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## Fastenal's CEO Sweats the Small Stuff

By DYAN MACHAN

***Will Oberton climbed Fastenal's ranks by sticking with basics and solving problems creatively. Even Warren Buffett is impressed.***

At **Fastenal**, it's all about nuts and bolts, in every sense of the phrase. The Winona, Minn.-based company (ticker: FAST) is North America's largest wholesale and retail distributor of nuts, bolts, hand tools, and other supplies to the construction and manufacturing markets, with 2,700 owned or leased stores across the continent. It has built a loyal following among customers through quality and service, and won countless fans on Wall Street with its thrifty, no-nonsense ways.

Warren Buffett is an admirer, having praised Fastenal in a TV interview some years ago for its robust financial performance and straightforward business plan: boosting sales by adding customers and increasing its interaction with them. The unexpected shout-out prompted Fastenal CEO Willard "Will" Oberton to trek to Omaha, Neb., home of Buffett's **Berkshire Hathaway** (BRK.A), to lunch with "the Oracle" at his favorite diner.

As Oberton relates it, the two cost-conscious bosses hit it off. "We talked about the importance of sticking to basics," he says.



David Bowman for Barron's

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Oberton rose from a store clerk to CEO by solving problems creatively.

Buffett asked Oberton about his profit margins on threaded fasteners, Fastenal's No. 1 product line, and erupted with glee when told they were as high as 80%. After lunch, Buffett insisted on picking up the tab. He paid with a coupon.

That's just the sort of move the folks at Fastenal would applaud. "We're not a Google environment," says Oberton, 55, who works out of the company's concrete headquarters, where the carpet is industrial grade and the coffee isn't free.

Fastenal managers drive pickup trucks because they're cheaper than cars. The company won't pay for employees' meals while they're on the road, because "they have to eat anyway," Oberton says. Nor will it make quarterly payments to the 401(k) employee retirement plan if pretax profit margins don't reach 16%, at least.

**FASTENAL'S LEGENDARY FOCUS** on frugality has contributed to eye-popping gains in revenue, earnings, and shareholder returns. The company, which was founded in 1967 and came public in 1987, ranks fifth among Nasdaq-traded concerns in revenue growth for the past 25 years, with an increase of more than 10,800%. Since Oberton took charge in December 2002, revenue has risen 267% and earnings, 500%. The shares have rallied 500%, while the Standard & Poor's 500 has doubled.

Fastenal earned \$448 million, or \$1.51 a share, in 2013, on revenue of \$3.3 billion. It is expected to net \$1.68 a share this year, on revenue of \$3.7 billion, and \$1.96 a share in 2015. Shares are trading for \$48.56, or a lofty 25 times 2015 estimated earnings, well above the price/earnings multiples accorded rivals **W.W. Grainger** (GWW), **Home Depot** (HD), and **Lowe's** (LOW).

Yet, penny-pinching helped land the company in hot water late last year, as a decision to slow hiring left its stores short-handed in the fourth quarter. In a rare move, management revised its fourth-quarter earnings estimate downward in late December, citing a malaise in heavy industry, lower utilization of its trucking network, and a shortage of staff in the stores. Then, heaping insult on injury, Fastenal missed its reduced earnings guidance by a penny a share. "We tripped on ourselves," says Oberton. "It wasn't my happiest day."

Long accustomed to double-digit growth, investors lopped 7% from the stock in the days following the earnings release. Shares now trade for 7% less than last summer's high of \$52. "It's been guilty until proved innocent," says Dave Manthey, an analyst at Baird.

**WITH SHORT SELLERS CONTROLLING** 10% of the company's 300 million shares, skepticism would seem to abound. Yet, Oberton is quick to dismiss that conclusion, noting short interest frequently has spiked to the midteens. "It's a consequence of being a boring company with an exciting P/E," he says.

Two directors and two executives, including President Leland Hein, have bought stock recently. And Daniel Dent, head of Baltimore-based

money manager D.F. Dent, a longtime Fastenal holder, is quick to forgive the company's latest missteps. "In the Jim Collins book *Great by Choice*, Collins writes about companies that are relentless in their self-improvement," says Dent. "He doesn't mention Fastenal, but he could have."



Growing up in central Minnesota, Oberton figured he would become a dairy farmer like his father and grandfather. But after graduating with an associate's degree from a technical college, he joined a welding company in sales. He thought he was happy until his girlfriend Shirley, now his wife of 33 years, told him about an unusual opportunity at Fastenal. The company took chances on people, giving them the sort of responsibility it might take years to earn elsewhere. "I heard my friend Steve got a store in Dubuque, and I figured if they hired Steve, they would hire anybody," Oberton says.

But the new kid wasn't just anybody. Oberton was accustomed to hard work on the farm, and ambitious. "I'm a doer," he says.

After six months of training, Fastenal gave Oberton, then 22, his own store in Owatonna, in the south-central part of the state. Two years later, he became a district manager, overseeing 10 to 12 stores in the region. Leading by example, he worked alongside store managers, sharing his knowledge to improve results.

The practice continued even after he became CEO. During the economic crisis of 2008-09, for example, Oberton made monthly trips to a Fastenal store in Gilbert, Ariz., to help with deliveries, sales, and cold calls. "There isn't an ounce of intimidation," says Pete Bartolomei, an 18-year employee at the Gilbert store. "He constantly reminds us that we are family."

**OF ALL THE CANDIDATES** vying to succeed Robert Kierlin, Fastenal's founder, as CEO, Kierlin says he found Oberton "the most creative. He solved problems his own way."

At customer meetings, for instance, Oberton would hit upon novel solutions to problems on the spot. Kierlin says he was also impressed that Oberton figured out a way for Fastenal to buy a fleet of natural-gas semitrailers and sell them a year later for the same price, effectively giving the company a year's use of the trucks for free.

Kierlin, 74, remains Fastenal's chairman, and keeps an office down the hall from Oberton. Reticent and soft-spoken, Kierlin "wasn't big on compliments," Oberton says. "But that was fine by me. I was always self-motivated. People who need lots of praise might struggle here."

At 28, Oberton was tapped to run Fastenal's purchasing, distribution, and information-technology departments. He boosted sourcing from Asia to drive down supply costs, and built a national distribution system from the ground up. He also earned his commercial-trucker license during these years, so he could pitch in when drivers were sick, or make special runs. "I loved it," he says. "I got to put on 10,000 miles a year."

He was named president in 2001, and CEO a year later.

Oberton inherited a unique culture and has retained it. Fastenal has never diluted shareholders, fulfilling Kierlin's pledge after the company's initial stock offering that investors who owned a certain percentage of the company then would have a right to the same percentage in the future, assuming they didn't sell shares or buy more. When Oberton introduced a stock-option program to reward employees, Fastenal purchased an equal amount of stock in the open market to offset shares issued.

Although Oberton is paid well—he earned \$3.76 million in salary and bonus in 2012, according to Fastenal's proxy statement—he thinks there is "too much inflation" in executive pay in the U.S. "If you are thinking like an owner, you should be taking care of your business," he says. "It shouldn't be about your base pay."

The company hires from within, and had a 100% retention rate in the past five years, an extreme rarity in U.S. business. Employees are free to bolt, but "firing doesn't make us a stronger company," Oberton says.

No heads rolled even after the fourth-quarter earnings fumble. Oberton typically demotes struggling employees to give them another chance.

**THROUGHOUT HIS TENURE**, Oberton has modernized Fastenal's processes and technology. Merchandise that once touched 10 hands in a warehouse now touches four, and errors have been reduced substantially. He started an in-house freight-transportation system in 2000 that saved the company millions in UPS (UPS) bills, and expanded it to haul for other companies, typically customers. "He's the smartest person in the room but doesn't feel he has to prove it," says Steve Newmark, president of Roush Fenway Racing in Concord, N.C., which operates motor-sport teams that Fastenal has sponsored.

Oberton also developed an industrial vending-machine system, helping Kierlin realize a lifelong goal. In 1951, as a 12-year-old working in his father's auto-parts store in Winona, Kierlin was bothered by the fact that his dad had to send customers searching for nuts and bolts to someone else's store. He imagined that a vending machine installed at his father's place might pop out fasteners like gum balls. Once out

on his own, he tried to convert a cigarette vending machine to this purpose, but couldn't get it to work, so he started selling fasteners over the counter. Thus, Fastenal was born.

Forty years later, working with a snack-machine manufacturer and off-the-shelf software, Oberton got the job done. Fastenal's vending machines have been a hit with customers, generally helping them save 30% on supplies. The machines have cut down on theft, and enabled automated reordering. The four-year-old business now contributes 36% of sales.

**FASTENAL ACCOUNTS FOR 6%** of the \$160 billion North American market for industrial supplies, giving it a long runway for growth. After a tough 2013, Oberton sees the economy rebounding, albeit slowly, with most of his customers at or just up from the bottom of the cycle. "This year will be better, even though it has been hard to read because of the weather," he says.

Having ramped up hiring at every level, the company remains focused on adding new customers. The average store sold about \$90,000 a month in the fourth quarter, and Oberton wagers that monthly revenue will be closer to \$100,000 by year end, with greater profitability.

Some profit-margin improvement will come from more sales of the threaded fasteners whose economics so impressed Buffett. Says Oberton: "We are never selling as many as we can."

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