ESG Perspectives From the CEO's Desk

Since our founding in 1967, a dedication to some simple principles has fueled Fastenal's growth from a lone, fastener-centric branch in rural Winona, Minnesota, to a pan-North American, and increasingly global, provider of procurement services. One guiding business principle is to lower the total cost of our customers' supply chains, not just by cutting price but by reducing total resources consumed. Another principle is decentralization – adding Fastenal employees close to our customers and trusting these employees to make great local decisions in furtherance of the first principle. These do not constitute the whole of our management philosophy (this is best described in *The Power of Fastenal People*, a book written by our founder, Bob Kierlin, which I would recommend to anyone interested in Fastenal's culture), but they have been a critical foundation on which our 50-plus years of expansion have been built.

For Fastenal, these are not new ideas; they have guided our organization for decades. We also believe these principles – reducing resource consumption and empowering employees – create a natural alignment of Fastenal's growth goals with the environmental and human capital priorities of customers and investors. For much of our history this alignment has been mostly visible to investors through our reported results and through their due diligence – visiting Fastenal locations and meeting our employees. Our customers have seen this first hand – through the quality of people on our sales, distribution, and support teams, collectively known as "the Blue Team," and through the service this team provides. Today, our investors are asking for a deeper understanding about the Blue Team. In fact, this year nearly 58% of our shareholders supported a proxy proposal requesting Fastenal to provide details about the composition of our workforce. In response, I would like to share the following:

(U.S. Operations Only)	2012	2018	2019	7-Yr. CAGR
Total Employees (Absolute)	13,818	18,273	18,290	4.1%
% Female				
Fastenal	**17.7%**	**23.9%**	**24.5%**	**9.1%**
Manufacturing	29.0%	29.2%	29.4%	1.2%
Construction	9.0%	9.9%	10.3%	5.6%
% Minority				
Fastenal	**12.1%**	**20.1%**	**20.9%**	**12.4%**
Manufacturing	17.5%	19.7%	20.1%	3.0%
Construction	10.2%	11.6%	11.9%	5.8%

Sources: Fastenal EEO-1 Data; Bureau of Labor Statistics

The table reflects United States-only data (however, the percentage of our workforce that is female does not meaningfully change if viewed on a global basis). The lines labeled "Manufacturing" and "Construction" represent the percent of total employed individuals in those economic sectors each year that are identified as women or non-white, as measured by the Bureau of Labor Statistics. These two industries traditionally represent approximately 80% of our sales, providing useful context for Fastenal's workforce composition and trends. Our female and minority workforces have grown 2.2x and 3.0x faster, respectively, than our overall U.S. workforce over the last seven years. This trend reflects multiple dynamics in our business evolution, including the natural progression of our geographic expansion, the cycle of our promote-from-within philosophy, and efforts to improve hiring processes over time (see accompanying letter from Reyne Wisecup, Fastenal's Senior Executive Vice President – Human Resources). In our view, this data reflects a labor pool whose diversity is in line with our marketplace.

This data does not define Fastenal; it is just a piece of the story of our commitment to employees, to our customers, to our suppliers, and to our shareholders. We are a passionately promote-from-within company, guided by a belief that if you work hard, make great decisions, learn from mistakes, and exemplify our cultural values of *Ambition*, *Innovation*, *Integrity*, and *Teamwork*, you should receive greater opportunity and responsibility. To a degree greater than most, we cultivate an entrepreneurial mindset in our service model, which asks all employees to make independent decisions on matters of customer acquisition, pricing, purchasing, etc. This fosters an environment of trust and empowerment. From a pay equity standpoint, our most recent Chief Executive Officer (CEO) Pay Ratio is 38:1, compared to an average of 94:1 at five of our largest direct peers.

Our actions during the current COVID-19 disruption have included: (1) adding ten days of available paid time off to every full- and part-time employee for COVID-related issues, including childcare (a step we took in mid-March, very early in the pandemic); (2) limiting public access to all our facilities and prioritizing employee and customer safety; (3) foregoing funds that were technically available to us as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, but which to us felt outside the spirit of the legislation; and (4) communicating a spirit of trust, fairness, and calm among all of our employees. None of these facts are captured in our EEO-1 data,[1] but they are part of the team environment we foster.

In our view, social responsibility includes, but is more than, diversity. We seek out talent, offer a dynamic professional environment, treat and pay people fairly, and reward achievement. We are better at it today than we were seven years ago, and will be better at it in seven years than we are today. That said, Fastenal would not have attained its success to date without having created an employee-centered culture of respect. Our people philosophy can be summarized with some simple thoughts: (1) find great people, (2) ask them to join, (3) challenge them to teach, to learn, and to change, (4) remind everyone that no geography or group of people has a monopoly on talent, ambition, or ability, (5) give people a reason to stay, and (6) promote from within.

We are a frugal organization, and we believe frugality goes hand-in-hand with conservation. To this end, the environment is an area where we have begun to think more about how to report. As mentioned above, Fastenal's focus on reducing supply chain resource use (versus just price) naturally aligns the goals of our organization, our customers, and investors. A good example is vending, a business we started in 2008 that has grown to represent approximately 20% of our revenue. In addition to serving as a key growth driver for Fastenal, vending helps customers reduce wasteful consumption (meaning fewer items produced, packaged, and discarded) while also providing a clear sight line to customer demand, enabling our teams to manage the supply chain more efficiently (with fewer ad hoc orders and, in turn, fewer miles driven to transport product).

Given our approach to operating a highly utilized and new truck fleet, every product moved on a Fastenal truck is moving on a vehicle with above average energy efficiency. Every imported product we sell has been directly sourced (as opposed to going through brokers or master distributors) and vetted by our captive compliance and quality teams, ensuring safe and ethically sourced goods. In these and other respects, our model is inherently "green" and socially conscious. A distributor with our business model would likely have a naturally modest carbon footprint compared to our industry, and we believe we help our customers be more "green" as well.

Still, Fastenal has never formally measured environmental impact. That is changing. We have worked with a third party to develop scalable models for measuring emissions. The first version will rely on data sampling and be limited to Scope 1 and Scope 2 measurements.[2] Ultimately, however, this is a stepping stone to (1) continuous improvement and (2) moving beyond Scope 1 and Scope 2 to measure the environmental effects of our supply chain initiatives. We have begun to look at vending through an ESG (Environmental, Social, and Governance) lens and, as we get comfortable with modeling these effects, will add other perspectives and solutions. We believe this will be of great interest to our customers, many of which have their own ESG initiatives, and could prove to be a further differentiator in our efforts to gain market share. Fastenal also recently joined the SmartWay Transport Partnership, an EPA-sponsored initiative to improve freight efficiency, scoring in the 2nd tier (out of five tiers) in our inaugural ranking. We anticipate producing a CDP[3] report in 2020.

A historical lack of measurement does not suggest a historical lack of progress, or a lack of concern. We have created a Social Responsibility landing page, where this letter resides. This site includes examples of continuous efforts to improve efficiency. We believe actions initiated will, over time, advance efforts to gain market share while at the same time improving the financial and environmental bottom line.

On the governance front, we inserted language into our 2020 proxy committing Fastenal to include diversity candidates in all future searches for open board seats and/or external CEO searches. In our view, this does two things. First, while we have included women and minority candidates in past board searches, this should offer explicit confirmation of our dedication to seeking out diverse views for the important role of oversight of the company. Second, this is the third time in the past four years that an investor proposal has become a matter of policy for Fastenal, joining proposals for executive stock ownership and proxy access. We will continue to value, and embrace, common-sense shareholder input.

Fastenal's dedication to service has raised us from our humble beginnings to a market leader, with demonstrably top tier long term results. Just as important, this growth has been achieved with shared success – for our employees, our customers, our suppliers, and our investors. Decisions made over time in the name of efficiency have benefited all constituents and, we believe, have produced favorable ESG impacts. Still, there is room to improve with measuring and reporting our ESG progress.

Thank you for investing the time to read this letter and the related letter from Reyne Wisecup. We would also encourage you to view the formal presentation from our April 2020 Annual Meeting, specifically the comments relative to diversity in our Blue Team.

Go Blue!

Dan Florness

Dan Florness,
President and Chief Executive Officer

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1 The EEO-1 report is the product of an annual survey required by United States Department of Labor that categorizes a company's employment data by race/ethnicity, gender, and job category. As of the August 2020 publishing of this letter, the 2019 data has not yet been requested by the federal government.

2 Scope 1 and Scope 2, as defined by the U.S. Environmental Protection Agency, refer to activities which produce measurable greenhouse gas (GHG) emissions. Scope 1 GHG emissions are produced directly by an entity, including fleet fuel consumption. Scope 2 GHG emissions are produced indirectly by an entity, including electricity consumed.

3 CDP is a widely-recognized, non-for-profit organization that provides resources and a platform for companies to manage and disclose environmental impacts.