

## ESG Perspectives From the CEO's Desk

I will begin this year's letter on the subject that has been, and I anticipate will continue to be, at or near the top of every Fastenal discussion around Environmental, Social, and Governance (ESG): our people. As highlighted in last year's [letter](#), Fastenal's success since its founding in 1967 is built on our employee-centered culture of respect. It can be summarized with some simple thoughts: (1) find great people, (2) ask them to join, (3) challenge them to teach, learn, and 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.

<b>(U.S. Operations Only)</b>	<b>2012</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021</b>	<b>9-Yr. CAGR</b>
Total Employees (Absolute)	13,818	18,273	18,290	16,818	16,547	2.0%
<b>% Female</b>						
<b>Fastenal</b>	<b>17.7%</b>	<b>23.9%</b>	<b>24.5%</b>	<b>24.4%</b>	<b>24.2%</b>	<b>5.6%</b>
Manufacturing	29.0%	29.2%	29.4%	29.5%	29.2%	0.1%
Construction	9.0%	9.9%	10.3%	10.9%	11.0%	5.0%
<b>% Non-White</b>						
<b>Fastenal</b>	<b>12.1%</b>	<b>20.1%</b>	<b>20.9%</b>	<b>20.5%</b>	<b>21.0%</b>	<b>8.4%</b>
Manufacturing	17.5%	19.7%	20.1%	20.3%	20.5%	1.8%
Construction	10.2%	11.6%	11.9%	11.4%	12.1%	4.5%

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

<sup>1</sup> The EEO-1 report is the product of an annual survey required by the U.S. Department of Labor that categorizes a company's employment data by race/ethnicity, gender, and job category.

As in past years, the table is United States-only data (however, the percentage of females in our workforce does not meaningfully change if viewed on a global basis). Lines labeled "Manufacturing" and "Construction" represent the percent of total employed individuals in those economic sectors each year who are identified as women or non-white, as measured by the U.S. Bureau of Labor Statistics. These two industries traditionally represent about 80% of our sales, providing useful context for Fastenal's workforce composition and trends.

In reviewing the table, a few trends stand out. First, the proportion of females in Fastenal's workforce fell for a second consecutive year in 2021. This occurred in the broader manufacturing sector as well, and I believe it reflects a larger trend: Much of the impact of the severe social disruption caused by Covid-19 has fallen on women and mothers in our society. Second, viewed over time rather than year-to-year, there is a clear trend toward greater diversity in our business. Our female and minority workforces have grown 2.8x and 4.2x faster, respectively, than our overall U.S. workforce over the last nine years. This reflects some core 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. Third, the growth of our female and minority workforces has exceeded that of the markets in which we compete and from which we recruit labor. We expect the trend toward greater diversity throughout our organization to continue over time.

One measure of how a company values its employees, and a key component to giving people a reason to stay, is its safety culture. Since 2015, we have self-certified for the ISO 45001 standard, which offers guidance for sound Occupational Health & Safety practices; in 2022, we became formally certified. Such practices have contributed to our Experience Modification Rate ('EMR,' a reflection of a company's experience with work-related accidents) being 55% better than our industry average in 2021. This track record was highlighted in October 2021 when trade resource *EHS Today* named Fastenal one of 'America's Safest Companies.' The

recognition reflects a culture of protecting our people, in large part by empowering everyone throughout the company to share ideas to improve workplace safety.

On the Environmental and Governance fronts, our focus in the last 12 months has been three-fold: improved supply chain efficiency, improved visibility and reporting, and improved sustainable business practices.

First, we continue to improve emissions intensity, both of Fastenal and our customers. Fastenal's core strategy involves helping our customers' supply chains become more resource-efficient, which naturally aligns with the environmental priorities of our stakeholders. This starts with our own supply chain, where structural changes in both our physical footprint and the use of vehicle fuel have led to greater efficiency. For example, in July 2018 and July 2022, our hubs and branches had a combined 18,970,000 and 18,556,000 of global square footage under roof, respectively. This means our annualized sales per square foot grew from \$262 in July 2018 to \$379 in July 2022, a 44.3% improvement. A similar pattern is evident in our consumption of fuel in our vehicle fleet. In July 2018 and July 2022, we consumed 1,108,615 and 959,262 gallons of fuel in our captive vehicle fleet, respectively. This means our annualized sales per gallon grew from \$4,491 in July 2018 to \$7,325 in July 2022, a 63.1% improvement. We have tested electric Class 8 and box trucks, yard trucks, and pick-ups; and while our current usage is minimal, we do expect to add some additional electric units in 2023. Improved efficiency translates directly to lower emissions intensity and reduced current and future resource consumption.

We also seek to eliminate inefficiencies in our customers' supply chains. In order to make data-driven recommendations for process improvements, we routinely conduct Total Cost of Ownership (TCO) studies of customer facilities to understand how they purchase, move, stock, and use products. Historically, these studies reveal an opportunity to reduce the TCO for in-scope products by 22% on average, assuming the customer allows us to fully utilize our solutions. Those are dollar savings, not emissions savings, but clearly there are green benefits as well. For example, through our inventory management solutions, we're able to reduce a facility's stocking levels by an average of roughly 29%. This represents direct resource savings. It also frees up productive space in the customer's facility, forestalling the need for facility expansion and accompanying resource consumption. Consolidating vendors leads to fewer and larger shipments, which can reduce use of fuel and packaging material. Perhaps the most direct impact is driven by our FMI Technology vending devices, which provide controls and reporting tools to help customers achieve a significant reduction in product consumption.

There are similar TCO programs in our industry, but we believe Fastenal's program offers unique advantages. Due to our scale, we apply our solutions to very large national and global supply chains, amplifying the effect of our capabilities. At the same time, our local presence allows for greater customization and adaptability, increasing the effectiveness of tools we deploy to help customers reduce wasteful consumption and other supply chain inefficiencies. We believe this combination of global scale and local presence magnifies the impact of our cost, waste, and emissions savings programs versus others in our industry. One of our goals over time is to quantify this impact more effectively.

Second, we've been working to establish a framework to improve our reporting on ESG matters. These efforts have produced higher CDP, EcoVadis, and ISS ratings in 2022. We recognize there is more to do around disclosure and believe we will have more to report in our 2023 letter. We also believe the proposed requirements from the U.S. Securities and Exchange Commission (SEC) could serve to clarify and standardize reporting expectations. In addition, our board has taken a much more active role in overseeing our progress on ESG, with internal ESG stakeholders providing updates to the full board on at least a bi-annual basis and to the Nominating and Governance Committee on a quarterly basis.

Third, in May 2022 we received ISO/IEC 27001 certification, demonstrating Fastenal's commitment to protect the data of our customers, employees, and vendors by aligning with best practices for an Information Security Management System. In August 2022, we received ISO 14001 certification, reflecting our alignment with a framework for an effective Environmental Management System. These achievements, in combination with Fastenal being named one of America's Safest Companies, reflect our commitment to being a safe, secure, and sustainable organization.

Our 2021 Annual Report included a new tag line, *Where Industry Meets Innovation*. This reflects Fastenal's evolution from a product distributor to a technology-driven provider of supply chain solutions. In the same spirit, we've come up with a related tagline for our ESG efforts: *Where Innovation Meets Responsibility*. The message will hopefully hit home with our internal and external stakeholders: As we strive to improve our processes and technologies, we will continue to do so with an eye on not only profits but also people and the planet.

Thank you for your interest in Fastenal and our approach to sustainable practices, and for investing the time to read this letter and the related letter from Reyne Wisecup.

Go Blue!



Dan Florness  
President and CEO