

## ESG Perspectives From the CEO's Desk

We continue to appreciate our stakeholders' interest in Fastenal's Environmental, Social, and Governance (ESG) direction. Much of this interest continues to focus on specific asks, whether that be reporting via a specific framework, the state of specific statistics, etc. While we understand and appreciate the motivations behind this, we also believe it's worth pulling stakeholders back a bit to appreciate the big picture. We are an organization that prioritizes employee empowerment through decentralized decision-making and a "promote from within" culture, and whose core strategy involves the reduction of resource consumption in our customers' supply chains. As noted in last year's letter, we believe these principles create a natural alignment of Fastenal's growth goals with the environmental and human capital priorities of our stakeholders.

I will begin this year's letter with our people and acknowledge that some of this section is pulled from last year's [letter](#). However, some things are foundational, and worth repeating. 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. This philosophy, combined with our recruitment policies (see an accompanying [letter](#) from Reyne Wisecup, Fastenal's Senior Executive Vice President – Human Resources), has contributed to not only a tremendously talented employee pool but also an increasingly diverse workforce.

<i>(U.S. Operations Only)</i>	2012	2019	2020	8-Yr. CAGR
Total Employees (Absolute)	13,818	18,290	16,818	2.5%
<b>% Female</b>				
<b>Fastenal</b>	<b>17.7%</b>	<b>24.5%</b>	<b>24.4%</b>	<b>6.7%</b>
Manufacturing	29.0%	29.4%	29.5%	0.1%
Construction	9.0%	10.3%	10.9%	4.9%
<b>% Minority</b>				
<b>Fastenal</b>	<b>12.1%</b>	<b>20.9%</b>	<b>20.5%</b>	<b>9.5%</b>
Manufacturing	17.5%	20.1%	20.3%	1.8%
Construction	10.2%	11.9%	11.4%	3.8%

*Sources: Fastenal EEO-1<sup>1</sup> Data; Bureau of Labor Statistics*

The table is 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 about 80% of our sales, providing useful context for Fastenal's workforce composition and trends.

The proportion of females and minorities in Fastenal's workforce declined slightly in 2020. It is difficult to know what the impact was from the severe social disruption caused by Covid-19. Generally, though, we believe this data is best viewed over time rather than year to year. On this basis, there is a clear trend toward greater diversity in our business. Our female and minority workforces have grown 2.7x and 3.8x faster, respectively, than our overall U.S. workforce over the last eight 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. We would expect the trend toward greater diversity throughout our organization to continue over time.

In May 2021 we created the role of ESG Manager. Though it's a new role, we don't view it as a beginning of an ESG journey. The fact is, we have many, many Blue Team members who have touched sustainability for years. Our supply chain teams have a compliance unit that manages the ethics of our global supply chain, which has been critical given the supply chain disruptions of the last few years. Our Environment, Health and Safety (EHS) team focuses on safety in our workplaces and promotes increased recycling, waste reduction, etc. Our transportation team over the last two years has piloted programs to explore use of electric vehicles within our box and Class 8 truck fleets and at our truck facilities. Our property teams are installing solar in a new building in Winona and our Kansas City distribution center and improving employee safety by building HAZMAT rooms in our hubs. Our product teams promote a line of green products. Within our decentralized structure, we have long had leaders who have enhanced sustainability throughout our organization.

What we haven't had is a resource that brings coordination and visibility to these efforts. In that vein, we see our ESG Manager's role evolving to encompass five areas. (1) Expand benchmark reporting to incorporate additional frameworks. (2) Improve external disclosure to more effectively highlight our efforts and impact to employees, customers, and investors. (3) Develop long-term sustainability goals and means to achieve them. (4) Evolve community engagement. Events such as the annual BK5K race, which honors one of our founders, Bob Kierlin, and raises funds for children's causes in several of the cities in which we operate, can simultaneously help communities while highlighting our organization and culture in a way that benefits employee recruitment and retention. (5) Explore "ESG as a service," or how our ability to reduce resource consumption in our customer's global supply chains, which is central to our value proposition, can be used to promote market share gains. I look forward to reporting on progress in these areas in future letters.

On the Governance front, the last two years have seen significant changes. First, in response to a shareholder request, our 2020 proxy inserted language that commits Fastenal to including diversity candidates in all future searches for open board seats and/or external CEO searches. While we have consistently included such candidates in past searches, this explicitly affirms to stakeholders our dedication to adding diverse views for the important role of oversight of the company and our willingness to embrace common-sense stakeholder input.

Second, over the last two years the number of diverse directors on our board has expanded from two to four. This has been possible because three directors, Messrs. Darren Jackson (manage other responsibilities), Mike Dolan (retirement), and Will Oberton (retirement), stepped down. We thank each of these individuals for their leadership, contributions, and guidance to Fastenal during their time on our board. Their seats have been assumed by two incredibly talented and accomplished people:

- Mr. Sam Hsenghung HSU. Mr. HSU has worked for Ecolab (NYSE: ECL) for 25 years, beginning in treasury and assuming a number of global operational, finance, and business management positions before accepting his current role of Executive Vice President, Strategic Planning for Ecolab. He serves on Fastenal's audit committee. Mr. HSU is Asian-American.
- Ms. Sarah Nielsen. Ms. Nielsen has been the CFO for a community bank, First Citizens Bank of Mason City, Iowa, for nearly four years, following 12 years as the CFO of Winnebago Industries, Inc. (NYSE: WGO). She has a degree in accounting and began her career and spent ten years as an auditor at Deloitte & Touche LLP. She serves on Fastenal's audit committee. Ms. Nielsen is female.

Of course, the most important contribution of these individuals is their outstanding experiences and capabilities. However, with the addition of Mr. HSU and Ms. Nielsen, and with current directors Ms. Reyne Wisecup, Fastenal's Senior Executive Vice President of Human Resources, and Ms. Rita Heise, a retired corporate Vice President and Chief Information Officer of Cargill, our ten-member board includes four diverse individuals.

Lastly, the board is discussing a redefinition of the nominating committee as the nominating & governance committee. As has always been the case, governance and oversight will remain the purview of the whole board. However, redefining the committee recognizes the advantage of having a governance model at the committee level to provide greater and more detailed focus to specific subjects, which is likely to include elements of ESG, among other critical matters. As part of this process, we are also evaluating any necessary changes to the by-laws of the various committees.

Thank you for investing the time to read this letter and the related letter from Reyne Wisecup.

Go Blue!



Dan Florness  
President and CEO

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<sup>1</sup> 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.