

To our SHAREHOLDERS AND EMPLOYEES



Jeff Watts

At Fastenal, we don't just distribute products. We build partnerships that power industry. Our purpose is to help our customers operate more efficiently, more safely, and more competitively. This purpose guided us through 2025, and it's the foundation for everything we're building in 2026.

This past year was a turning point. After a challenging 2024, we entered 2025 with a renewed sense of focus and urgency. We knew we had the talent, the tools, and the culture to bounce back; and, in typical Fastenal fashion, we did. But what makes me proud isn't just the results we achieved. It's how we achieved them.

We didn't wait for the market to lift us. (As it turned out, that help never arrived.) We leaned into our strengths: our people, our service, and our ability to solve problems for customers. We listened more closely, responded more quickly, and delivered more value. We didn't just grow – we *earned* growth.

Across our organization, we saw a level of alignment and energy that reminded me why I love this company. Our sales teams rallied around new goals and metrics. Our Onsite and FMI teams embedded deeper into customer operations. Our support teams, from IT to supply chain, came up with smarter, faster ways to serve. Everyone played a role, and everyone showed up with purpose.

Improving results meant embracing change. We rolled out new tools like AI-powered sourcing, a modern Customer Relationship Management (CRM) tool, and a redesigned eCommerce platform, and our teams didn't flinch. They saw opportunity, not distraction. This agile and ambitious mindset is what sets Fastenal apart. It's how we stay ahead and continue to evolve in a fast-changing world.

A central theme of our story in 2025 was deepening customer relationships. Our key accounts program continued to grow as we added more than 500 new national account and regional contracts. This is especially gratifying because each new contract is an expression of trust. When a customer invites Fastenal into their facility, they're saying, "We believe in you." That trust is earned, and our teams work hard every day to honor it.

Our FMI technology (vending machines, sensor bins, and scanning solutions) became even more integral to our customers' operations. These devices aren't just about automation and analytics; they're about partnership. They help our customers manage their business better, and help us serve them more effectively.

We continued our journey as a people-centered, resource-conscious organization. We invested in sustainability, improved our carbon accounting, and found new ways to reduce waste and energy use. We strive to operate in ways that reflect the values of our customers and communities. We want Fastenal to be a company that not only performs well but also does good, and we're proud of the steps we took in 2025.

Looking ahead to 2026, I'm more excited than I've ever been in my 30 years with Fastenal. We're aiming for bold goals: double-digit growth, deeper customer partnerships, and innovation across our business. We'll continue to refine our service and expand our reach, pushing into new industries, new product lines, new geographies, and new ways to serve. We're not just growing. We're innovating and evolving, and we're doing it with purpose.

One thing will *not* change, and that's our commitment to invest in our people. The Blue Team is the heartbeat of Fastenal, and we're committed to helping every team member use their full creativity and achieve their full potential. Whether it's through training, technology, or new opportunities, we'll keep building a culture where great people do great things and become great leaders.

To our customers, thank you for trusting us with your business. We're honored to be your partner, and we're committed to helping you succeed. To our shareholders, thank you for believing in our vision. Your support fuels our drive to improve, innovate, and lead. And to the Blue Team, thank you for your passion, your grit, and your commitment. You are the reason Fastenal is thriving.

2025 reminded us of who we are. 2026 will show the world what we're capable of.

Let's go.

JEFF WATTS
President and Chief Sales Officer

THANK YOU

In December 2025, Fastenal reported my decision to step out of the CEO role in July 2026. Our board also announced its decision to elect Jeff Watts, our president and chief sales officer, to the CEO role. This represents the final step in our leadership succession. I support Jeff and his leadership team!

By way of introduction, here are some quick facts about Jeff.

- **Joined Fastenal in 1996.**
- **Began his career in a branch in southern Ontario, Canada.**
- **Exemplifies our 'promote from within' philosophy.**
- **Is a great leader and is surrounded by great leaders (all 24,000 of them).**

My tenure as president and CEO began in January 2016. For Fastenal, 2015 was disappointing. We stumbled through a chaotic year as the economy weakened. The Purchasing Managers' Index (or PMI, a diffusion index published monthly by the Institute for Supply Management) was in the low 50s for the first nine months of the year (indicating moderate industry growth) before slipping into the upper 40s (indicating contraction). Normally, Fastenal can grow in this type of environment; however, our rate of growth slowed, and we contracted for the last four months of the year.

My first letter to shareholders was blunt. The first four paragraphs contained some reasons, or perhaps excuses, for the weak performance.

However, the letter pivoted from there – we stopped explaining, and we started to move forward. The fifth paragraph began with a simple sentiment: *Our biggest strength is great people.*

The rest of the letter spoke about our plan and our priorities. Internally, we shared what an \$8-billion Fastenal would look like, what we needed from our teams and suppliers, and how we would serve our customers. We also shared why this would work. In other words, we discussed direction, alignment, and commitment (and in typical Fastenal fashion, we came up with a new acronym: DAC). The \$8-billion vision has become a reality: In 2025, our sales were \$8.2 billion.

Fastenal has experienced tremendous change since 2015. We closed nearly 40% of our

branches. We modified our go-to-market priorities, which included modifying the look and function of our in-market locations. We redefined our purpose – from 'branch-based industrial and construction supplier' to **supply chain partner**. This change had really started several years before. On the surface, we didn't know it (or wouldn't admit it). However, if you looked at our most successful district and regional business units, many of our leaders knew it. They knew it because they were listening to their marketplace and evolving to meet changing needs.

Several early moves in 2015 and 2016 proved important. This included elevating a new leader in the eastern United States and elevating a new leader of our technology team. It also included getting closer to (and learning from) our international sales leaders and our national account sales leaders.

During this timeframe, several internal habits served us well. These habits include observation, listening, inquiring, trusting, and being open to surrounding ourselves with talent greater than our own. It's not always comfortable to practice these habits, particularly the latter, but we learn, we challenge each other, and we change.

We were also served well by our decentralized culture, which encourages experimentation and idea-sharing across different geographies and business units. A decade ago, we set out to understand the extraordinary success within our Mexico business unit and within several of our Midwestern and South-Central United States regions. We also made it a priority to engage directly with our district-level leaders. This latter effort has consumed close to 30% of my time over the last eight years, and the group taught me so much – thank you!

One of the most impactful observations came while conducting district-level reviews between 2019 and 2022. A mature district in the Midwestern United States really stood out. Prior

to 2017, this district's performance was *okay* – it was profitable and enjoyed above average returns. However, from a growth perspective, it was just mediocre. From 2007 to 2012, the district produced, based on net sales, a compound annual growth rate (CAGR) in the low single digits. From 2012 to 2017, their CAGR improved slightly but was still in low single digits. Then a new district manager arrived and challenged the team to change their focus. With that, their growth shot up to double digits (10%+). During the 2017 to 2022 timeframe, their CAGR was almost 15%. When the economy weakened in 2023 and 2024, the district's growth softened a bit to upper single digits – not bad for a mature business in a weak economic environment.

The moral of the story? Our success always centers on great leaders able to challenge their team with a common goal. Success is greater when the common goal involves a great plan. Fortunately for Fastenal, there are numerous examples like this district, and the secret to their success is always the same: **a great key accounts program.**

Sometimes circumstances force you to change faster than you expect; or in a positive light, they provide an opportunity to 'experiment big.' When COVID-19 upended the world in 2020, several things happened. First, we closed our branch front door as a safety precaution. As it turned out, the change positively impacted branch productivity, positively impacted our return on invested capital (ROIC), and sparked a mindset shift. We had previously experimented with this format, but we adopted it company-wide during March 2020. (Thanks to the agility and work ethic of our teams, this transformation took two days – the weekend.)

Second, our customers' buying habits were changing quickly. This enhanced our ability to drive market share gains using point-of-use technology (primarily vending devices at the time). It also enhanced our ability to engage digitally with our customers. To clarify some terminology,



Dan Florness

we refer to this as *eBusiness*, consisting of *eProcurement* (things like EDI and punchout) and *eCommerce* (think websites and apps). Since 2020, our customers' use of eProcurement has expanded dramatically (we were already pretty good at this), and our eCommerce business has significantly increased (although we still have work to do as we improve this capability).

In the chaos of the pandemic, our team of *great people* stepped up to the plate to help our customers and each other. Personally, I learned a lot about empathy and resilience just by witnessing the Blue Team in action. Great people, pursuing a common goal, can do great things!

During this timeframe, we challenged assumptions about our market potential within our existing geographies. We expanded our potential by assisting customers beyond the traditional industrial and construction markets. There are many examples: eCommerce entities, data centers, healthcare facilities, even spacecraft manufacturers. Perhaps the best example is government-connected entities like K-12 school districts and universities. This was a niche market for us in 2015. Today, we have approximately 97 K-12 and higher education customer sites with supply chain spend greater than \$10,000 per month, and approximately 29 of these customer sites have supply chain spend greater than \$50,000 per month. (We often joke that our expanded group of university customers represents a new collegiate super-conference: The BIG FAST.)

Results matter. As noted earlier, in 2015 and 2016 we spoke openly about what an \$8-billion Fastenal would look like (direction), the resources needed to get there (alignment), and why it would work (commitment).

Here are several results we've seen over the last decade thanks to a team of great people within Fastenal. First, our market capitalization (share price times the number of shares outstanding) expanded from about \$12 billion to more than \$50 billion. Second, annual dividends expanded from \$327 million in 2015 to just over \$1 billion in 2025. Third, our return on invested capital (ROIC) expanded from 28% in 2015 to 31% in 2025. A fourth metric has helped to improve everything: Our local team productivity increased 90%.

This productivity gain allowed us to expand our reach into larger customers and into lower gross margin products. This gain also allowed us to expand our investment in non-branch resources, to expand our investment into FMI (Fastenal Managed Inventory) tools, and to meaningfully expand investments related to our technological capabilities.

The latter two items improved our ability to digitally engage with customers and their supply chain. We measure this as our *Digital Footprint* – the percentage of total sales flowing through our FMI Technology or eBusiness platforms. In October 2015, our Digital Footprint was approximately 24% of sales. By October 2025, it expanded to 62% of sales. We believe this could someday exceed 85% – only time and effort will reveal the ultimate opportunity. Our expanded technology investment also includes a major redesign of our FASTCrib software. This software development is still a work in progress, but we believe in its potential. FASTCrib is part of what we call Fastenal Crib Management Services – expect to hear more about this in the future.

As you know, we said goodbye to Bob Kierlin in February 2025. Bob and four of his friends founded Fastenal back in 1967. For those of us blessed to have known him, he was a mentor and friend. For the Fastenal employees who didn't know him directly, they're 'meeting' Bob in several ways: through the decentralized, people-centered culture he worked to instill; and also through *BLUE*, the AI-enabled digital assistant we created several years ago. *BLUE* allows Fastenal employees to directly ask questions of Bob Kierlin, with the answers derived from *The Power of Fastenal People*, a book Bob wrote about 30 years ago to share the ideas and culture behind Fastenal's success.

We strive to develop five simple traits within our leaders: (1) a willingness to change and to develop new skills, (2) a commitment to develop everyone around us, (3) consistent communication of our direction, (4) intentional alignment of resources, and (5) the courage to stay committed to the direction. Said more succinctly: develop self, develop others, and DAC (direction, alignment, and commitment).

We have a great team of leaders today. They appreciate their role and their need to mentor and develop their successors in ways we didn't always appreciate. This group has expertise in sales, distribution, supply chain, HR, finance, and technology. Most importantly, they have an empathetic 'self-help' mindset, which has been instrumental in our ability to grow the business every month but one over the last three years, and to grow double digits (10%+) in each of the last six months of 2025 – impressive results in an environment where the PMI has been sub-50 for 36 of the last 38 months.

I look forward to seeing this team work toward success in the years to come.

Thank you for being a shareholder of Fastenal. Thank you for the opportunity to lead this organization over the last decade, and thank you for allowing me to be associated with this group of **great people** over the last 30 years.

Go BLUE!


DAN FLORNESS
Chief Executive Officer