

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

Q3'22 Industrial Sentiment Survey

October 20, 2022

Inside The Buy-side® Q3'22 Industrial Sentiment Survey

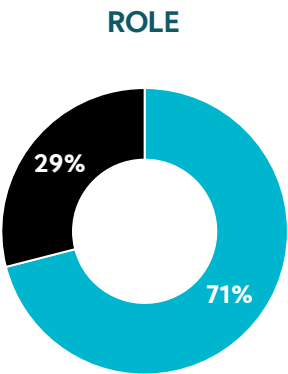
Since 2007, we have surveyed global investors quarterly on the equity markets, world economies and business climate. At the start of every earnings season, we publish our leading-edge research, *Inside The Buy-side Industrial Sentiment Survey*, which captures real-time Voice of Investor® sentiment and 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.

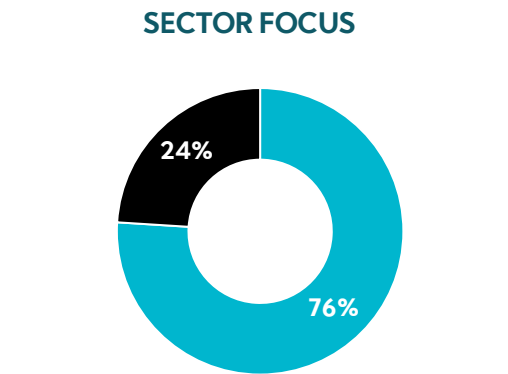
Survey Scope: 41 sector-dedicated investors and analysts globally; buy side firms manage ~\$2.6 trillion in assets, including ~\$465 billion invested in Industrials

Survey Timeframe: September 16 – October 10, 2022

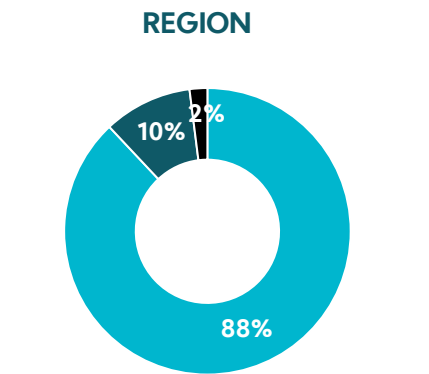
Market Performance	Q3'22	YTD ¹
DJIA	(7.6%)	(21.5%)
NASDAQ	(5.0%)	(33.2%)
S&P 500	(6.3%)	(25.2%)
S&P 500 Industrial	(6.0%)	(21.1%)
Russell 2000	(3.6%)	(26.7%)



■ Buy Side ■ Sell Side



■ Industrials ■ Multi-Industry Incl. Industrials



■ North America ■ Europe ■ APAC

Word Cloud: Visual Representation of Investment Community

Focus Areas, Themes, and Sentiment

Industrials expected to “hold up” in 2022 but start to lose steam, as 2023 points to a sure-fire growth slowdown, particularly amid significant concerns with rising interest rates, supply chain, and Europe



Top Mentions	Q3'21	Q4'21	Q1'22	Q2'22	Q3'22	Q/Q
Inflation	25	32	56	25	37	↑ 12
Demand	13	20	10	21	14	↓ 7
Supply Chain	51	20	28	16	14	↓ 2
Costs	18	17	26	18	13	↓ 5
Europe	0	0	7	0	11	↑ 11
Recession	0	0	4	17	9	↓ 8

Key: Underlying Sentiment

- Positive
- Neutral
- Negative

Industrial Investor Sentiment Increasingly Downbeat But Not Draconian Amid Mixed Views on 2022 Results and Expectations for a Broad-based Slowdown in 2023

Decidedly Mixed Views for Q3 Industrial Performance and 2022 Guides, Underscoring Confidence in Backlogs and Pricing as Short-term Buffers to Slowing Growth

- **56%** expect *Worse Than* sequential earnings, up from 31% last survey while the majority, 69%, anticipate organic growth to be flat to better QoQ; views on margin and FCF performance are mixed
- Regarding 2022 guides, views are again mixed to negative with fewer than **15%** expecting companies to raise; more expect margins and EPS to be maintained and FCF lowered
- **77%** expect 2023 top-lines to be *lower than* 2022 actuals, compared to ~50% anticipating the same for margins and EPS
- Inflation and pricing actions (67%), demand (47%), capital allocation (43%), and impact from Europe (34%), which is new, are the top areas cited to address on upcoming earnings calls

Sentiment More Cautious QoQ as Expectations for a Slowdown in 2023 Grow; More Conservative Stances Emerging But Austerity Not Yet Present

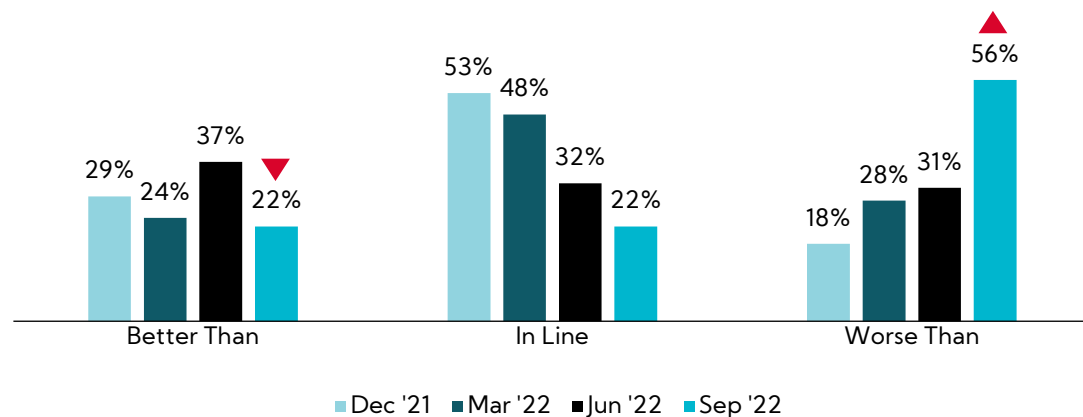
- Despite nearly half of participants, **49%**, describing executive tone as *Neutral to Bullish* or *Bullish*, in line with last quarter, a greater number, **53%**, describe their own view as *Neutral to Bearish* or *Bearish*, up from 38% QoQ
- **46%** point to slowing economic growth and a recession as *the* leading concern, overcoming inflation, and more than double QoQ
- Nearly **60%** report companies in their universe are cost cutting while just under one-quarter indicate they are seeing layoffs
- Expectations are for **1.4%** industrial organic growth, on average, in 2023, versus a forecast of **6.6%** growth in 2022, on average
- Reinvestment continues to see strong support as the top use of cash, and nearly 30% support capex increases, up from 0% QoQ; conversely, debt paydown is a close second and the most significant gainer this survey

Inflation Remains a Top Concern But Ebbs Significantly While China and Europe Woes Expand; North America Remains a Bright Spot But Not for Building Products

- **41%** identify inflation as the #2 leading concern, down from 90% QoQ, with 66% expecting the situation to improve over the next 6 months, up from 44%
- Europe and China make it onto the concerns list at #4
- **76%** now cite North America exposure as most compelling, compared to 12% for China and 0% for Europe
- Defense, Agriculture, and Auto see the most upbeat views, while Building Products, Chemicals, and Transportation see the greatest influx of bears

Majority Anticipating Sequential Industrial Earnings Downshift with Mixed Views Relative to Consensus but Higher Expectations for Beats

Q3'22 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Better Than/In Line

"Price increases are finally catching up to cost increases." **Buy Side, Industrials, N. America**

"Demand seems to have held up, and pricing versus inflation should have improved even as some input cost pressures ease marginally." **Buy Side, Industrials, N. America**

"Lower costs." **Buy Side, Generalist, N. America**

"Many companies are still working through backlogs, which should support the revenue line. Price actions should protect margin levels." **Sell Side, Industrials, N. America**

"Global capex remains strong and supply chain disturbances and lockdowns in China are easing." **Sell Side, Industrials, Europe**

Worse Than

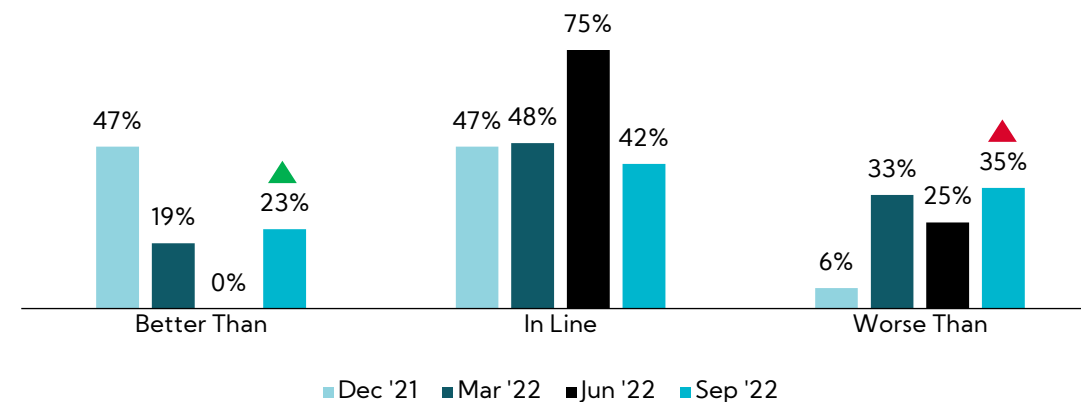
"Margin compression is going to be worse than expected on inflation and lower productivity." **Buy Side, Industrials, N. America**

"They are going to be worse than Q2 earnings, but it does not matter that much. The earnings are going to be more resilient than investors expect because a lot of big companies have pricing and backlog. The equation is pricing plus backlog plus macro equals revenue growth and earnings. Pricing and backlog are positive. Macro is a headwind and becoming more of a headwind. That equation is still positive today." **Buy Side, Industrials, N. America**

"Consensus has not come down enough." **Buy Side, Industrials, N. America**

"Industrial earnings will be worse, not materially, but worse. They will be better than consensus." **Buy Side, Generalist, N. America**

Q3'22 EARNINGS EXPECTATIONS VS. CONSENSUS



"Ongoing supply chain disruption and very significant adverse FX." **Sell Side, Industrials, N. America**

"Input costs up a lot. Sales prices down in many cases." **Sell Side, Industrials, N. America**

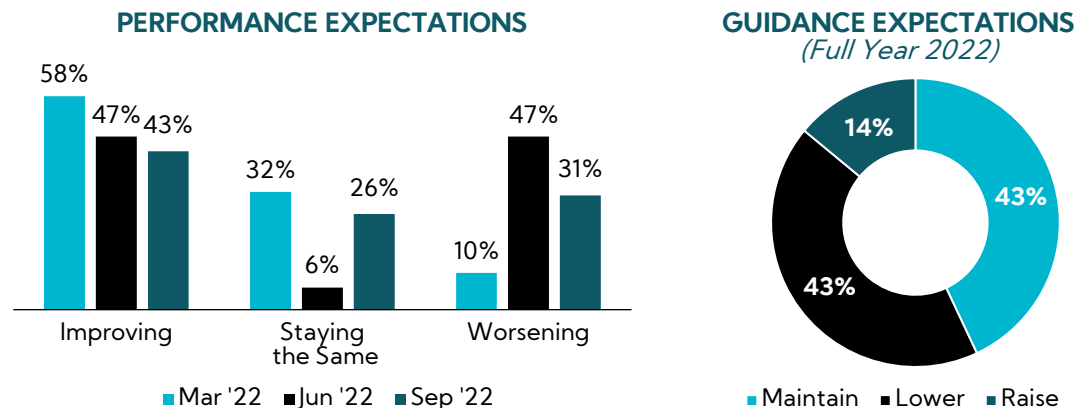
"Rail volume data holding up, FDX comments internationally driven." **Sell Side, Industrials, N. America**

"Inflation, labor shortages and supply chain disruptions." **Sell Side, Generalist, N. America**

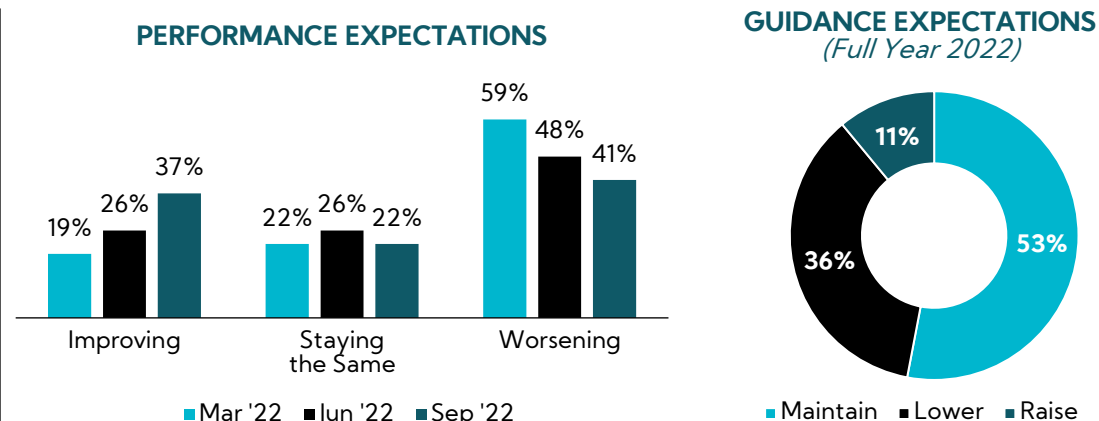
Mixed Views on KPI Performance for Q3 and 2022 Guidance, as Investors Balance Continued Pricing Increases with Slowing Demand; Growth in 2023 Expected to Falter

Nearly 80% believe 2023 organic growth guides will be lower than 2022 results, with approximately half expecting the same for margins and EPS

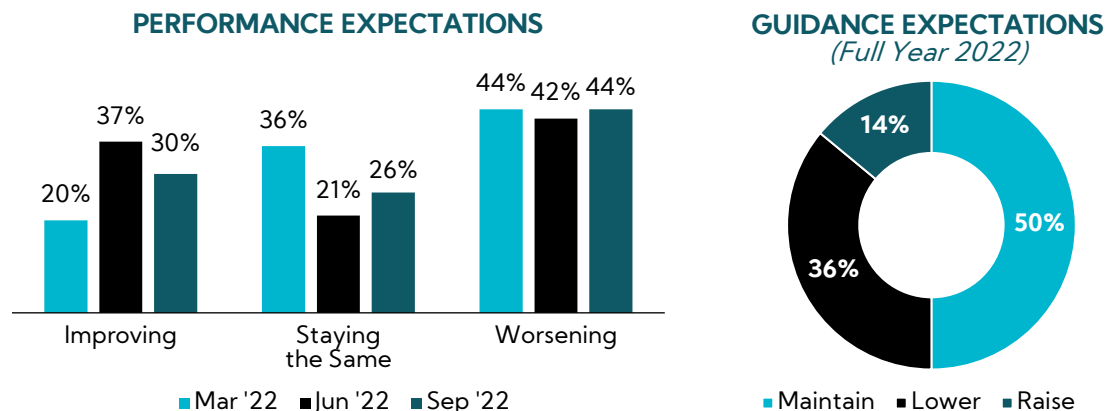
ORGANIC GROWTH



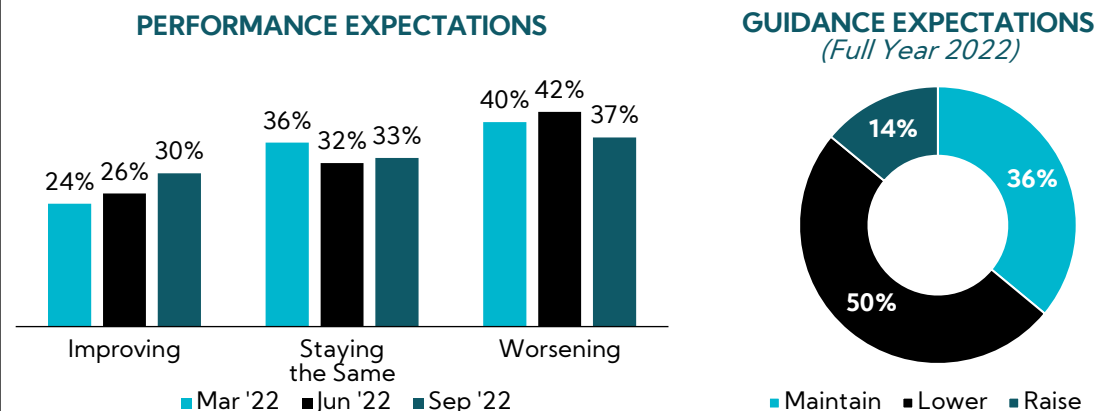
MARGINS



EPS



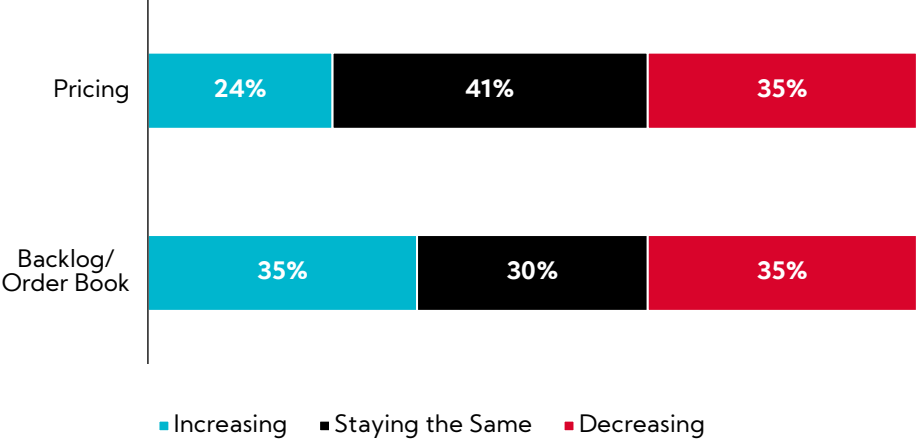
FCF



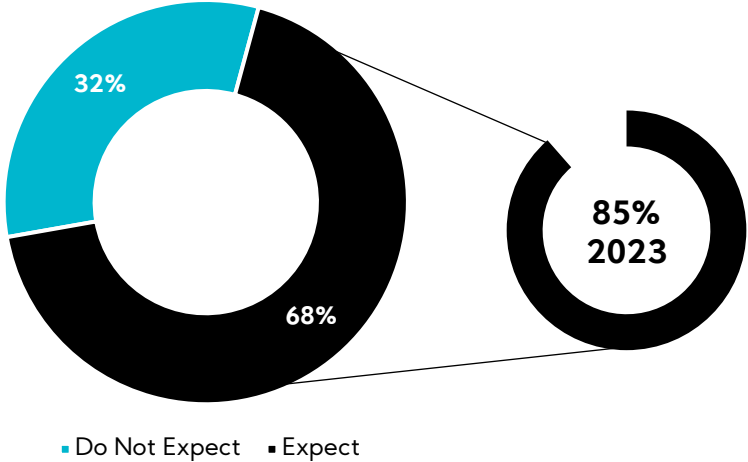
Skepticism about Sustainability of Price Increases Exists with Mixed Views on Backlog Strength; Majority Believe Industrials Will Experience Broad-based Weakness in 2023

85% anticipate a slowdown in 2023, largely pegged for Q1, and expect 1.4% industrial organic growth on average in 2023 compared to an anticipated 6.6% expansion in 2022

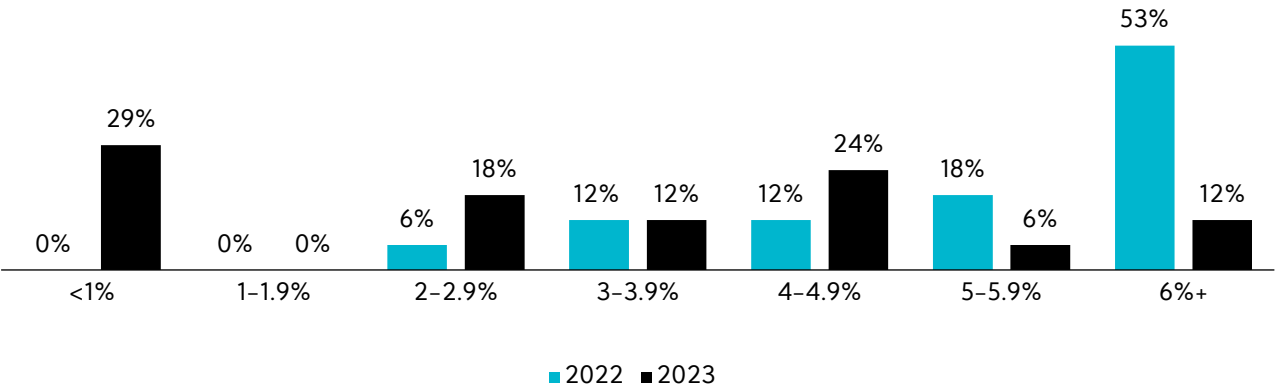
VIEWS ON SEQUENTIAL PERFORMANCE



EXPECTATIONS FOR BROAD-BASED INDUSTRIAL WEAKNESS

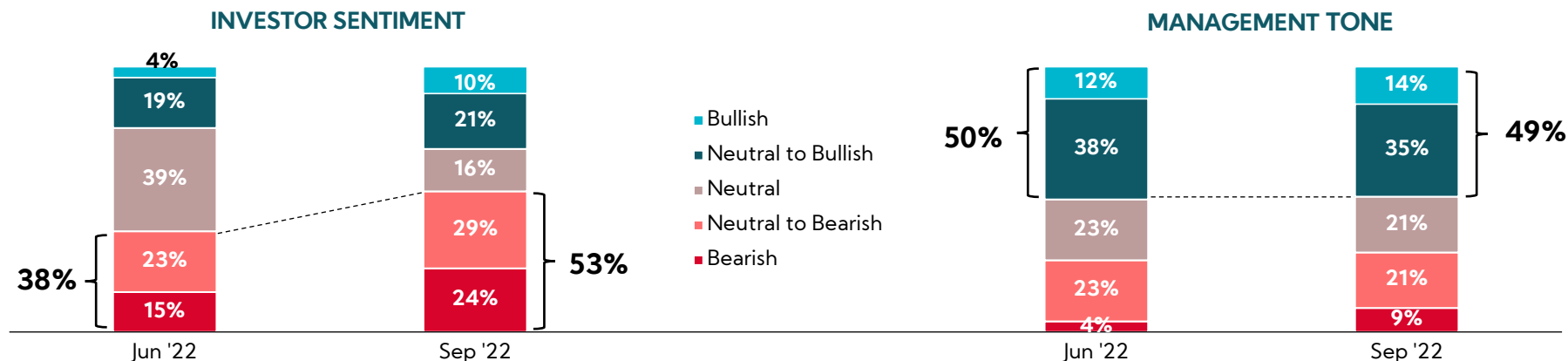


INDUSTRIAL ORGANIC GROWTH EXPECTATIONS



Investor Sentiment Sees the Most Bears Since the Onset of COVID-19 and In Line with September 2019, While Management Sustaining Cautiously Optimistic Tone

More than half of investors and analysts are Neutral to Bearish or Bearish, in line with September 2019 levels, in which concerns about slowing global industrial growth, continued earnings deceleration, and U.S./China tariff concerns were prevalent



Bullish / Neutral to Bullish

"Market sentiment for industrials is poor and valuations reflect this." **Buy Side, Industrials, N. America**

"The executives I have met with are neutral to bullish. There has been a series of companies I follow that I have not talked to that have revised guidance lower. Management, they are all very bullish." **Buy Side, Industrials, N. America**

"Larger companies are more challenged, smaller and mid-sized companies tend to be less disrupted and there are industrial tailwinds and stimulus funds from U.S. government." **Sell Side, Industrials, N. America**

"September conference comments." **Sell Side, Industrials, N. America**

"Valuations are attractive." **Sell Side, Generalist, N. America**

Neutral

"There are some cyclical tailwinds but also a lot of companies have supply chain issues, inflationary concerns, etc. Management tone has been mixed to slightly positive. You have a lot of companies looking out for a recession because that is being talked about in the news, but they are not seeing it in their business yet. The leading indicators are not showing a recession. You have other companies that are being hit hard by inflation, supply chain issues, etc., so it is mixed." **Buy Side, Industrials, N. America**

"Hard to escape signs that we should be seeing a slowdown or downturn in the near future." **Buy Side, Industrials, N. America**

"Uncertain demand backdrop." **Buy Side, Industrials, N. America**

"I am neutral toward industrials because valuations have come down quite a bit. There are opportunities out there, but they are linked to how defensive a company's revenues are, so until we start seeing the defensiveness in the revenues or getting through the downturn, it is hard to get more positive. At this point, I am more neutral." **Buy Side, Industrials, Europe**

Neutral to Bearish

"A lot of the corporates are saying demand is holding up, so most investors are waiting for the shoe to drop. Things are holding up but at some point, the macro is going to catch up, so it is a tricky environment to be in." **Buy Side, Industrials, N. America**

"Don't fight the Fed. Europe is a mess." **Buy Side, Generalist, N. America**

"Period of normalization following two extraordinary years." **Buy Side, Generalist, Europe**

"Coming demand slump." **Sell Side, Industrials, Europe**

"Results in the past better than expected but inflationary background with high-cost inflation, tough surroundings and higher interest rates makes it more difficult. Demand should be also getting weaker." **Sell Side, Industrials, Europe**

Bearish

"War in Europe, inflation and higher rates." **Buy Side, Industrials, N. America**

"My sentiment toward the sector is bearish in the short-term related to the economic cycle. I do not believe in the soft landing the Fed is trying to come up with at the end of their hiking cycle. It will provoke a recession. I am bullish in the medium- to long-term because it is a sector strongly operated when managing a sustainability fund because it adds E equations in terms of ESG." **Buy Side, Industrials, N. America**

"Macro indicators, potential demand destruction across Europe, commodity pricing." **Buy Side, Industrials, N. America**

67% (↓ 11pts)
Inflation, Pricing

47% (↑ 6pts)
Demand

43% (↑ 9pts)
Capital Allocation

34% (↑ 34pts)
European Exposure **New**

19% (↓ 20pts)
Supply Chain

Topics of Interest for Upcoming Earnings Calls

Inflation remains the leading focus area for the fourth consecutive quarter, followed by demand and capital allocation; European exposure becomes a newly identified topic of interest amid continued geopolitical and economic volatility

Views from N. America

"End market demand trends, cost pressures, capital allocation priorities." Buy Side, Industrials

"How management feels about the cycle, inflation." Buy Side, Industrials

"Opportunities with government programs, infrastructure bill and inflations reduction act." Buy Side, Industrials

"Price vs. cost prospects, free cash flow metrics." Buy Side, Industrials

"Labor issues, trade flows, European exposure and risks." Sell Side, Industrials

"Deleveraging, technology, efficiency productivity measures." Sell Side, Industrials

"Consumer/customer confidence, supply chains, rate sensitivity." Sell Side, Industrials

"Outlook for pricing, margin expectations in a slowing environment." Sell Side, Industrials

"Expectations for winter in Europe, moving to automation as labor shortages continue, impact of energy uncertainty." Sell Side, Industrials

"Europe, China, reshoring/near-shoring and U.S. Government stimulus benefit." Sell Side, Industrials

"Current demand environment (organic growth), capacity to maintain margins, clarify capital allocation strategy." Sell Side, Generalist

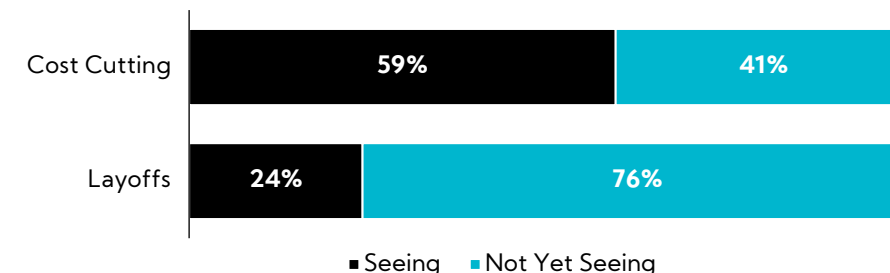
Views from EMEA

"Cost flexibility." Buy Side, Generalist

"Global capex in renewables, electrification and industrial automation, order books for delivery in 2023, cost increases for 2023." Sell Side, Industrials

"Coping with inflationary background, demand in combination with outlook, cost synergies." Sell Side, Industrials

COMPANY ACTIONS IN CURRENT ENVIRONMENT



"Some parts of industrials are just starting to see some potential blips on the radar. A month or two ago, nobody was seeing much. People have been surprised at how well the broader industrial space has held up. Everybody is talking about recession and inflation but there has been a lot of passthrough. That is why there is inflation – because industrials have been able to pass on those costs. Some might fall off harder than others but the massive passthrough in inflation is finishing up. As long as there is not another round of that making this inflationary environment last, the parts and industrial sector might hold up, especially the longer-cycle ones. If the industrial space turns, the economy is in for a larger hit. If that happens, six months to a year from now people will see the industrial space was a good place to be." Buy Side, Generalist, N. America

"For the most part, industrial end market demand is strong and industrial tailwinds are very numerous." Sell Side, Industrials, N. America

"It is a given that there will be some sort of a slowdown, so that is why the focus will be on defensive companies' strong balance sheets." Buy Side, Industrials, Europe


"Not yet [accelerating] on costs and people still hard to find." Sell Side, Industrials, N. America

"[Industrials] never grew at above average rates like IT in pandemic." Sell Side, Industrials, N. America

"Layoffs = likely not a good idea with labor shortages." Sell Side, Generalist, N. America

Top Concerns from Around the Globe *(unaided)*

Economic growth and recession worries rise to the top while Europe and China ascend to the leader board

1	46% (↑ 25pts)	Economic Growth / Recession	2	41% (↓ 49pts)	Inflation	3	41% (↑ 9pts)	Monetary Policy / U.S. Interest Rate Hikes
4	28% (↑ 28pts)	International Markets (Europe & China) 	5	22% (↓ 9pts)	Supply Chain	6	16% (↑ 6pts)	Geopolitical Tensions

Views from N. America

"War in Europe, inflation, employment." **Buy Side, Industrials**

"Energy costs, margin pressure and demand destruction, security of supply, i.e., component issues that lead to an inability to complete finished goods or exceptionally high pricing for those various elements." **Buy Side, Industrials**

"Rising rates, recession, European gas." **Buy Side, Industrials**

"Margin pressure, global growth, U.S. growth." **Buy Side, Industrials**

"Supply chain, inflation, overall economic health, whether in Europe or U.S." **Buy Side, Industrials**

"Cyclical sentiment, inventory destocking, impact of dollar strength." **Buy Side, Industrials**

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

"Orders, currency, margins." **Buy Side, Industrials**

"Inflation, supply chain, and international markets of China and Europe." **Buy Side, Industrials**

"Effect of rising rates, de-stocking cycle ahead." **Buy Side, Industrials**

"State of the economy, inflation." **Buy Side, Generalist**

"Recession, interest rates, housing." **Sell Side, Industrials**

"Labor shortages, project delays, international markets." **Sell Side, Industrials**

"Inflation, high leverage (idiosyncratic), labor." **Sell Side, Industrials**

"Pricing, availability, the Fed/rates." **Sell Side, Industrials**

"Consumer, inventories, Fed." **Sell Side, Industrials**

"Europe recession, weakening U.S. construction, China remains very weak." **Sell Side, Industrials**

"Slowing economic growth, inflation, geopolitical tensions." **Sell Side, Generalist**

Views from EMEA / APAC

"Interest rates." **Buy Side, Generalist**

"Recession, interest rates, political turmoil." **Sell Side, Industrials**

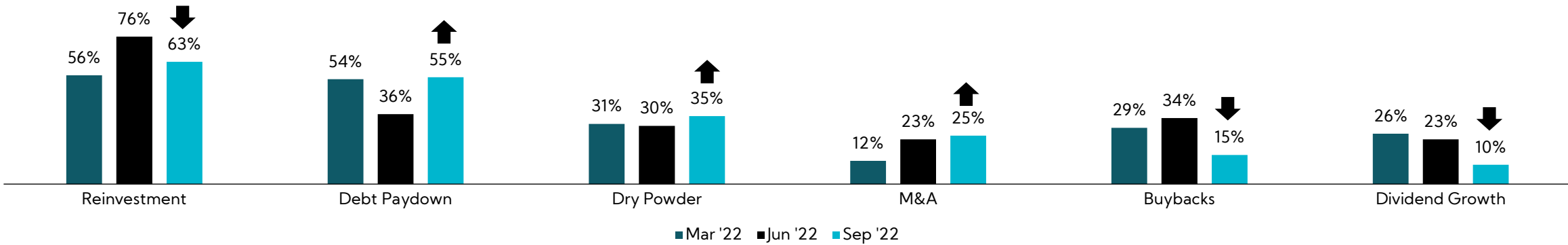
"Demand, inflation, interest rates." **Sell Side, Industrials**

"M&A." **Sell Side, Generalist**

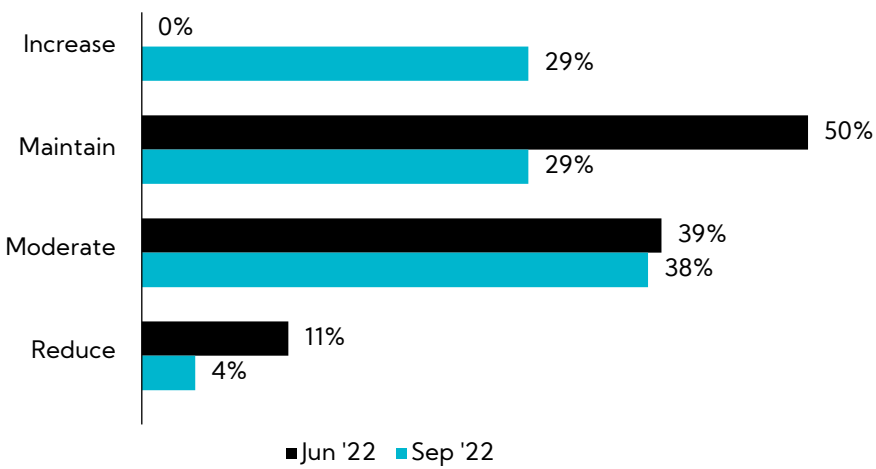
Contrary to Our Broad-based Generalist Survey, Reinvestment Remains the Leading Use of Cash for Industrials but with Debt Paydown Increasingly in Focus

Majority continue to prefer 2.0% or lower Net Debt-to-EBITDA levels while M&A slightly more favorable than buybacks

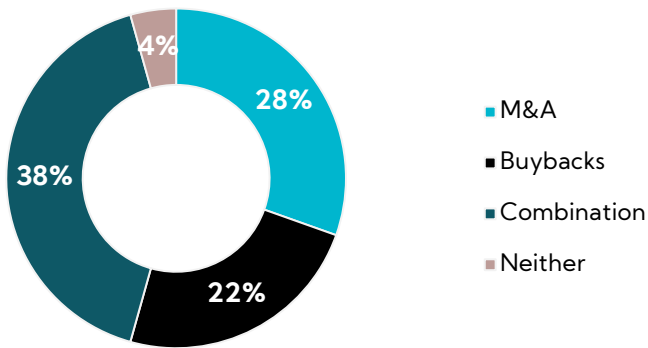
PREFERRED USES OF CASH FOR INDUSTRIALS
In Descending Order of Top Two Preferences



VIEWS ON GROWTH CAPEX

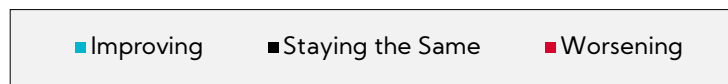


PREFERENCE FOR M&A VS. BUYBACKS
Assuming Equal ROI

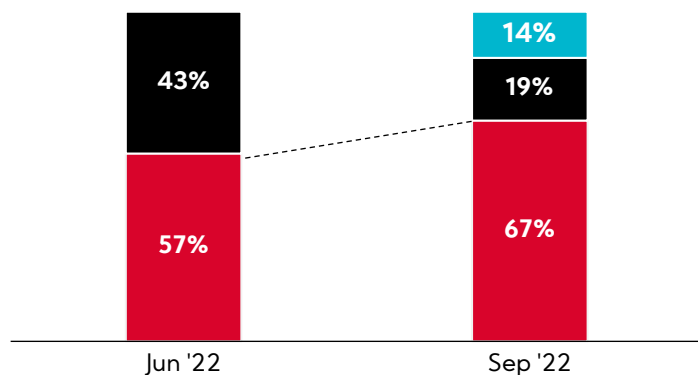


Views on Key Economic Indicators over the Next Six Months

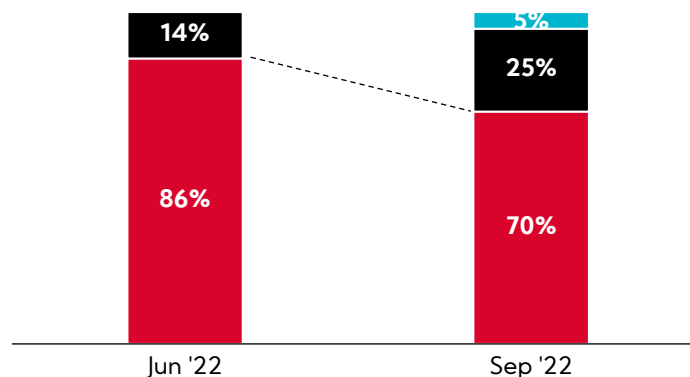
Global Capex and FX headwinds expected to worsen, while Global PMI and U.S. Consumer Confidence continue to remain downbeat -- Will inflation moderate?...survey says 'YES'



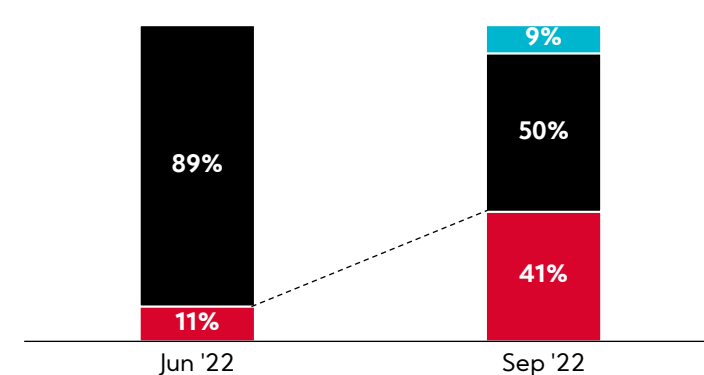
GLOBAL CAPEX



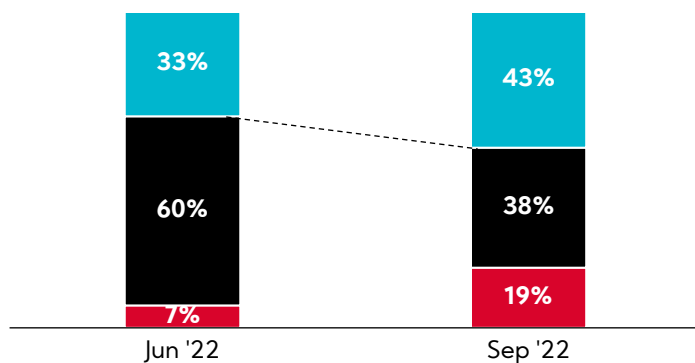
GLOBAL PMI



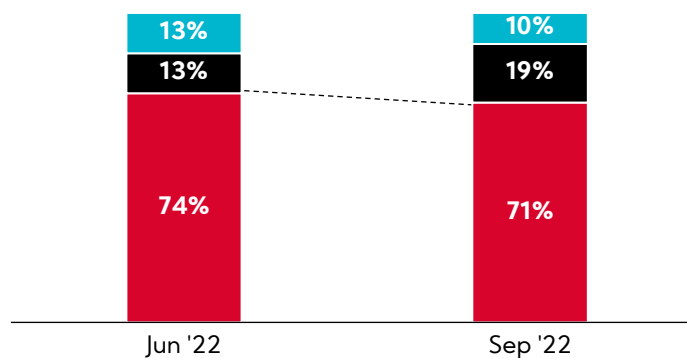
FX HEADWINDS



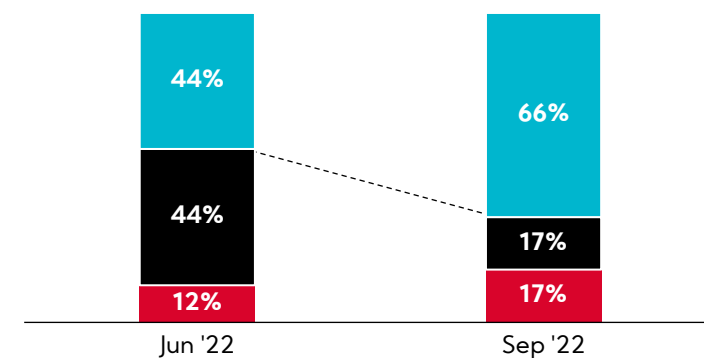
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



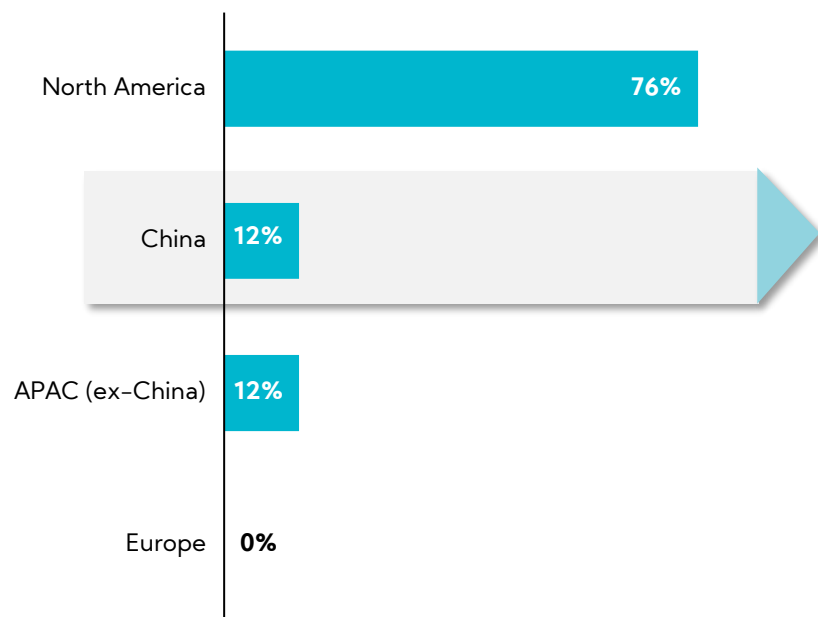
INFLATION



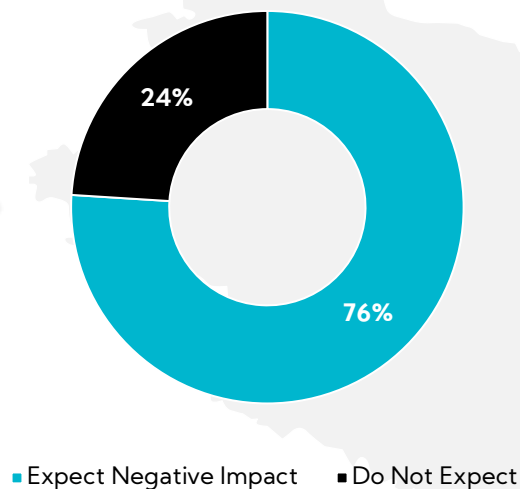
North America Viewed as the Most Compelling Region

Most are assigning a high level of risk to companies with exposure to China over the short- and long-term as rolling lockdowns and “dynamic zero” COVID-19 policies are bolstered at 20th Party Congress

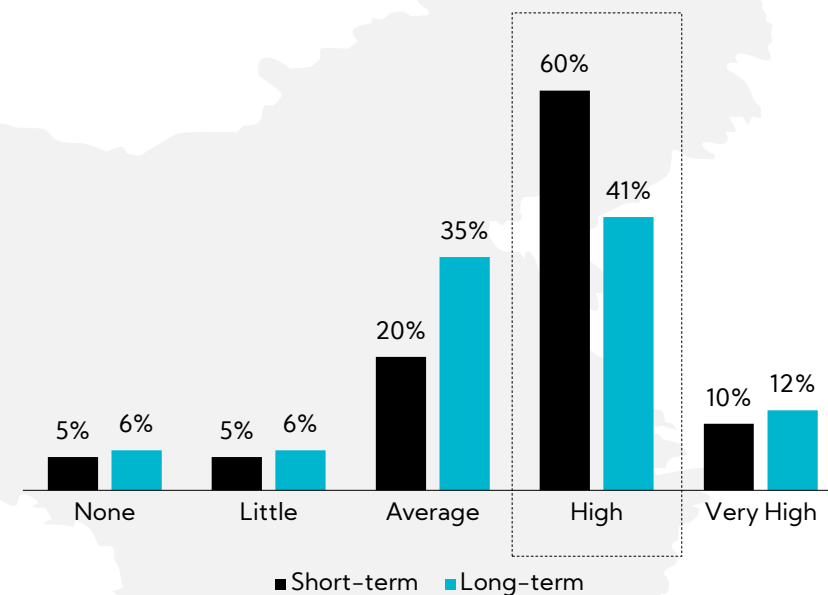
MOST COMPELLING REGIONAL EXPOSURE WITHIN INDUSTRIAL UNIVERSE



VIEWS ON CHINA LOCKDOWNS



LEVEL OF RISK ASSIGNED TO COMPANIES WITH BUSINESS/OPERATIONAL EXPOSURE IN CHINA

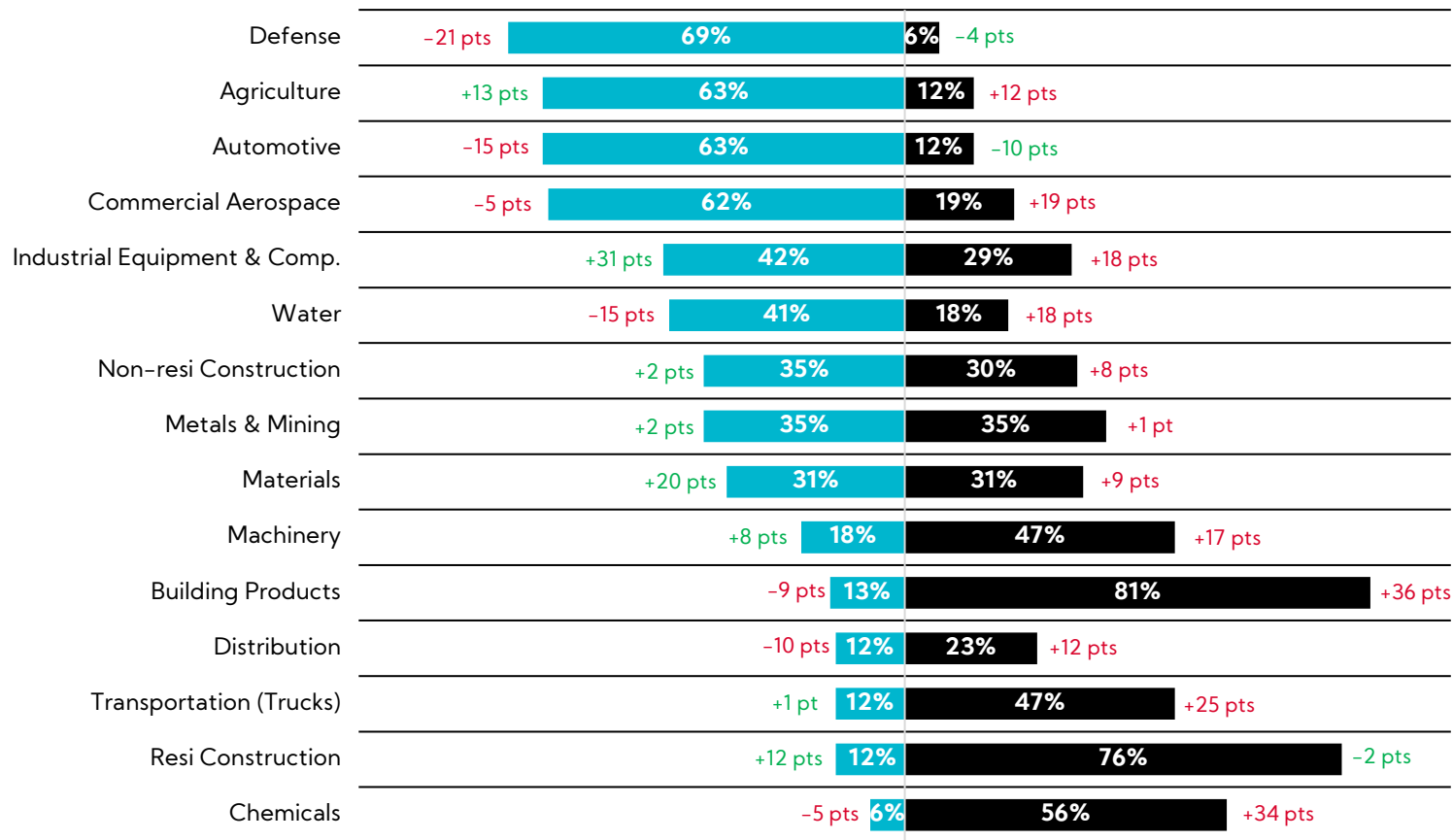


Significant Rotation Identified: Industrial Equipment Seeing Influx of Bulls, While Bears Pour into Building Products and Chemicals

Housing- and construction-exposed industries see the most downbeat sentiment, as well as chemicals, which have seen a flurry of pre-announcements

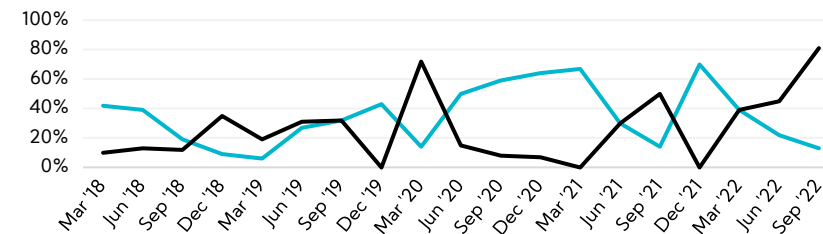
INDUSTRY VIEWS

■ Bulls ■ Bears

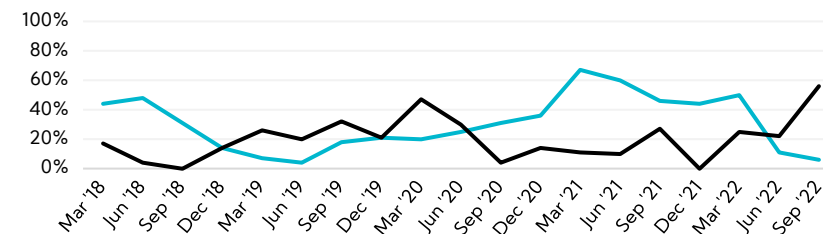


Largest Bear Gainers

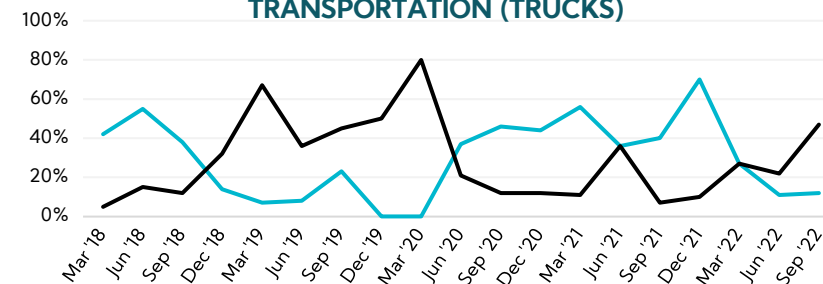
BUILDING PRODUCTS



CHEMICALS



TRANSPORTATION (TRUCKS)



■ Bulls ■ Bears



About Corbin

About Corbin Advisors – A Research and Advisory Firm Specializing in Value Creation



FOUNDED
2007

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60+

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spanning sectors, market caps, profiles, and situations

20K+

INTERVIEWS

with the buy side and sell side on factors that impact valuation

A person in a red jacket is standing in a cave, illuminated by a bright blue light source. The cave walls are covered in intricate, wavy patterns, and the floor is rocky. The overall atmosphere is mysterious and ethereal.

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