an increasing impact in the second half of 2018, and our decision to accelerate shipments of product to the U.S. from overseas ahead of potential tariffs resulted in extra inventory of approximately \$12.0 in the fourth quarter of 2018.

The approximate percentage mix of inventory stocked at our selling locations versus our distribution center and manufacturing locations was as follows at year end:

	2019	2018	2017
Selling locations	60%	61%	65%
Distribution center and manufacturing locations	40%	39%	35%
Total	100%	100%	100%

**Net Cash Used in Investing Activities**

Net cash used in investing activities in dollars and as a percentage of net earnings were as follows:

	2019	2018	2017
<b>Net cash used</b>	<b>\$ 239.7</b>	173.9	179.3
% of net earnings	<b>30.3%</b>	23.1%	31.0%

The changes in net cash used in investing activities were primarily related to changes in our net capital expenditures as discussed below for each period and cash paid for acquisitions in 2017.

Property and equipment expenditures typically consist primarily of: (1) purchases related to industrial vending, (2) purchases of property and equipment related to expansion of and enhancements to distribution centers, (3) spending on software and hardware for our information processing systems, (4) the addition of fleet vehicles, (5) expansion, improvement or investment in certain owned or leased branch properties, and (6) the addition of manufacturing and warehouse equipment. Disposals of property and equipment consisted of the planned disposition of certain pick-up trucks, distribution vehicles, and trailers in the normal course of business.

Set forth below is a recap of our 2019, 2018, and 2017 net capital expenditures in dollars and as a percentage of net sales and net earnings:

	2019	2018	2017
Manufacturing, warehouse and packaging equipment, industrial vending equipment, and facilities	<b>172.7</b>	110.7	66.2
Shelving and related supplies for in-market location openings and for product expansion at existing in-market locations	<b>12.3</b>	9.6	8.3
Data processing software and equipment	<b>31.1</b>	30.9	23.2
Real estate and improvements to branch locations	<b>8.9</b>	12.9	6.2
Vehicles	<b>21.4</b>	12.2	16.0
Purchases of property and equipment	<b>246.4</b>	176.3	119.9
Proceeds from sale of property and equipment	<b>(6.6)</b>	(9.5)	(7.4)
<b>Net capital expenditures</b>	<b>239.8</b>	166.8	112.5
% of net sales	<b>4.5%</b>	3.4%	2.6%
% of net earnings	<b>30.3%</b>	22.2%	19.4%

Our net capital expenditures increased in 2019, when compared to 2018, primarily due to increased spending on hub property and equipment, both to expand current capacity and for potential future expansion, higher spending on vending devices to support the growth of our industrial vending program, and investment in our trucking assets. While the sources of the increase in our net capital spending in 2019 were expected, our total spend exceeded our targeted range of \$195.0 to \$225.0. We had significant spending in 2019 on facilities, with a couple of locations having higher costs than originally anticipated. Our net capital expenditures increased in 2018, when compared to 2017, primarily due to increased spending on hub property and equipment, both to expand current capacity and for potential future expansion, as well as vending devices to support the growth of our industrial vending program. Our net capital expenditures decreased in 2017, when compared to 2016, primarily due to lower spending in 2017 related to the absence of spending on vending equipment that occurred in 2016 related to the leased locker rollout, the absence of spending on shelving and signage that occurred in 2016 for the CSP 16 initiative, and timing associated with the addition of pick-up trucks.

We expect our net capital expenditures in 2020 to be within a range of \$180.0 to \$205.0. This decrease from 2019 is primarily attributable to reduced projects to develop and expand certain distribution center assets and, to a lesser degree, reduced fleet vehicle investment. We anticipate funding our capital expenditure needs with cash generated from operations, from available cash and cash equivalents, and from our borrowing capacity.

**Net Cash Used in Financing Activities**

Net cash used in financing activities in dollars and as a percentage of net earnings were as follows:

	2019	2018	2017
<b>Net cash used</b>	<b>\$ 595.1</b>	<b>446.5</b>	<b>407.2</b>
% of net earnings	<b>75.2%</b>	59.4%	70.4%

The fluctuations in net cash used in financing activities are due to changes in the level of our dividend payments and in the level of common stock purchases. These amounts were partially offset by the exercise of stock options and net payments (proceeds) from debt obligations. These items in dollars and as a percentage of earnings were as follows:

	2019	2018	2017
<b>Dividends paid</b>	<b>\$ 498.6</b>	<b>441.9</b>	<b>369.1</b>
% of net earnings	<b>63.0 %</b>	58.8 %	63.8 %
<b>Common stock purchases</b>	<b>—</b>	<b>103.0</b>	<b>82.6</b>
% of net earnings	<b>—</b>	13.7 %	14.3 %
<b>Total returned to shareholders</b>	<b>\$ 498.6</b>	<b>544.9</b>	<b>451.7</b>
% of net earnings	<b>63.0 %</b>	72.5 %	78.1 %
<b>Proceeds from the exercise of stock options</b>	<b>\$ (58.5)</b>	<b>(13.4)</b>	<b>(9.5)</b>
% of net earnings	<b>-7.4 %</b>	-1.8 %	-1.6 %
<b>Cash payments (borrowings), net</b>	<b>\$ 155.0</b>	<b>(85.0)</b>	<b>(35.0)</b>
% of net earnings	<b>19.6 %</b>	-11.3 %	-6.0 %
<b>Net cash used</b>	<b>\$ 595.1</b>	<b>446.5</b>	<b>407.2</b>
% of net earnings	<b>75.2 %</b>	59.4 %	70.4 %

**Stock Purchases**

In 2019, we did not purchase any shares of our common stock. In 2018, we purchased 4,000,000 shares of our common stock at an average price of approximately \$25.75 per share, and in 2017, we purchased 3,800,000 shares at an average price of approximately \$21.72 per share.

**Dividends**

We declared a quarterly dividend of \$0.25 per share on January 16, 2020. We paid aggregate annual dividends per share of \$0.87, \$0.77, and \$0.64 in 2019, 2018, and 2017, respectively.

**Debt**

In order to fund the considerable cash needed to expand our industrial vending business, to expand capacity and increase the use of automation in our distribution centers, pay dividends, and to purchase our common stock in 2018, we have borrowed under our Credit Facility and our Master Note Agreement in recent periods.

Our borrowings under the Credit Facility peaked during each quarter of 2019 and 2018 as follows:

Peak borrowings	2019	2018
First quarter	<b>\$ 450.0</b>	335.0
Second quarter	<b>400.0</b>	360.0
Third quarter	<b>395.0</b>	330.0
Fourth quarter	<b>310.0</b>	435.0

As of December 31, 2019, we had loans outstanding under the Credit Facility of \$210.0 and contingent obligations from letters of credit outstanding under the Credit Facility in an aggregate face amount of \$36.3. As of December 31, 2019, we also had loans outstanding under the Master Note Agreement of \$135.0. Descriptions of our Credit Facility and Master Note Agreement are contained in Note 9 of the Notes to Consolidated Financial Statements.

### **Unremitted Foreign Earnings**

Approximately \$122.7 of cash and cash equivalents are held by non-U.S. subsidiaries. These funds may create foreign currency translation gains or losses depending on the functional currency of the entity holding the cash. We have considered the financial requirements of each foreign subsidiary and our parent company and will continue to reinvest these funds to support our expansion activities outside the U.S., even after taking into consideration the deemed repatriation and transition tax under the Tax Act. The income tax impact of repatriating cash associated with investments in foreign subsidiaries is discussed in Note 7 of the Notes to Consolidated Financial Statements.

### **Effects of Inflation**

We experienced higher product costs through 2019 relative to 2018 as a result of generalized inflation and tariffs, though the impact of these items did moderate later in the year as economic activity slowed and conditions around trade stabilized. We took actions during the year to mitigate the effects of higher product costs, including increasing product prices. These actions were not able to offset the pressure we experienced on our gross profit percentage in the first half of 2019, but were more effective at doing so in the second half of 2019. Throughout 2018, we experienced increasing product cost inflation for non-fastener and, especially, fastener products. We took actions in the latter part of 2017 and throughout 2018, including pricing adjustments, to offset this inflation. While we succeeded in raising prices through the year, we were not able to do so at the same rate that our costs rose which negatively affected our profit margins and earnings in 2018. Apart from generalized inflation, tariffs were instituted on certain products that we source from China, but this occurred later in the year and did not have a meaningful impact on sales or profits in 2018. Throughout 2017, we experienced increasing product cost inflation, particularly in our fastener products. We were able to take actions during the period, including pricing adjustments, to mostly offset this inflation. In the aggregate, the overall impact of inflation and pricing on sales and profits was not material in 2017.

### **Critical Accounting Policies and Estimates**

In preparing our consolidated financial statements in conformity with U.S. GAAP, we must make decisions that impact the reported amounts of assets, liabilities, revenues and expenses, and the related disclosures. Such decisions include the selection of the appropriate accounting principles to be applied and the assumptions on which to base accounting estimates. In reaching such decisions, we apply judgments based on our understanding and analysis of relevant circumstances, historical experience, and actuarial valuations. Actual amounts could differ from those estimated at the time the consolidated financial statements are prepared.

Our most significant accounting policies, including Revenue Recognition and Inventories, are described in Note 1 of the Notes to Consolidated Financial Statements. Some of those significant accounting policies require us to make difficult, subjective, or complex judgments, or estimates. An accounting estimate is considered to be critical if it meets both of the following criteria: (i) the estimate requires assumptions about matters that are highly uncertain at the time the accounting estimate is made, and (ii) different estimates reasonably could have been used, or changes in the estimate that are reasonably likely to occur from period to period may have a material impact on the presentation of our financial condition, changes in financial condition, or results of operations. Our most critical accounting estimates include the following:

*Allowance for doubtful accounts* – This reserve is for accounts receivable balances that are potentially uncollectible. The reserve is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs. Our methodology for estimating this reserve includes ongoing reviews of the aging of accounts receivable, the financial condition of a customer or industry, and general economic conditions. If business or economic conditions change, our estimates and assumptions may be adjusted as deemed appropriate. Historically, actual required reserves have not varied materially from estimated amounts.

*Inventory obsolescence reserves* – These reserves are based on an analysis of inventory trends including reviews of inventory levels, sales information, and the on-hand quantities relative to the sales history for the product. Our methodology for estimating these reserves is continually evaluated for factors that could require changes to the reserves including significant changes in product demand, market conditions, condition of the inventory, or liquidation value. If business or economic conditions change, our estimates and assumptions may be adjusted as deemed appropriate. Historically, actual required reserves have not varied materially from estimated amounts.

*General insurance reserves* – These reserves are for general claims related to workers' compensation, property and casualty losses, and other general liability self-insured losses. The reserves are based on an analysis of reported claims and claims incurred but not yet reported related to our historical claim trends. We perform ongoing reviews of our insured and uninsured risks and use this information to establish appropriate reserve levels. We analyze historical trends, claims experience, and loss development patterns to ensure the appropriate loss development factors are applied to the incurred costs associated with the claims made. Historically, actual required reserves have not varied materially from estimated amounts.

**New Accounting Pronouncements**

A description of new accounting pronouncements is contained in Note 1 of the Notes to Consolidated Financial Statements.

**Geographic Information**

Information regarding our revenues and long-lived assets by geographic area is contained in Note 2 and Note 3 of the Notes to Consolidated Financial Statements. Risks related to our foreign operations are described earlier in this Form 10-K under the heading 'Forward-Looking Statements' and 'Item 1A. Risk Factors'.

**Certain Contractual Obligations**

As of December 31, 2019, we had outstanding long-term debt and facilities, equipment, and vehicles leased under operating leases. Our future obligations to pay principal of and interest on such long-term debt and to make minimum lease payments under such operating leases are as follows:

	Total	2020	2021 and 2022	2023 and 2024	After 2024
Principal of long-term debt	\$ 345.0	3.0	75.0	267.0	—
Interest on long-term debt <sup>(1)</sup>	37.2	10.1	18.8	8.3	—
Operating leases <sup>(2)</sup>	261.5	105.1	117.2	35.5	3.7
Total	\$ 643.7	118.2	211.0	310.8	3.7

<sup>(1)</sup> Interest on the long-term debt outstanding under our Credit Facility was calculated using the interest rates and balances at December 31, 2019.

<sup>(2)</sup> Amounts include lease liabilities for pick-up truck leases, which typically have a non-cancelable lease term of less than one year and are not included on the consolidated balance sheets as an operating lease right-of-use asset.

Purchase orders and contracts for the purchase of inventory and other goods and services are not included in the table above. Our purchase orders are based on current distribution needs and are fulfilled by our suppliers within short time horizons. We do not have significant agreements for the purchase of inventory or other goods or services specifying minimum order quantities.

Liabilities for uncertain tax positions have been excluded from the table above due to the uncertainty surrounding the ultimate settlement and timing of these liabilities, which we believe will be immaterial. A discussion of income taxes is contained in Note 7 of the Notes to Consolidated Financial Statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS**

We are exposed to certain market risks from changes in foreign currency exchange rates, commodity steel pricing, commodity energy prices, and interest rates. Changes in these factors cause fluctuations in our earnings and cash flows. We evaluate and manage exposure to these market risks as follows:

**Foreign currency exchange rates** – Foreign currency fluctuations can affect our net investments, our operations in countries other than the U.S., and earnings denominated in foreign currencies. Historically, our primary exchange rate exposure has been with the Canadian dollar against the United States dollar. Our estimated net earnings exposure for foreign currency exchange rates was not material at year end. We have not historically hedged our foreign currency risk given that exposure to date has not been material. In 2019, changes in foreign currency exchange rates reduced our reported net sales by \$14.8 with the estimated effect on our net earnings being immaterial.

**Commodity steel pricing** – We buy and sell various types of steel products; these products consist primarily of different types of threaded fasteners and related hardware. We are exposed to the impacts of commodity steel pricing and our related ability to pass through the impacts to our end customers. During 2019, the price of commodity steel as reflected in many market indexes has declined. During 2018, we experienced inflation in the cost of steel products. During 2017, we experienced some inflation in the cost of steel products.

**Commodity energy prices** – We have market risk for changes in prices of oil, gasoline, diesel fuel, natural gas, and electricity. Prices for gasoline and diesel were mostly stable over the course of 2019, resulting in our fuel costs being similarly stable during the period. This carried over from the latter part of 2018 when the costs of these commodities began to ease. However, through most of 2018 the prices of these commodities increased, resulting in higher fuel costs for our hub and field-based vehicles and utility costs for our in-market locations, distribution centers, and manufacturing facilities in the period. Fossil fuels are also often a key feedstock for chemicals and plastics that comprise a key raw material for many products that we sell. As a result, rising costs for these commodities resulted in higher costs for many of these products. We believe that over time these risks are mitigated in part by our ability to pass freight and product costs to our customers, the efficiency of our trucking distribution network, and the ability, over time, to manage our occupancy costs related to the heating and cooling of our facilities through better efficiency. In 2019, our estimated net earnings exposure for commodity energy prices was immaterial.

**Interest rates** - Loans under our Credit Facility bear interest at floating rates tied to LIBOR (or, if LIBOR is no longer available, at a replacement rate to be determined by the administrative agent for the Credit Facility and consented to by us). As a result, changes in LIBOR can affect our operating results and liquidity to the extent we do not have effective interest rate swap arrangements in place. We have not historically used interest rate swap arrangements to hedge the variable interest rates under our Credit Facility. A one percentage point increase in LIBOR in 2019 would have resulted in approximately \$3.2 of additional interest expense. A description of our Credit Facility is contained in Note 9 of the Notes to Consolidated Financial Statements.

**ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Stockholders and Board of Directors of

Fastenal Company:

*Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting*

We have audited the accompanying consolidated balance sheets of Fastenal Company and subsidiaries (the Company) as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019 and the related notes and financial statement schedule listed in the table of contents at Item 15 (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

*Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for operating leases as of January 1, 2019 due to the adoption of ASU 2016-02, *Leases* (Topic 842).

*Basis for Opinions*

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

*Definition and Limitations of Internal Control Over Financial Reporting*

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit

preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

*Critical Audit Matter*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to an account or disclosure that is material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgment. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

*Evaluation of the sufficiency of audit evidence over inventory*

As disclosed in the consolidated balance sheets, the Company holds \$1,366.4 million of inventory, the majority of which was held at 3,228 in-market locations, as of December 31, 2019. The Company's processes to track and determine consolidated inventory relies on a perpetual inventory system which involves the interaction of multiple information technology (IT) systems.

We identified the evaluation of the sufficiency of audit evidence obtained related to the quantities of inventory as a critical audit matter. Evaluating the sufficiency of audit evidence over quantities of inventory required challenging auditor judgment to assess the number of in-market locations visited, and included the involvement of IT professionals with specialized skills and knowledge due to the interaction of multiple IT systems to track physical inventory quantities by locations.

The primary procedures we performed to address this critical audit matter included the following. We tested certain internal controls over the Company's perpetual inventory process. The inventory controls included the testing of IT application controls, as well as controls related to access to program and data, program change, program development, and computer operations. It also included controls over the physical inventory cycle counts. We involved IT professionals with specialized skills and knowledge, who assisted in testing IT controls inclusive of the interface of multiple IT systems which support the Company's perpetual inventory system. We evaluated the following information regarding the Company's inventory quantities:

- Historical inventory locations visited;
- Inventory dollars by location; and
- Inventory cycle count results of the Company, including the results of monitoring and compliance with cycle count program by in-market location.

On a sample basis, we tested the inventory by counting inventory quantities through location visits during the year to evaluate the Company's perpetual inventory records. In addition, we evaluated the overall sufficiency of audit evidence obtained over the quantities of inventory.

/s/ KPMG LLP

We have served as the Company's auditor since 1987.

Minneapolis, Minnesota  
February 6, 2020



## FASTENAL COMPANY AND SUBSIDIARIES

Consolidated Balance Sheets  
(Amounts in millions except share information)

	December 31	
	2019	2018
Assets		
Current assets:		
Cash and cash equivalents	\$ 174.9	167.2
Trade accounts receivable, net of allowance for doubtful accounts of \$10.9 and \$12.8, respectively	741.8	714.3
Inventories	1,366.4	1,278.7
Prepaid income taxes	16.7	9.0
Other current assets	157.4	147.0
Total current assets	2,457.2	2,316.2
Property and equipment, net	1,023.2	924.8
Operating lease right-of-use assets	243.2	—
Other assets	76.3	80.5
Total assets	\$ 3,799.9	3,321.5
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of debt	\$ 3.0	3.0
Accounts payable	192.8	193.6
Accrued expenses	251.5	240.8
Current portion of operating lease liabilities	97.4	—
Total current liabilities	544.7	437.4
Long-term debt	342.0	497.0
Operating lease liabilities	148.2	—
Deferred income taxes	99.4	84.4
Commitments and contingencies (Notes 5, 8, 9, and 10)		
Stockholders' equity:		
Preferred stock: \$0.01 par value, 5,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock: \$0.01 par value, 800,000,000 shares authorized, 574,128,911 and 571,803,838 shares issued and outstanding, respectively	2.9	2.9
Additional paid-in capital	67.2	3.0
Retained earnings	2,633.9	2,341.6
Accumulated other comprehensive loss	(38.4)	(44.8)
Total stockholders' equity	2,665.6	2,302.7
Total liabilities and stockholders' equity	\$ 3,799.9	3,321.5

See accompanying Notes to Consolidated Financial Statements.

**FASTENAL COMPANY AND SUBSIDIARIES**

Consolidated Statements of Earnings  
(Amounts in millions except earnings per share)  
For the year ended December 31

	2019	2018	2017
Net sales	\$ 5,333.7	4,965.1	4,390.5
Cost of sales	2,818.3	2,566.2	2,226.9
Gross profit	2,515.4	2,398.9	2,163.6
Operating and administrative expenses	1,459.4	1,400.2	1,282.8
Gain on sale of property and equipment	(1.2)	(0.5)	(1.0)
Operating income	1,057.2	999.2	881.8
Interest income	0.4	0.4	0.4
Interest expense	(13.9)	(12.6)	(9.1)
Earnings before income taxes	1,043.7	987.0	873.1
Income tax expense	252.8	235.1	294.5
Net earnings	\$ 790.9	751.9	578.6
Basic net earnings per share	\$ 1.38	1.31	1.00
Diluted net earnings per share	\$ 1.38	1.31	1.00
Basic weighted average shares outstanding	573.2	573.9	576.4
Diluted weighted average shares outstanding	574.4	574.3	576.7

See accompanying Notes to Consolidated Financial Statements.

**FASTENAL COMPANY AND SUBSIDIARIES**

## Consolidated Statements of Comprehensive Income

(Amounts in millions)

For the year ended December 31

	2019	2018	2017
Net earnings	\$ 790.9	751.9	578.6
Other comprehensive income (loss), net of tax:			
Foreign currency translation adjustments (net of tax of \$0.0 in 2019, 2018, and 2017)	6.4	(19.7)	22.2
Comprehensive income	\$ 797.3	732.2	600.8

See accompanying Notes to Consolidated Financial Statements.

**FASTENAL COMPANY AND SUBSIDIARIES**Consolidated Statements of Stockholders' Equity  
(Amounts in millions)

	2019	2018	2017
<b>Common stock</b>			
Balance at beginning of year	\$ 2.9	2.9	2.9
Balance at end of year	2.9	2.9	2.9
<b>Additional paid-in capital</b>			
Balance at beginning of year	3.0	8.5	37.4
Stock options exercised	58.5	13.4	9.5
Purchases of common stock	—	(24.0)	(43.6)
Stock-based compensation	5.7	5.1	5.2
Balance at end of year	67.2	3.0	8.5
<b>Retained earnings</b>			
Balance at beginning of year	2,341.6	2,110.6	1,940.1
Net earnings	790.9	751.9	578.6
Dividends paid in cash	(498.6)	(441.9)	(369.1)
Purchases of common stock	—	(79.0)	(39.0)
Balance at end of year	2,633.9	2,341.6	2,110.6
<b>Accumulated other comprehensive income (loss)</b>			
Balance at beginning of year	(44.8)	(25.1)	(47.3)
Other comprehensive income (loss)	6.4	(19.7)	22.2
Balance at end of year	(38.4)	(44.8)	(25.1)
Total stockholders' equity	\$ 2,665.6	2,302.7	2,096.9
Cash dividends paid per share of common stock	\$ 0.87	0.77	0.64

See accompanying Notes to Consolidated Financial Statements.

**FASTENAL COMPANY AND SUBSIDIARIES**

## Consolidated Statements of Cash Flows

(Amounts in millions)

For the year ended December 31

	2019	2018	2017
<b>Cash flows from operating activities:</b>			
Net earnings	\$ 790.9	751.9	578.6
Adjustments to reconcile net earnings to net cash provided by operating activities, net of acquisitions:			
Depreciation of property and equipment	144.6	134.1	123.6
Gain on sale of property and equipment	(1.2)	(0.5)	(1.0)
Bad debt expense	5.5	8.1	8.2
Deferred income taxes	15.0	33.8	(30.0)
Stock-based compensation	5.7	5.1	5.2
Amortization of intangible assets	4.1	4.1	3.8
Changes in operating assets and liabilities, net of acquisitions:			
Trade accounts receivable	(30.4)	(120.3)	(103.7)
Inventories	(84.4)	(193.3)	(76.3)
Other current assets	(10.4)	(28.9)	(15.6)
Accounts payable	(0.8)	46.1	36.3
Accrued expenses	10.7	46.8	37.6
Income taxes	(7.7)	(15.5)	19.4
Other	1.1	2.7	(0.9)
Net cash provided by operating activities	842.7	674.2	585.2
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(246.4)	(176.3)	(119.9)
Proceeds from sale of property and equipment	6.6	9.5	7.4
Cash paid for acquisitions	—	(3.7)	(58.7)
Other	0.1	(3.4)	(8.1)
Net cash used in investing activities	(239.7)	(173.9)	(179.3)
<b>Cash flows from financing activities:</b>			
Proceeds from debt obligations	910.0	980.0	1,015.0
Payments against debt obligations	(1,065.0)	(895.0)	(980.0)
Proceeds from exercise of stock options	58.5	13.4	9.5
Purchases of common stock	—	(103.0)	(82.6)
Payments of dividends	(498.6)	(441.9)	(369.1)
Net cash used in financing activities	(595.1)	(446.5)	(407.2)
Effect of exchange rate changes on cash and cash equivalents	(0.2)	(3.5)	5.5
Net increase in cash and cash equivalents	7.7	50.3	4.2
Cash and cash equivalents at beginning of year	167.2	116.9	112.7
Cash and cash equivalents at end of year	\$ 174.9	167.2	116.9
<b>Supplemental disclosure of cash flow information:</b>			
Cash paid for interest	\$ 13.9	12.6	8.7
Net cash paid for income taxes	\$ 242.7	215.3	304.1

See accompanying Notes to Consolidated Financial Statements.

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements**

**Note 1. Business Overview and Summary of Significant Accounting Policies**

***Business Overview***

Fastenal is a leader in the wholesale distribution of industrial and construction supplies operating a branch-based business (with an increasing number of Onsite locations). Collectively we refer to our branches and Onsite locations as in-market locations. We have over 3,200 in-market locations located primarily in North America.

***Principles of Consolidation***

The consolidated financial statements include the accounts of Fastenal Company and its subsidiaries (collectively referred to as 'Fastenal' or by terms such as 'we', 'our', or 'us'). All material intercompany balances and transactions have been eliminated in consolidation.

***Revenue Recognition***

Net sales include products and shipping and handling charges, net of estimates for product returns and any related sales incentives. Revenue is measured as the amount of consideration we expect to receive in exchange for transferring products. All revenue is recognized when we satisfy our performance obligations under the contract. We recognize revenue by transferring the promised products to the customer, with the majority of revenue recognized at the point in time the customer obtains control of the products. We recognize revenue for shipping and handling charges at the time the products are delivered to or picked up by the customer. We estimate product returns based on historical return rates. Using probability assessments, we estimate sales incentives expected to be paid over the term of the contract. The majority of our contracts have a single performance obligation and are short term in nature. Sales taxes and value added taxes in foreign jurisdictions that are collected from customers and remitted to governmental authorities are accounted for on a net basis and therefore are excluded from net sales.

***Accounts Receivable***

Credit is extended based upon an evaluation of the customer's financial condition. Accounts receivable are stated at their estimated net realizable value. The allowance for doubtful accounts is based on an analysis of customer accounts and our historical experience with accounts receivable write-offs.

***Foreign Currency Translation and Transactions***

The functional currency of our foreign operations is typically the applicable local currency. The functional currency is translated into United States dollars for balance sheet accounts, except retained earnings, using current exchange rates as of the balance sheet date, for retained earnings at historical exchange rates, and for revenue and expense accounts using a weighted average exchange rate during the applicable period. The translation adjustments are deferred as a separate component of stockholders' equity captioned accumulated other comprehensive income (loss). Gains or losses resulting from transactions denominated in foreign currencies are included in cost of sales or operating and administrative expenses.

***Cash and Cash Equivalents***

We consider all investments purchased with original maturities of three months or less to be cash equivalents.

***Inventories***

Inventories, consisting of finished goods merchandise held for resale, are stated at the lower of cost (first in, first out method) or net realizable value. We establish a reserve for excess, slow-moving, and obsolete inventory that is equal to the difference between the cost and estimated net realizable value for that inventory. These reserves are based on a review and comparison of the current inventory levels to projected and historical sales of inventory.

***Property and Equipment***

Property and equipment are stated at cost. Depreciation on property and equipment is provided for using the straight-line method over the anticipated economic useful lives of the related property. Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If circumstances require a long-lived asset or asset group be tested for possible impairment, we first compare undiscounted cash flows expected to be generated by the asset or asset group to its carrying value. If the carrying value of the long-lived asset or

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

asset group is not recoverable on an undiscounted cash flow basis, an impairment is recognized to the extent the carrying value exceeds its fair value. Fair value is determined through various valuation techniques including discounted cash flow models, quoted market values, and third-party independent appraisals, as considered necessary. There were no impairments recorded during any of the three years reported in these consolidated financial statements.

**Leases**

We determine if an arrangement contains a lease at inception. Operating leases are included in our operating lease right-of-use ('ROU') assets, the current portion of operating lease liabilities, and the operating lease liabilities in our Consolidated Balance Sheets.

The ROU assets represent our right to control the use of an underlying asset for the lease term, and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and lease liabilities are recognized at commencement date based on the present value of lease payments over the lease term. The operating lease ROU assets also include any prepaid lease payments made and exclude lease incentives. Lease expense is recognized on a straight-line basis over the lease term.

Many of our leases include both lease (e.g., fixed payments including rent, taxes, and insurance costs) and nonlease components (e.g., common-area or other maintenance costs) which are accounted for as a single lease component as we have elected the practical expedient to group lease and nonlease components for all leases. Our pick-up truck leases typically have a non-cancelable lease term of less than one year and therefore, we have elected the practical expedient to exclude these short-term leases from our ROU assets and lease liabilities.

Most leases include one or more options to renew. The exercise of lease renewal options is typically at our sole discretion; therefore, the majority of renewals to extend the lease terms are not included in our ROU assets and lease liabilities as they are not reasonably certain of exercise. We regularly evaluate the renewal options and when they are reasonably certain of exercise, we include the renewal period in our lease term.

As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the lease commencement date in determining the present value of the lease payments. We have a centrally managed treasury function; therefore, based on the applicable lease terms and the current economic environment, we apply a portfolio approach for determining the incremental borrowing rate.

**Other Long-Lived Assets**

Other assets consist of prepaid deposits, goodwill, and other definite-lived intangible assets. Goodwill represents the excess of the purchase price over the fair value of net assets acquired. Goodwill is reviewed for impairment annually. The identifiable intangible assets are amortized on a straight-line basis over their estimated life.

**Accounting Estimates**

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles ('GAAP') requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, revenues and expenses, and the disclosure of contingent liabilities. Actual results could differ from those estimates.

**Insurance Reserves**

We are self-insured for certain losses relating to workers' compensation, automobile, health, and general liability costs. Specific stop-loss coverage is provided for catastrophic claims in order to limit exposure to significant claims. Self-insurance liabilities are based on our estimate of reported claims and claims incurred but not yet reported.

**Product Warranties**

We offer a basic limited warranty for certain of our products. The specific terms and conditions of those warranties vary depending upon the product sold. We typically recoup these costs through product warranties we hold with the original equipment manufacturers. Our warranty expense has historically been minimal.

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

***Stock-Based Compensation***

We estimate the value of stock option grants using a Black-Scholes valuation model. Stock-based compensation expense is recognized on a straight-line basis over the vesting period. Our stock-based compensation expense is recorded in operating and administrative expenses.

***Income Taxes***

We account for income taxes under the asset and liability method. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

We recognize the effect of income tax positions only if those positions are more likely than not to be sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs. We record interest and penalties related to unrecognized tax benefits in income tax expense.

***Earnings Per Share***

Basic net earnings per share is calculated using net earnings available to common stockholders divided by the weighted average number of shares of common stock outstanding during the year. Diluted net earnings per share is similar to basic net earnings per share except that the weighted average number of shares of common stock outstanding includes the incremental shares assumed to be issued upon the exercise of stock options considered to be 'in-the-money' (i.e., when the market price of our stock is greater than the exercise price of our outstanding stock options).

***Segment Reporting***

We have determined that for our North American operations we meet the aggregation criteria outlined in the accounting standards as our various operations have similar (1) economic characteristics, (2) products and services, (3) customers, (4) distribution channels, and (5) regulatory environments. Considering the insignificance of our operations outside of North America, we report as a single business segment.

***Stock Split***

On April 17, 2019, the board of directors approved a two-for-one stock split of the company's outstanding common stock. Holders of the company's common stock, par value \$0.01 per share, at the close of business on May 2, 2019, received one additional share of common stock for every share of common stock they owned. The stock split took effect at the close of business on May 22, 2019. All historical common stock share and per share information for all periods presented in the accompanying consolidated financial statements and notes thereto have been retroactively adjusted to reflect the stock split.

***Recently Adopted Accounting Pronouncements***

Effective January 1, 2019, we adopted the Financial Accounting Standards Board ('FASB') Accounting Standards Update ('ASU') 2016-02, *Leases (Topic 842)*, which requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases under previous guidance. The original guidance required application on a modified retrospective basis with the earliest period presented. In August 2018, the FASB issued ASU 2018-11, *Targeted Improvements to ASC 842*, which included an option to not restate comparative periods in transition and elect to use the effective date of ASC 842, *Leases*, as the date of initial application of transition, which we elected. As a result of the adoption of ASC 842 on January 1, 2019, we recorded both operating lease ROU assets of \$227.5 and lease liabilities of \$228.3. The adoption of ASC 842 had an immaterial impact on our Consolidated Statement of Earnings and Consolidated Statement of Cash Flows for the year ended December 31, 2019. In addition, we elected the package of practical expedients permitted under the transition guidance within the new standard which allowed us to carry forward the historical lease classification.

***Recently Issued Accounting Pronouncements***

In June 2016, the FASB issued ASU 2016-13, *Measurement of Credit Losses on Financial Instruments*, which changes the way entities recognize impairment of most financial assets. This update is effective for periods beginning after December 15, 2019.



**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

Short-term and long-term financial assets, as defined by the standard, are impacted by immediate recognition of estimated credit losses in the financial statements, reflecting the net amount expected to be collected. We have evaluated the requirements of this standard on our financial assets and have concluded that the adoption of this ASU, beginning January 1, 2020, will have an immaterial impact on our consolidated financial statements.

**Note 2. Revenue**

**Disaggregation of Revenue**

The accounting policies of the operations in the various geographic areas are the same as those described in the summary of significant accounting policies. Revenues are attributed to countries based on the selling location from which the sale occurred. In each of the years presented in the tables below, no single customer represented 5% or more of our consolidated net sales.

Our revenues related to the following geographic areas were as follows for the periods ended December 31:

	Twelve-month period		
	2019	2018	2017
United States	\$ 4,568.9	4,285.5	3,842.9
Canada and Mexico	606.8	530.8	432.3
North America	5,175.7	4,816.3	4,275.2
All other foreign countries	158.0	148.8	115.3
<b>Total revenues</b>	<b>\$ 5,333.7</b>	<b>4,965.1</b>	<b>4,390.5</b>

The percentages of our sales by end market were as follows for the periods ended December 31:

	Twelve-month period		
	2019	2018	2017
Manufacturing	67.5%	66.7%	66.5%
Non-residential construction	12.9%	13.1%	13.0%
Other	19.6%	20.2%	20.5%
	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The percentages of our sales by product line were as follows for the periods ended December 31<sup>(1)</sup>:

Type	Introduced	Twelve-month Period		
		2019	2018	2017
Fasteners <sup>(2)</sup>	1967	34.2%	34.9%	35.6%
Tools	1993	9.9%	10.0%	10.1%
Cutting tools	1996	5.7%	5.7%	5.8%
Hydraulics & pneumatics	1996	6.8%	6.8%	6.8%
Material handling	1996	5.9%	5.8%	5.9%
Janitorial supplies	1996	7.8%	7.6%	7.3%
Electrical supplies	1997	4.7%	4.7%	4.9%
Welding supplies	1997	4.2%	4.1%	4.2%
Safety supplies	1999	17.9%	17.2%	16.3%
Other		2.9%	3.2%	3.1%
		<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

<sup>(1)</sup> In 2018, we reclassified certain product category designations and have conformed the prior period percentages to the current year presentation.

<sup>(2)</sup> The fastener product line represents fasteners and miscellaneous supplies.

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

**Note 3. Long-Lived Assets**

The accounting policies of the operations in the various geographic areas are the same as those described in the summary of significant accounting policies. Long-lived assets consist of net property and equipment, deposits, goodwill, and other net intangibles.

Property and equipment at year end consisted of the following:

	Depreciable Life in Years	2019	2018
Land	—	\$ 41.8	36.3
Buildings and improvements	15 to 40	423.7	323.1
Automated distribution and warehouse equipment	5 to 30	244.5	229.1
Shelving, industrial vending, and equipment	3 to 10	1,036.2	927.6
Transportation equipment	3 to 5	88.7	77.9
Construction in progress	—	132.0	152.2
		<b>1,966.9</b>	1,746.2
Less accumulated depreciation		<b>(943.7)</b>	(821.4)
Property and equipment, net		<b>\$ 1,023.2</b>	924.8

Our long-lived assets related to the following geographic areas:

	2019	2018	2017
United States	\$ 1,238.4	947.7	919.5
Canada and Mexico	72.2	43.0	42.8
North America	<b>1,310.6</b>	990.7	962.3
All other foreign countries	32.1	14.6	12.5
Total long-lived assets	<b>\$ 1,342.7</b>	1,005.3	974.8

**Note 4. Accrued Expenses**

Accrued expenses at year end consisted of the following:

	2019	2018
Employee payroll and related taxes	\$ 28.7	27.6
Employee bonuses and commissions	17.9	22.8
Profit sharing contribution	13.8	13.0
Insurance reserves	41.1	37.6
Indirect taxes	67.4	63.6
Customer promotions and marketing	52.2	50.9
Other	30.4	25.3
Accrued expenses	<b>\$ 251.5</b>	240.8

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

**Note 5. Stockholders' Equity**

**Dividends**

On January 16, 2020, our board of directors declared a quarterly dividend of \$0.25 per share of common stock to be paid in cash on February 28, 2020 to shareholders of record at the close of business on January 31, 2020. We paid aggregate annual dividends per share of \$0.87, \$0.77, and \$0.64 in 2019, 2018, and 2017, respectively.

**Stock Options**

Effective January 2, 2020, the compensation committee of our board of directors granted to our employees options to purchase a total of 877,299 shares of our common stock at an exercise strike price of \$38.00 per share. The closing stock price on the effective date of the grant was \$37.23 per share. On the same date, certain of our non-employee directors elected to forgo all or a portion of the 2020 annual cash retainer in exchange for options to acquire a total of 24,964 shares of our common stock at an exercise price of \$38.00 per share.

The following tables summarize the details of options granted under our stock option plans that were still outstanding as of December 31, 2019, and the assumptions used to value those grants. All such grants were effective at the close of business on the date of grant.

Date of Grant	Options Granted	Option Exercise (Strike) Price	Closing Stock Price on Date of Grant	December 31, 2019	
				Options Outstanding	Options Exercisable
January 2, 2019	1,316,924	\$ 26.00	\$ 25.705	1,279,842	29,010
January 2, 2018	1,087,936	\$ 27.50	\$ 27.270	1,019,440	42,370
January 3, 2017	1,529,578	\$ 23.50	\$ 23.475	1,197,606	332,132
April 19, 2016	1,690,880	\$ 23.00	\$ 22.870	1,220,524	447,166
April 21, 2015	1,786,440	\$ 21.00	\$ 20.630	833,593	444,589
April 22, 2014	1,910,000	\$ 28.00	\$ 25.265	599,128	357,268
April 16, 2013	410,000	\$ 27.00	\$ 24.625	97,472	58,722
April 17, 2012	2,470,000	\$ 27.00	\$ 24.505	547,112	440,310
April 19, 2011	820,000	\$ 17.50	\$ 15.890	12,500	12,500
Total	13,021,758			6,807,217	2,164,067

Date of Grant	Risk-free Interest Rate	Expected Life of Option in Years	Expected Dividend Yield	Expected Stock Volatility	Estimated Fair Value of Stock Option
January 2, 2019	2.5%	5.00	2.9%	23.96%	\$ 4.40
January 2, 2018	2.2%	5.00	2.3%	23.45%	\$ 5.02
January 3, 2017	1.9%	5.00	2.6%	24.49%	\$ 4.20
April 19, 2016	1.3%	5.00	2.6%	26.34%	\$ 4.09
April 21, 2015	1.3%	5.00	2.7%	26.84%	\$ 3.68
April 22, 2014	1.8%	5.00	2.0%	28.55%	\$ 4.79
April 16, 2013	0.7%	5.00	1.6%	37.42%	\$ 6.33
April 17, 2012	0.9%	5.00	1.4%	39.25%	\$ 6.85
April 19, 2011	2.1%	5.00	1.6%	39.33%	\$ 5.60

All of the options in the tables above vest and become exercisable over a period of up to eight years. Generally, each option will terminate approximately nine years after the grant date.

The fair value of each share-based option is estimated on the date of grant using a Black-Scholes valuation method that uses the assumptions listed above. The risk-free interest rate is based on the U.S. Treasury rate over the expected life of the option at the time of grant. The expected life is the average length of time over which we expect the employee groups will exercise their options, which is based on historical experience with similar grants. The dividend yield is estimated over the expected life of the option based on our current dividend payout, historical dividends paid, and expected future cash dividends. Expected stock

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

volatilities are based on the movement of our stock price over the most recent historical period equivalent to the expected life of the option.

A summary of activities under our stock option plans consisted of the following:

	Options Outstanding	Exercise Price <sup>(1)</sup>	Remaining Life <sup>(2)</sup>
Outstanding as of January 1, 2019	7,999,264	\$ 24.765	5.61
Granted	1,316,924	\$ 26.000	9.00
Exercised	(2,325,073)	\$ 25.150	
Cancelled/forfeited	(183,898)	\$ 24.630	
Outstanding as of December 31, 2019	6,807,217	\$ 24.890	6.09
Exercisable as of December 31, 2019	2,164,067	\$ 24.510	4.30

	Options Outstanding	Exercise Price <sup>(1)</sup>	Remaining Life <sup>(2)</sup>
Outstanding as of January 1, 2018	7,897,816	\$ 24.140	5.89
Granted	1,087,936	\$ 27.500	9.00
Exercised	(620,766)	\$ 21.655	
Cancelled/forfeited	(365,722)	\$ 24.430	
Outstanding as of December 31, 2018	7,999,264	\$ 24.765	5.61
Exercisable as of December 31, 2018	3,108,756	\$ 25.530	3.69

<sup>(1)</sup> Weighted average exercise price.

<sup>(2)</sup> Weighted average remaining contractual life in years.

The total intrinsic value of stock options exercised during the years ended December 31, 2019, 2018, and 2017 was \$20.2, \$4.2, and \$6.9, respectively. The intrinsic value represents the difference between the exercise price and fair value of the underlying shares at the date of exercise.

At December 31, 2019, there was \$13.1 of total unrecognized stock-based compensation expense related to outstanding unvested stock options granted under the employee stock option plan. This expense is expected to be recognized over a weighted average period of 3.82 years. Any future change in estimated forfeitures will impact this amount. The total grant date fair value of stock options vested under our employee stock option plan during 2019, 2018, and 2017 was \$5.9, \$5.3, and \$4.2, respectively.

Total stock-based compensation expense related to our employee stock option plan was \$5.7, \$5.1, and \$5.2 for 2019, 2018, and 2017, respectively.

**Shares Outstanding**

Shares of common stock outstanding were as follows:

	2019	2018	2017
Balance at beginning of year	571,803,838	575,183,072	578,323,848
Stock options exercised	2,325,073	620,766	659,224
Purchases of common stock	—	(4,000,000)	(3,800,000)
Balance at end of year	574,128,911	571,803,838	575,183,072

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

**Earnings Per Share**

The following tables present a reconciliation of the denominators used in the computation of basic and diluted earnings per share and a summary of the options to purchase shares of common stock which were excluded from the diluted earnings calculation because they were anti-dilutive:

Reconciliation	2019	2018	2017
Basic weighted average shares outstanding	573,202,152	573,933,834	576,416,870
Weighted shares assumed upon exercise of stock options	1,239,476	391,694	268,596
Diluted weighted average shares outstanding	574,441,628	574,325,528	576,685,466

Summary of Anti-dilutive Options Excluded	2019	2018	2017
Options to purchase shares of common stock	—	3,159,514	7,048,802
Weighted average exercise prices of options	\$ —	27.510	24.925

Any dilutive impact summarized above related to periods when the average market price of our stock exceeded the exercise price of the potentially dilutive stock options then outstanding.

**Note 6. Retirement Savings Plan**

The Fastenal Company and Subsidiaries 401(k) and Employee Stock Ownership Plan covers all of our employees in the United States. Our employees in Canada may participate in a Registered Retirement Savings Plan. The general purpose of both of these plans is to provide additional financial security during retirement by providing employees with an incentive to make regular savings contributions. In addition to the participation of our employees, we make annual profit sharing contributions based on an established formula. The expense recorded under this profit sharing formula was approximately \$13.8, \$13.0, and \$10.6 for 2019, 2018, and 2017, respectively.

**Note 7. Income Taxes**

Earnings before income taxes were derived from the following sources:

	2019	2018	2017
Domestic	\$ 977.6	905.0	809.4
Foreign	66.1	82.0	63.7
Earnings before income taxes	\$ 1,043.7	987.0	873.1

Components of income tax expense (benefit) were as follows:

2019:	Current	Deferred	Total
Federal	\$ 177.4	11.3	188.7
State	41.6	0.2	41.8
Foreign	22.1	0.2	22.3
Income tax expense	\$ 241.1	11.7	252.8

2018:	Current	Deferred	Total
Federal	\$ 143.8	27.4	171.2
State	38.8	0.2	39.0
Foreign	24.1	0.8	24.9
Income tax expense	\$ 206.7	28.4	235.1

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

2017:	Current	Deferred	Total
Federal	\$ 270.6	(33.1)	237.5
State	33.2	3.3	36.5
Foreign	20.5	(0.0)	20.5
Income tax expense	\$ 324.3	(29.8)	294.5

Income tax expense in the accompanying consolidated financial statements differed from the expected expense as follows:

	2019	2018	2017
U.S. federal statutory income tax rate	21.0%	21.0%	35.0%
U.S. federal income tax expense at statutory rate	\$ 219.2	207.3	305.6
Increase (decrease) attributed to:			
State income taxes, net of federal benefit	32.8	30.2	21.5
Transition tax	—	1.2	6.5
Remeasurement of deferred taxes for Tax Act	—	(11.5)	(30.8)
Other, net	0.8	7.9	(8.3)
Total income tax expense	\$ 252.8	235.1	294.5
Effective income tax rate	24.2%	23.8%	33.7%

The tax effects of temporary differences that give rise to deferred income tax assets and liabilities at year end consisted of the following:

	2019	2018
Deferred income tax assets (liabilities):		
Inventory costing and valuation methods	\$ 4.3	4.2
Allowance for doubtful accounts	2.7	3.2
Insurance reserves	9.1	8.1
Customer promotions	1.9	1.9
Stock-based compensation	3.9	5.6
Operating lease liabilities	62.5	—
Federal and state benefit of uncertain tax positions	0.8	0.8
Foreign net operating loss and credit carryforwards	3.2	3.2
Foreign valuation allowances	(2.8)	(2.7)
Other, net	(0.0)	1.3
Total deferred income tax assets	85.6	25.6
Property and equipment	(114.7)	(104.7)
Operating lease ROU assets	(61.7)	—
Total deferred income tax liabilities	(176.4)	(104.7)
Deferred income tax liabilities	\$ (90.8)	(79.1)

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

A reconciliation of the beginning and ending amount of total gross unrecognized tax benefits was as follows:

	2019	2018
Balance at beginning of year:	\$ 5.3	4.4
Increase related to prior year tax positions	0.2	1.8
Decrease related to prior year tax positions	(0.2)	(0.6)
Increase related to current year tax positions	4.7	0.7
Decrease related to statute of limitation lapses	(1.4)	(0.9)
Settlements	0.0	(0.1)
Balance at end of year:	\$ 8.6	5.3

Included in the liability for gross unrecognized tax benefits is an immaterial amount for interest and penalties, both of which we classify as a component of income tax expense. The amount of gross unrecognized tax benefits that would favorably impact the effective tax rate, if recognized, is not material. We do not anticipate significant changes in total unrecognized tax benefits during the next twelve months. The 2019 and 2018 liability is included in deferred income taxes in the Consolidated Balance Sheets.

We file income tax returns in the United States federal jurisdiction, all states, and various local and foreign jurisdictions. We are no longer subject to income tax examinations by taxing authorities for taxable years before 2016 in the case of United States federal examinations, and with limited exception, before 2014 in the case of foreign, state, and local examinations.

On December 22, 2017, the Tax Act was signed into law. The Tax Act made broad and complex changes to the U.S. tax code which include: a lowering of the U.S. federal corporate income tax rate from 35% to 21% effective January 1, 2018, accelerated expensing of qualified capital investments for a specific period, and a transition from a worldwide to a territorial tax system which requires companies to pay a one-time transition tax on certain unrepatriated earnings from foreign subsidiaries.

ASC 740 requires a company to record the effects of a tax law change in the period of enactment which, for us, was fiscal 2017. ASU 2018-05 provides guidance on the application of the Tax Act which includes allowing a company to record a provisional amount during the measurement period for the impacts when the necessary information is not available, prepared, or analyzed in reasonable detail to complete its accounting for the change in the tax law. The measurement period ends when the company has obtained, prepared and analyzed the information necessary to finalize its accounting, but cannot extend beyond one year.

We recorded income tax expense of \$235.1 in 2018, or 23.8% of earnings before income taxes. The effective income tax rate was significantly impacted by the following two items: (1) The lower corporate tax rate provided by the Tax Act resulted in a lower tax rate beginning in the first quarter of 2018. The effective income tax rate includes the immaterial impact of the U.S. tax rate on certain offshore earnings referred to as GILTI, a new deduction for FDII, and the new alternative U.S. tax on certain BEAT payments from a U.S. company to any foreign related party. (2) Discrete income tax items to adjust our transition tax liability, reflect the impacts of accelerating depreciation for certain physical assets, and remeasure the impact of the U.S. tax rate on certain inter-company transactions. These discrete items resulted in approximately \$7.1 of income tax benefit during 2018. The accounting for the income tax effects of the Tax Act was complete as of December 31, 2018.

In general, it is our practice and intention to permanently reinvest the earnings of our foreign subsidiaries and repatriate earnings only when the tax impact is zero or very minimal and that position has not changed subsequent to the one-time transition tax under the Tax Act. Accordingly, no deferred taxes have been provided for withholding taxes or other taxes that would result upon repatriation of our approximately \$288.1 of undistributed earnings from foreign subsidiaries to the U.S. as those earnings continue to be permanently reinvested.

**Note 8. Operating Leases**

We lease space under non-cancelable operating leases for several distribution centers, several manufacturing locations, and certain branch locations. These leases do not have significant rent escalation holidays, concessions, leasehold improvement incentives, or other build-out clauses. Further, the leases do not contain contingent rent provisions. We also lease certain semi-tractors, pick-up trucks, and computer equipment under operating leases.

Certain operating leases for pick-up trucks contain residual value guarantee provisions which would generally become due at the expiration of the operating lease agreement if the fair value of the leased vehicles is less than the guaranteed residual value. The aggregate residual value guarantee related to these leases was approximately \$90.0. We believe the likelihood of funding the guarantee obligation under any provision of the operating lease agreements is remote.

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

The cost components of our operating leases were as follows for the period ended December 31, 2019:

	Twelve-month Period		
	Leased Facilities and Equipment	Leased Vehicles	Total
Operating lease cost	\$ 104.0	14.1	118.1
Variable lease cost	10.0	1.9	11.9
Short-term lease cost	—	27.4	27.4
Total	\$ 114.0	43.4	157.4

Variable lease costs are excluded from ROU assets and lease liabilities and consist primarily of taxes, insurance, and common area or other maintenance costs for our leased facilities and equipment which are paid based on actual costs incurred by the lessor as well as variable mileage costs related to our leased vehicles.

Maturities of our lease liabilities for all operating leases are as follows as of December 31, 2019:

	Leased Facilities and Equipment	Leased Vehicles	Total
2020	\$ 88.3	12.7	101.0
2021	63.2	8.5	71.7
2022	39.5	6.0	45.5
2023	22.5	2.9	25.4
2024	10.0	0.1	10.1
2025 and thereafter	3.7	—	3.7
Total lease payments	\$ 227.2	30.2	257.4
Less: Imputed interest	(10.8)	(1.0)	(11.8)
Present value of lease liabilities	\$ 216.4	29.2	245.6

The weighted average remaining lease terms and discount rates for all of our operating leases were as follows as of December 31, 2019:

Remaining lease term and discount rate:	December 31, 2019
Weighted average remaining lease term (years)	
Leased facilities and equipment	3.26
Leased vehicles	2.89
Weighted average discount rate	
Lease facilities and equipment	3.18%
Leased vehicles	2.70%

Supplemental cash flow information related to our operating leases was as follows for the period ended December 31, 2019:

	Twelve-month Period
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflow from operating leases	\$ 117.2
Leased assets obtained in exchange for new operating lease liabilities	116.1



**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

**Note 9. Debt Commitments****Credit Facility, Notes Payable, and Commitments**

Debt obligations and letters of credit outstanding at year end consisted of the following:

	2019	2018
Outstanding loans under unsecured revolving credit facility	\$ 210.0	365.0
2.00% Senior unsecured promissory note payable	40.0	40.0
2.45% Senior unsecured promissory note payable	35.0	35.0
3.22% Senior unsecured promissory note payable	60.0	60.0
<b>Total debt</b>	<b>345.0</b>	<b>500.0</b>
Less: Current portion of debt	(3.0)	(3.0)
<b>Long-term debt</b>	<b>\$ 342.0</b>	<b>497.0</b>
Outstanding letters of credit under unsecured revolving credit facility - contingent obligation	\$ 36.3	36.3

**Unsecured Revolving Credit Facility**

We have a \$700.0 committed unsecured revolving credit facility ('Credit Facility'). The Credit Facility includes a committed letter of credit subfacility of \$55.0. The commitments under the Credit Facility will expire (and any borrowings outstanding under the Credit Facility will become due and payable) on November 30, 2023. In the next twelve months, we have the ability and intent to repay a portion of the outstanding loans using cash; therefore, we have classified this portion as a current liability. The Credit Facility contains certain financial and other covenants, and our right to borrow under the Credit Facility is conditioned upon, among other things, our compliance with these covenants. We are currently in compliance with these covenants.

Borrowings under the Credit Facility generally bear interest at a rate per annum equal to the London Interbank Offered Rate ('LIBOR') for interest periods of various lengths selected by us, plus 0.95%. Based on the interest periods we have chosen, our weighted per annum interest rate at December 31, 2019 was approximately 2.7%. We pay a commitment fee for the unused portion of the Credit Facility. This fee is either 0.10% or 0.125% per annum based on our usage of the Credit Facility.

**Senior Unsecured Promissory Notes Payable**

We have issued senior unsecured promissory notes under our master note agreement (the 'Master Note Agreement') in the aggregate principal amount of \$135.0. Our aggregate borrowing capacity under the Master Note Agreement is \$600.0; however, none of the institutional investors party to that agreement are committed to purchase notes thereunder.

The notes currently issued under our Master Note Agreement consist of three series. The first is in an aggregate principal amount of \$40.0, bears interest at a fixed rate of 2.00% per annum, and is due and payable on July 20, 2021. The second is in an aggregate principal amount of \$35.0, bears interest at a fixed rate of 2.45% per annum, and is due and payable on July 20, 2022. The third is in an aggregate principal amount of \$60.0, bears interest at a fixed rate of 3.22% per annum, and is due and payable on March 1, 2024. There is no amortization of these notes prior to their maturity date and interest is payable quarterly.

**Note 10. Legal Contingencies**

We are involved in certain legal actions. The outcomes of these legal actions are not within our complete control and may not be known for prolonged periods of time. In some actions, the claimants seek damages, as well as other relief, that could require significant expenditures or result in lost revenues. We record a liability for these legal actions when a loss is known or considered probable and the amount can be reasonably estimated. If the reasonable estimate of a known or probable loss is a range, and no amount within the range is a better estimate than any other, the minimum amount of the range is accrued. If a loss is reasonably possible but not known or probable, and can be reasonably estimated, the estimated loss or range of loss is disclosed. In most cases, significant judgment is required to estimate the amount and timing of a loss to be recorded. As of December 31, 2019, there were no litigation matters that we consider to be probable or reasonably possible to have a material adverse outcome.

**Note 11. Subsequent Events**

We evaluated all subsequent event activity and concluded that no subsequent events have occurred that would require recognition in the consolidated financial statements or disclosure in the Notes to Consolidated Financial Statements, with the exception of the dividend declaration and stock option activities disclosed in Note 5.

**Fastenal Company and Subsidiaries**  
**Notes to Consolidated Financial Statements—Continued**

**Note 12. Selected Quarterly Financial Data (Unaudited)**

(Amounts in millions except per share information)

2019:	Net Sales	Gross Profit	Pre-tax Earnings	Net Earnings	Basic Net Earnings per Share <sup>(1)</sup>	Diluted Net Earnings per Share <sup>(1)</sup>
First quarter	\$ 1,309.3	624.7	257.5	194.1	0.34	0.34
Second quarter	1,368.4	641.2	271.4	204.6	0.36	0.36
Third quarter	1,379.1	651.1	278.4	213.5	0.37	0.37
Fourth quarter	1,276.9	598.4	236.4	178.7	0.31	0.31
<b>Total</b>	<b>\$ 5,333.7</b>	<b>2,515.4</b>	<b>1,043.7</b>	<b>790.9</b>	<b>1.38</b>	<b>1.38</b>

2018:	Net Sales	Gross Profit	Pre-tax Earnings	Net Earnings	Basic Net Earnings per Share <sup>(1)</sup>	Diluted Net Earnings per Share <sup>(1)</sup>
First quarter	\$ 1,185.8	577.6	231.9	174.3	0.30	0.30
Second quarter	1,267.9	617.7	265.9	211.2	0.37	0.37
Third quarter	1,279.8	615.8	259.4	197.6	0.34	0.34
Fourth quarter	1,231.6	587.8	229.8	168.8	0.29	0.29
<b>Total</b>	<b>\$ 4,965.1</b>	<b>2,398.9</b>	<b>987.0</b>	<b>751.9</b>	<b>1.31</b>	<b>1.31</b>

<sup>(1)</sup> Amounts may not foot due to rounding difference.

\*\*\*End of Notes to Consolidated Financial Statements\*\*\*

**ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**ITEM 9A. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the 'Securities Exchange Act')). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Securities Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to our management, including the principal executive officer and principal financial officer, to allow for timely decisions regarding required disclosure.

**Attestation Report of Independent Registered Public Accounting Firm**

The attestation report required under this item is contained earlier in this Form 10-K under the heading 'Item 8, Financial Statements and Supplementary Data'.

**Management's Annual Report on Internal Control Over Financial Reporting**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act. The company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. The company's internal control over financial reporting includes those policies and procedures that:

- (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company;
- (ii) provide reasonable assurance that the transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and
- (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision of our principal executive officer and our principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, management believes that the company maintained effective internal control over financial reporting as of December 31, 2019. There was no change in the company's internal control over financial reporting during the company's most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

/s/ Daniel L. Florness

\_\_\_\_\_  
Daniel L. Florness

President and Chief Executive Officer

Winona, Minnesota

February 6, 2020

/s/ Holden Lewis

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Holden Lewis

Executive Vice President and Chief Financial Officer

**ITEM 9B. OTHER INFORMATION**

None.

**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS, AND CORPORATE GOVERNANCE**

Incorporated herein by reference is the information appearing under the headings 'Proposal #1—Election of Directors', 'Corporate Governance and Director Compensation—Board Leadership Structure and Committee Membership', 'Corporate Governance and Director Compensation—Audit Committee', and 'Corporate Governance and Director Compensation—Delinquent Section 16(a) Reports' in the Proxy Statement.

There have been no material changes to the procedures by which security holders may recommend nominees to the board of directors since our last report.

In January 2004, our board of directors adopted a supplement to our existing standards of conduct designed to qualify the standards of conduct as a code of ethics within the meaning of Item 406(b) of Regulation S-K promulgated by the SEC ('Code of Ethics'). The standards of conduct, as supplemented, apply to all of our directors, officers, and employees, including without limitation our chief executive officer, chief financial officer, principal accounting officer, and controller (if any), and persons performing similar functions ('Senior Financial Officers'). Those portions of the standards of conduct, as supplemented, that constitute a required element of a Code of Ethics are available without charge by submitting a request to us pursuant to the directions detailed under 'Does Fastenal have a Code of Conduct?' on the 'Investor FAQs' page of the 'Investor Relations' section of our website at [www.fastenal.com](http://www.fastenal.com). In the event we amend or waive any portion of the standards of conduct, as supplemented, that constitutes a required element of a Code of Ethics and such amendment or waiver applies to any of our Senior Financial Officers, we intend to post on our website at [www.fastenal.com](http://www.fastenal.com), within four business days after the date of such amendment or waiver, a brief description of such amendment or waiver, the name of each Senior Financial Officer to whom the amendment or waiver applies, and the date of the amendment or waiver.

**Information about our Executive Officers**

As of the date of filing this Form 10-K, the following individuals were executive officers of the Company:

Name	Employee of Fastenal Since	Age	Position
Daniel L. Florness	1996	56	President, Chief Executive Officer, and Director
William J. Drazkowski	1995	48	Executive Vice President – Sales
Leland J. Hein	1985	59	Senior Executive Vice President – Sales
James C. Jansen	1992	49	Executive Vice President – Manufacturing
Holden Lewis	2016	50	Executive Vice President and Chief Financial Officer
Sheryl A. Lisowski	1994	52	Controller, Chief Accounting Officer, and Treasurer
Charles S. Miller	1999	45	Senior Executive Vice President – Sales
Terry M. Owen	1999	51	Senior Executive Vice President – Sales Operations
John L. Soderberg	1993	48	Executive Vice President – Information Technology
Jeffery M. Watts	1996	48	Executive Vice President – International Sales
Reyne K. Wisecup	1988	56	Senior Executive Vice President – Human Resources and Director

Mr. Florness has been our president and chief executive officer since January 2016. From December 2002 to December 2015, Mr. Florness was an executive vice president and our chief financial officer. From June 1996 to November 2002, Mr. Florness was our chief financial officer. During his time as chief financial officer, Mr. Florness' responsibilities expanded beyond finance, including leadership of a portion of our manufacturing division, our product development and procurement, and the company's national accounts business. Mr. Florness has served as one of our directors since January 2016.

Mr. Drazkowski has been our executive vice president - sales since October 2019. Mr. Drazkowski's responsibilities include sales and operational oversight of our Western United States business. From December 2016 to September 2019, Mr. Drazkowski was executive vice president – national accounts sales. From October 2014 to December 2016, Mr. Drazkowski was our vice president – national accounts sales, from September 2013 to September 2014, he served as regional vice president of our Minnesota based region, and from November 2007 to August 2013, he served as one of our district managers. Prior to November 2007, Mr. Drazkowski served in various sales leadership roles at our company.

Mr. Hein has been our senior executive vice president – sales since January 2016. From July 2015 to December 2015, Mr. Hein was our chief operating officer. Mr. Hein was our president and chief executive officer from January 2015 to July 2015, and our

president from July 2012 to December 2014. From November 2007 to July 2012, Mr. Hein was one of our executive vice presidents – sales. Prior to November 2007, Mr. Hein served in various sales leadership roles at our company.

Mr. Jansen has been our executive vice president – manufacturing since January 2016. Mr. Jansen's responsibilities include oversight of our industrial services, quality assurance, aerospace, manufacturing operations, and EHS management. From December 2010 to December 2015, Mr. Jansen was our executive vice president - operations. From November 2007 to December 2010, Mr. Jansen was our executive vice president – internal operations. From May 2005 to November 2007, Mr. Jansen served as our leader of systems development (this role encompassed both information systems and distribution systems development). From April 2000 to April 2005, Mr. Jansen served as regional vice president of our Texas based region.

Mr. Lewis has been our executive vice president and chief financial officer since August 2016. From April 2016 to July 2016, Mr. Lewis was a senior vice president/equity research-industrial technology with FBR Capital Markets & Co. (a full-service investment bank). From September 2014 to January 2016, Mr. Lewis was a managing director/equity research-industrial technology with Oppenheimer & Co Inc. (a full-service investment bank). From August 2002 to August 2014, Mr. Lewis was a managing director/equity research-industrial manufacturing & distribution with BB&T Capital Markets, a division of BB&T Securities LLC (a full-service investment bank). Prior to August 2002, Mr. Lewis held similar roles with various other organizations since 1994. In each of Mr. Lewis' positions prior to joining Fastenal, he was responsible for studying the strategic and financial direction of companies for the purpose of making investment recommendations to institutional clients.

Ms. Lisowski has been our controller, chief accounting officer, and treasurer since August 2016. Ms. Lisowski was our controller and chief accounting officer from October 2013 to August 2016, and also served as our interim chief financial officer from January 2016 to August 2016. From March 2007 to October 2013, Ms. Lisowski served as our controller – accounting operations. Ms. Lisowski joined Fastenal in 1994 and, prior to March 2007, served in various roles of increasing responsibility within our finance and accounting team.

Mr. Miller has been our senior executive vice president – sales since January 2020. Mr. Miller's responsibilities include sales and operational oversight of our Eastern United States business. From November 2015 to December 2019, Mr. Miller was one of our executive vice presidents – sales. From January 2009 to October 2015, Mr. Miller served as regional vice president of our southeast central region based primarily in Tennessee and Kentucky. Prior to January 2009, Mr. Miller served in various sales leadership roles at our company.

Mr. Owen has been our senior executive vice president – sales operations since January 2016. Mr. Owen's responsibilities include oversight of our e-commerce, marketing, national accounts sales, government sales, FAST Solutions®, Onsite and vending, our Mansco division, manufacturing, distribution, transportation, product development, supplier development, procurement, and supply chain. From July 2015 to December 2015, Mr. Owen was one of our executive vice president – sales. From May 2014 to June 2015, Mr. Owen served as our executive vice president – e-business, and from December 2007 to May 2014, Mr. Owen was regional vice president of our Texas based and Mexico regions. Prior to December 2007, Mr. Owen served in various distribution center leadership roles at our company.

Mr. Soderberg has been our executive vice president – information technology since May 2016. From May 2014 to May 2016, Mr. Soderberg served as our executive vice president – sales operations and support. From April 2010 to May 2014, Mr. Soderberg was one of our vice presidents – sales. From April 2005 to April 2010, Mr. Soderberg served as regional vice president of our Seattle, Washington based region. Prior to April 2005, Mr. Soderberg served in various sales leadership roles in the mid-Atlantic area of our company.

Mr. Watts has been our executive vice president – international sales since December 2016. From March 2015 to December 2016, Mr. Watts was our vice president – international sales. From June 2005 to February 2015, he served as regional vice president of our Canadian region. Prior to June 2005, Mr. Watts served in various sales leadership roles at our company.

Ms. Wisecup has been our senior executive vice president – human resources since December 2016. From November 2007 to December 2016, Ms. Wisecup was our executive vice president – human resources. Prior to November 2007, she served in various support roles, including director of employee development. Ms. Wisecup has also served as one of our directors since 2000.

The executive officers are elected by our board of directors for a term of one year and serve until their successors are elected and qualified. None of our executive officers is related to any other such executive officer or to any of our directors.

**ITEM 11. EXECUTIVE COMPENSATION**

Incorporated herein by reference is the information appearing under the headings 'Corporate Governance and Director Compensation—Compensation Committee Interlocks and Insider Participation', 'Executive Compensation', and 'Corporate Governance and Director Compensation—Compensation of our Directors' in the Proxy Statement.

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

Incorporated herein by reference is the information appearing under the heading 'Security Ownership of Principal Shareholders and Management' in the Proxy Statement.

**Equity Compensation Plan Information**

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants, and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants, and Rights	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders <sup>(1)</sup>	6,807,217	\$ 24.89	13,495,100
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>6,807,217</b>		<b>13,495,100</b>

(1) Reflects stock option awards issued and issuable in the future under our Fastenal Company Stock Option Plan and our Fastenal Company Non-Employee Director Stock Option Plan.

**ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE**

Incorporated herein by reference is the information appearing under the headings 'Corporate Governance and Director Compensation—Director Independence and Other Board Matters', 'Corporate Governance and Director Compensation—Related Person Transaction Approval Policy', and 'Corporate Governance and Director Compensation—Transactions with Related Persons' in the Proxy Statement.

**ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

Incorporated herein by reference is the information appearing under the heading 'Audit and Related Matters—Audit and Related Fees' and 'Audit and Related Matters—Pre-Approval of Services' in the Proxy Statement.

## PART IV

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- a) 1. Financial Statements:  
 Consolidated Balance Sheets as of December 31, 2019 and 2018  
 Consolidated Statements of Earnings for the years ended December 31, 2019, 2018, and 2017  
 Consolidated Statements of Comprehensive Income for the years ended December 31, 2019, 2018, and 2017  
 Consolidated Statements of Stockholders' Equity for the years ended December 31, 2019, 2018, and 2017  
 Consolidated Statements of Cash Flows for the years ended December 31, 2019, 2018, and 2017  
 Notes to Consolidated Financial Statements  
 Report of Independent Registered Public Accounting Firm
2. Financial Statement Schedules:  
 Schedule II—Valuation and Qualifying Accounts
3. Exhibits:

## INDEX TO EXHIBITS

Exhibit Number	Description of Document
3.1	<a href="#">Restated Articles of Incorporation of Fastenal Company, as amended (incorporated by reference to Exhibit 3.1 to Fastenal Company's Form 8-K dated as of April 23, 2019 (file no. 000-016125))</a>
3.2	<a href="#">Restated By-Laws of Fastenal Company (incorporated by reference to Exhibit 3.2 to Fastenal Company's Form 8-K dated as of January 17, 2019 (file no. 000-16125))</a>
4.1	<a href="#">Form of Senior Notes due July 20, 2021 (incorporated by reference to Exhibit 4.1 to Fastenal Company's Form 8-K dated as of July 20, 2016 (file no. 000-16125))</a>
4.2	<a href="#">Form of Senior Notes due July 20, 2022 (incorporated by reference to Exhibit 4.2 to Fastenal Company's Form 8-K dated as of July 20, 2016 (file no. 000-16125))</a>
4.3	<a href="#">Form of Senior Notes due March 1, 2024 (incorporated by reference to Exhibit 4.1 to Fastenal Company's Form 10-Q for the quarter ended March 31, 2017 (file no. 000-016125))</a>
4.4	<a href="#">Description of Capital Stock</a>
10.1	<a href="#">Bonus Program for Executive Officers*</a>
10.2	<a href="#">Fastenal Company Stock Option Plan as amended and restated effective as of December 12, 2014 (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated December 17, 2014 (file no. 000-16125))*</a>
10.3	<a href="#">Fastenal Company Incentive Plan (incorporated by reference to Appendix A to Fastenal Company's Proxy Statement dated February 23, 2012 (file no. 000-16125))*</a>
10.4	<a href="#">Fastenal Company Non-Employee Director Stock Option Plan (incorporated by reference to Exhibit 99 to Fastenal Company's Registration Statement on Form S-8 filed on April 25, 2018 (file no. 333-224441)).*</a>
10.5	<a href="#">Credit Agreement, dated as of May 1, 2015, among Fastenal Company, the Lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent, Swingline Lender and Issuing Lender (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated May 5, 2015 (file no. 001-16125)).</a>
10.6	<a href="#">First Amendment to Credit Agreement, dated as of November 23, 2015, among Fastenal Company, the Lenders from time to time party thereto, and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated November 25, 2015 (file no. 001-16125)).</a>
10.7	<a href="#">Second Amendment to Credit Agreement, dated as of March 10, 2017, by and among Fastenal Company, the Lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated as of March 14, 2017 (file no. 001-16125)).</a>
10.8	<a href="#">Third Amendment to Credit Agreement dated as of November 30, 2018 among Fastenal Company, the Lenders party thereto, and Wells Fargo Bank, National Association, as Administrative Agent (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated December 3, 2018 (file no. 001-16125)).</a>

Exhibit Number	Description of Document
10.9	<a href="#">Master Note Agreement dated as of July 20, 2016 by and among (i) Fastenal Company, (ii) Metropolitan Life Insurance Company, NYL Investors LLC and PGIM, Inc. (formerly known as Prudential Investment Management, Inc.), as investor group representatives (each, an 'Investor Group Representative'), and (iii) Metropolitan Life Insurance Company (in its capacity as a purchaser of notes under such Master Note Agreement) and/or affiliates of any Investor Group Representative who become purchasers of notes under such Master Note Agreement (incorporated by reference to Exhibit 10.1 to Fastenal Company's Form 8-K dated as of July 20, 2016 (file no. 001-16125)).</a>
10.10	<a href="#">Omnibus First Amendment to Master Note Agreement and Subsidiary Guaranty Agreement dated as of November 30, 2018 by and among Fastenal Company, Fastenal Company Purchasing, and Fastenal IP Company, on one hand, and Metropolitan Life Insurance Company, NYL Investors LLC, PGIM, Inc., and each holder of Notes that are signatory thereto, on the other hand (incorporated by reference to Exhibit 10.2 to Fastenal Company's Form 8-K dated December 3, 2018 (file no. 001-16125)).</a>
13	<a href="#">Portions of 2019 Annual Report to Shareholders not included in this Form 10-K (only those sections specifically incorporated by reference in this Form 10-K shall be deemed filed with the SEC)</a>
21	<a href="#">List of Subsidiaries</a>
23	<a href="#">Consent of Independent Registered Public Accounting Firm</a>
31	<a href="#">Certifications under Section 302 of the Sarbanes-Oxley Act of 2002</a>
32	<a href="#">Certification under Section 906 of the Sarbanes-Oxley Act of 2002</a>
101	The following financial statements from the Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Earnings, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Stockholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Consolidated Financial Statements.
104	The cover page from the Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL.

\* Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 15(b).

**ITEM 16. FORM 10-K SUMMARY**

Not applicable.



**FASTENAL COMPANY**

## Schedule II—Valuation and Qualifying Accounts

Years ended December 31, 2019, 2018, and 2017  
(Amounts in millions)

Description	Balance at Beginning of Year	"Additions" Charged to Costs and Expenses	"Other" Additions (Deductions)	"Less" Deductions	Balance at End of Year
<b>Year ended December 31, 2019</b>					
Allowance for doubtful accounts	\$ 12.8	5.5	—	7.4	10.9
Insurance reserves	\$ 37.6	69.7 <sup>(1)</sup>	—	66.2 <sup>(2)</sup>	41.1
<b>Year ended December 31, 2018</b>					
Allowance for doubtful accounts	\$ 11.9	8.1	—	7.2	12.8
Insurance reserves	\$ 39.0	66.9 <sup>(1)</sup>	—	68.3 <sup>(2)</sup>	37.6
<b>Year ended December 31, 2017</b>					
Allowance for doubtful accounts	\$ 11.2	8.2	—	7.5	11.9
Insurance reserves	\$ 34.6	68.2 <sup>(1)</sup>	—	63.8 <sup>(2)</sup>	39.0

<sup>(1)</sup> Includes costs and expenses incurred for premiums and claims related to health and general insurance.<sup>(2)</sup> Includes costs and expenses paid for premiums and claims related to health and general insurance.

See accompanying Report of Independent Registered Public Accounting Firm incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 6, 2020

FASTENAL COMPANY

By /s/ Daniel L. Florness  
Daniel L. Florness, President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: February 6, 2020

/s/ Daniel L. Florness  
Daniel L. Florness, President and Chief Executive Officer (Principal Executive Officer), and Director

/s/ Holden Lewis  
Holden Lewis, Executive Vice President and Chief Financial Officer (Principal Financial Officer)

/s/ Sheryl A. Lisowski  
Sheryl A. Lisowski, Controller, Chief Accounting Officer, and Treasurer (Principal Accounting Officer)

/s/ Willard D. Oberton  
Willard D. Oberton, Director (Chairman)

/s/ Darren R. Jackson  
Darren R. Jackson, Director

/s/ Michael J. Ancius  
Michael J. Ancius, Director

/s/ Daniel L. Johnson  
Daniel L. Johnson, Director

/s/ Michael J. Dolan  
Michael J. Dolan, Director

/s/ Nicholas J. Lundquist  
Nicholas J. Lundquist, Director

/s/ Stephen L. Eastman  
Stephen L. Eastman, Director

/s/ Scott A. Satterlee  
Scott A. Satterlee, Director

/s/ Rita J. Heise  
Rita J. Heise, Director

/s/ Reyne K. Wisecup  
Reyne K. Wisecup, Director

**DESCRIPTION OF CAPITAL STOCK**

The summary of the general terms and provisions of the capital stock of Fastenal Company (the "Company") set forth below does not purport to be complete and is subject to and qualified by reference to the Company's Restated Articles of Incorporation, as amended (the "Articles") and Restated By-Laws ("By-Laws," and together with the Articles, the "Charter Documents"), each of which is incorporated herein by reference and attached as an exhibit to the Company's most recent Annual Report on Form 10-K filed with the Securities and Exchange Commission. For additional information, please read the Company's Charter Documents and the applicable provisions of the Minnesota Business Corporation Act (the "MBCA").

**Capital Stock**

The Company is authorized to issue up to 805,000,000 shares, of which 5,000,000 have been designated preferred stock, par value of \$0.01 per share ("Preferred Stock") and 800,000,000 have been designated common stock, par value \$0.01 per share ("Common Stock"). As of January 22, 2020, 574,226,297 shares of Common Stock were issued and outstanding and no shares of Preferred Stock were issued and outstanding.

**Voting Rights**

The holders of shares of Common Stock are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders, including the election of directors. The Articles do not permit cumulative voting in the election of directors. Subject to the rights, if any, of the holders of one or more classes or series of Preferred Stock issued by the Company, each director of the Company shall be elected at a meeting of shareholders by the vote of the majority of votes cast with respect to that director, provided that directors of the Company shall be elected by a plurality of the votes present and entitled to vote on the election of directors at any such meeting for which the number of nominees (other than nominees withdrawn on or prior to the day preceding the date the Company first mails its notice for such meeting to the shareholders) exceeds the number of directors to be elected. Voting rights with respect to certain significant corporate transactions may require more than a majority vote in certain circumstances as described below under "Business Combinations and Other Transactions with 15% Shareholders."

**Dividend Rights**

Subject to any prior rights of any Preferred Stock then outstanding, the holders of shares of Common Stock are entitled to receive ratably such dividends as may be declared by the Company's board of directors out of funds legally available therefor.

**Liquidation Rights**

Upon any liquidation or dissolution of the Company, the holders of shares of Common Stock share ratably, in proportion to the number of shares held, in the assets available for distribution after payment of all prior claims, including all prior claims of any Preferred Stock then outstanding.

**No Preemptive Rights**

Shareholders of the Company shall have no preemptive rights to acquire securities or rights to purchase securities of the Company.

**Listing**

The Company's Common Stock is currently traded on the Nasdaq Stock Market LLC under the symbol "FAST."

**Anti-Takeover Provisions**

The Charter Documents and the MBCA contain certain provisions that may discourage an unsolicited takeover of the Company or make an unsolicited takeover of the Company more difficult. The following are some of the more significant anti-takeover provisions that are applicable to the Company:

**Business Combinations and Other Transactions with 15% Shareholders**

The Articles provide that, generally, (i) consolidations, mergers, statutory share exchanges and sales or other dispositions of 10% or more of the book value of the Company's assets involving a beneficial holder of at least 15% of the stock of the Company entitled to vote generally in the election of directors ("Voting Stock"), (ii) the acquisition of assets from a beneficial holder of at least 15% of the Company's Voting Stock equal to or greater than 10% of the book value of the Company's assets, (iii) certain issuances of stock involving a beneficial holder of at least 15% of the Company's Voting Stock, (iv) liquidations or dissolutions of the Company proposed by or on behalf of a 15% or more beneficial shareholder, and (v) certain other specified transactions involving a 15% or more beneficial shareholder, whether or not they otherwise require a shareholder vote, require the affirmative vote of the holders of at least 75% of the outstanding shares of the Company's Voting Stock, unless (a) the proposed transaction is first approved by a majority of the continuing directors (generally meaning any director whose election or nomination was approved by a majority of the currently sitting directors) whose election or nomination was approved by a majority of the continuing directors, or (b) the consideration to be received by the shareholders of the Company in the proposed transaction meets certain conditions generally designed to insure that shareholders receive a fair price for their shares, and certain other procedural

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requirements in connection with the proposed transaction are followed. A 75% vote of the outstanding shares of the Company's Voting Stock is required to amend this special voting provision.

***Special Meetings of Shareholders; Shareholder Action by Unanimous Written Consent; and Advance Notice of Shareholder Business Proposals and Nominations***

Section 302A.433 of the MBCA provides that special meetings of the Company's shareholders may be called by the Company's chief executive officer, chief financial officer, two or more directors, or shareholders holding 10% or more of the voting power of all shares entitled to vote, except that a special meeting demanded by shareholders for the purpose of considering any action to directly or indirectly facilitate or effect a business combination, including any action to change or otherwise affect the composition of the board of directors for that purpose, must be called by 25% or more of the voting power of all shares entitled to vote. Section 302A.441 of the MBCA also provides that action may be taken by shareholders without a meeting only by unanimous written consent. The By-Laws provide an advance written notice procedure with respect to shareholder proposals of business and shareholder nominations of candidates for election as directors. Shareholders at an annual meeting are able to consider only the proposals and nominations specified in the notice of meeting or otherwise brought before the meeting by or at the direction of the board of directors or by a shareholder that has delivered timely written notice in proper form to the Company's general counsel of the business to be brought before the meeting.

***Control Share Provision***

Section 302A.671 of the MBCA applies, with certain exceptions, to any acquisition of the Company's Voting Stock (from a person other than the Company and other than in connection with certain mergers and exchanges to which the Company is a party) resulting in the acquiring person owning 20% or more of the Company's Voting Stock then outstanding. Section 302A.671 requires approval of any such acquisitions by both (i) the affirmative vote of the holders of a majority of the shares entitled to vote, including shares held by the acquiring person, and (ii) the affirmative vote of the holders of a majority of the shares entitled to vote, excluding all interested shares. In general, shares acquired in the absence of such approval are denied voting rights and are redeemable at their then fair market value by the Company within 30 days after the acquiring person has failed to give a timely information statement to the Company or the date the shareholders voted not to grant voting rights to the acquiring person's shares. The control share provision applies to any corporation that has not expressly provided to the contrary in its articles or in its bylaws approved by its shareholders. The Articles provide that this provision shall apply.

***Business Combination Provision***

Section 302A.673 of the MBCA generally prohibits the Company or any of its subsidiaries from entering into any merger, share exchange, sale of material assets or similar transaction with a 10% shareholder within four years following the date the person became a 10% shareholder, unless either the transaction or the person's acquisition of shares is approved prior to the person becoming a 10% shareholder by a committee of all of the disinterested members of the board of directors. The business combination provision applies to any corporation that has not expressly provided to the contrary in its articles or its bylaws. The Articles provide that this provision shall apply.

***Takeover Offer; Fair Price***

Under Section 302A.675 of the MBCA, an offeror may not acquire shares of a publicly held corporation within two years following the last purchase of shares pursuant to a takeover offer with respect to that class, including acquisitions made by purchase, exchange, merger, consolidation, partial or complete liquidation, redemption, reverse stock split, recapitalization, reorganization, or any other similar transaction, unless (i) the acquisition is approved by a committee of the board's disinterested directors before the purchase of any shares by the offeror pursuant to the earlier takeover offer, or (ii) shareholders are afforded, at the time of the proposed acquisition, a reasonable opportunity to dispose of the shares to the offeror upon substantially equivalent terms as those provided in the earlier takeover offer.

***Greenmail Restrictions***

Under Section 302A.553 of the MBCA, a corporation is prohibited from buying shares at an above-market price from a greater than 5% shareholder who has held the shares for less than two years unless (i) the purchase is approved by holders of a majority of the outstanding shares entitled to vote or (ii) the corporation makes an equal or better offer to all shareholders for all other shares of that class or series and any other class or series into which they may be converted.

***Authority of the Board of Directors***

The Company's board of directors has the power to issue any or all of the shares of the Company's capital stock, including the authority to establish one or more series of Preferred Stock, setting forth the designation of each such series and fixing the relative rights and preferences for each such series, without seeking shareholder approval in most instances. In addition, under the By-Laws, the Company's board of directors has the right to fill vacancies of the board of directors (including a vacancy created by an increase in the size of the board of directors).

**Fastenal Company****Bonus Program for Executive Officers*****Quarterly Incentives***

Our executive officers are eligible for cash incentives through individual bonus arrangements based on improvements in the overall financial performance of the company and/or their respective areas of responsibility. The bonus arrangements provide our executive officers with the opportunity to earn a cash bonus for each quarter during a year when we increase our earnings above a predetermined minimum target.

The primary cash bonuses for all of our named executive officers other than our chief financial officer are based on growth in pre-tax earnings of the company and/or the officer's area of responsibility. The compensation committee selected pre-tax earnings as the appropriate metric for calculating cash bonuses for those officers because of the committee's belief that the focus of the named executive officers should be on profitability, which is the primary driver of shareholder value. The primary cash bonuses for our chief financial officer are based on growth in company-wide net earnings because his responsibilities allow him to affect our entire financial position including our tax position. The compensation committee believes that no named executive officer should earn a cash bonus under this program for a quarter unless financial performance has improved and therefore sets minimum targets for each quarter that are equal to the earnings achieved for the same quarter in the prior year. The compensation committee requires growth in earnings before any bonuses can be earned due to its belief that growth is achievable with superior effort and will generate the cash necessary to expand the company's operations in accordance with our business plans and increase shareholder value.

The payout percentage used to calculate the amount of each named executive officer's primary quarterly cash bonus reflects the officer's track record in his or her current position (i.e., newly promoted executives historically have had to prove themselves in their new positions before earning higher payout percentages) and relative ability to impact profitability.

We do not believe it is necessary for payouts under our primary executive cash incentive program to be capped, as cash bonus payments to our named executive officers are tied directly to our financial performance so that they increase only if and to the extent the company's profitability grows. We do not base the cash incentives paid to our executive officers on multiple metrics since we believe the current design of our executive bonus arrangements, along with our other controls, adequately mitigates risk and since the use of multiple metrics would not be in furtherance of our goal of keeping our compensation programs simple, understandable, and transparent, and would risk keeping our executives focused on things other than profitability, thereby depriving them of the clear feedback and motivation necessary to improve our bottom line.

The compensation committee approved a supplemental return on assets bonus program for 2019 that is discussed under '2019 Incentive Program' below.

***2019 Incentive Program***

The bonus arrangements for our named executive officers for 2019 were approved by our compensation committee at its last meeting in 2018. Consistent with prior years, the bonuses for 2019 were based on growth in pre-tax earnings or net earnings of the company and/or the officer's area of responsibility. The bonuses for each quarter were determined by applying a payout percentage to the amount by which pre-tax earnings or net earnings exceeded 100% of pre-tax earnings or net earnings for the same quarter in 2018. The compensation committee determined that the bonus formulas for each of the named executive officers for 2019 would remain unchanged from those in effect at the end of 2018, except that Mr. Owen's payout percentage was increased due to changes in his responsibilities. While the compensation committee otherwise maintained the bonus formulas for each other named executive officer consistent with 2018, it approved a supplemental bonus program for 2019 for each named executive officer other than Mr. Florness. The supplemental bonus program, known as the ROA (Return on Assets) Plan, is intended to encourage better management of accounts receivable, inventory, and vehicles and would provide cash incentive amounts on a quarterly basis for asset management improvement over the same quarter in the prior fiscal year and is described in more detail below.

The specific bonus opportunities for our named executive officers are summarized in the table below. Each named executive officer's cash bonus for each quarter during 2019 was determined by applying the payout percentage listed opposite his or her name below to the amount by which pre-tax earnings or adjusted net earnings of the company and/or the officer's area of responsibility for that quarter exceeded 100% of such earnings in the same quarter of 2018 (the 'minimum target').

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Name	Earnings Type	Payout Percentage
Mr. Florness	Company-wide pre-tax earnings	1.25%
Mr. Lewis	Company-wide net earnings	0.90%
Mr. Owen	Company-wide pre-tax earnings	0.85%
Mr. Miller <sup>(1)</sup>	Pre-tax earnings	1.00% / 0.20%
Ms. Wisecup	Company-wide pre-tax earnings	0.65%

(1) The bonuses for Mr. Miller were based on growth in pre-tax earnings for the geographic areas under his leadership (Eastern United States), with the payout percentage applied to that growth of 1.00%, as well as growth in company pre-tax earnings, with the payout percentage applied to that growth of 0.20%.

The following table sets out, for each quarter in 2019, our actual and minimum target pre-tax earnings and actual and adjusted net earnings on a company-wide basis for that quarter, in each case rounded to the nearest thousand. (As indicated above, the 'minimum target' amount in 2019 was 100% of such earnings in the same quarter of 2018.)

2019	Actual Pre-tax Earnings	Minimum Target Pre-tax Earnings	Actual Net Earnings	Minimum Target Net Earnings
First quarter	\$ 257,467,000	231,873,000	194,103,000	174,303,000
Second quarter	271,378,000	265,961,000	204,593,000	201,470,000 <sup>(1)</sup>
Third quarter	278,351,000	259,480,000	213,488,000	195,810,000 <sup>(1)</sup>
Fourth quarter	236,465,000	229,703,000	178,708,000	168,698,000

(1) In calculating the changes in second and third quarter net earnings from 2018 to the comparable quarters in 2019 for purposes of determining Mr. Lewis' bonuses for such quarters in 2019, the actual net earnings for such quarters in 2018 were adjusted to exclude the impact of the one-time tax benefit of accelerated depreciation for vending equipment, maintenance, and repairs for such quarters.

During 2019, the approximate percentage of the actual and minimum pre-tax earnings of the company attributable to our operations in the geographic area under Mr. Miller's leadership was 43%.

As noted above, an additional short-term cash incentive bonus plan (the 'ROA Plan') was approved by the compensation committee for our named executive officers for 2019 that was designed to encourage careful management of assets, namely accounts receivable, inventories, and pick-up trucks. Quarterly bonuses would be payable pursuant to the plan if a specified level of improvement in asset management relative to the comparable prior year quarter was achieved. Improvement in asset management was assessed using a two-quarter average of total assets divided by the trailing 12-month net sales, which we refer to as the 'performance percentage.' If the performance percentage when compared to the prior year benchmark showed improvement at a level specified in the table below, the named executive officer would receive the corresponding bonus amount.

Improvement Amount Exceeded	Bonus Payout
150 basis points	\$ 15,000
100 basis points (but less than 150 basis points)	\$ 10,000
50 basis points (but less than 100 basis points)	\$ 5,000

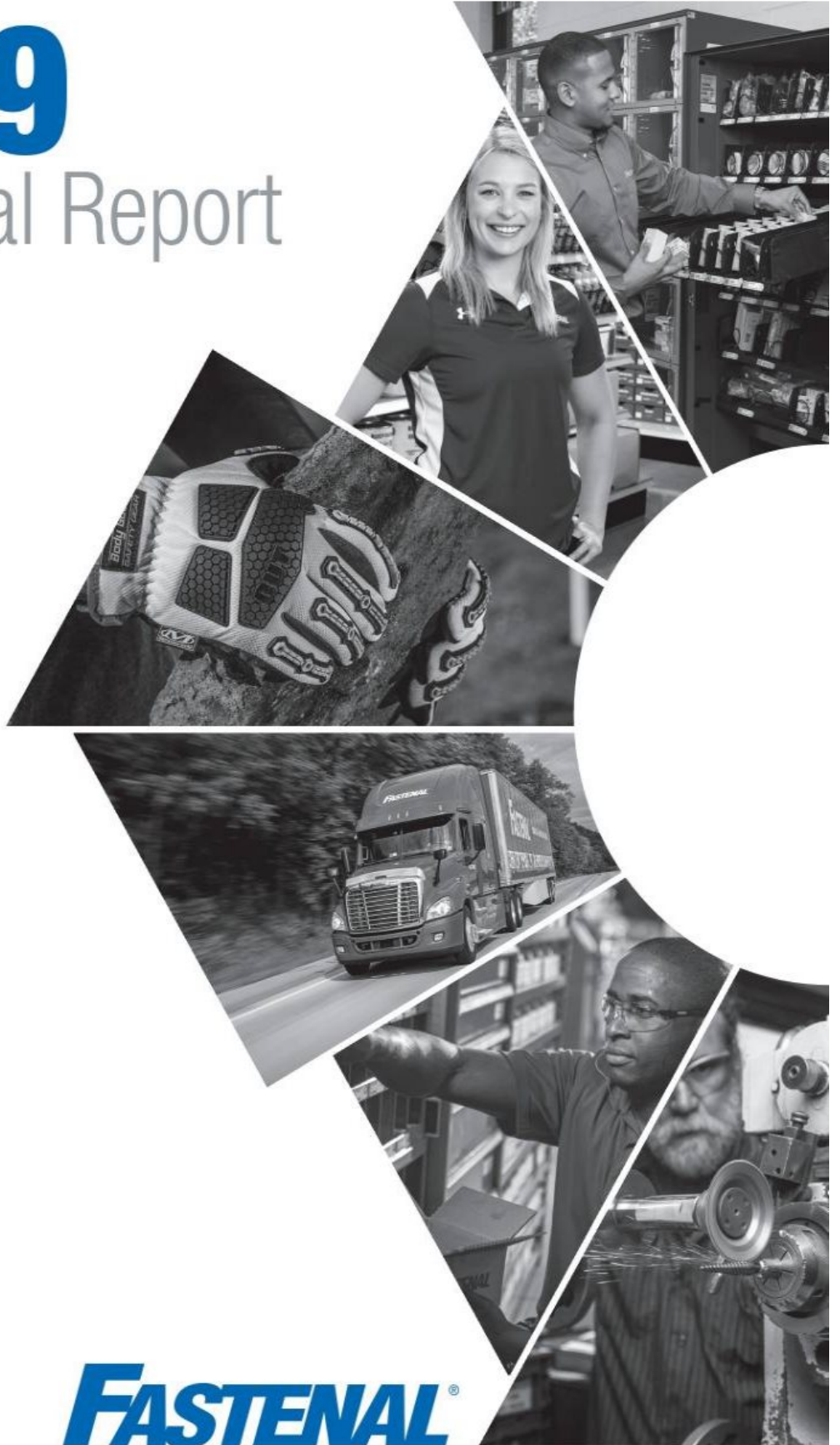
In addition, for each whole percentage improvement (e.g., 41.0%, 40.0%, 39.0%, etc.) a \$10,000 bonus would be payable for the quarter when the new whole percentage threshold was first achieved. Because we did not achieve improvement exceeding 50 basis points in any quarter during fiscal 2019 and also did not achieve a new whole percentage threshold, no bonus amounts were paid to our named executive officers pursuant to the ROA Plan for fiscal 2019.

#### 2020 Incentive Program

The bonus arrangements for our named executive officers for 2020 were approved by our compensation committee at its last meeting in 2019. The bonus plans for our named executive officers for 2020 are unchanged from our 2019 bonus plans, except that Mr. Florness' bonus percentage increased in recognition of his continued growth, performance, and experience in his role and Mr. Owen's bonus percentages increased due to changes in his responsibilities.

# 2019

## Annual Report



# FASTENAL®

# 2019

## The Statistics Behind Our Service

When we engage with a customer, the primary question isn't What can we sell you? It's What do you do as a company, what are your business challenges and goals, and how can we provide a solution? This partnership approach is predicated on our ability to move closer to the customer – to engage locally, get in sync with their business, and bring value in ways that go well beyond packing and shipping orders. The numbers below reflect this journey of service, aspects of our business that we believe set us apart by bringing us closer.

### PEOPLE



**21,948**

employees  
• 72% directly serve our customers

### PROXIMITY



**3,228**

in-market selling locations (branches and Onsites) spanning 25 countries



**489,000**

Fastenal School of Business trainings completed  
• 16 hours of training per employee (on average)



**90%**

of total product tonnage is shipped via our internal transportation fleet, reducing cost and enhancing service



**400+**

highly-trained specialists: engineering, safety, Lean Six Sigma, metalworking, construction, solutions, national accounts



**60%**

of our \$1.4 billion in inventory is staged locally for same-day fulfillment

### DIFFERENTIATORS



**200+**

sourcing professionals positioned globally

### SOLUTIONS



**105,000**

vending machines installed  
• 90,000 product revenue devices and  
15,000 leased check-in/check-out lockers



**813**

customer site evaluations (process mappings) performed to uncover sources of supply chain waste



**92%**

of our total revenue comes from customers utilizing more than one of our sales channels (branches, Onsites, vending, FMI, national accounts, web)  
• 70% of our customers utilize four or more channels



**298 Million**

products manufactured, modified or refurbished by our in-house manufacturing and industrial services divisions



**65%**

of national account customers utilize Fastenal e-commerce

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Ordinary Products. Extraordinary Value.

### Inside Back Cover

Directors  
Executive Officers  
Corporate Information



# LETTER TO SHAREHOLDERS AND EMPLOYEES

**Thank you** for taking a few minutes to read this letter. We had an interesting year in 2019, and I'm excited to share our story.

We principally sell into the industrial marketplace, and the trend in our 2019 results felt a bit like 2015 (the last time we saw a sustained contraction in this end market). Here is a quick comparison of our growth in net sales and in operating income for both periods.

	2019	2015
<b>Q1 Net Sales</b>	<b>10.4%</b>	<b>8.8%</b>
Q1 Operating Income	11.4%	13.9%
<b>Q2 Net Sales</b>	<b>7.9%</b>	<b>5.0%</b>
Q2 Operating Income	2.2%	9.2%
<b>Q3 Net Sales</b>	<b>7.8%</b>	<b>1.5%</b>
Q3 Operating Income	7.4%	3.4%
<b>Q4 Net Sales</b>	<b>3.7%</b>	<b>-0.4%</b>
Q4 Operating Income	2.4%	-5.2%
<b>Annual Net Sales</b>	<b>7.4%</b>	<b>3.6%</b>
Annual Operating Income	5.8%	5.2%

Not surprisingly, the pattern above matches the trend our customers experienced. This was reflected in the Purchasing Managers Index (PMI),<sup>1</sup> a well-known manufacturing industry benchmark. Here is the index for the first and last quarters of the same years.

	2019	2015
Q1 PMI (average)	55.4	52.6
Q4 PMI (average)	47.9	49.0

For those of you unfamiliar with this index, any number above 50 indicates an expanding industrial economy, while any number below 50 indicates a contraction.

A second view of our end markets is our selling activity with our 'Top 100' customers. We have a deeply established business relationship with each of the companies in this group. Therefore, the principal driver of changes in the growth pattern is usually more about trends in their underlying business activity, and less about changes in our relative market share with them. They also have a very meaningful sway on our results; their activities have historically represented about 25% of our net sales.

If we look at our Top 100 customers, here are the percentages that grew their business with us in the first and last quarters of 2019 and 2015.

	2019	2015
Q1 'Top 100' growing	81.0%	72.0%
Q4 'Top 100' growing	57.0%	49.0%

In the interest of providing a contextual explanation (similar to the 'above/below 50' metric for the PMI), history has shown we have good market conditions if >75% of our Top 100 customers are growing. We would change this to 'very good' if it's >80%.

A couple of things stand out in the comparison. From a net sales growth perspective, 2019 started a bit stronger. The PMI in the first quarter of 2019 was 55.4 versus 52.6 in 2015, which certainly helped; however, I feel the real difference was the success we enjoyed establishing our Onsite model over the last several years. (We'll take a deeper dive into our Onsite model later in the letter.) From the same net sales growth perspective, 2019 also ended a bit stronger than 2015; and notably, it did so even as the PMI dipped a bit lower (47.9 in Q4 2019 vs. 49.0 in Q4 2015). What explains this relatively better performance? I believe our strong Onsite progression has added an element of resiliency to our business. Another factor is our national accounts sales team. This team has always been talented, but today they are more than that; they are incredibly talented and they are laser-focused. I'm not sure if the Onsite model pushed national accounts to improve, or if national accounts pushed our Onsite capabilities to improve. It's the old 'chicken or egg' conundrum, and since I'm more of a bacon person, I'm not going to give it much more thought.

The net sales growth comparison highlights some favorable trends in 2019. Here are a couple of less favorable items:

- (1) Our performance, measured by operating income growth, really stunk up the place in Q2 2019 (no excuses, we were caught by a slowing economy, squeezed by tariffs, and challenged to quickly react to many moving pieces). Fortunately, we stepped it up and reacted well in Q3; this shines through in our Q3 operating income growth relative to net sales growth comparison. (In the interest of full disclosure, we had an extra business day in Q3, which also helped.)
- (2) As mentioned, our success with Onsite location growth helps our sales grow, but the expansion of operating locations does lessen our ability to manage operating expenses in the short term. This aspect hurts short-term operating income growth in a weakening marketplace. In many respects, it feels a bit like the old days when we were opening a lot of new branch locations.

This is the start of year five for me in this role. It continues to be a learning experience every day. This is good – I believe we all should learn something every day. Someone recently asked me what makes Fastenal special, and also how Fastenal manages to grow faster than others. The answer to the first question is simple – we have great people, and a high percentage of these people are leaders, regardless of their role. We also operate with a decentralized decision-making process, which allows us to move faster. The key is challenging everyone to pursue the same goal. I believe the answer to the second question is our established North American footprint.

<sup>1)</sup> The Purchasing Managers Index (PMI) is compiled monthly by the Institute for Supply Management (ISM). It is based on a survey and is intended to reflect the business outlook of purchasing managers at U.S. manufacturing firms.

There is no other industrial distributor with the same touchpoint density across the continent. This allows us to engage with and service our customers in a fundamentally different way.

We have always talked about Growth Through Customer Service. This mindset has allowed us to grow organically for 50-plus years as we established our North American footprint. It has also allowed us to expand rapidly outside North America over the last 20 years. Our supply chain capabilities and our local presence (branch and Onsite) strengthen every day. With this, we believe our brand is evolving. Our branding goal is simple: We want each customer to think of Fastenal as their best global supply chain partner. This brand is important for all customers, not just multinational companies. An efficient local supply chain solution benefits every business, regardless of size or location count.

'Global' refers to our geographic presence, but also to the scope of solutions we can provide to meet wide-ranging customer needs. For a small local fabrication shop, their priority might be fast e-commerce fulfillment and a basic bin stock program, while a large manufacturing facility across town might benefit from an industrial vending solution, high-level specialist support, or even a dedicated Onsite location. With this in mind, we've developed a market strategy to educate our sales force about the best ways to approach and service different customer segments – from an efficient 'self-serve' e-commerce model for small customers, to our full suite of solutions, services, and specialists for larger operations. The goal: give our branch teams a framework to create a plan for every customer, ensuring great service while optimizing energy and resources within the branch.



Onsite solution for UMC (University Mechanical Contractors) in Mukilteo, Washington.

No matter what approach we ultimately take, we strive to change the customer mindset. Don't just think of our products as an expense in your business. Think of the total cost and the total value. Think of how your employees use the product – is it the best product for the application? Is there a more efficient way to bring that product to the point of use? Don't just have a fulfillment partner; have a supply chain partner. When we engage with each other, when we truly form a supply chain partnership, we will wear you out with ideas. We will help your business succeed.

Speaking of supply chain partnerships, let's take the deeper dive into our Onsite model promised earlier – specifically, an explanation of how Onsite impacts our results. We ended 2014 with about 200 Onsite locations, and we ended 2019 with just over 1,100. In 2015, our Onsite business represented about 15% of our net sales; in 2019, it was 30%. These percentages include not only our traditional Onsite locations, but also a small group of strategic selling locations that we view as Onsite incubators and represent approximately 4% of net sales in each period. This rapid expansion, this success, helps us to grow faster; however, it also comes at a price, at least in terms of the optics of our results.

**Let's start with faster growth.** Our motto is Growth Through Customer Service. I don't believe there is a higher service model in our industry than Onsite; however, you need a certain level of site-specific business activity to make the model economical. Fortunately for us, our break-even point is lower than our competitors'. Credit that to a great 'Blue Team' spread across an unmatched branch and distribution network, a great product supply chain, a great technology team with fast-growing capabilities for innovation, an efficient administrative support model – and, underlying it all, a frugal culture that has always allowed us to do more with less for our customers. (For those of you focused on 'greener operations,' we completely agree; we believe frugality and green go hand-in-hand.)

This frugal culture, and our ability to operate efficiently together, has been made easier by our historical ability to grow organically. Organic growers don't operate with a multitude of computer systems and conflicting business cultures. We all grew up on the same Blue Team, we ride the same blue bus, and we look at the customer through the same service-focused blue lens.

**Next, let's discuss the optics of our results.** The Onsite model differs financially from our branch-based model. First, it carries a lower gross profit margin profile. Fortunately, it also has a lower operating expense profile. Second, the operating margins are a bit lower than we see in our branch network. Fortunately, the operating margins are still industry-leading, and we believe the assets to support the model will also be lower. So it really becomes a discussion of return on investment – we like that discussion. Finally, from an individual site perspective, Onsites are ultimately limited by the activities of the individual customer location. The truth is, any business (regardless of the service model) is limited by the customer site constraint. And on the plus side, Onsite changes the competitive dynamics: It allows us to displace a wider range of suppliers, and we believe it builds a more defensible and wider moat.

There are a few more considerations related to our rapid Onsite location expansion. First, to accomplish this rapid expansion, we needed to expand our site implementations team, to expand our sourcing team, and to adjust our technology focus to support a different business model. Second, with the addition of so many new locations, our average revenue per Onsite contracted from \$146,000 per month (on a per-location basis) in 2015 to \$107,000 per month in 2019. This puts a drag on our profitability, on our returns, and ultimately on our ability to produce an ever-stronger cash flow.

For those of you with a longer Fastenal time horizon, think of this as a short-term 'Pathway to Profit' in reverse. We believe our rate of change will stabilize late in 2020/early in 2021. This will allow our revenue per Onsite location to stabilize and then begin to expand. It will also stabilize our 'branch economic drag.' Every time we pull a customer out of a branch and move Onsite (whether we are in their facility or nearby), we temporarily lessen the financial performance of the original branch. The trade-off: We ignite the customer relationship, unlock selling energy in the branch, and grow the market faster overall. As you can appreciate, we like the trade-off.

To learn more about Onsite and the rest of our growth drivers, please read the sidebar to the right (also featured in last year's letter).

**Leadership is critical to our success at Fastenal**, and I don't mean leadership in terms of a person, but rather in terms of a mindset. Every person can be a leader through their actions. If you look inside the back cover of this annual report, you will see two groups of people. The first set of photos is our board of directors. This group represents you every day. They take their governance seriously, but equally important, they challenge the Blue Team with their varying perspectives on the world, on business, and on people.

The second set of photos is our leadership team. Unfortunately, there isn't enough space to show the entire group. We have just under 22,000 employees at Fastenal. Everyone exercises daily leadership. They demonstrate this through problem-solving and by embodying our cultural values: Ambition, Innovation, Integrity, and Teamwork.

A person you won't see on the back cover, but whose influence is always present, is our founder, Bob Kierlin. Since Fastenal's founding in 1967, Bob has always demonstrated the wisdom of humble leadership – a willingness to trust others to make great decisions, along with the courage to challenge everyone to pursue a common goal. Our commitment to challenge one another (and ourselves) can cause some constructive friction, but we've found it creates an atmosphere that attracts and retains talent. This ability to retain talent is showcased every December when we celebrate our latest class of 25-year employees. Our 2019 class consisted of 60 employees, an impressive number given the size of our organization when they joined us back in 1994. We're proud (and fortunate) they chose to spend their careers with Fastenal.

Perhaps you noticed the change to the name of this year's letter. The inclusion of 'employees' in the name is a reflection of how we have operated for 52 years and the comments we made in last year's letter regarding our four priorities: our customers, our employees, our suppliers, and our shareholders.

**Thank you for your belief in our Blue Team. And thank you for being a shareholder and/or an employee of Fastenal.**

Dan

**DANIEL L. FLORNESS**

President and Chief Executive Officer



## Understanding Our **GROWTH DRIVERS**



Onsite solution for the School Board of Sarasota County, Sarasota, Florida.

There's a term used repeatedly in this letter and in our other conversations; the term is growth driver. For a bit of perspective, here is how we think of this concept. Historically, our primary growth driver was opening new branch locations. This expanded our reach, and we added people into these new locations and into existing locations as they grew. We also added people behind the scenes to provide deeper support. Beginning in the late 1990s, the rate of openings began to slow. By 2007, we had an established footprint in the United States and in Canada; therefore, we slowed our openings further. The pattern further decelerated to the point where we had minimal net openings in 2009, and we began to contract the network in the 2011 time frame. This maturation of our branch network gave us an opportunity to develop and fund new growth drivers (plural), adding new dimensions to our service.

Today, these growth drivers include an expanded **national accounts** team (focused on larger customers with operations around the planet), our **Onsite** service model (customer-specific locations, preferably inside the customer's facility, or at least very nearby), **vending** (point-of-use dispensing, storage, delivery, and reporting technology within the customer's facility and at our Fastenal facilities), **international** expansion (like branch openings of the past, a means to extend our reach of resources closer to the customer), **construction** (we are a great multi-location source for these transient customers, and we're making strides to serve them better), and **e-commerce** (making it easier for customers to source products and gain visibility into their supply chain, while introducing productivity gains for both the customer and for Fastenal in the process). We're excited about the evolution of our growth strategy and will continually evaluate new ideas and directions to best serve our customers in a fast-changing world.

# 10-YEAR SELECTED FINANCIAL DATA

(Amounts in Millions Except Per Share Information)

Operating Results		2019	% Change	2018	2017
Net sales	\$	5,333.7	7.4%	\$4,965.1	\$4,390.5
Gross profit	\$	2,515.4	4.9%	2,398.9	2,163.6
% of net sales		47.2%		48.3%	49.3%
Operating income	\$	1,057.2	5.8%	999.2	881.8
% of net sales		19.8%		20.1%	20.1%
Net earnings	\$	790.9	5.2%	751.9	578.6
% of net sales		14.8%		15.1%	13.2%
Basic net earnings per share	\$	1.38	5.3%	1.31	1.00
Basic weighted average shares outstanding		573.2	-0.1%	573.9	576.4
Diluted net earnings per share	\$	1.38	5.2%	1.31	1.00
Diluted weighted average shares outstanding <sup>(1)</sup>		574.4	0.0%	574.3	576.7
Cash Flow Summary		2019	% Change	2018	2017
Net cash provided by operating activities <sup>(2)</sup>	\$	842.7	25.0%	\$674.2	\$585.2
% of net earnings		106.5%		89.7%	101.1%
Less capital expenditures, net	\$	(239.8)	43.8%	(166.8)	(112.5)
Acquisitions and other	\$	0.1	-101.4%	(7.1)	(66.8)
Free cash flow	\$	603.0	20.5%	500.3	405.9
% of net earnings		76.2%		66.5%	70.2%
Dividends and Common Stock Purchase Summary		2019	% Change	2018	2017
Dividends paid	\$	498.6	12.8%	\$441.9	\$369.1
% of net earnings		63.0%		58.8%	63.8%
Dividends paid per share	\$	0.870	13.0%	0.770	0.640
Purchases of common stock	\$	-		103.0	82.6
% of net earnings		-		13.7%	14.3%
Common stock shares purchased		-		4.0	3.8
Average price paid per share	\$	-		\$25.75	\$21.72
Financial Position at Year End		2019	% Change	2018	2017
Operational working capital assets (accounts receivable, net and inventories)	\$	2,108.1	5.8%	\$1,993.0	\$1,700.7
Net working capital <sup>(3)</sup> (current assets less current liabilities)	\$	1,912.5	1.8%	1,878.8	1,584.8
Fixed capital (property and equipment, net)	\$	1,023.2	10.6%	924.8	893.6
Total assets <sup>(3)</sup>	\$	3,799.9	14.4%	3,321.5	2,910.5
Total debt (current portion of debt and long-term debt)	\$	345.0	-31.0%	500.0	415.0
Total stockholders' equity	\$	2,665.6	15.8%	2,302.7	2,096.9

All information contained in this Annual Report reflects the 2-for-1 stock splits in both 2019 and 2011.

<sup>(1)</sup> Reflects impact of stock options issued by the company that were in-the-money and outstanding during the period.

<sup>(2)</sup> Reflects the impact of Accounting Standards Update 2016-09, Improvements to Employee Share-Based Payment Accounting, adopted January 1, 2017.

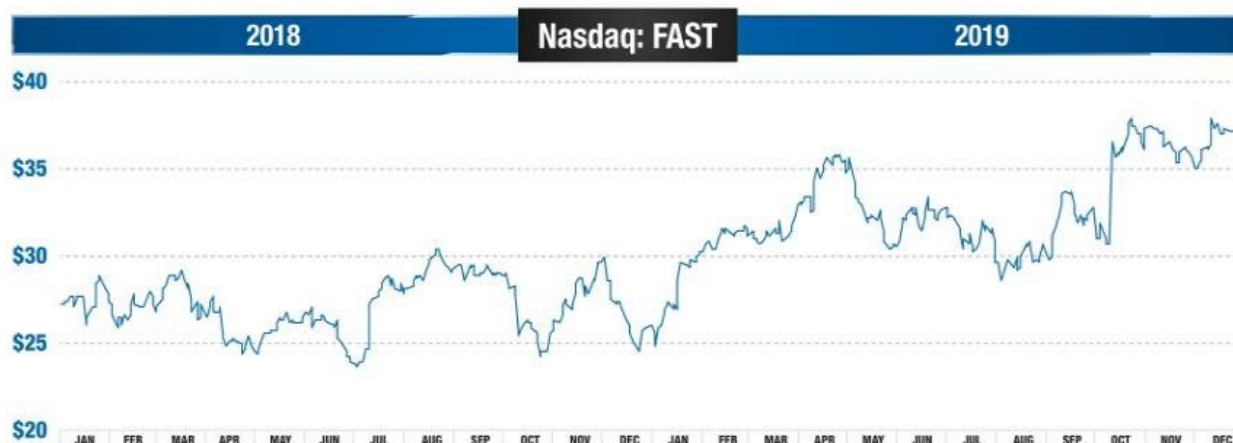
<sup>(3)</sup> Reflects the impact of Accounting Standards Update 2016-02, Leases, adopted January 1, 2019.

# FINANCIAL HIGHLIGHTS

2016	2015	2014	2013	2012	2011	2010
\$3,962.0	\$3,869.2	\$3,733.5	\$3,326.1	\$3,133.6	\$2,766.9	\$2,269.5
1,964.8	1,948.9	1,897.4	1,719.4	1,614.5	1,434.2	1,174.8
49.6%	50.4%	50.8%	51.7%	51.5%	51.8%	51.8%
795.8	828.8	787.6	712.7	673.7	574.6	429.7
20.1%	21.4%	21.1%	21.4%	21.5%	20.8%	19.0%
499.4	516.4	494.2	448.6	420.5	357.9	265.4
12.6%	13.3%	13.2%	13.5%	13.4%	12.9%	11.7%
0.86	0.89	0.83	0.76	0.71	0.61	0.45
577.9	582.9	593.0	593.5	592.2	590.1	589.7
0.86	0.88	0.83	0.75	0.71	0.60	0.45
578.3	584.1	594.6	595.4	594.3	591.7	589.7
2016	2015	2014	2013	2012	2011	2010
\$519.9	\$550.3	\$501.5	\$418.9	\$406.4	\$268.5	\$240.4
104.1%	106.6%	101.5%	93.4%	96.6%	75.0%	90.6%
(183.0)	(145.3)	(183.7)	(201.6)	(133.9)	(116.5)	(69.1)
(5.1)	(35.3)	(5.6)	(0.1)	(0.1)	0.2	(10.3)
331.8	369.7	312.2	217.2	272.4	152.2	161.0
66.4%	71.6%	63.2%	48.4%	64.8%	42.5%	60.7%
2016	2015	2014	2013	2012	2011	2010
\$346.6	\$327.1	\$296.6	\$237.5	\$367.3	\$191.7	\$182.8
69.4%	63.3%	60.0%	52.9%	87.3%	53.6%	68.9%
0.600	0.560	0.500	0.400	0.620	0.325	0.310
59.5	292.9	52.9	9.1	-	-	-
11.9%	56.7%	10.7%	2.0%	-	-	-
3.2	14.2	2.4	0.4	-	-	-
\$18.58	\$20.63	\$22.06	\$22.70	-	-	-
2016	2015	2014	2013	2012	2011	2010
\$1,492.7	\$1,381.6	\$1,331.3	\$1,198.4	\$1,087.5	\$984.7	\$827.5
1,445.1	1,291.6	1,207.9	1,168.6	1,082.5	1,048.3	923.5
899.7	818.9	763.9	654.9	516.4	435.6	363.4
2,668.9	2,532.5	2,359.1	2,075.8	1,815.8	1,684.9	1,468.3
390.0	365.0	90.0	-	-	-	-
1,933.1	1,801.3	1,915.2	1,772.7	1,560.4	1,459.0	1,282.5

# STOCK AND FINANCIAL DATA

The following chart displays the daily closing sales price of our shares listed on the Nasdaq Stock Market for the last two years.



As of January 22, 2020, there were approximately 1,000 record holders of our common stock, which includes nominees or broker dealers holding stock on behalf of an estimated 275,000 beneficial owners.

In 2019 and 2018, we paid dividends per share totaling \$0.87 and \$0.77, respectively. On January 16, 2020, we announced a quarterly dividend of \$0.25 per share to be paid on February 28, 2020 to shareholders of record at the close of business on January 31, 2020. Our board of directors intends to continue paying quarterly dividends; however, any future determination as to payment of dividends will depend upon the financial condition and results of operations of the company and such other factors as are deemed relevant by the board of directors.

In 2019, we did not purchase any shares of our common stock. In 2018, we purchased 4,000,000 shares of our common stock at an average price of \$25.75 per share.

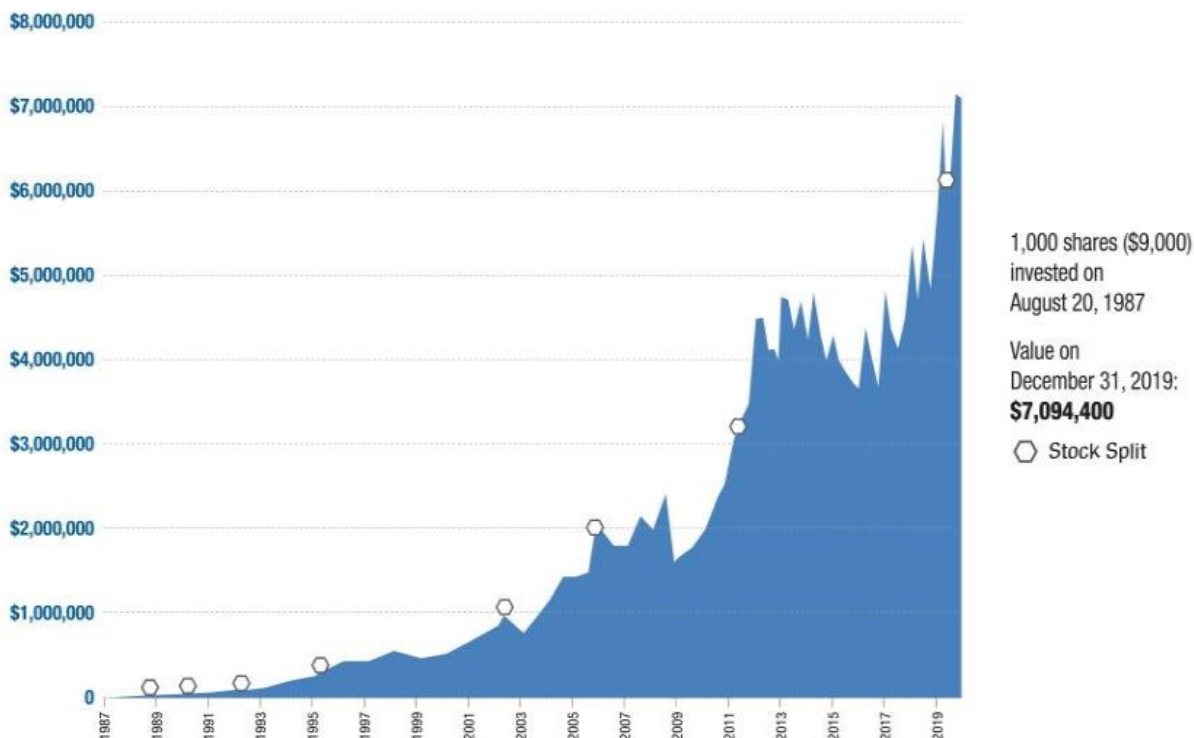
## SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

(Dollar Amounts in Millions Except Share and Per Share Information)

2019	Net Sales	Gross Profit	Pre-tax Earnings	Net Earnings	Basic Net Earnings per Share <sup>(1)</sup>	Diluted Net Earnings per Share <sup>(1)</sup>
First quarter	\$ 1,309.3	624.7	257.5	194.1	0.34	0.34
Second quarter	1,368.4	641.2	271.4	204.6	0.36	0.36
Third quarter	1,379.1	651.1	278.4	213.5	0.37	0.37
Fourth quarter	1,276.9	598.4	236.4	178.7	0.31	0.31
<b>Total</b>	<b>\$ 5,333.7</b>	<b>2,515.4</b>	<b>1,043.7</b>	<b>790.9</b>	<b>1.38</b>	<b>1.38</b>
2018	Net Sales	Gross Profit	Pre-tax Earnings	Net Earnings	Basic Net Earnings per Share <sup>(1)</sup>	Diluted Net Earnings per Share <sup>(1)</sup>
First quarter	\$ 1,185.8	577.6	231.9	174.3	0.30	0.30
Second quarter	1,267.9	617.7	265.9	211.2	0.37	0.37
Third quarter	1,279.8	615.8	259.4	197.6	0.34	0.34
Fourth quarter	1,231.6	587.8	229.8	168.8	0.29	0.29
<b>Total</b>	<b>\$ 4,965.1</b>	<b>2,398.9</b>	<b>987.0</b>	<b>751.9</b>	<b>1.31</b>	<b>1.31</b>

<sup>(1)</sup> Amounts may not foot due to rounding difference.

# STOCK PERFORMANCE HIGHLIGHTS<sup>(1), (2)</sup>



## HISTORICAL STOCK PERFORMANCE

### INITIAL PUBLIC OFFERING (IPO)

On August 20, 1987 (date of our initial public offering), 1,000 shares of our stock sold for \$9,000. Approximately 32 years later, on December 31, 2019, those 1,000 shares, having split eight times, were 192,000 shares worth \$7,094,400, for a gain of approximately 23.2% compounded annually. In addition, the holder of these shares would have received \$1,221,984 in dividends since August 20, 1987, for a total gain of approximately 23.8% compounded annually.

### TEN YEARS

On December 31, 2009, 1,000 shares of our stock sold for \$41,640. Ten years later, on December 31, 2019, those 1,000 shares, having split twice, were 4,000 shares worth \$147,800, for a gain of approximately 13.5% compounded annually. In addition, the holder of these shares would have received \$22,380 in dividends since December 2009, for a total gain of approximately 15.1% compounded annually.

### FIVE YEARS

On December 31, 2014, 1,000 shares of our stock sold for \$47,560. Five years later, on December 31, 2019, those 1,000 shares, having split once, were 2,000 shares worth \$73,900, for a gain of approximately 9.2% compounded annually. In addition, the holder of these shares would have received \$6,880 in dividends since December 2014, for a total gain of approximately 11.2% compounded annually.

### DIVIDENDS

We have paid dividends in every year since 1991, and quarterly dividends since 2011.

## A SIMPLE PHILOSOPHY

Since going public in 1987, we have maintained a consistent focus on avoiding, if feasible, the potentially dilutive impact of our activities on our shareholders. To this end, we have grown our organization principally with internal cash flow, have supported the Fastenal Company and Subsidiaries 401(k) and Employee Stock Ownership Plan with stock purchased in the open market, and, since creating a stock option program in 2003, have periodically purchased common stock in the open market to, among other things, offset the potential impact of our stock option grants. We have purchased approximately 47.8 million shares since 2003 and have granted our employees options to purchase approximately 29.1 million shares. (Note: These amounts have been adjusted to reflect the impact of stock splits.) This has allowed us to balance internal investment with cash returns to shareholders. For example, in the last five years we have enjoyed total sales of \$22,521 million and total pre-tax earnings of \$4,520 million. During this same time period, we spent approximately \$4,396 million to compensate a group of great employees, we supported our customers' needs by adding approximately \$777 million in operational working capital assets (accounts receivable, net plus inventory) and by spending approximately \$847 million in net capital expenditures, and we returned \$2,521 million to our shareholders. The latter was principally through dividends (approximately \$1,983 million), with the remainder through share purchases.

A final point worth noting: During the last five years, we have incurred approximately \$1,382 million in income taxes, or approximately 30.6% of the pre-tax earnings noted above, and incurred or remitted approximately \$1,165 million in employment taxes, \$56 million in property taxes, \$739 million in sales, use, and value-added taxes, and \$4 million in other miscellaneous business-related taxes.

<sup>(1)</sup> The share data represents past performance, which is no guarantee of future results.

<sup>(2)</sup> Unless otherwise noted, the amounts on this page are presented in whole numbers versus millions as is prevalent in the remainder of this document.

# Ordinary Products. Extraordinary Value.

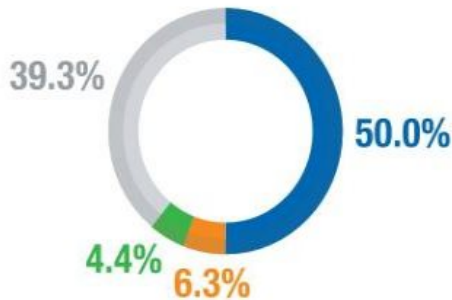
Like many industrial suppliers, Fastenal got its start in a single product line, in our case fasteners. At first, there was nothing to really differentiate us from the thousands of other fastener sellers in the market. But over time we gained expertise. We leveraged our profitable business model to invest in things that bring value to the customer – branches, transportation, manufacturing, global sourcing, and other resources. And eventually we staked out what is today a unique and defensible market position in fasteners.

Over the years we expanded our offering to include nine broad product lines, but until recently none matched the differentiation we enjoy with fasteners. That began to change in 2009 when our investments in vending, safety specialists, and our exclusive Body Guard® brand helped distinguish Fastenal in the safety product market. Since then, we've seen a meaningful expansion of safety within our product mix and can now claim a second category in which we enjoy a unique and defensible market position. Today we see this differentiation playing out in a third product line, cutting tools, spurred by our investments in domain specialists and Onsite servicing locations within manufacturing facilities.

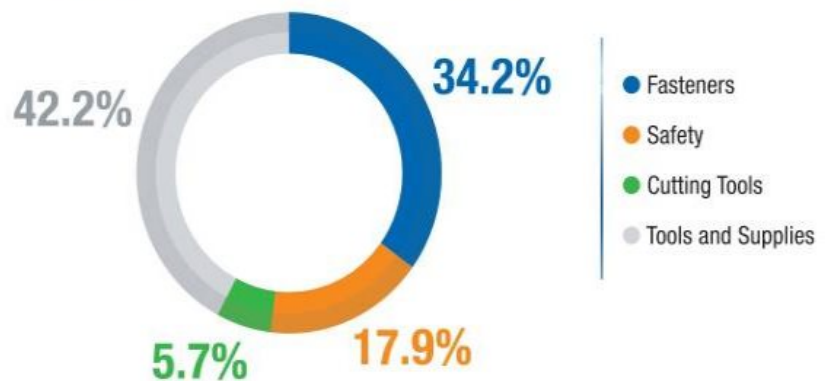
In 2009, roughly 50% of our product mix was in a category where Fastenal could be considered extraordinary (i.e., fasteners). Today, with the evolution of our safety and cutting tool programs, that number has grown to 58%. We believe there are several additional product lines that present a similar runway opportunity, and we look forward to replicating a now-familiar progression: take a commodity-type product, invest in expertise and innovation to imbue that product with additional value, and become truly extraordinary in the category.

## MORE EXTRA, LESS ORDINARY

2009 Product Line Sales



2019 Product Line Sales



- Fasteners
- Safety
- Cutting Tools
- Tools and Supplies



### Fasteners

**Dynamics & Differentiators:**

- 180+ sourcing professionals in Asia (auditors, engineers, QA, logistics)
- 9 manufacturing facilities, 8 A2LA quality labs
- 40+ degreed engineers, participation in 100+ product standards committees
- 600+ semis and straight trucks (efficient transport of heavy materials)



### Safety

**Dynamics & Differentiators:**

- 706% safety product growth since 2009
- 50% of sales through vending
- 25% of sales via our Body Guard® brand and other private label offerings
- 70+ certified safety specialists



### Cutting Tools

**Dynamics & Differentiators:**

- 51% cutting tool growth since 2014 (a 9% five-year CAGR)
- Onsites accounted for 12.3% of cutting tool sales in 2014, and 38.5% in 2019
- Partnered with Sandvik to supply high-end solutions to customers globally
- 17% of sales via our FMT® private label
- 35+ metalworking specialists



# DIRECTORS



**WILLARD D. OBERTON**  
Chairman of the Board, Retired President and Chief Executive Officer, Fastenal Company

Director since 1999



**MICHAEL J. ANCIUS**  
Vice President and Chief Financial Officer, A.L.M. Holding Company (construction and energy company)

Director since 2009



**MICHAEL J. DOLAN**  
Self-Employed Business Consultant, Retired Executive Vice President and Chief Operating Officer, The Smead Manufacturing Company

Director since 2000



**STEPHEN L. EASTMAN**  
President of the Aftermarket, Parts, Garments, and Accessories Division of Polaris Inc. (recreational vehicle manufacturer)

Director since 2015



**DANIEL L. FLORNESS**  
President and Chief Executive Officer, Fastenal Company

Director since 2016



**RITA J. HEISE**  
Self-Employed Business Consultant, Retired Corporate Vice President and Chief Information Officer of Cargill, Incorporated

Director since 2012



**DARREN R. JACKSON**  
Retired Chief Executive Officer, Advance Auto Parts, Inc.

Director since 2012



**DANIEL L. JOHNSON**  
President and Chief Executive Officer of M.A. Mortenson Company (family owned construction company)

Director since 2016



**NICHOLAS J. LUNDQUIST**  
Retired Senior Executive Vice President - Operations, Fastenal Company

Director since 2019



**SCOTT A. SATTERLEE**  
Retired President of North America Surface Transportation Division, C.H. Robinson Worldwide, Inc.

Director since 2009



**REYNE K. WISECUP**  
Senior Executive Vice President - Human Resources, Fastenal Company

Director since 2000

# EXECUTIVE OFFICERS



**DANIEL L. FLORNESS**  
President and Chief Executive Officer

Employee since 1996



**WILLIAM J. DRAZKOWSKI**  
Executive Vice President - Sales

Employee since 1995



**LELAND J. HEIN**  
Senior Executive Vice President - Sales

Employee since 1985



**JAMES C. JANSEN**  
Executive Vice President - Manufacturing

Employee since 1992



**HOLDEN LEWIS**  
Executive Vice President and Chief Financial Officer

Employee since 2016



**SHERYL A. LISOWSKI**  
Controller, Chief Accounting Officer, and Treasurer

Employee since 1994



**CHARLES S. MILLER**  
Senior Executive Vice President - Sales

Employee since 1999



**TERRY M. OWEN**  
Senior Executive Vice President - Sales Operations

Employee since 1999



**JOHN L. SODERBERG**  
Executive Vice President - Information Technology

Employee since 1993



**JEFFERY M. WATTS**  
Executive Vice President - International Sales

Employee since 1996



**REYNE K. WISECUP**  
Senior Executive Vice President - Human Resources

Employee since 1988

## CORPORATE INFORMATION

### ANNUAL MEETING

The annual meeting of shareholders will be held at 10:00 a.m., central time, on Saturday, April 25, 2020, at our Customer Experience Center located at 1858 Service Drive, Winona, Minnesota.

### LEGAL COUNSEL

Faegre Drinker Biddle & Reath LLP  
Minneapolis, Minnesota

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

KPMG LLP  
Minneapolis, Minnesota

### HOME OFFICE

Fastenal Company  
2001 Theyrer Boulevard  
Winona, Minnesota 55987-0978  
Phone: 507-454-5374 | Fax: 507-453-8049

### FORM 10-K

A copy of our 2019 Annual Report on Form 10-K filed with the Securities and Exchange Commission is available without charge to shareholders upon written request to investor relations at the address of our home office listed on this page.

Copies of our latest press releases, unaudited supplemental company information, and monthly sales information are available at: <https://investor.fastenal.com>.

### TRANSFER AGENT

Equiniti Trust Company  
Mendota Heights, Minnesota

***Growth Through  
Customer Service®***

## Subsidiaries of Fastenal Company

Geographic Location	Subsidiary Name	Year Incorporated	Jurisdiction of Incorporation
<b>North America</b>			
United States	Fastenal International Holdings Company	1994	Minnesota
	Fastenal Company Purchasing	1997	Minnesota
	Fastenal Company Leasing	1997	Minnesota
	Fastenal IP Company	2005	Minnesota
	Fastenal Air Fleet, LLC	2006	Minnesota
	River Surplus and Supply, LLC	2014	Minnesota
Canada	Fastenal Mexico, LLC	2016	Minnesota
	Fastenal Canada, Ltd.	2008	Canada
Mexico	Fastenal Mexico Services S. de R.L. de C.V.	1999	Mexico
	Fastenal Mexico S. de R.L. de C.V.	1999	Mexico
<b>Central &amp; South America</b>			
Panama	Fastenal Panama S.A.	2009	Panama
	Fastenal Latin America, S.A.	2011	Panama
Brazil	Fastenal Brasil Importação, Exportação e Distribuição Ltda.	2011	Brazil
	Fastenal Brasil Participacoes Ltda.	2011	Brazil
Colombia	Fastenal Colombia S.A.S.	2012	Colombia
Chile	Fastenal Chile SpA	2013	Chile
<b>Asia</b>			
Singapore	Fastenal Singapore PTE Ltd.	2001	Singapore
China	Fastenal Asia Pacific Limited	2003	Hong Kong, China
	FASTCO (Shanghai) Trading Co., Ltd.	2003	Shanghai, China
	Fastenal (Shanghai) International Trading Co. Ltd.	2012	Shanghai, China
	Fastenal (Tianjin) International Trading Co. Ltd.	2012	Tianjin, China
	Fastenal (Shenzhen) International Trading Co. Ltd.	2012	Shenzhen, China
Malaysia	Fastenal Malaysia SDN BHD	2009	Malaysia
Thailand	Fastenal (Thailand) Ltd.	2012	Thailand
India	Fastenal India Sourcing, IT and Procurement Private Ltd.	2013	India
	Fastenal India Wholesale Private Ltd.	2013	India
<b>Europe</b>			
The Netherlands	Fastenal Europe, B.V.	2003	The Netherlands
	Fastenal Netherlands Holdings, B.V.	2015	The Netherlands
Hungary	Fastenal Europe, Kft.	2009	Hungary
United Kingdom	Fastenal Europe, Ltd.	2010	United Kingdom
Germany	Fastenal Europe GmbH	2011	Germany
Czech Republic	Fastenal Europe, s.r.o.	2011	Czech Republic
Italy	Fastenal Europe S.r.l.	2011	Italy
Romania	Fastenal Europe RO S.r.l.	2012	Romania
Sweden	Fastenal Europe AB	2013	Sweden
Poland	Fastenal Europe Sp. z o.o.	2013	Poland
Austria	Fastenal AT GmbH	2016	Austria
Switzerland	Fastenal Europe Sàrl	2017	Switzerland
Ireland	Fastenal Europe IE Limited	2017	Ireland
Spain	Fastenal Europe, S.L.	2018	Spain
France	Fastenal Europe FR Sàrl	2018	France
Belgium	Fastenal Europe BE BV	2019	Belgium

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Board of Directors and Stockholders of Fastenal Company:

We consent to the incorporation by reference in the registration statements (No. 333-52765, No. 333-134211, No. 333-162619, No. 333-176401, and No. 333-224441) on Form S-8 of Fastenal Company of our report dated February 6, 2020, with respect to the consolidated balance sheets of Fastenal Company and subsidiaries as of December 31, 2019 and 2018, the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes and financial statement schedule (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2019, which report appears in the December 31, 2019 annual report on Form 10-K, of Fastenal Company.

/s/ KPMG LLP

Minneapolis, Minnesota

February 6, 2020

**CERTIFICATIONS**

I, Daniel L. Florness, certify that:

1. I have reviewed this annual report on Form 10-K of Fastenal Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2020

/s/ Daniel L. Florness

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Daniel L. Florness

President and Chief Executive Officer

(Principal Executive Officer)

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## CERTIFICATIONS

I, Holden Lewis, certify that:

1. I have reviewed this annual report on Form 10-K of Fastenal Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 6, 2020

/s/ Holden Lewis

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Holden Lewis

Executive Vice President and Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION UNDER SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, each of the undersigned certifies that this periodic report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in this periodic report fairly presents, in all material respects, the financial condition and results of operations of Fastenal Company.

A signed original of this written statement required by Section 906 has been provided to Fastenal Company and will be retained by Fastenal Company and furnished to the Securities and Exchange Commission or its staff upon request.

Date February 6, 2020

/s/ Daniel L. Florness

\_\_\_\_\_ Daniel L. Florness

President and Chief Executive Officer

(Principal Executive Officer)

/s/ Holden Lewis

\_\_\_\_\_ Holden Lewis

Executive Vice President and Chief Financial Officer

(Principal Financial Officer)