

A photograph of a cave interior, illuminated with a strong blue light. The cave walls are textured and layered, creating a sense of depth. In the distance, a person is visible, standing near a bright opening, possibly an entrance or a light source. The overall atmosphere is mysterious and dramatic.

corbin

Q1'21 Inside The Buy-side[®]

Industrial Sentiment Survey

April 22, 2021

Inside The Buy-side® Q1'21 Industrial Sentiment Survey

For 13+ years, we have surveyed global investors quarterly on the equity markets, world economies and business climate. At the start of every earnings season, we publish our leading-edge research, *Inside The Buy-side Industrial Sentiment Survey*, which captures real-time Voice of Investor® sentiment and trends.

Issue: 24
Date: April 22, 2021

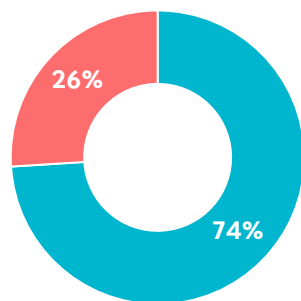
Leveraging our deep understanding of capital markets, cutting-edge technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and effective communication strategies.

Survey Scope: 35 sector-dedicated investors and analysts globally; buy side firms manage ~\$1.8 trillion in assets, including ~\$160 billion invested in Industrials

Survey Timeframe: March 12 – April 14, 2021

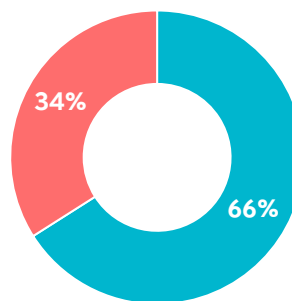
MARKET PERFORMANCE	Q1'21	Q1'20
DJIA	7.8%	(23.2%)
NASDAQ	2.8%	(14.2%)
S&P 500	5.8%	(20.0%)
S&P 500 Industrial	11.0%	(27.4%)
Russell 2000	12.4%	(30.9%)

ROLE



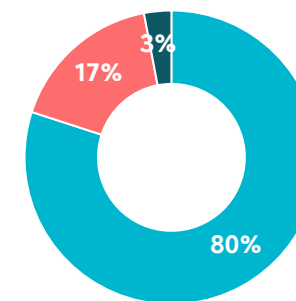
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION



■ North America ■ EMEA ■ APAC

Word Cloud: Frequency of Occurrence

Visual representation of investment community focus areas, trends in frequency of word occurrence and underlying tone

Spring Has Sprung: Expectations High Amid Green Growth Shoots, Though Rapid Inflation and Supply Chain Disruption Rain Hard



Key: Underlying Sentiment

- Positive
- Neutral
- Negative

TOP MENTIONS	Q2'20	Q3'20	Q4'20	Q1'21	Q/Q
Growth	4	6	18	19	↑ 1
Inflation	-	-	3	14	↑ 11
Supply Chain	7	5	5	14	↑ 9
Costs	5	6	10	13	↑ 3
COVID-19	16	11	15	6	↓ 9

Survey Finds Continued Optimism on Lofting Growth Expectations but Inflation and Supply Disruptions Serve to Temper Last Quarter's Euphoria

Elevated Management Tone Drives Expectations for Strong Industrial Growth

- **94%** of surveyed investors and analysts describe management tone as *Neutral to Bullish* or *Bullish*, a record high, surpassing the previous high watermark set in Dec. 2017
- **83%** believe earnings will *Improve* QoQ and nearly 60% anticipate Q1 earnings beats, just slightly below last quarter's record
- Albeit slightly less rosy than last quarter's record highs, more than **75%** still expect revenue and EPS to *Improve* sequentially
- Expectations are for **7.0% U.S. Industrial Organic Growth** in 2021, up from 5.0% last quarter
- Oil & Gas Markets and Global Capex expected to see the most improvement over the next six months
- **57%** believe companies should prioritize revenue expansion over margins at this time, while still asserting profitably is important

Inflation and Supply Chain Disruption Garner Significant Mindshare, Temper Optimism

- After setting records last quarter, views on FCF performance soften amid rapidly rising costs, from 94% expecting levels to *Improve* to just 46% this quarter; 29% now anticipate caches to *Worsen*, up from 0%
- **47%** expect margins to *Improve* sequentially, down from 83% last quarter; 39% anticipate flat performance, up from just 17%
- **55%** identify inflation (unaided) as the top concern, followed by COVID-19 variants
- **60%** believe inflation will *Worsen* over the next six months
- **50%** encourage executives to address supply chain on upcoming earnings calls, trailing only revenue growth outlooks

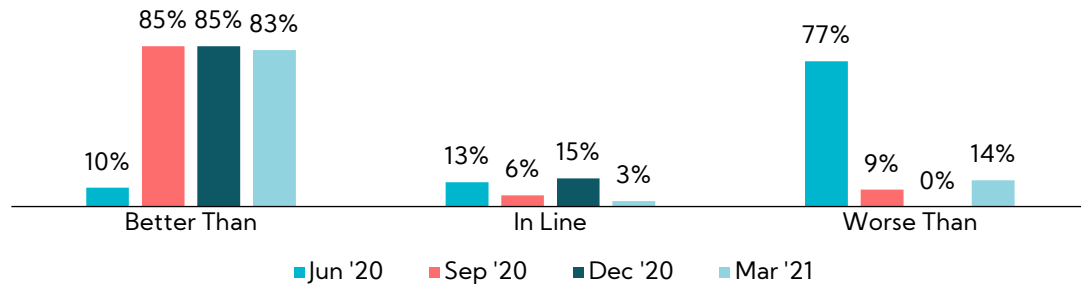
From the Depths They Come - Significant Shifts in Sub-sector Sentiment Identified

- Despite industrials being viewed as *Overvalued*, 41% report *Net Buying* and another 30% report *Rotating* among names
- Materials and Commercial Aero, two sub-sectors that saw the most significant pullbacks in sentiment during COVID-19, now register the highest number of investors expecting improvement over the next six months
- **100%** identify growth as the most compelling investment theme at this time; small caps and companies with N. America exposure are also viewed favorably
- Defense now registers the highest number of bears, followed by Non-Resi Construction

Industrial Earnings Expected to Meet or Beat Consensus

More than 80% expect sequential earnings improvement for the third consecutive quarter, with nearly 60% expecting upside surprises

Q1'21 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Better Than

"Everybody has sandbagged guidance; there is no way anybody can miss." Buy Side, Industrials, N. America

"Industrial economy is accelerating." Buy Side, Industrials, N. America

"Growth." Buy Side, Generalist, N. America

"Economic recovery." Buy Side, Generalist, N. America

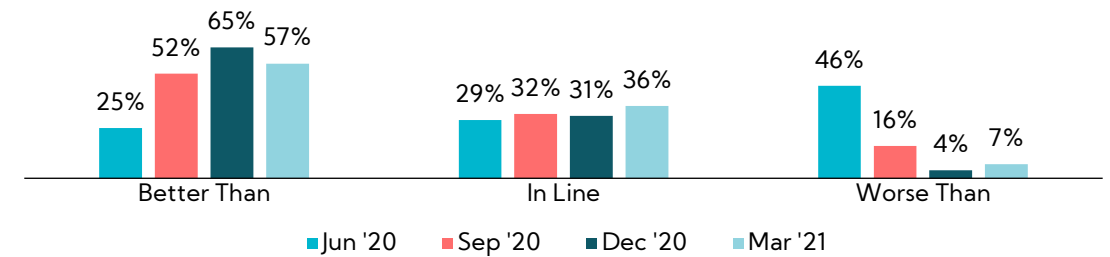
"Inflationary trends." Sell Side, Generalist, N. America

"Two months will be very tough comps." Sell Side, Generalist, N. America

"Stronger volumes." Sell Side, Industrials, Europe

"Higher material prices (steel) positive for some and negative for others." Sell Side, Generalist, Europe

Q1'21 EARNINGS EXPECTATIONS VS. CONSENSUS



In Line

"Growth will continue to accelerate as the economy opens up. Question on how much costs come back into the business." Buy Side, Industrials, N. America

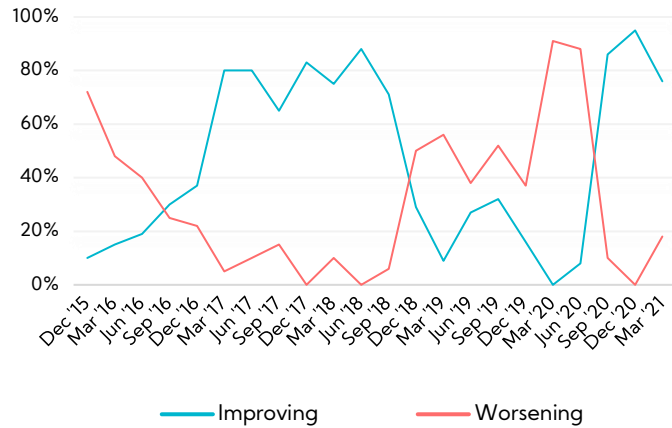
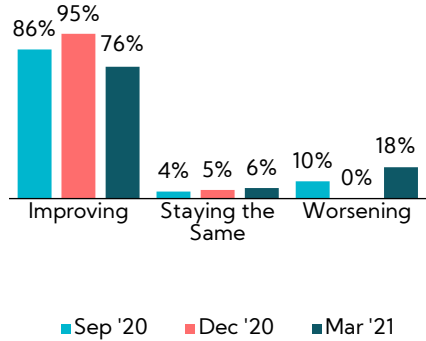
Worse Than

"Structural instability in the makeup of rev." Buy Side, Generalist, N. America

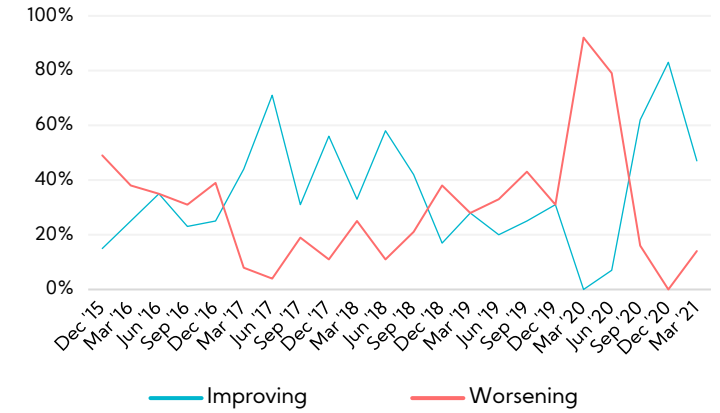
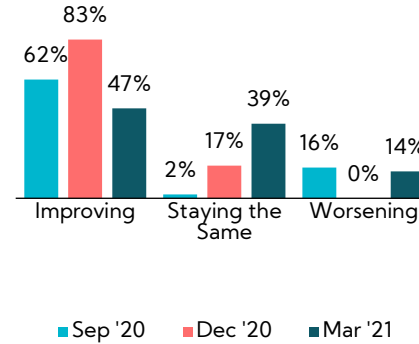
"Supply chain disruptions, severe winter weather and sharply higher input prices for logistics, raw materials and labor." Sell Side, Industrials, N. America

Growth and EPS Expected to Strengthen while Fewer Expressing Confidence in Margins and Cash Flow Improvement (But Still Upbeat)

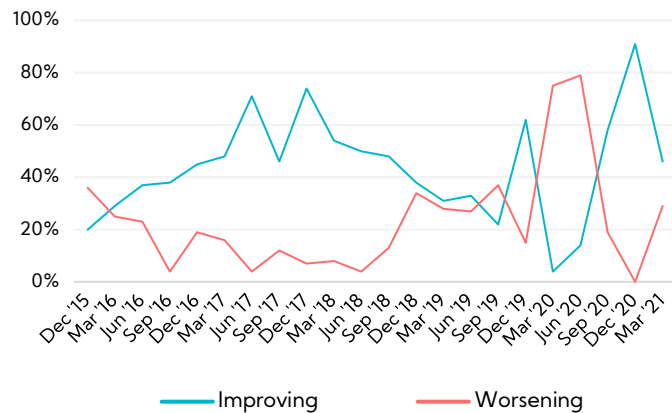
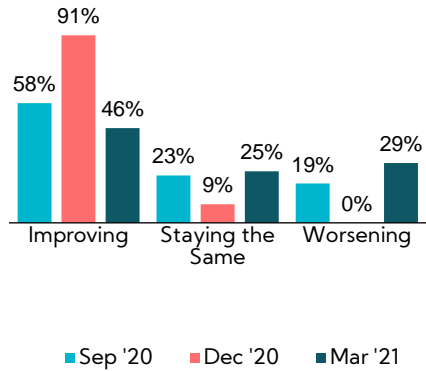
REVENUE GROWTH



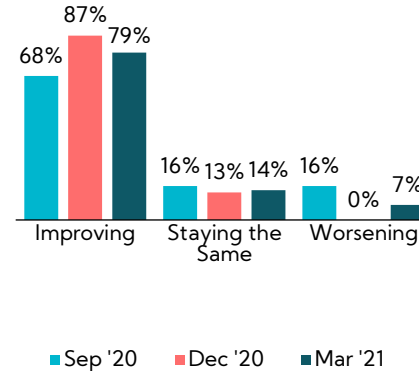
OPERATING MARGINS



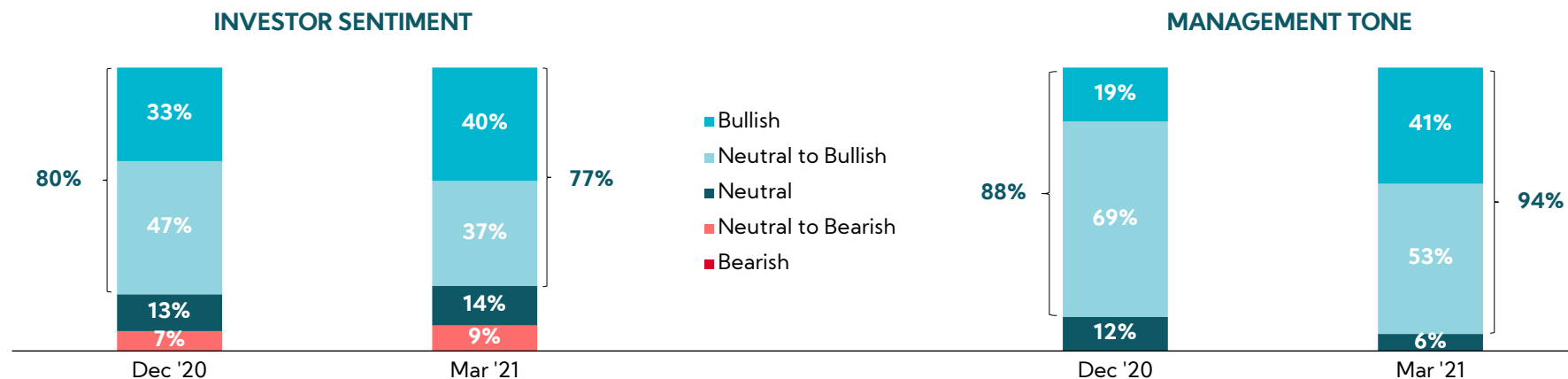
FCF



EPS



Investor Sentiment Remains Near Record Levels but Below All-time High Perceived Management Tone



Bullish

"I like multi-industrials on a long-term basis; over time, good capital allocation can add a lot of value." **Buy Side, Industrials, N. America**

"Best U.S. GDP growth in almost 50 years and very robust global GDP growth." **Buy Side, Industrials, N. America**

"Almost all the executives I have talked to in the industrial space have been ultra bullish." **Buy Side, Industrials, N. America**

"It has been a long, lackluster period of capital spend; we are coming out of that. Based on vaccine efficacy, we expect companies to be feeling good, they are flush with cash and have maybe held back on investment for a good period of time, so that could lead to a good two/three-year cycle. Management teams are more optimistic but are still without tremendous visibility." **Sell Side, Industrials, N. America**

"Common sense; wisdom; history." **Sell Side, Generalist, N. America**

Neutral to Bullish

"Management is bullish, everybody is bullish." **Buy Side, Industrials, N. America**

"Positive on demand outlook, cautious on costs." **Buy Side, Industrials, N. America**

"We are overweight or equal weight in every sector. The trucking industry has had some really good short-term momentum; we have been trimming a bit there. The reopening and industrial activity resuming and accelerating across the country, they will be up against easy comps, so the setup there is constructive. Management tone is neutral to bullish with the hiccup being infrastructure and supply chain impediments. The Suez Canal was blocked for seven days, and the west coast ports are a mess. There are a bunch of backed up container ships waiting to get in there. That supply chain hiccup appears to be more than a one-quarter event and management teams are saying that on conference calls. That may mean increased freight, shipping and labor costs, so that might be a little bit of a dampener on margins over the next couple quarters." **Buy Side, Industrials, N. America**

Neutral

"Market is very overvalued at this point and it can stay overvalued for ages. We don't want our companies to be like salespeople and sell a story; we want them to be bullish in the long term but provide us an honest assessment of what's going on." **Buy Side, Generalist, N. America**

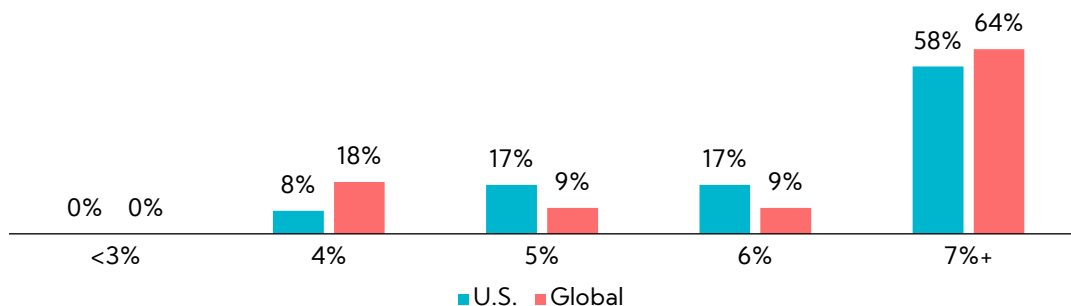
"Across the industrial sector, there have been very strong results this year. The sector is extremely expensive from a valuation perspective, so we are not super constructive." **Buy Side, Industrials, N. America**

"Poor economic fundamentals." **Buy Side, Generalist, N. America**

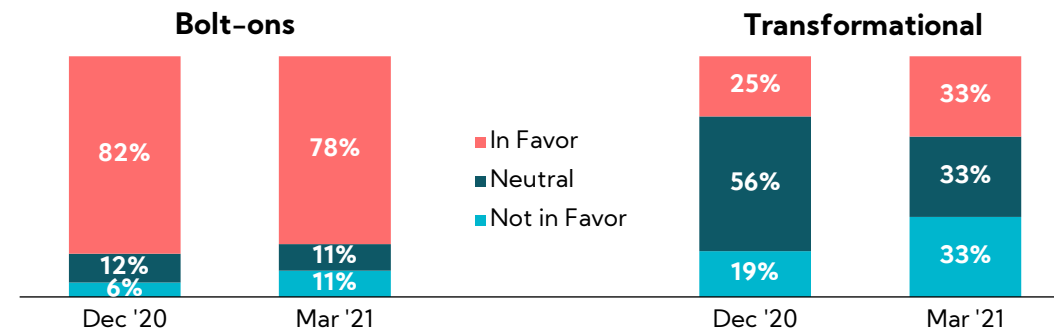
Industrial Organic Growth Projected to Outpace GDP

Expectations for 7.0% U.S. Industrial Organic Growth in 2021, up from 5.0% last quarter, while nearly 80% remain open to bolt-on M&A

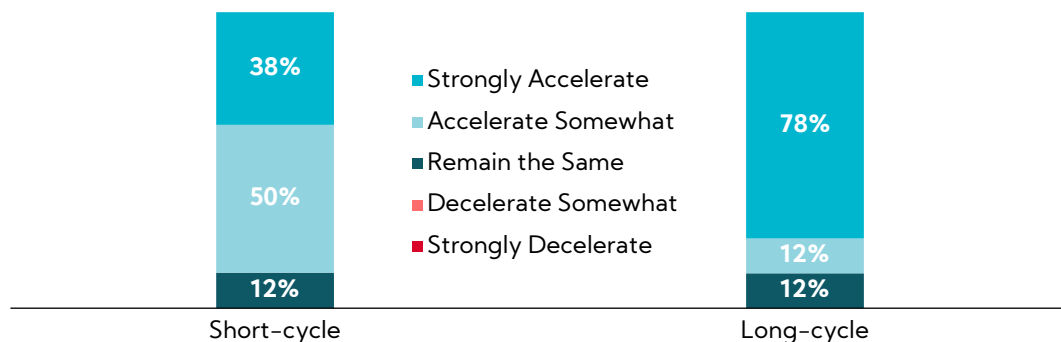
2021 U.S. AND GLOBAL INDUSTRIAL ORGANIC GROWTH EXPECTATION



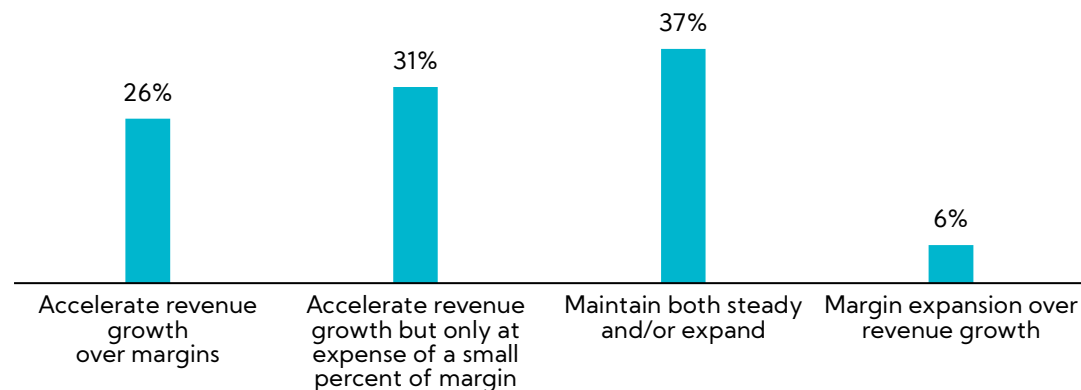
VIEWS ON INORGANIC GROWTH INITIATIVES



INDUSTRIAL ORDER RATES EXPECTATIONS IN NEXT 6 MONTHS



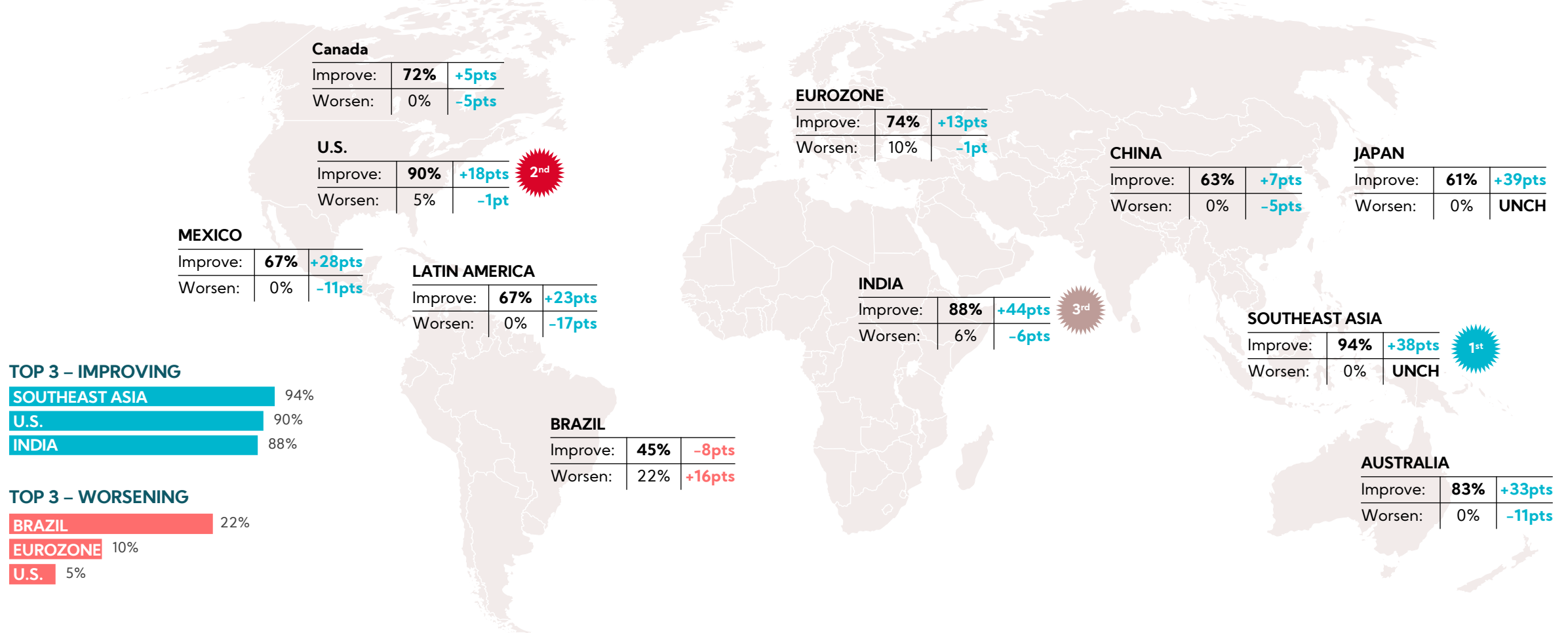
INVESTOR APPETITE FOR REVENUE GROWTH VS. MARGIN EXPANSION



Acceleration Expected Globally Despite Some Regions Seeing COVID-19 Restrictions

More than 85% expect Southeast Asia, the U.S. and India to Improve over the next six months, while Brazil is seeing the most negative shift in sentiment

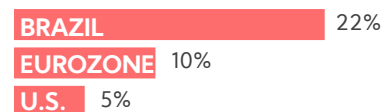
GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS



TOP 3 – IMPROVING

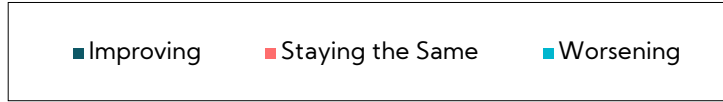


TOP 3 – WORSENING

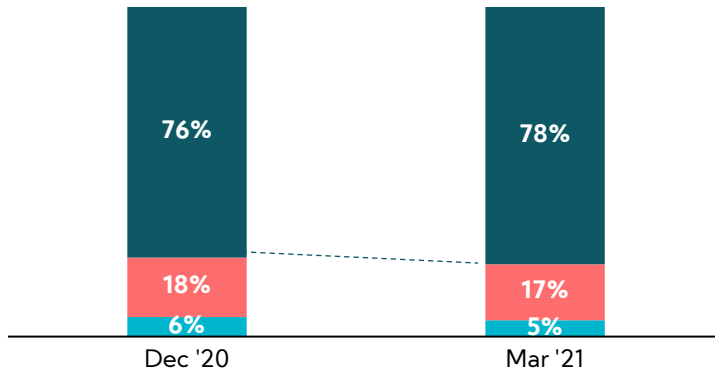


Views on Key Economic Indicators Over the Next Six Months

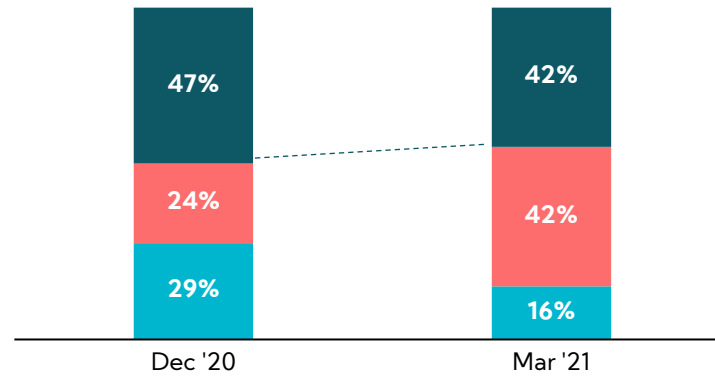
Oil & Gas Markets, Global Capex and U.S. Unemployment Rate expected to see the most improvement; PMI to remain stable or improve



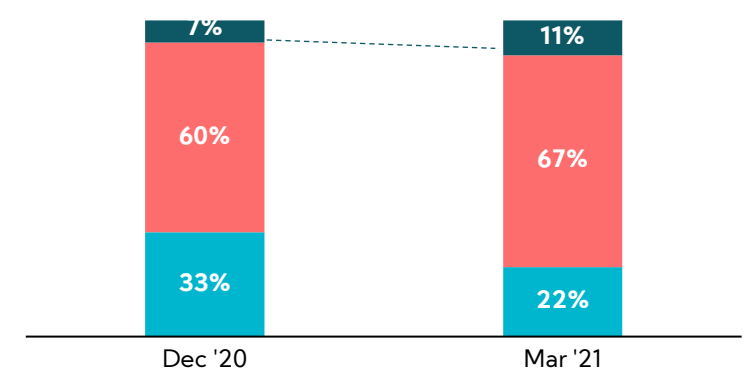
GLOBAL CAPEX



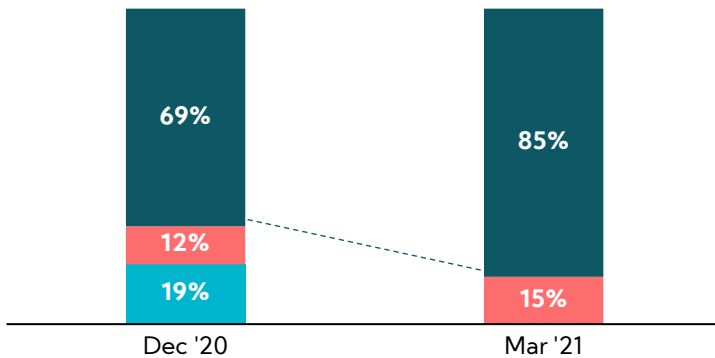
GLOBAL PMI



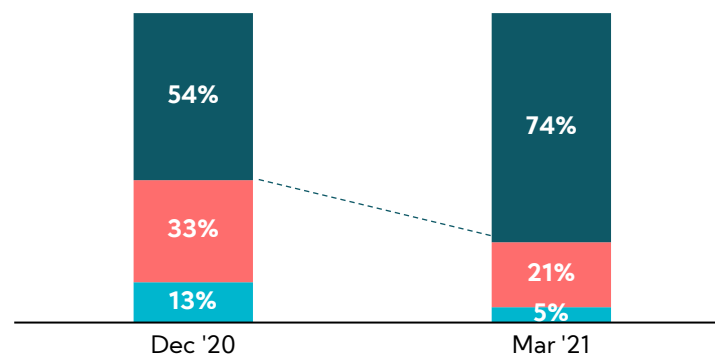
FX HEADWINDS



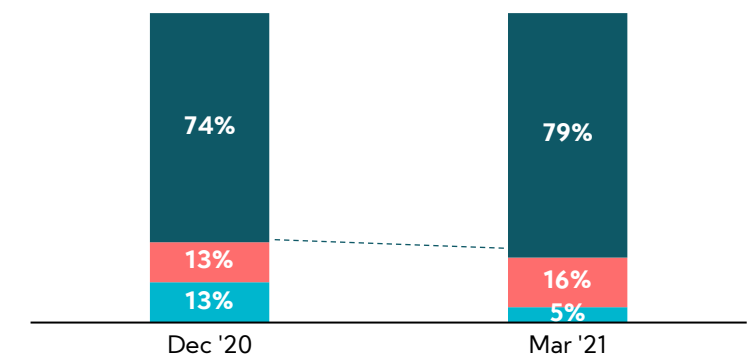
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



U.S. UNEMPLOYMENT RATE





Topics of Interest for Upcoming Earnings Calls

Growth dominates investor mindshare, while supply chain disruption and capital deployment are also top of mind

80%

Demand trends and growth outlook

50%

Supply chain disruptions

33%

Investments and uses of cash

25%

Inflation

23%

ESG

16%

Cost control

Views from N. America

"Q1 intra-quarter trends, inflationary pressures, supply chain constraints." Buy Side, Industrials

"Organic growth opportunities, cost control, M&A interest." Buy Side, Industrials

"Growth by end market/geography, incremental margins, capital allocation." Buy Side, Industrials

"Demand outlook, supply chain picture, inflation pressures." Buy Side, Industrials

"Guidance, employment costs, raw material costs." Buy Side, Industrials

"State of business, revenue make-up, capital investment." Buy Side, Generalist

"Growth outlook, customer spending, use of cash." Buy Side, Generalist

"Supply chain, taxes, order books." Sell Side, Industrials

"Risk/benefit of accelerated shift to green hydrogen, supply chain disruption, labor shortages." Sell Side, Industrials

"It would great if they could spend a couple of minutes on the historic backdrop in terms of where we are in the cycle for their business and overall." Sell Side, Industrials

"Safety, lean transformation, talent acquisition, development, motivation, retention, and culling." Sell Side, Generalist

Views from EMEA and APAC

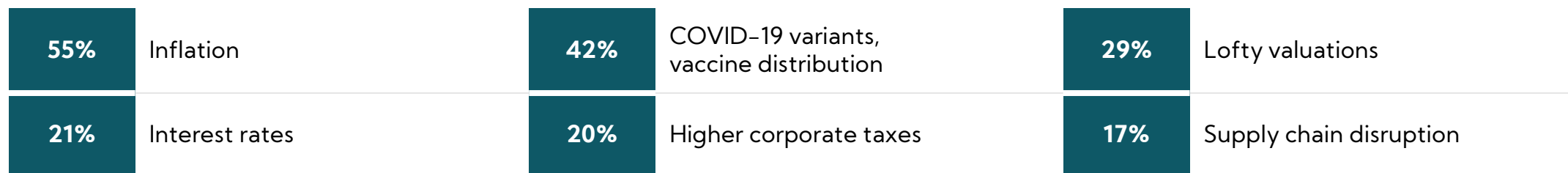
"Margins, revenue growth, supply chain." Buy Side, Generalist

"Growth prospects, supply chain management, cost controls." Buy Side, Industrials

"Acquisitions, environmental impact, organic growth." Sell Side, Industrials

"Improved sequential growth expectations for Q2, cost development, global capex guidance in various sectors." Sell Side, Industrials

Top Concerns from around the Globe – Different Question, Same Answers



Views from N. America

"Tough comps through the year, cost creep, capital allocation." Buy Side, Industrials

"Inflation, valuations, COVID-19." Buy Side, Industrials

"Cost side – commodity inflation, supply chain issues leading to tougher recovery, general COVID-19 concerns." Buy Side, Industrials

"Growth, material/wage inflation, M&A valuations." Buy Side, Industrials

"Interest rates, inflation, COVID-19." Buy Side, Industrials

"Interest rates, inflation, taxes." Buy Side, Industrials

"Supply chain, inflation, valuations." Buy Side, Industrials

"Inflation, government regulation, taxes." Buy Side, Industrials

"Interest rates, inflation, unemployment." Buy Side, Generalist

"Employment, government, debt." Buy Side, Generalist

"Higher interest rates, reemergence of COVID-19, debt levels." Buy Side, Generalist

"Supply chain, M&A valuations, higher taxes." Sell Side, Industrials

"Keeping up with demand, temporary surge in input costs, growing risk of labor shortages." Sell Side, Industrials

Views from EMEA and APAC

"Valuation, inflation." Buy Side, Industrials, Europe

"Sales, market share, competition." Buy Side, Industrials

"Pandemic, political tensions." Buy Side, Generalist

"Taxes, inflation, deficit." Buy Side, Generalist

"COVID-19." Buy Side, Industrials

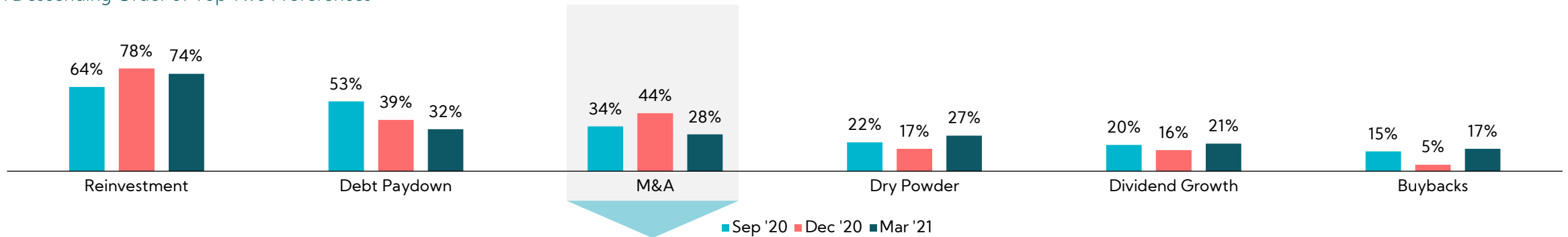
"COVID-19, supply chain, political turmoil." Sell Side, Industrials

Reinvestment Favored by a Landslide, While Debt Conservatism Continues to Ease

Fewer preferring M&A amid elevated valuations and less appetite for levering up; when aided, bolt-ons highly preferred

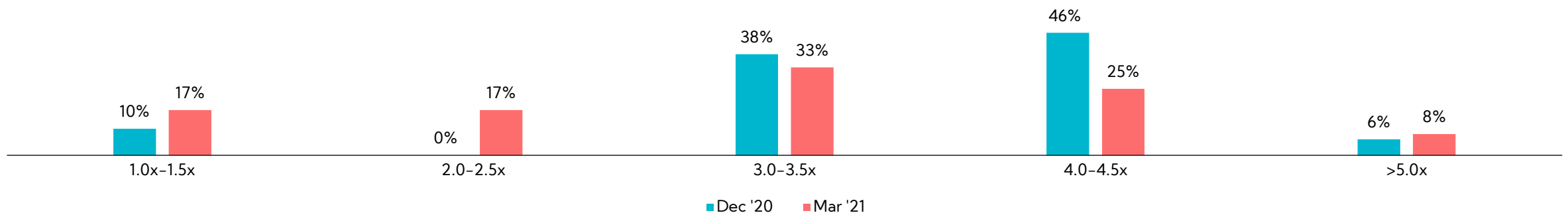
PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



COMFORT LEVEL WITH LEVERAGE FOR COMPANIES FUNDING M&A WITH DEBT

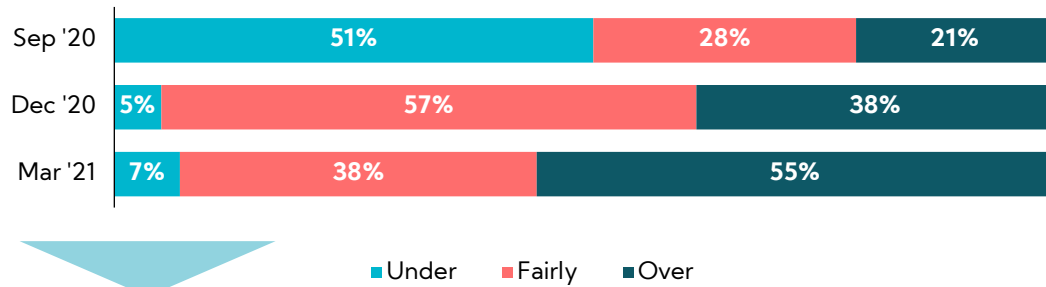
(Assuming a compelling transaction, the level to which investors would be comfortable companies levering up)



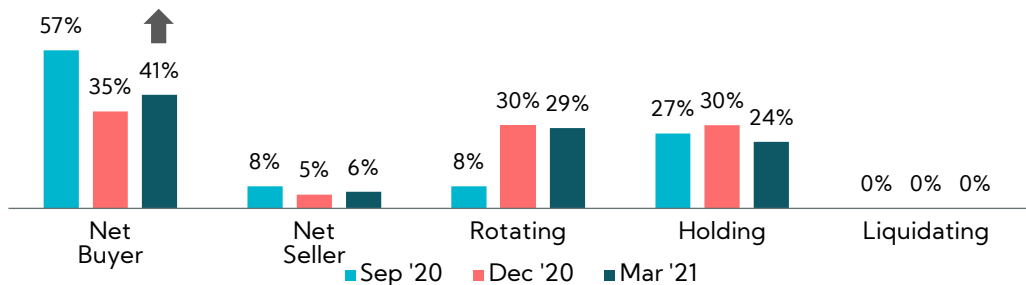
Industrials Considered Overvalued But This Is The Ideal Environment For Companies with Proven Operating Models Plus Innovation Chops!

Growth investments and aftermarket most compelling at this time, as well as small caps and N. America exposure

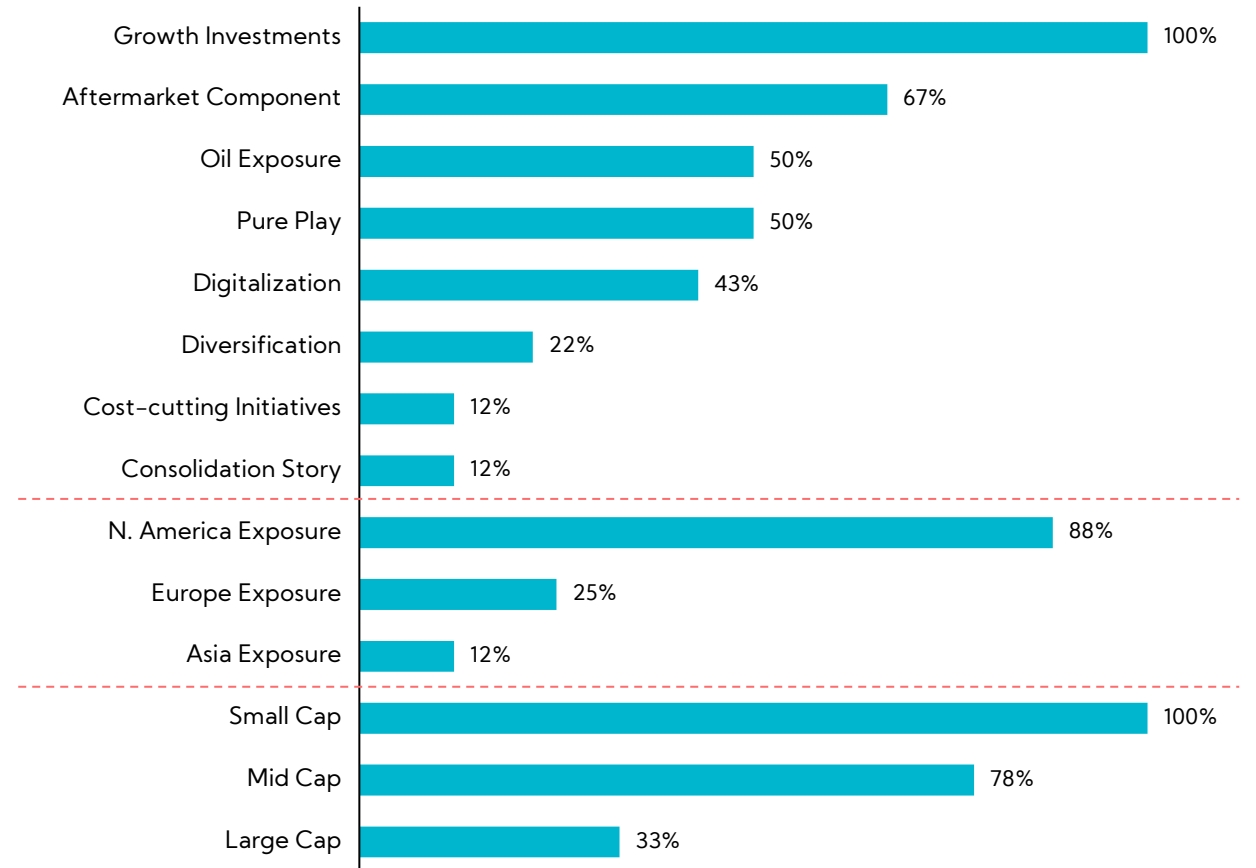
GLOBAL INDUSTRIAL VALUATIONS



QoQ INVESTMENT TRENDS



MOST COMPELLING INDUSTRIAL INVESTMENT THEMES

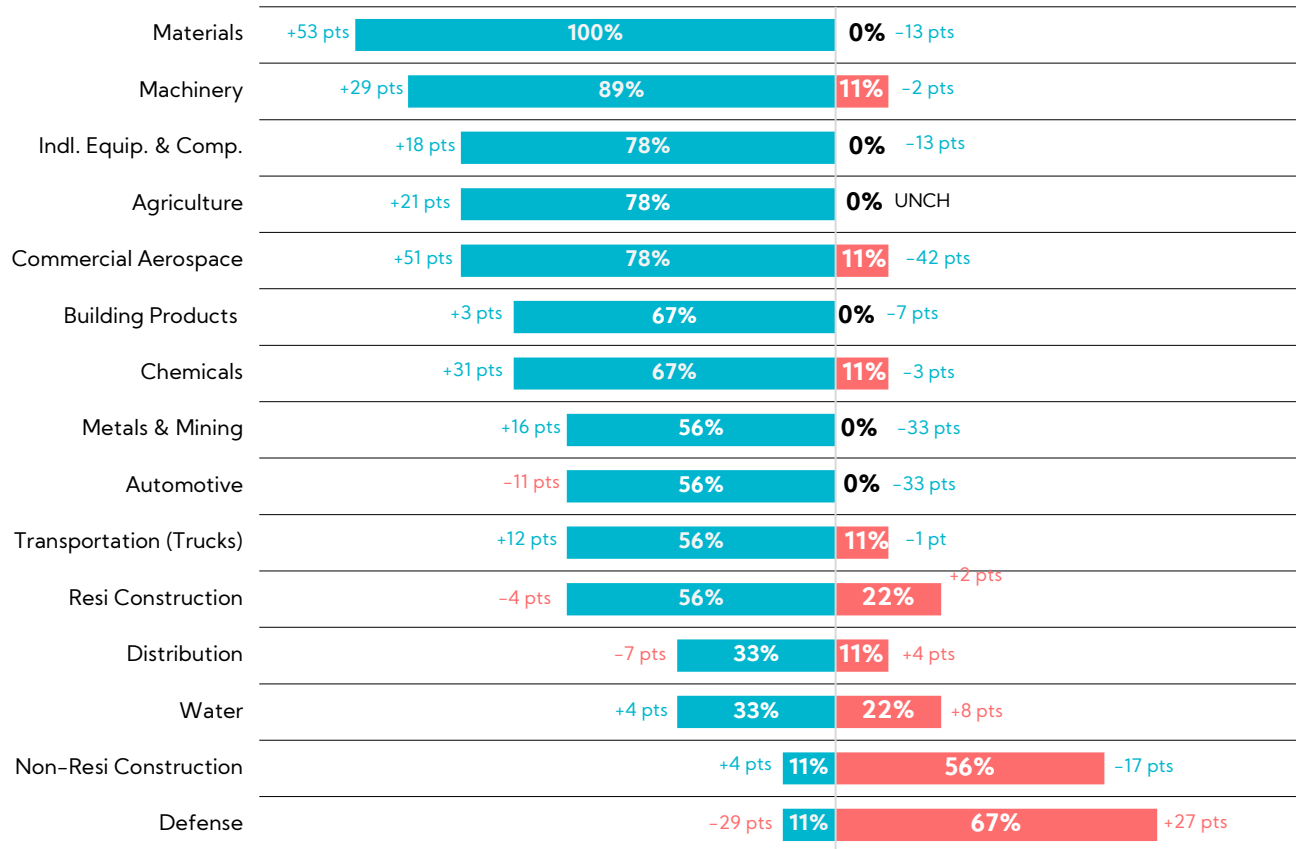


Materials Tops the Bull Chart for the First Time in Our Survey's History

Nearly all sectors seeing more bulls than bears, including a big move for Commercial Aero, while Defense and Non-Resi most out-of-favor

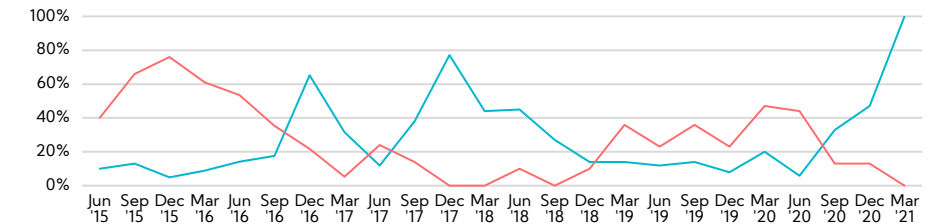
BULLS VS BEARS

■ Bulls ■ Bears

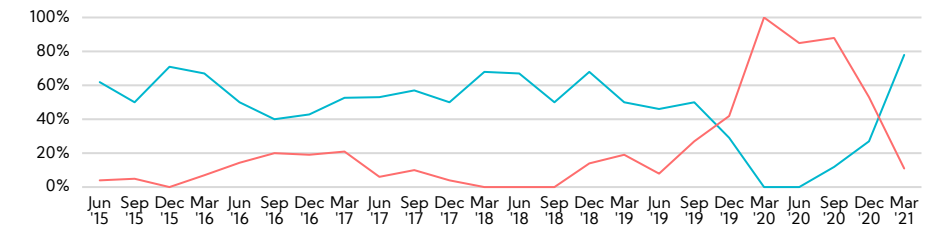


Largest Bull Gainers

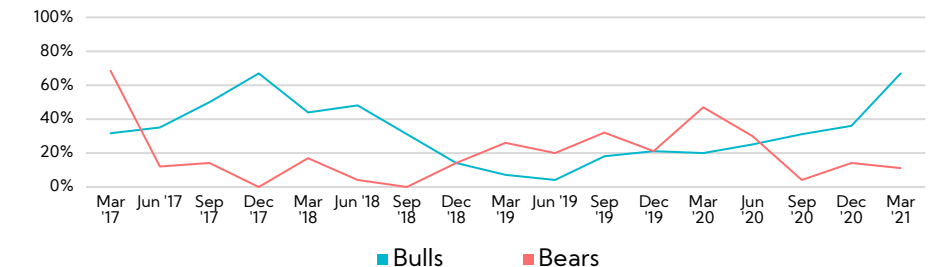
MATERIALS



COMMERCIAL AEROSPACE



CHEMICALS



We are a specialized research and advisory firm focused on helping public companies realize their value



TRANSFORMATIONAL INSIGHT

Our proprietary research and unparalleled analytics database powers our unique insights and benchmarking capabilities.



TRUSTED PARTNERS

We bring extensive experience, passion, and commitment to every engagement, always putting our clients' best interests first.



IMPACTFUL EXECUTION

We simplify the complex to deliver positive outcomes with agility, precision and excellence.



PURPOSEFUL CANDOR

Our clients trust us. We provide explicit, no-nonsense counsel with objectivity and candor.

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