

A person in a red jacket stands in a cave, illuminated by a bright blue light source. The cave walls are rugged and textured, and the floor is covered in dark, wet rocks. The overall atmosphere is mysterious and dramatic.

corbin

Inside The Buy-side[®]

Q3'21 Industrial Sentiment Survey

October 22, 2021

Inside The Buy-side® Q3'21 Industrial Sentiment Survey

Issue: 26
Date: October 22, 2021

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.

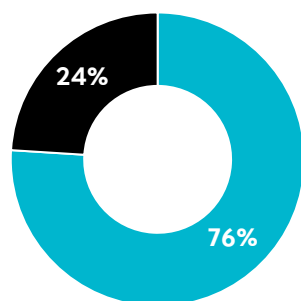
Leveraging our deep understanding of capital markets, cutting-edge technology and best practice knowledge, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and effective communication strategies.

Survey Scope: 29 sector-dedicated investors and analysts globally; buy side firms manage ~\$2.7 trillion in assets, including ~\$258 billion invested in Industrials

Survey Timeframe: September 14 – October 14, 2021

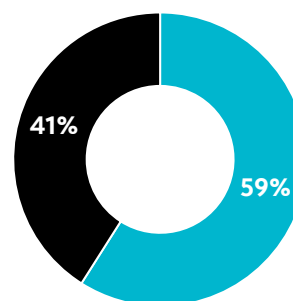
MARKET PERFORMANCE	Q3'21	Q3'20
DJIA	(2.3%)	7.6%
NASDAQ	(0.5%)	11.0%
S&P 500	(0.3%)	8.5%
S&P 500 Industrial	(4.6%)	12.0%
Russell 2000	(5.4%)	4.6%

ROLE



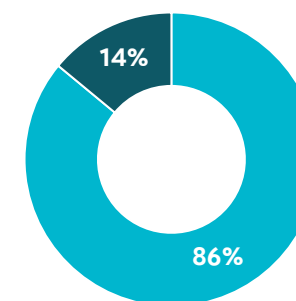
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION



■ North America ■ Latin America

Word Cloud: Frequency of Occurrence

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

Inflation Has Been a Growing Theme Since Q4'20; Supply Chain Mentions More Than Triple QoQ; ESG In The Clooooooud



Key: Underlying Sentiment

- Positive
- Neutral
- Negative

TOP MENTIONS	Q4'20	Q1'21	Q2'21	Q3'21	Q/Q
Supply Chain	5	14	14	51	↑ 37
Inflation	3	14	24	25	↑ 1
Cost	10	13	27	18	↓ 9
Demand	8	4	6	13	↓ 7
ESG	-	-	-	11	↑ 11

Sentiment Grows More Cautious But Findings Indicate a Potential Underappreciation for Supply Chain x Inflation Impact (Q4 Ain't Lookin' So Good); 2022 Outlooks Remain Upbeat On “Strong Demand”

Revenues Expected to Shine Amid Continued Strong Demand But Perceived Management Tone Registers the Most Downbeat since the Onset of COVID-19 and Sequential Deterioration in Margins and Earnings Expected

- 70% expect revenues to *improve* sequentially, albeit down from a record 100% last quarter
- 32% of surveyed investors and analysts describe management tone as *Neutral to Bullish* or *Bullish*, down from a record 96% last quarter; 32% characterize conversations as more downbeat, up from 0%
- 86% identify supply chain disruption as the most significant concern, up from 26% last quarter, followed by inflation (57%)
- 83% expect margins to *worsen* sequentially, up from 13% last quarter and the second-highest percentage ever recorded (Q2'20)
- 58% believe earnings will decrease sequentially, up from 10%, while 61% anticipate consensus misses
- Majority do not expect companies to raise 2021 guidance

With Eyes Wide Open and Concerns Aplenty, Growth Expected for 2022 Amid Expectations for Continued Strong Demand

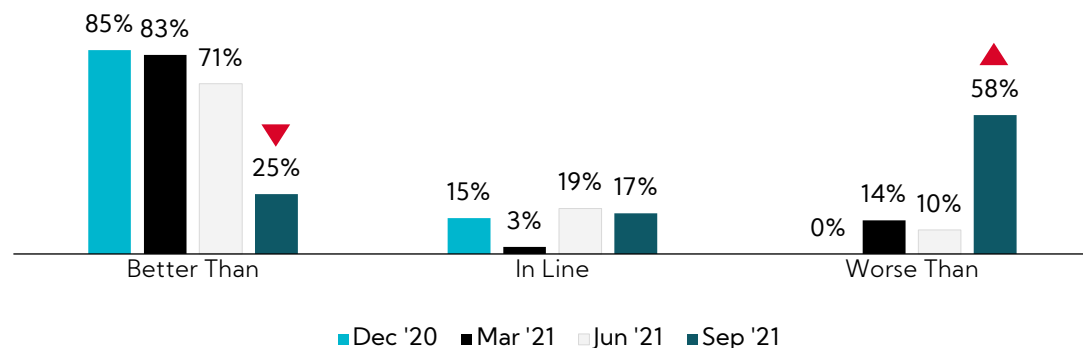
- 68% expect continued strong demand levels in 2022
- 7.5% organic growth expected for industrials in 2021 and 5.0% in 2022, on average
- 57% seek clarification on demand trends for upcoming earnings calls, up 32 pts QoQ
- 53% report *Rotating* within industrials, up from 15% last quarter; *Pure Plays* are the most compelling investment theme at this time, followed by *Digitalization* (67%) and *Cost-Cutting Initiatives* (66%)

Things That Make Us Go Hmmm...And Other Notable Findings

- Despite clear optimism for 2022, 50% expect Global PMI and Consumer Confidence to *worsen* over the next six months
- Despite more cautious management tone, 54% describe their sentiment as *Neutral to Bullish* or *Bullish*
- 53% prefer M&A as the top use of cash, up from 38% last quarter and the highest level of preference registered since Q2 2016 (watch out for buying at the peak!); still, investor appetite for leveraging up wanes
- China does not register as a leading concern despite 74% expecting its economy to *worsen* over the next six months
- ESG is on the leaderboard for topics to address this earnings season (great to see!)

Highest Percentage Expecting Earnings Deceleration and Consensus Misses Since COVID Onset, Driven by Supply Shortages, Input Prices and Logistics Challenges

Q3 '21 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Better Than

"Versus the prior quarter, they will come in worse on a mix of cost issues and supply with logistics bottlenecks impacting their ability to increase sales. They are not going to miss consensus but by the time they report, the consensus will have come in too, so I would not be surprised if they beat the final consensus. If I take where the Street is today for the companies broadly speaking, they will miss it but the Street will lower their estimates into the actual reports that start in mid/late October." **Buy Side, Industrials, N. America**

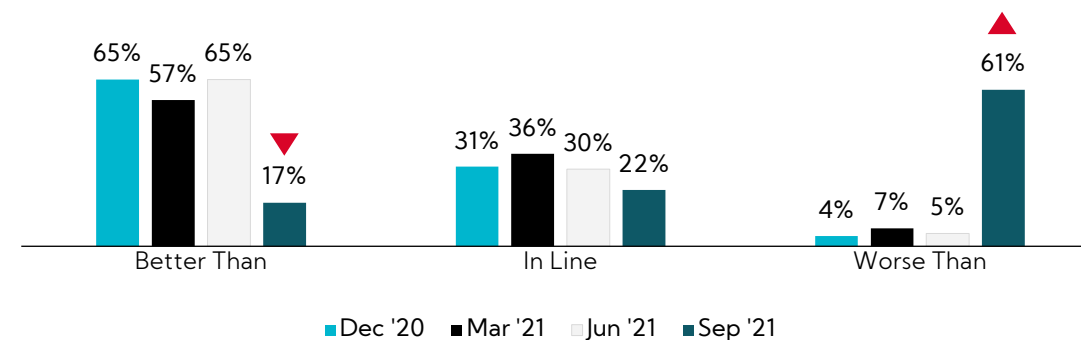
"We continue to see fly-ups in pricing, whether they are in fertilizers or polymers, whatever it may be, despite COVID-19-related demand weakness, where the fly-up in pricing is more than offsetting. We generally expect peaks." **Sell Side, Industrials, N. America**

In Line

"Flattish due to competing inflationary pressures and easing COVID-19 restrictions." **Buy Side, Generalist, N. America**

"Supply chain issues getting worse, not better." **Buy Side, Generalist, N. America**

Q3 '21 EARNINGS EXPECTATIONS VS. CONSENSUS



Worse Than

"Supply chain constraints, raw materials, components and labor." **Buy Side, Industrials, N. America**

"Supply chain issues and inflationary pressures." **Buy Side, Industrials, N. America**

"Q3 pre-announcements, supply chain difficulties, costs starting to eat into profit margins." **Buy Side, Industrials, N. America**

"Inflation leading to rising input prices combined with supply chain issues." **Buy Side, Generalist, N. America**

"Supply chain disruptions problematic." **Buy Side, Generalist, N. America**

"Supply shortages, logistic problems, improved demand, margin expansion from cost programs in 2020." **Buy Side, Generalist, Europe**

"Top line should be okay; worry about product costs as well as freight." **Sell Side, Industrials, N. America**

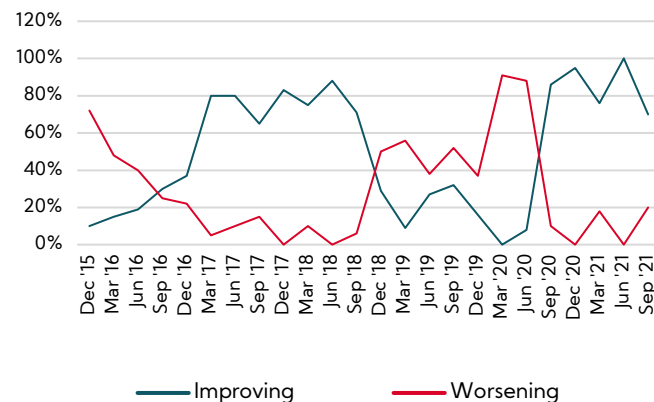
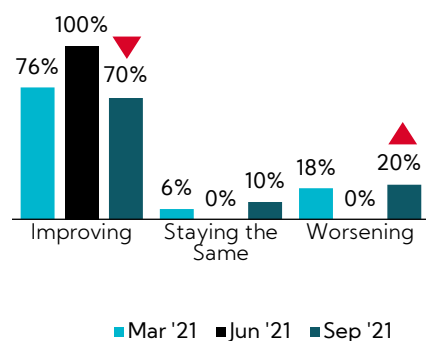
"Much greater supply chain disruption and input cost inflation that can't be fully offset with pricing actions." **Sell Side, Industrials, N. America**

"Costs - labor and commodities, supply chain disruptions." **Sell Side, Generalist, Europe**

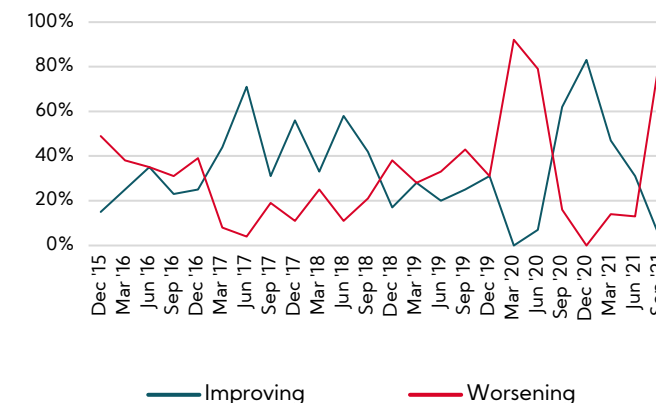
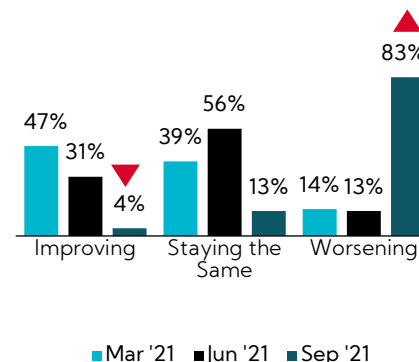
Pronounced Headwinds Expected to Weigh on Margins, EPS and FCF But Expectations for Sequential Rev Strength Are Prevalent Amid Strong Demand

68% expect continued strong demand levels in 2022; 7.5% organic growth expected for industrials in 2021 and 5.0% in 2022, on average

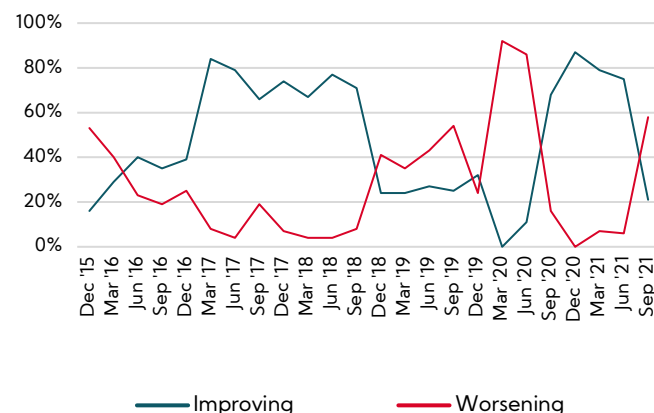
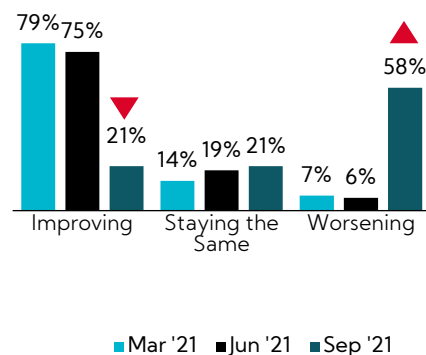
REVENUE GROWTH



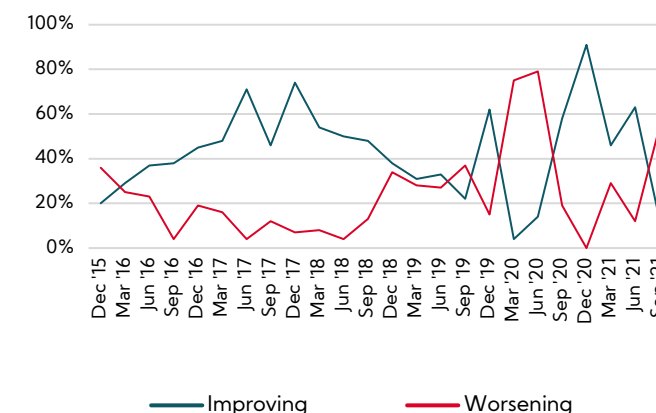
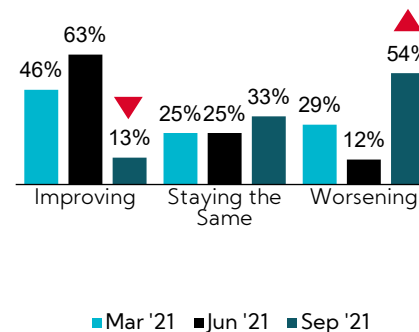
OPERATING MARGINS



EPS

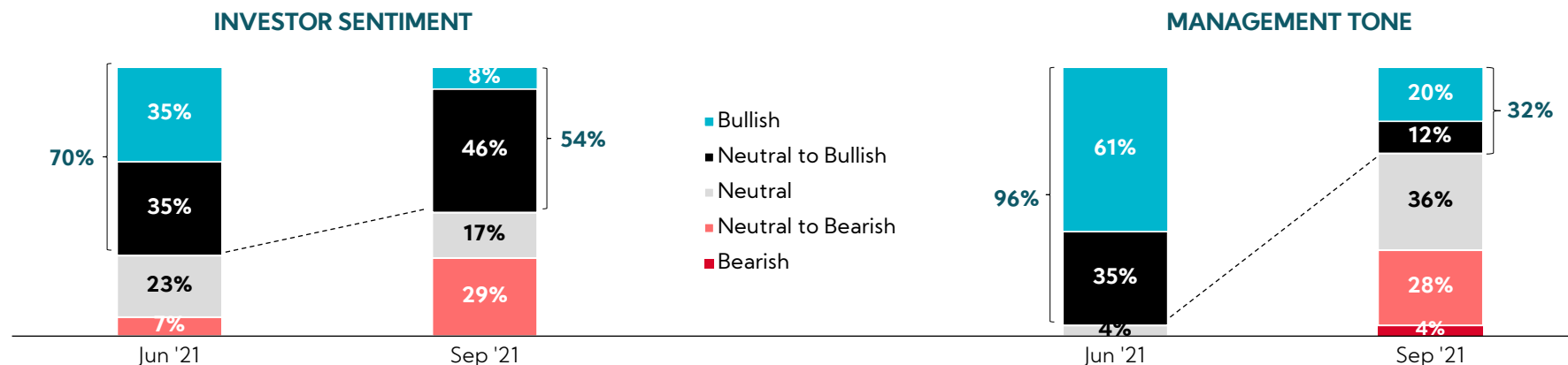


FCF



Near-term Challenges Drive More Downbeat Management Tone but Investors Remain Optimistic on Demand Strength

An inverted trend identified - the reality is likely worse than investors think



Bullish

"I am bullish once we get past earnings. Management tone is neutral. There is frustration. Costs are obviously moving up faster than they expect. For the most part, they can pass these on but if they keep moving up faster, then it takes a little longer to pass it on. That is okay. The frustration comes on the sales side where there are a couple big paying companies and they have the orders but there is so much bottleneck in getting the supplies or getting the distribution and everything that they cannot even meet the sales." **Buy Side, Industrials, N. America**

"At least at the moment, management in the short to medium term, they're rather bullish." **Buy Side, Industrials, N. America**

"The tone is bullish but the rate of change, which is more important, is negative, so we are still bullish but it is declining. Everyone is enjoying the peak of the cycle but it is peak. There is a trend downwards coming." **Sell Side, Industrials, N. America**

Neutral to Bullish

"Longer-term demand trends." **Buy Side, Industrials, N. America**

"Estimates will be reset (the stocks are correcting) but the setup into next year is good w/ strong orders/backlog and inventories lean (potential re-stock as supply chain pressures ease)." **Buy Side, Industrials, N. America**

"I am more bullish with smaller companies because it has been a long time since we have seen inflationary pressure and a long time since they have been able to raise their prices as opposed to larger cap industrials that have been focused on lowering cost over time. I am not overly bullish on the whole space but the smaller U.S.-based companies will do better and there is more demand to come in the future." **Buy Side, Industrials, N. America**

"Early in an upcycle." **Sell Side, Industrials, N. America**

"Core demand is strong - some worry about being able to deliver." **Sell Side, Industrials, N. America**

Neutral / Neutral to Bearish

"Numerous preannouncements." **Sell Side, Industrials, N. America**

"Near-term softness from supply chain and margin pressure." **Buy Side, Industrials, N. America**

"Supply chain issues." **Buy Side, Industrials, N. America**

"Bad labor market, input inflation and shortages." **Buy Side, Generalist, N. America**

"Commodity prices, shipping rates and port congestions." **Buy Side, Generalist, N. America**

"Supply constraints." **Buy Side, Generalist, Europe**

"Supply chain disruptions." **Sell Side, Generalist, Europe**

Top Concerns from around the Globe

Nearly 9 in every 10 industrial investors cite supply chain as a top concern



Views from N. America

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

"Supply chain driving revenue weakness, costs impacting margins, demand slowing as economic data softens." Buy Side, Industrials

"Foremost is the supply chain, the second one is my expectations and it will be the natural evolution of ESG. ESG goes beyond oil, chemical and mining companies. ESG has been extremely selective, oil companies bad and everybody else is okay. Europe is five years ahead on this whole ESG sentiment. They look at industrial and building material companies, even REITs and banks and ask themselves what is going on here from an ESG standpoint." Buy Side, Industrials

"Supply chain issues, inflation, Fed tightening." Buy Side, Industrials

"Supply chain shortages, cost pressure, pricing." Buy Side, Industrials

"COVID-19 impact, Biden/Administration, no tapering." Buy Side, Generalist

"Democrats in government." Buy Side, Generalist

"Global government stimulus has peaked, supply chains broken, valuations elevated." Buy Side, Generalist

"Raw material inflation/shortage, labor shortage, further damaging legislation." Buy Side, Generalist

"Supply chain." Buy Side, Generalist

"Input costs, pricing, supply chain." Buy Side, Generalist

"Supply chain, inflation, fiscal/monetary policy." Sell Side, Industrials

"China and excess debt, US deficit financing, higher interest rates." Sell Side, Industrials

"Supply chain, labor inflation/availability, demand destruction." Sell Side, Industrials

"Labor availability, raw material input costs, freight." Sell Side, Industrials

Views from EMEA

"Supply constraints, logistic constraints." Buy Side, Generalist

"Supply side, labor costs, interest rates." Sell Side, Generalist



86% (↑ 78pts QoQ)

Supply Chain

64% (↑ 26pts)

Inflation

57% (↑ 32pts)

Demand Trends

23% (↓ 15pts)

Capital Allocation

13% New

ESG

Topics of Interest for Upcoming Earnings Calls

Rinse and repeat...supply chain, inflation and demand trends the leading areas of focus on upcoming calls

Views from N. America

"Length of supply chain disruption, cost pressure outlook, demand outlook." Buy Side, Industrials

"Visibility in supply chain, pricing power vs. cost pressures, order trends." Buy Side, Industrials

"COVID-19 impact to operations." Buy Side, Industrials

"Visibility into their order books, the unusual stuff they always talk about, to understand how the recovery is going in real time because COVID-19 things change all the time. Realtime insights on the order books or the most recent trends they see are important help me gauge what is going on." Buy Side, Industrials

"Order rates, supply chain bottlenecks, growth investments." Buy Side, Industrials

"Supply chain, price/cost, 2022 visibility." Buy Side, Industrials

"Supply chain, cost inflation, backlog and demand environment." Buy Side, Industrials

"Visibility in order books, evidence (or not) of demand destruction due to cost inflation, state of supply chain constraints." Buy Side, Industrials

"Inflation – input costs, pricing power, supply chain." Buy Side, Generalist

"The top questions we have, other than the general business environment, is ESG. We want to know their disclosure, the timeline, the key topics there are and where are they on the journey. I think they are getting more and more scrutiny on their ESG disclosure." Buy Side, Generalist

"Dangers inherent with Democrats in control of Congress, inherent lack of ability to govern." Buy Side, Generalist

"Inflation, supply chain adjustments, future M&A." Buy Side, Generalist

"Supply chain, China, input pricing." Buy Side, Generalist

"Supply chains, inflation, cash use." Buy Side, Generalist

"Supply chain, capex outlook." Sell Side, Industrials

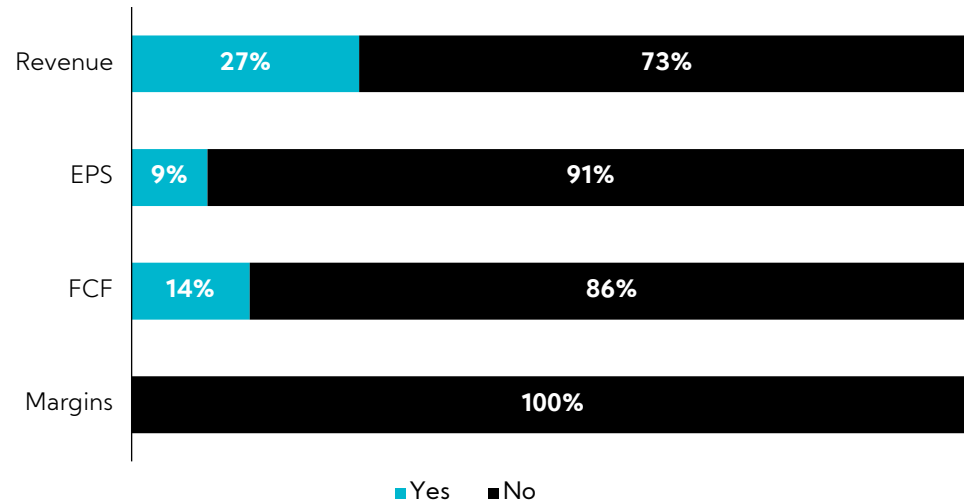
"Restoring to improve supply chain resilience, ESG to eliminate (not reduce) carbon, organic growth acceleration." Sell Side, Industrials

Views from EMEA

"Factory gate prices, supply chain, globalization." Sell Side, Generalist

Few Expecting Further Guidance Beat-and-Raises

EXPECTATION FOR INDUSTRIAL COMPANIES TO RAISE 2021 ANNUAL GUIDANCE



"Cash flow and margins will be challenged; working capital is going to be up with inflation." **Buy Side, Industrials, N. America**

"Estimate increases will be a rarity in Q3." **Buy Side, Industrials, N. America**

"I expect revenue to be up and the rest flat to down." **Buy Side, Industrials, N. America**

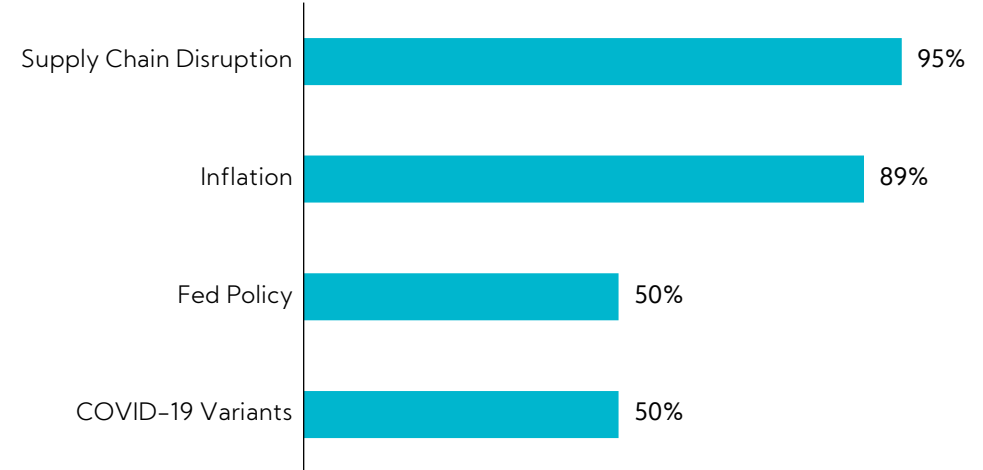
"Managements will be cautious on supply chain concerns." **Buy Side, Industrials, N. America**

"Margins will be cut. The others are neutral-ish for the most part." **Buy Side, Industrials, N. America**

"Supply chain constraints will likely drive guidance down." **Buy Side, Industrials, N. America**

LEVEL OF CONCERN RELATIVE TO LAST QUARTER (AIDED)

More Concerned or Continued High Level of Concern



"I have been thinking more and more about supply chain issues. I was surprised how many bottlenecks there are in supply chains, everything from transportation to semiconductors to material shortages. Underlying demand is very good. I would be a little surprised if companies were raising revenue because the supply chain, if you look at the auto industry and how big it is and how much downtime auto producers are having to take because of the semiconductor shortages, that is going to ripple through the entire industrial economy, everything from metals to plastics. I would be surprised if it was anything extraordinary or particularly bullish because the supply chain and inflationary pressures. There are enough cost pressures and logistical challenges it is going to be few companies that will be raising." **Buy Side, Industrials, N. America**

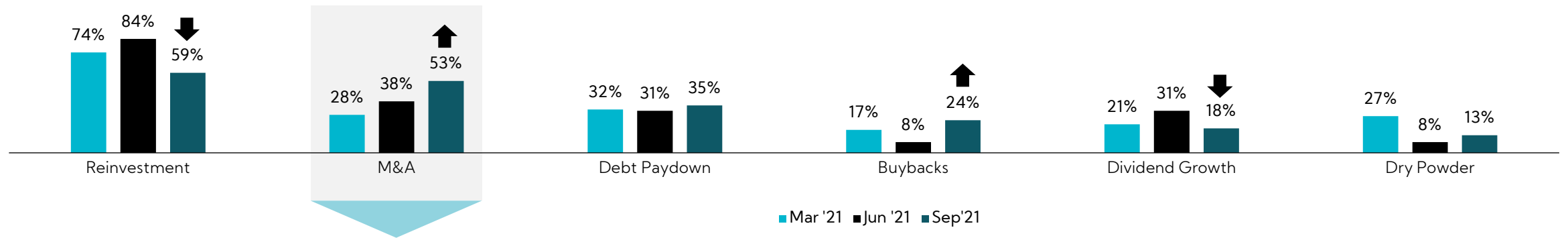
"Democrat policies are choking the economy." **Buy Side, Generalist, N. America**

"Demand is trying but the ability to deliver on orders has become much more constrained." **Sell Side, Industrials, N. America**

While Reinvestment Sees Slight Pullback, Growth Initiatives Still Preferred with M&A Seeing Highest Favorability Since Q2'16

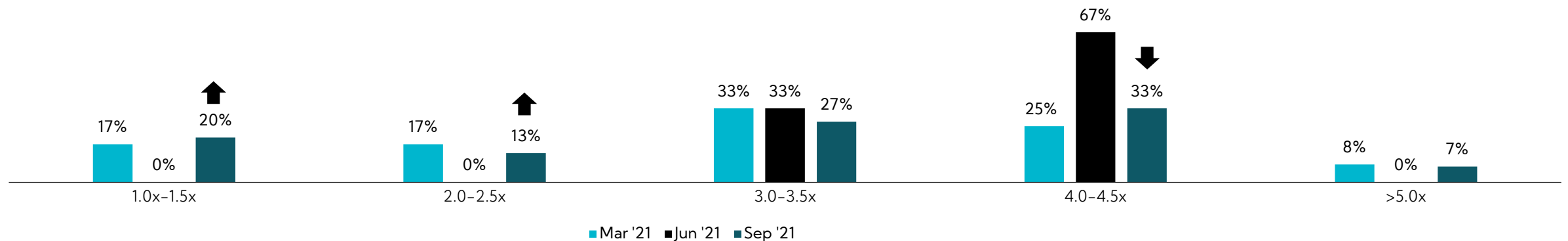
Investors are back to being more conservative regarding companies leveraging up for M&A

PREFERRED USES OF CASH FOR INDUSTRIALS In Descending Order of Top Two Preferences



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

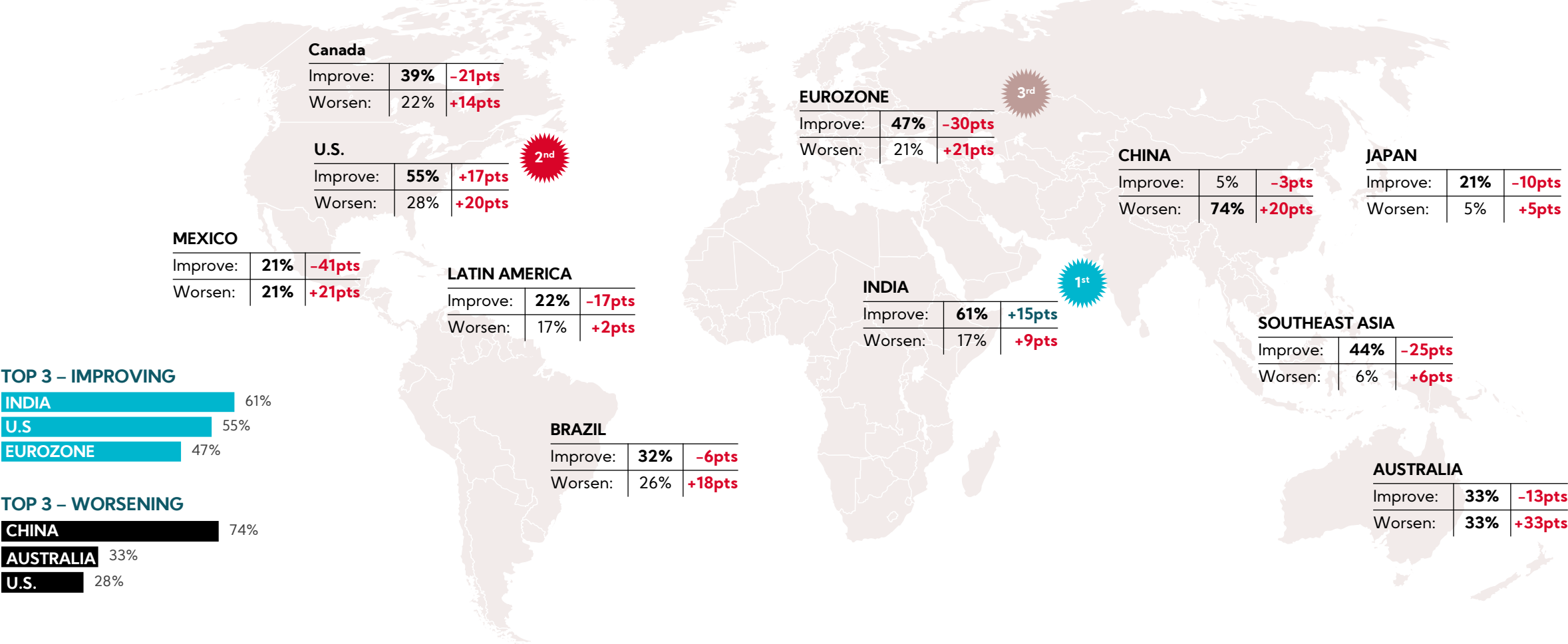
(Assuming a compelling transaction, the level to which investors would be comfortable companies leveraging up)



While Most Economies (Minus China) Expected to Improve, Nearly All Regional Economies See Pullback in Upbeat Sentiment (Minus India)

India expected to see the most improvement over the next six months

GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS

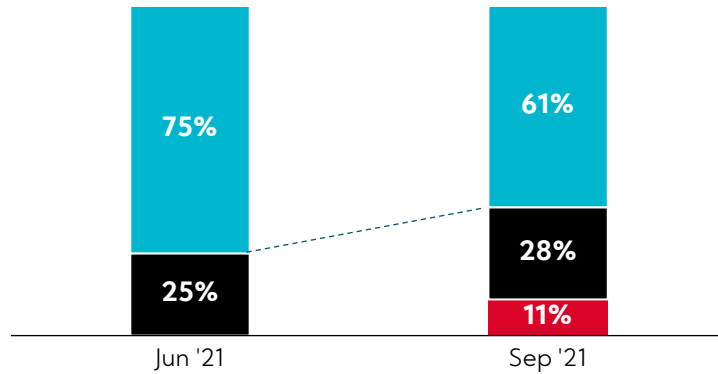


Views on Key Economic Indicators Over the Next Six Months

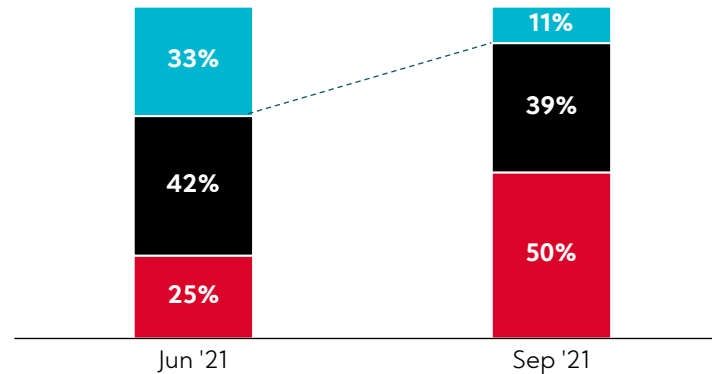
Forecasts are for Improving Unemployment Rate, Oil & Gas markets and Global Capex while Consumer Confidence and Global PMI expected to deteriorate

■ Improving ■ Staying the Same ■ Worsening

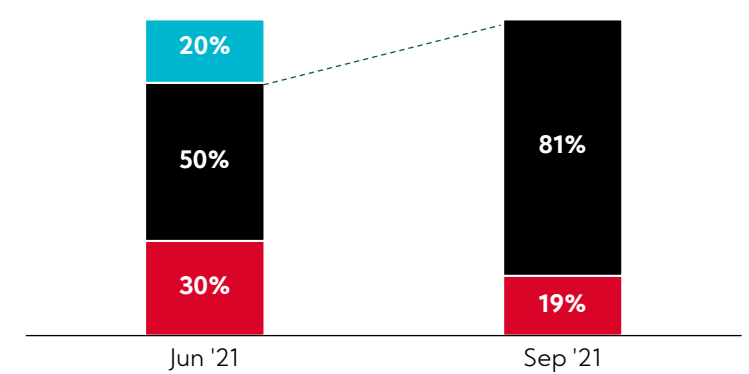
GLOBAL CAPEX



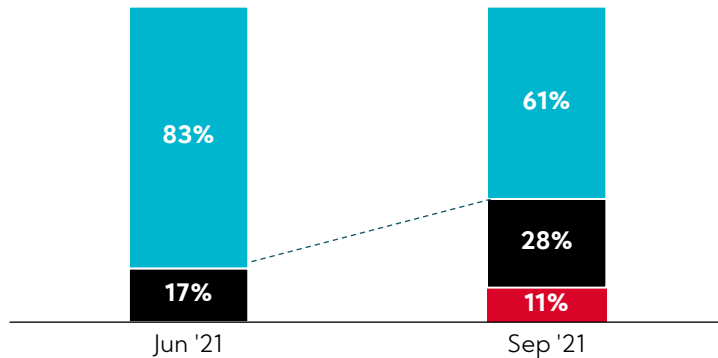
GLOBAL PMI



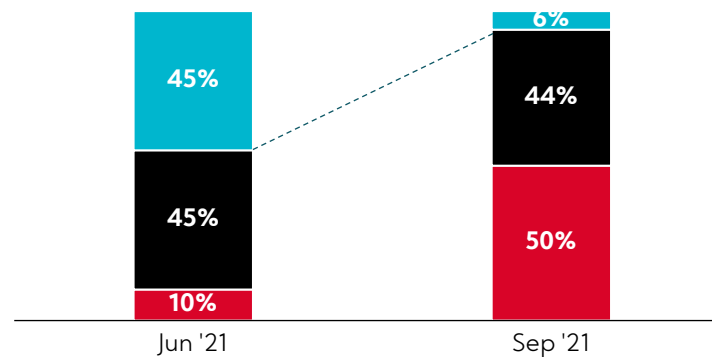
FX HEADWINDS



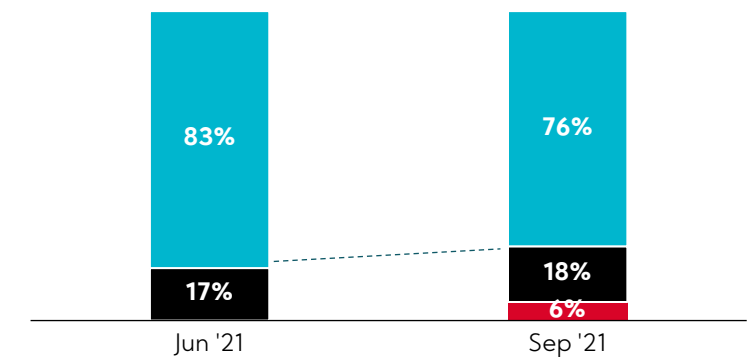
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE

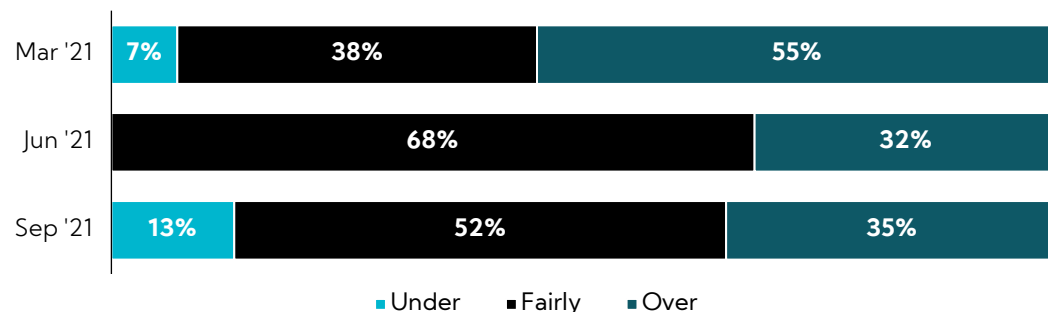


U.S. UNEMPLOYMENT RATE

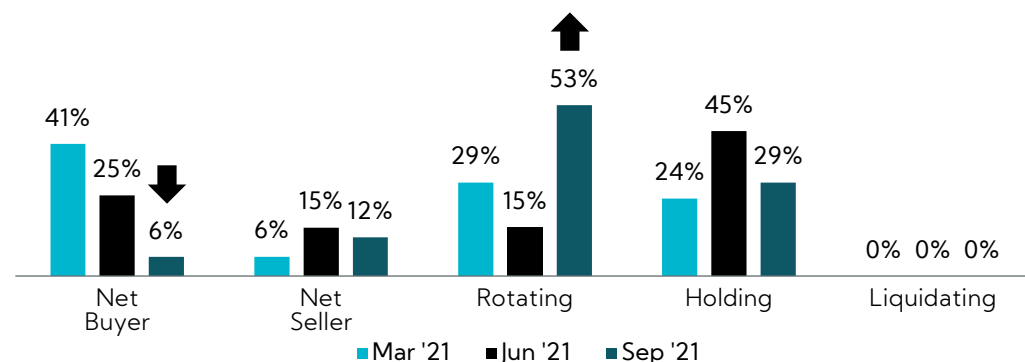


While Industrials Seen As Fairly Valued in General, Investors Shift from Hold to Rotate Strategy with Pure Plays, North America and Small Caps In Favor

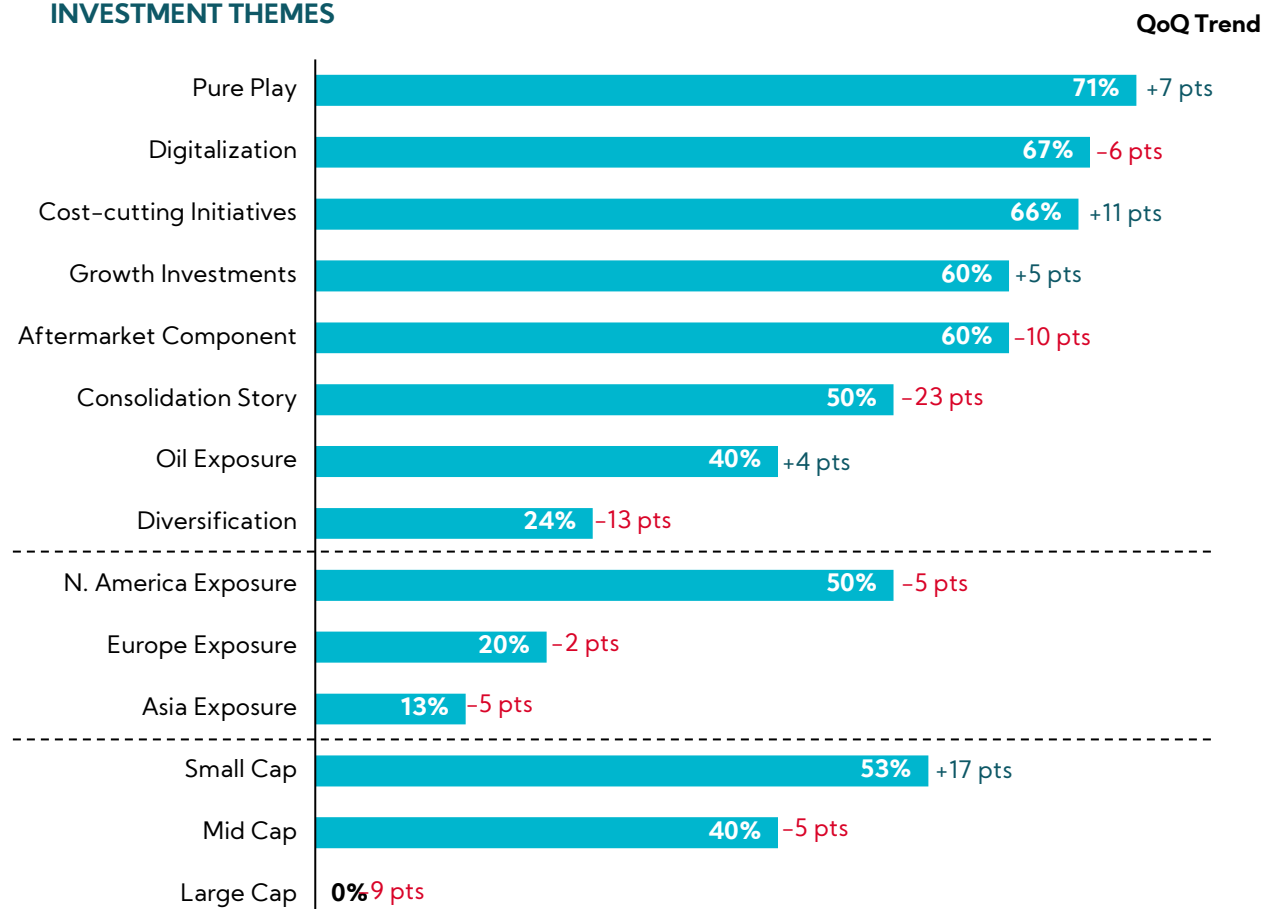
GLOBAL INDUSTRIAL VALUATIONS



QoQ INVESTMENT TRENDS



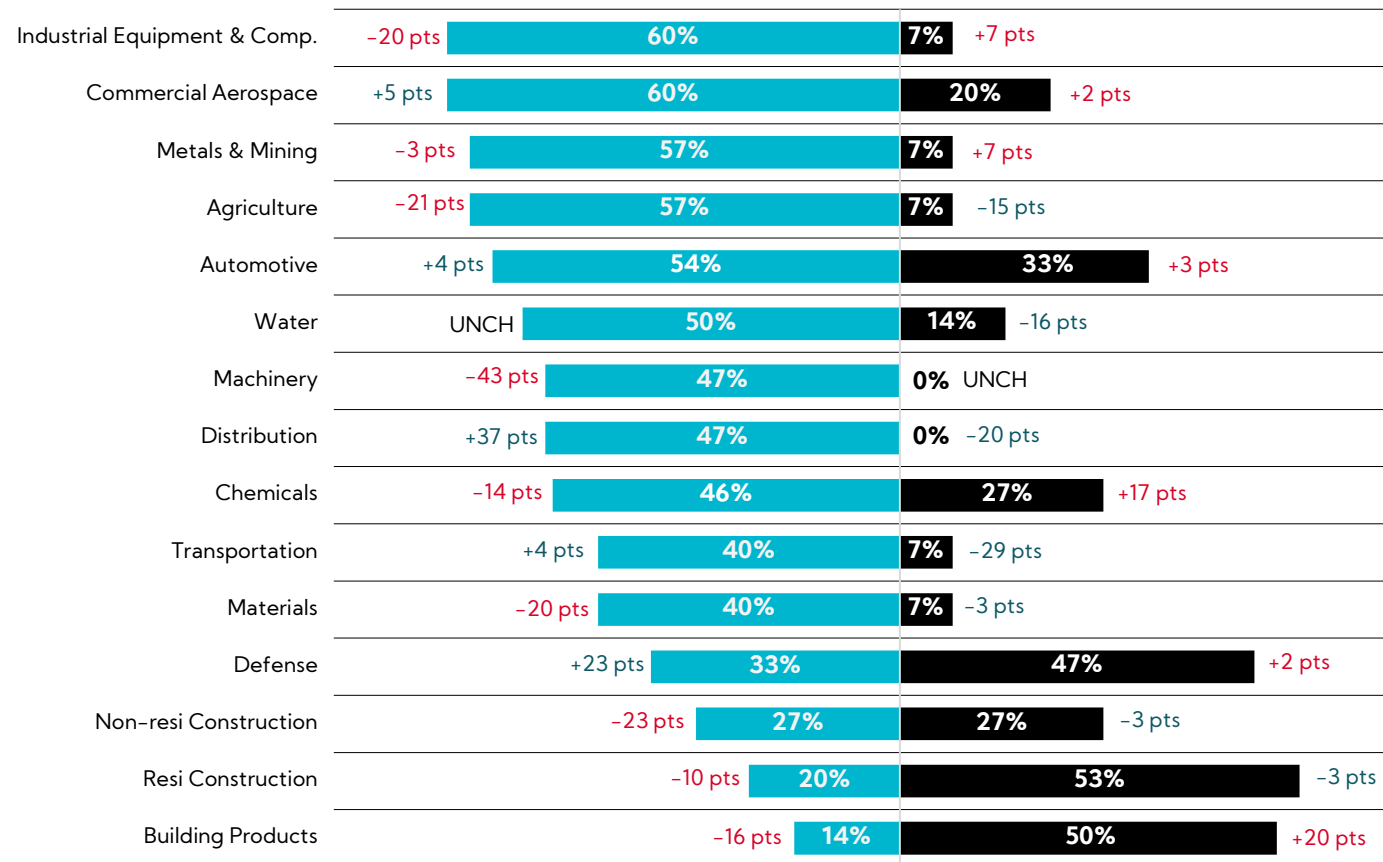
MOST COMPELLING INDUSTRIAL INVESTMENT THEMES



Still More Bulls than Bears with Distribution Seeing Most Significant Inflow of Bulls (A Positive Supply Chain Story); Bears Pile Into Building Products

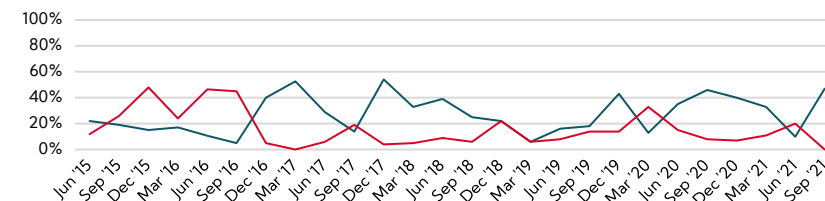
BULLS VS BEARS

■ Bulls ■ Bears

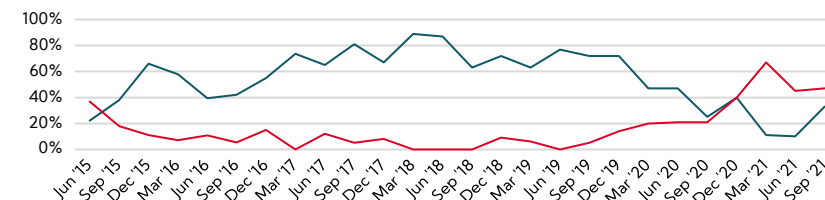


Largest Bull Gainers

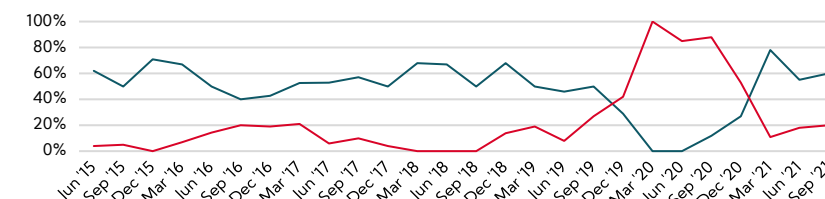
DISTRIBUTION



DEFENSE



COMMERCIAL AEROSPACE



■ Bulls ■ Bears

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.

A person in a red jacket stands in the bright, white light of a cave entrance, silhouetted against the glow. The cave interior is dimly lit with a deep blue light that highlights the intricate, wavy textures of the rock walls and ceiling. The floor is covered in dark, wet-looking rocks and debris. The overall atmosphere is mysterious and adventurous.

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