

Thank you *for being a* SHAREHOLDER OF FASTENAL

Similar to prior years, we hope you find this annual report useful in understanding our business, our future, and most importantly, the “something special” that is the culture of the Blue Team.

One year ago, we felt normalcy might be returning. New vaccines were arriving to help societies battle the pandemic, and the medical community was learning new methods to treat those afflicted with the virus. Unfortunately, things are rarely so simple. Societies are often underserved by those asked to lead and inform. We're also subject to our own fears and biases, especially in times of stress. A virus created a generational challenge. At times, humanity has made it worse.

Fortunately, we continue to find success as an organization, albeit not always in ways we expect. Holden Lewis, our chief financial officer, made an interesting comment a few months ago in a conversation with an investor. We were discussing the lower level of **Onsite** and **FMI Technology** signings during the pandemic period. (See lower right for descriptions of these and the other bolded terms on this page.) When asked about the cause, he explained customers sought our help in different ways during the last two years. In 2020, they asked for help keeping their employees and customers safe – this meant help with safety products. The Blue Team used our deep product knowledge, our extensive quality systems, and our vast supplier network to help customers find high-quality safety products. In 2021, supply chains were shattered, and the customer ask expanded to include more types of products. Our strength is finding solutions to these types of supply chain problems.

During this period, we believe our opportunities fundamentally improved in two ways. First, we sold to a wider range of customers, adding new healthcare and government customers. This expanded marketplace is now familiar with the value of the Fastenal supply chain. Second, at the start of the pandemic, we closed the front doors to our local branches. (For background, we deliver most of our sales to customer facilities, so most of our product goes out the back door, so to speak.) We closed the front door to protect our employees and our customers. With the front door closed, and with customers quickly modifying their buying habits, we tweaked our existing branch format to create the Customer Service Branch (or **CSB**). We also developed a new branch format, the Customer Fulfillment Center (or **CFC**).

These modified branch formats dovetail quite nicely with the needs of the marketplace, with our Onsite network, and with our distribution network. Our in-market servicing locations (CSBs, CFCs, and Onsite locations) are all complemented by our expanding **Digital Footprint**.

We believe in transparency. Similar to last year, we felt it would be helpful to share a section from the *Blue Team Report* (the new name for our annual report to employees). The next two pages include the index and lead-in letter from the current report. As you can see from the index, there are a lot of great things going on at Fastenal. Similar to last year, the final item noted is an article by our founder, Bob Kierlin. Not surprising, Bob continues to actively support the Blue Team, even in retirement.

We will always approach things in a simple way at Fastenal. Believe in people. Always strive to pursue a common goal: *Growth Through Customer Service*. And enhance our ability to serve by finding great people, asking them to join, and then giving them a reason to stay.

Good luck in 2022, and thank you for your belief in the Blue Team at Fastenal. Go Blue!



DANIEL L. FLORNESS
President and Chief Executive Officer

DEFINITIONS



ONSITE

A Fastenal servicing location dedicated to, and usually situated within, a customer facility.



FMI TECHNOLOGY

A suite of solutions to illuminate and efficiently manage customers' planned product needs. Includes *FASTStock* (manual bin stock service enhanced with mobility technology), *FASTBin* (bin devices with embedded technology for remote inventory monitoring), and *FASTVend* (specialized devices providing access controls and asset and usage tracking, in addition to remote inventory monitoring).



CSB

Similar to our legacy branch model, there's still a front room where walk-in customers (primarily contractors) can shop for products. The difference: a more targeted inventory profile and an industrial look and feel.



CFC

These branches function like “mini distribution centers,” with limited hours for will-call pickup, dense industrial shelving, and a lean market-based inventory strategy to support local supply chain needs.



DIGITAL FOOTPRINT

A combination of our sales through FMI Technology (see adjacent definition) plus that portion of our eCommerce sales that do not represent billings of FMI services.

Fastenal Wears a Crisis Well
Holden Lewis

EVP Insights
Casey Miller, Bill Drazkowski & Jeff Watts

The Next Chapter in an
Amazing Success Story
Kris Van Dalen

Evolution of the Branch
Sally Olson & Katy Pickett

Another Year of International Success
Jeff Watts & Our International RVPs

Many Hands Worked Really Hard
Will Roedeske & Walter Tate

Embracing INNOVation
Eric Rea

Building the Blue Team
Mel Skadson

Predictive ROA Tool: Your Roadmap
to Productive Growth
Kim Stanislawski & Clint Coley

A Hub Manager Perspective on LIFT
Mike Estell

Delivering a Better
Direct-Ship Program
Kirk Talmontas

The Teamwork Behind the Machine
Jeff Hicks & Our 2021 Solutions Top Performers

Where Industry Meets Innovation
Brooke Mlsna

The Latest Tools in Our
Technology Toolbox
IT and FMI Technology Teams

Government Opportunities
Are All Around Us
Kevin Fitzgerald

Blue Team Sports Highlights
Casey Severson

Providing More Training to
More People, More Often
Pete Guidinger

The ABCs of ESG
Liz Carroll

Congratulations to our
25-Year Employees

Another Year of Accomplishments
by the Blue Team
Bob Kierlin

COMPLETING *the* Marathon

AN EXCERPT FROM THE 2021 BLUE TEAM REPORT

I'm not a marathon runner. Okay, that's probably not a surprise to anyone; however, a marathon seems like a good metaphor for what we're all living through right now. Doesn't it sometimes feel like we're hitting a wall, energy is low, and every new step (or new day) is a repeating and energy-draining event?

For the runners in the crowd, you will get where I'm going with this line of thought. For the rest of you, let me share some things I've learned from a little internet research. (Hopefully the following information is accurate; you know, I read it on the internet, so it must be true.)

The human body can store a finite amount of glycogen, and these reserves typically run out after about 18 to 20 miles of running. At this point, your ability to take in carbohydrates before (and during) the race, your ability to stay hydrated during the race, your body's ability to convert fat and protein to energy (a very inefficient process), and your attitude dictate what happens over the last six to eight miles.

Fortunately for most of us, this is not something we regularly encounter; however, we all know the feeling of pushing beyond what we thought was possible. After two years of the pandemic, we are approaching the 18 to 20 mile mark. And yes, we can complete this marathon.

Last year, my letter centered on five (non-virus) storylines that stood out for 2020. These qualities shone through during the toughest days of the pandemic, and they bear repeating as we push toward the finish line.

1. We run faster (and learn faster) than anyone else.
2. We don't fracture; we rally to support each other.
3. When we point a finger, it's usually at ourselves.
4. We have the skill set to help others, and the confidence to stay focused.
5. We always build for the future.

One year ago, we had multiple vaccines in the final stages of approval (this comment applies to the planet, not just one or several societies),

and we were in the starting days of vaccine deployment across the globe. The world breathed a sigh of relief ... yet twelve months later, our headlines are still dominated by the pandemic. Why? It might be an outgrowth of an endless 24/7 media cycle, which often serves not to inform but rather to inflame the anxieties of society; and perhaps it centers on four words: trust, arrogance, inclusion, and blame.

These concepts often determine success or failure when tackling a problem, and they take on special meaning in the context of the Blue Team. When thinking of *Trust* within the Blue Team, the concept to emerge is a belief in everyone's ability to put self and others in balance and to discover the best solution to a problem.

When thinking of *Arrogance* within the Blue Team, the concept to emerge is its opposite: humility. We are self-aware enough to appreciate we are all "full of it" periodically; therefore, we listen to and share ideas with each other to discover the best solution to a problem.

When thinking of *Inclusion* within the Blue Team, the concept to emerge is a belief in people. We believe in the intentions of others, we believe in each other, and we believe having a variety of different perspectives helps us discover the best solution to a problem.

When thinking of *Blame* within the Blue Team, what emerges is a two-part question: Why does it matter, and how does it help? Instead of pointing fingers, we take steps to discover the best solution to the problem, then act accordingly.

Sorry for the serious nature of this year's letter. Perhaps we are all impacted by the lack of human contact in the last two years.

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DAN FLORNESS
President & Chief Executive Officer



We are in this together – the Blue Team – and I personally miss the human side, the camaraderie of coming together. For a step on the lighter side, let's get back to the marathon and the next leg (yes, pun intended) of the run.

During the last two years, we have maintained our energy and our hydration by (1) learning new things, (2) creating safer work environments, (3) expanding how we go to market, and (4) modifying how we operate. All of these steps were taken to evolve how the Blue Team serves each other and the needs of the market tomorrow.

Our expanding Digital Footprint is a great example. For background, our Digital Footprint is how we illuminate the supply chain for our customers and bring greater efficiency in the process. It includes eCommerce (transacting electronically using web verticals, eProcurement, etc.) and FMI Technology (Fastenal Managed Inventory): FASTStock, FASTBin, and FASTVend. To put this into context, we believe 85% of our customers' spend could eventually become part of our Digital Footprint. Two years ago, it was about 36% of sales. (This is an estimate; the reporting from our pre-mobility scanning technology wasn't as crisp as what we're able to capture today through our FASTStock solution.) Twelve months ago, our Digital Footprint had expanded to about 37% of sales, and today it is 46%.

The momentum with our Digital Footprint is strong, and the marketplace is very receptive to the change. In the first half of 2022, it should break 50%, and we expect it to exceed 60% by the end of the year. Achieving this potential is all about our willingness and attitude to drive the change.

As you can appreciate, a large Digital Footprint provides incredible amounts of usage information – what is being used, where it's being used, when it's being used, and who's using it. This knowledge allows us to be more strategic about planning our customers' supply chains, about staging our supply chain assets (inventory and equipment), about where we

pick and consolidate a customer's order (think LIFTs, Local Inventory Fulfillment Terminals), about providing insight to our suppliers about expected needs, and about making suggested improvements. This knowledge also allows us to help make every customer's supply chain more resilient and effective, and allows us to grow faster and serve more customers.

Everyone wins in this scenario (well, everyone but our competitors). Growth creates opportunities, and these opportunities are filled through internal promotions because we learn and build our skill sets every day. Our Fastenal School of Business exists to serve you – please continue to prepare yourself in 2022.

As in prior years, we celebrated some new milestones in 2021. Here's a partial list:

1. We were named one of the safest companies by *EHS Today* magazine.
2. The Blue Team in Mexico and Singapore celebrated 20 years in business.
3. Our FMI Technology program hit new heights. FASTStock exceeded \$550 million in annual sales, FASTBin broke \$5 million in monthly sales in September, and FASTVend surpassed one billion vends in December.
4. Our company sales eclipsed \$6 billion for the first time.
5. Our market capitalization (total shares outstanding x price per share) broke \$30 billion in April.

Within the Blue Team, I'm a more seasoned member. (That's a nice way to say I'm old – 58.) I remember watching humans land and walk on the moon. I remember my grandmother talking about humans learning to fly during her lifetime. I witnessed space travel as it transitioned from fiction to possible to routine, and I also remember learning about Earth from the perspective of space. This started with verbal descriptions and books,

then moved to visuals, first on my family's old black and white television, later in full-color video. Bottom line, here is this beautiful blue planet – yep, it's blue – and it serves as an incredible home for all of us. Please take care of each other in 2022, and please continue to take care of this beautiful planet. If you see ways for us to conserve resources, to operate more efficiently, or to bring ideas to the market, please speak up – your ideas and insights are valued.

In the months to come, you will hear more about two sets of initials: ESG (environmental, social, and governance) and DEI (diversity, equity, and inclusion). These terms have become more common in recent years; however, the underlying concepts aren't new to the Blue Team. That said, aligning them with our core values will feel forced as long as they're associated with detached and cold terminology. During 2022, we will work to transition to more meaningful and energizing language – words we can all relate to within Fastenal. Some early suggestions have been to brand ESG as simply *Being Blue* and to brand DEI as *A Reason to Stay*. Again, these are just initial thoughts. We will be engaging with the Blue Team to find the best branding. This may include a survey or two to solicit feedback and ideas.

Let me close by saying thank you. Thank you for preparing yourself to get through the wall our global society is going to keep hitting until we transition from a pandemic to an endemic. This will happen; if for no other reason, because humanity needs it to happen. We will learn to live and succeed in the new normal. At Fastenal, we will do it in part by *Being Blue* and by giving everyone *A Reason to Stay*.

Good luck in 2022,