

INSIDE THE
Buy • Side

INDUSTRIAL SENTIMENT SURVEY®



corbin
celebrating **15** years

Q3'23

ISSUE: 34

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INSIDE THE Buy·Side®

INDUSTRIAL SENTIMENT SURVEY®

Survey Scope:

56 sector-dedicated investors and analysts globally; buy side firms manage ~\$6.4 trillion in assets, including ~\$535 billion invested in Industrials

Survey Timeframe:

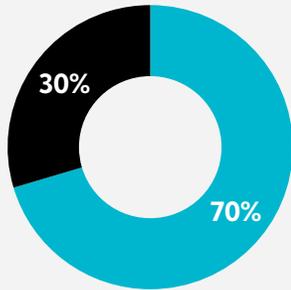
September 5 – October 11, 2023

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 flagship research, *Inside The Buy-Side® Industrial Sentiment Survey®*, which captures real-time *Voice of Investor®* sentiment and trends.

Leveraging our capital markets experience, deep understanding of investor relations, and best practice knowledge, our research and advice is at the nexus of global market trends, investor sentiment, and effective communication strategies.

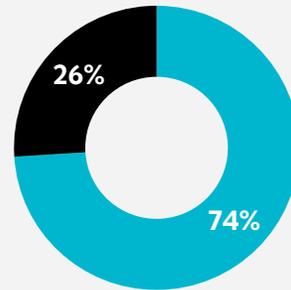
Market Performance	Q3'23	YTD ¹
DJIA	(2.6%)	1.1%
NASDAQ	(4.1%)	27.3%
S&P 500	(3.6%)	12.1%
S&P 500 Industrial	(5.6%)	2.9%
Russell 2000	(5.5%)	2.0%

BY ROLE



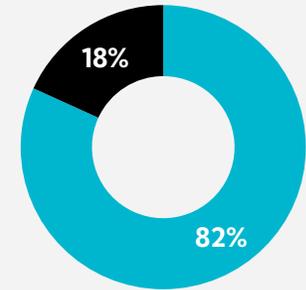
■ Buy Side ■ Sell Side

BY SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

BY REGION



■ North America ■ Europe

¹As of 9/30/23

Views Trend More Neutral Following Stronger-than-Expected Q2, While “Higher for Longer” Interest Rates Grow In Concern for Industrials

UNDERLYING SENTIMENT



Quarterly Ranking (1-30)

Top Mentions	Q3'23	Q/Q	Q2'23	Q1'23	Q4'22	Q3'22
Growth	1	UNCH	1	5	12	10
Inflation	2	↑ 1	3	6	2	1
Interest Rates	3	↑ 6	9	10	8	7
China	4	↑ 4	8	3	3	12
Margins	5	UNCH	5	2	14	9
Supply Chain	6	↑ 1	5	9	10	2

Less Cautious and More Neutral Investor Sentiment Despite Near-Universal Expectations for Industrial Slowdown and Elevated Concerns on Interest Rate Environment and Geopolitical Risk

Greater Neutral and Slightly More Optimistic Sentiment Captured this Quarter, While Upbeat Management Tone Ebbs Somewhat; Focus on Inflation and Interest Rates Is On the Rise

- Investors characterizing their sentiment as *Neutral* increases to **48%**, up from just **17%** last quarter, with most notably rotating out of the *Neutral to Bearish* camp, which dropped to just **14%** from **45%** QoQ
- **50%** describe executive tone as *Neutral to Bullish* or *Bullish*, down from **59%** last quarter
- Outright bearishness across sentiment and perceived executive tone remains under **10%**, as it has throughout 2023
- **64%** expect Industrial earnings to *Meet* consensus, with more optimism around EPS and FCF performances QoQ; views on operating margins are decidedly mixed
- **50% or more** expect companies to *Maintain* 2023 outlooks
- Inflation and related Pricing Power lead earnings calls topics of interest; Supply Chain (**31%**), Inventory and Destocking (**28%**), and Labor (**25%**) all move up materially QoQ

Broad-based Industrial Weakness Built In with Increasing Concern about “High Valuations” amid a “Higher for Longer” Interest Rate Environment; Debt Paydown Is the Leading Preferred Use of Cash with Fewer Supporting Growth Capex

- **96%** expect broad-based Industrial Weakness
 - **58%** either already see or expect weakness in 2023 while **38%** suggest it will materialize in 2024
 - In light of slowing growth, **68%** report prioritizing margins over growth at this time
 - Still, expectations for 2023 Industrial organic growth improve to 5.3% on average, up 150 bps QoQ; in Q2, S&P 500 Industrials delivered 4.0% sales growth, on average
- Demand (**53%**) is the leading identified concern for the second consecutive quarter; meanwhile, Interest Rates (**51%**) and Geopolitical Risks (**49%**) grew QoQ to become the #2 and #3 global concerns
 - Geopolitical Risk sees the largest QoQ increase with **93%** explicitly citing China as the main driver
- Debt Paydown (**64%**) reclaims the top spot as a preferred use of cash, overtaking Reinvestment (**46%**)
- Just **3%** of investors support *Increasing* growth capex at this time, receding from >20% in the past two quarters, and off the high of 45% in Q4'22

North America Remains a Bright Spot and China Out-of-favor; Defense Leads in Bulls while Bears Pile into Ag, Auto, and Non-Resi

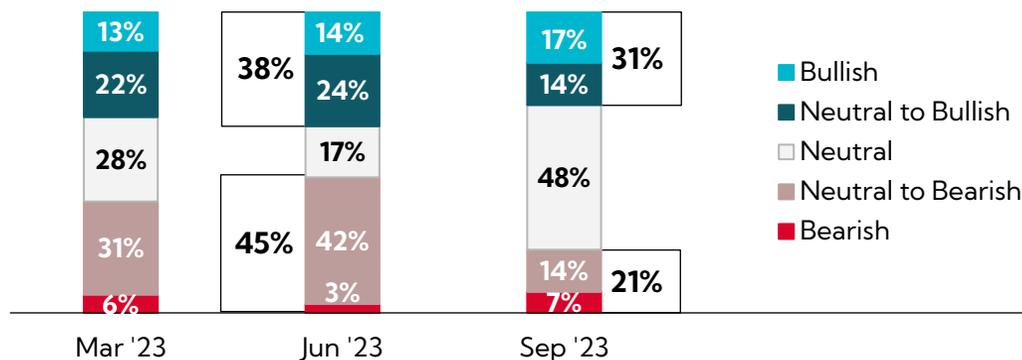
- North America remains the most compelling region (**71%**), a consistent QoQ trend, while APAC (ex-China) gains ground as an economy expected to *Improve* – **59%** up from 39% last quarter
- Risk aversion to China continues to grow as **73%** now assign a *High* or *Very High* level of risk to companies with exposure, up from 65% last quarter
- Growing geopolitical concerns lead to increased *Bullishness* in **Defense** and **Commercial Aero**
- **Ag** and **Auto** see biggest increases in negative sentiment, becoming the #2 and #3 most bearish sub-segments, respectively, after Resi Construction

TOPICAL RESEAERCH

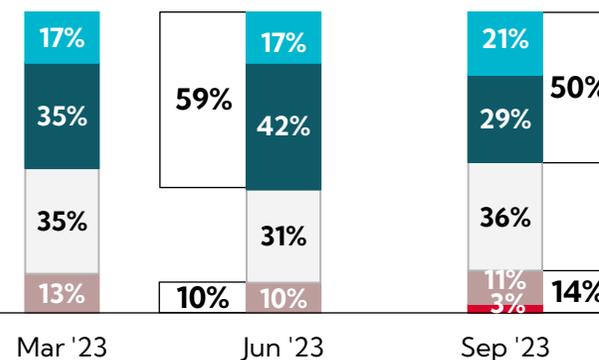
- 50% describe the impact of labor unions on investment decisions as *Rising* or *High*

Bearish Investor Sentiment Captured Heading into Q2 Thaws and Trends More Neutral, While Management Tone Is Considered Less Upbeat

INVESTOR SENTIMENT



EXECUTIVE TONE



Bullish / Neutral to Bullish

"Longer term, I am bullish toward the industrial sector. The years of underinvestment and seeing capital return to shores will be positive for any U.S. listed names or those with U.S. exposure. In the short term, I am more neutral to bearish. The cyclical stocks have run up considerably. Indications are the economy is growing slower to decelerating, so the valuations have run up and captured the recovery phase of it. Before we see a down phase, we see the recovery phase." **Buy Side, Industrials, N. America**

"Management is very bullish in aerospace and bullish in defense." **Buy Side, Industrials, N. America**

"Other sectors are worse off. Executives are cautiously optimistic as things are going a little bit better than they were last quarter." **Buy Side, Industrials, Europe**

"I am neutral to bullish, but it is company-specific. There are a variety of decent stories where valuations are okay, earnings visibility is solid, earnings growth is attractive, and capital return is decent." **Buy Side, Industrials, N. America**

Neutral

"Valuations, book to bills weakening, government shutdown, interest rates." **Buy Side, Industrials, N. America**

"My sentiment leans more bearish but is neutral overall. There is the interest rate environment and what is going on in Europe and China in terms of slowdowns. The federal stimulus, IRA and IJJA should be some tailwinds. There are a lot of clouds on the horizon. The management team is cautiously optimistic in terms of their tone." **Buy Side, Industrials, N. America**

"There will be pockets of strength and pockets of weakness. The industrial space is too broad. Some areas have more exposure to infrastructure spending which is positive and there are other areas with more exposure to commercial, non-residential, and warehouses that are seeing more weakness than anticipated. Transports are going to take longer to recover. It is going to be very bifurcated over the next 6 to 12 months." **Buy Side, Industrials, N. America**

"Valuations have gotten more expensive through the year; therefore, we are no longer bullish. People were nervous about a downturn earlier in the year, but that is not the case anymore; There have been some secular drivers like reshoring and IRA, which should help the sector, so it balances out." **Buy Side, Industrials, N. America**

"There are pockets of concern, like China and Europe. We are seeing some pressures. Valuations are extremely rich in general. Then we have a lot of reasons for optimism, a lot of stimulus money in the U.S. The underlying dynamics are healthy. At these valuation levels, we are cautious." **Sell Side, Industrials, N. America**

"It depends on which part of industrials. I am more neutral but I see the big, strong megatrends some companies sit on and have exposure to and they still report good numbers." **Buy Side, Industrials, Europe**

Neutral to Bearish

"Indicators still suggest weakening whilst valuations still relatively high." **Buy Side, Generalist, Europe**

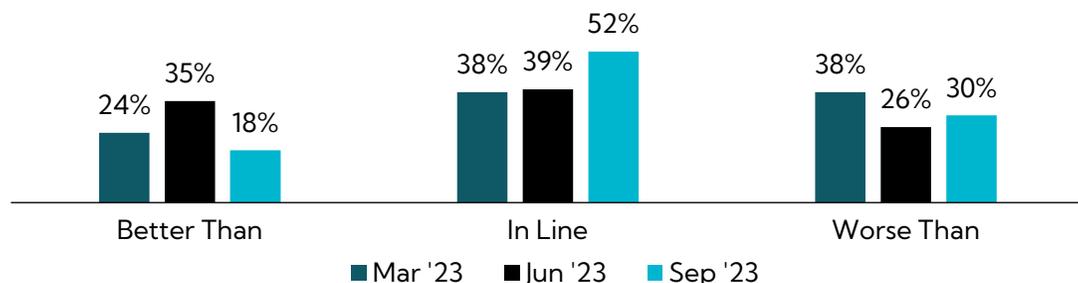
"The top of the funnel pipeline seems to progress positively but the conversion to orders has been marginally more difficult to get through now than was the case one quarter ago." **Buy Side, Generalist, Europe**

Investors Largely Expect Q3 Results to Be In Line with Prior Quarter and Consensus

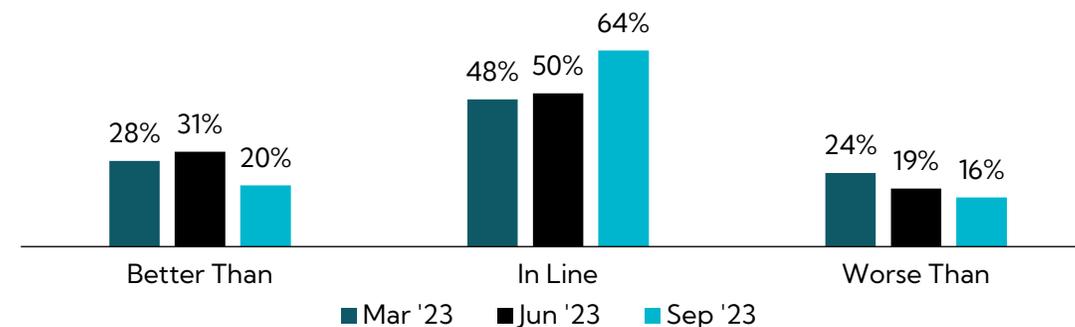
Those expecting improving sequential earnings performances falls to lowest level since Q4'22

Q3'23 EARNINGS EXPECTATIONS

VS. PRIOR QUARTER



VS. CONSENSUS



Better Than

"Costs declining." **Buy Side, Generalist, N. America**

"Most of the companies I cover will show revenue and earnings growth YoY." **Sell Side, Generalist, N. America**

"Benefit of better-priced backlogs, supply chains easing, inflation easing feels like a short-term gain." **Buy Side, Generalist, Europe**

In Line

"Q2'23 was better than consensus. That said, given recent upward trends in analyst revisions, I expect to see both in-line." **Buy Side, Generalist, N. America**

"Our thesis is we think this quarter and the next quarter are fine for industrial earnings, but we are still keeping an eye out for uncertainty and a potential slowdown that might still happen longer term. We don't know when, obviously, no one does. It sounds like it might seem a bit premature to say everything's bottoming, but it does seem like things are progressing a little bit better than people expected." **Buy Side, Generalist, N. America**

"My concern is guidance is going to get a bit more negative or more conservative." **Buy Side, Generalist, N. America**

"Rate of growth likely has peaked." **Buy Side, Industrials, N. America**

Worse Than

"Inflation is pushing corporate costs faster than they can increase revenue." **Sell Side, Generalist, N. America**

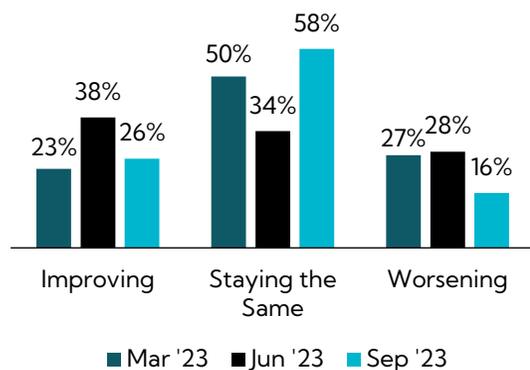
"Lower orders and raw material prices." **Sell Side, Industrials, Europe**

Bullish KPI Performance Expectations Moderate Across All Metrics QoQ; Sequentially, Top-Lines Anticipated to Trend Similarly and EPS and FCF Improve; Mixed Views on Margins

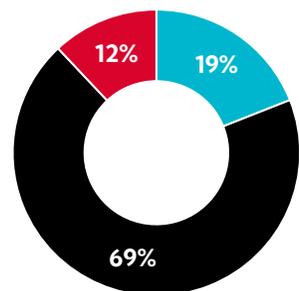
Q3'23 PERFORMANCE EXPECTATIONS

REVENUE GROWTH

PERFORMANCE EXPECTATIONS

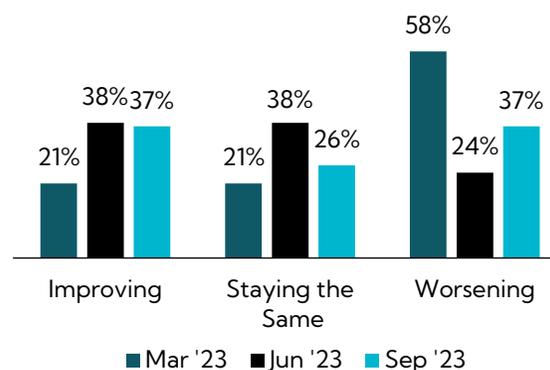


GUIDANCE EXPECTATIONS

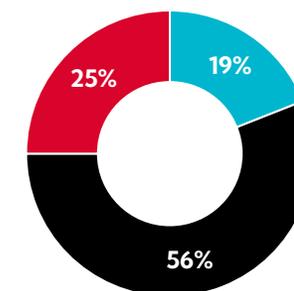


OPERATING MARGINS

PERFORMANCE EXPECTATIONS

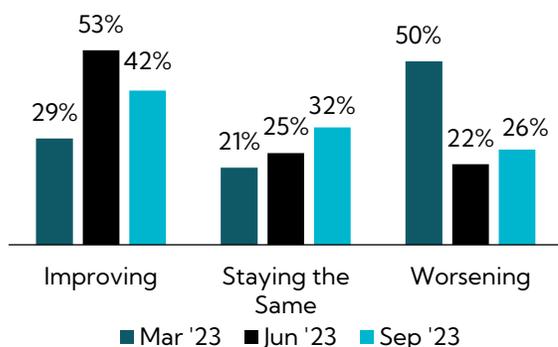


GUIDANCE EXPECTATIONS

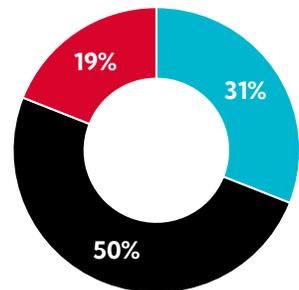


EPS GROWTH

PERFORMANCE EXPECTATIONS

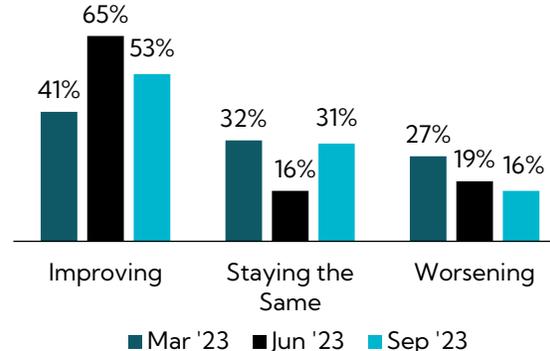


GUIDANCE EXPECTATIONS

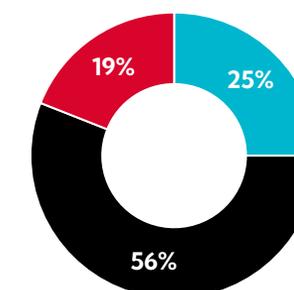


FCF

PERFORMANCE EXPECTATIONS

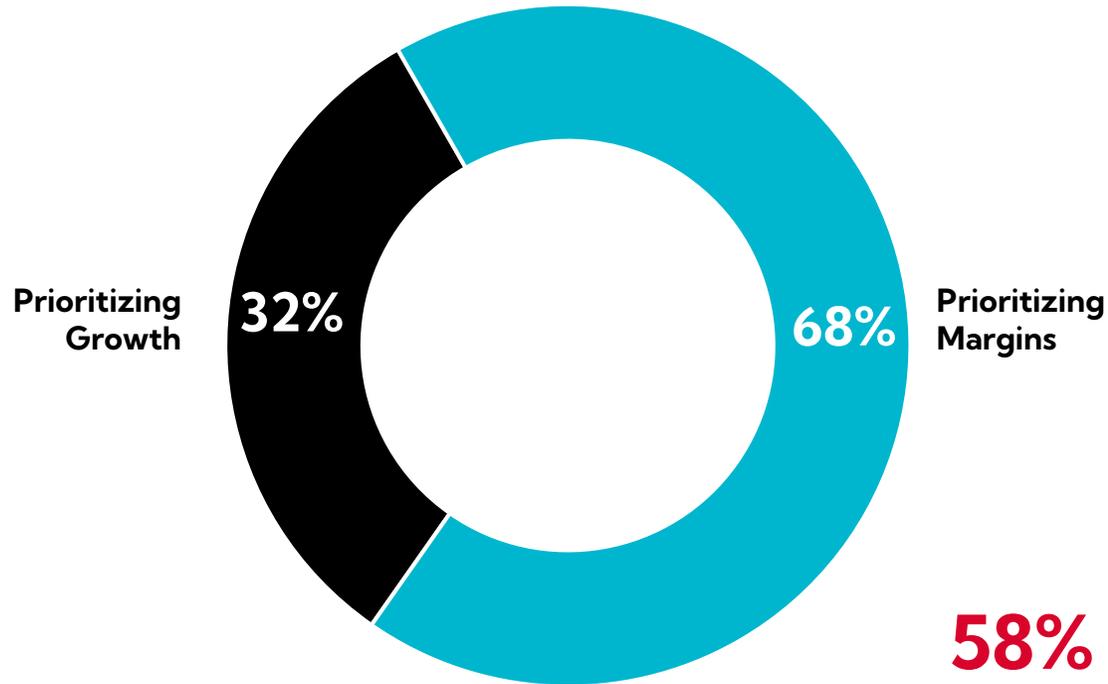


GUIDANCE EXPECTATIONS



Investors are Prioritizing Margins Over Growth by More Than 2:1

KPI PRIORITIZATION AT THIS POINT IN THE CYCLE



58%

Exhibit *More Concern* or a *Continued Level of High Concern* over **Ability to Pass on Cost QoQ**

Margins

"Margins are more important than growth. Growth is slowing and it is important to understand to what extent companies can protect their margins in a slowing environment."

Buy Side, Industrials, Europe

"Make money and don't worry about growth for growth's sake."

Sell Side, Generalist, N. America

Growth

"For industrials in general, I prioritize growth over margins, but it is very company-specific."

Buy Side, Industrials, N. America

"Growth is always important, but I do not have a preference at this time."

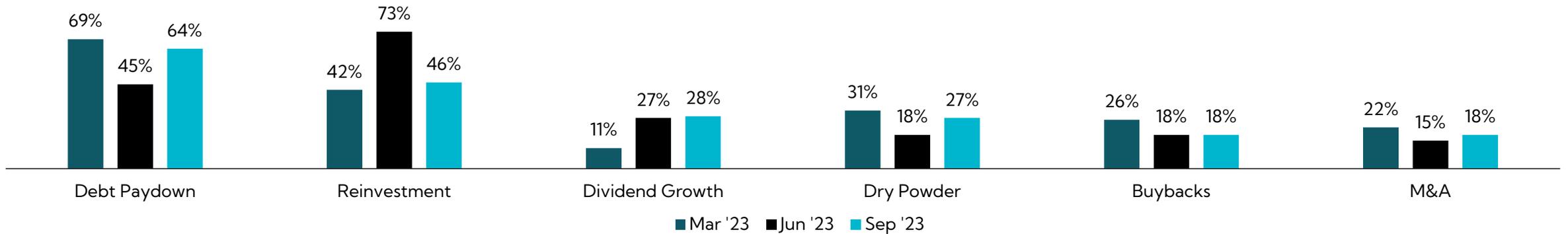
Sell Side, Industrials, N. America

Debt Paydown Surpasses Reinvestment as the Leading Preferred Use of Cash; Support for Growth Capex Falters Somewhat

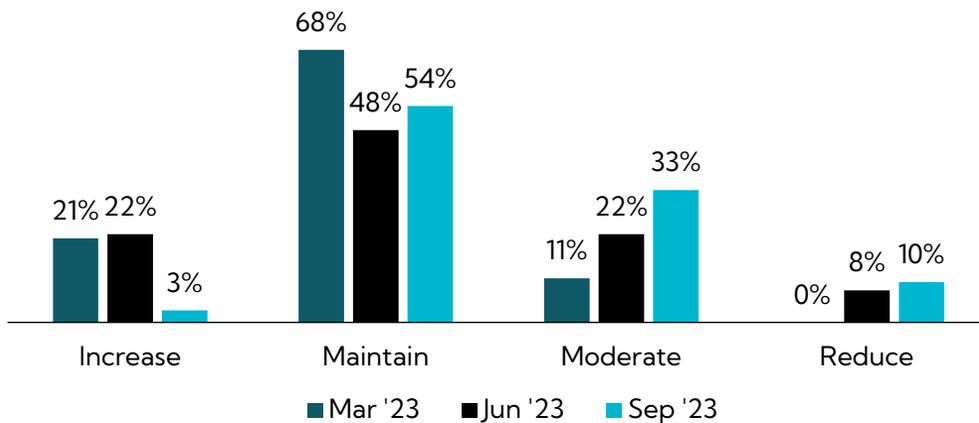
Investors remain steadfast in their preference for $\leq 2x$ Net Debt-to-EBITDA thresholds

PREFERRED USES OF CASH

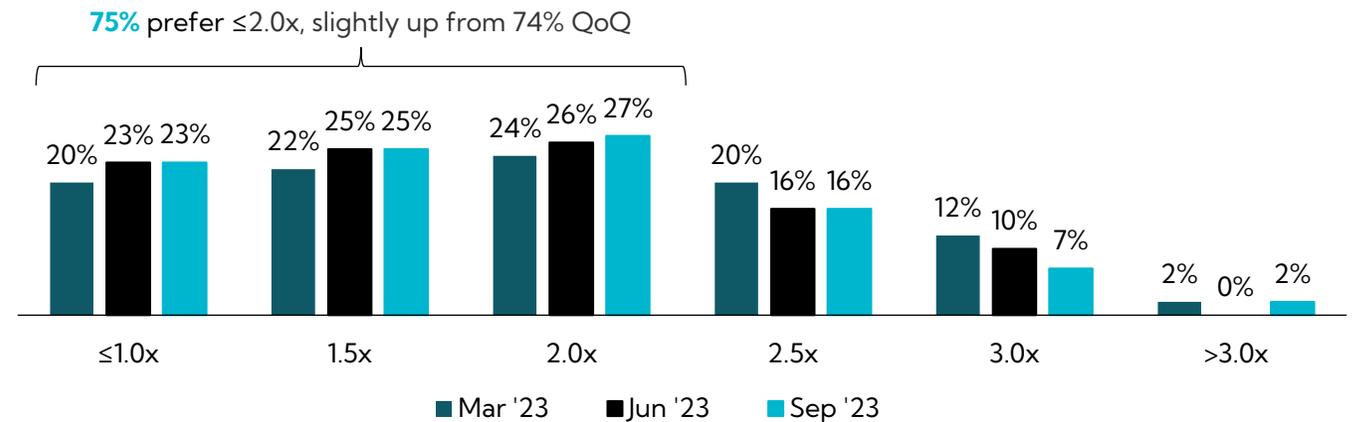
In Descending Order of Top Two Preferences



GROWTH CAPEX PREFERENCES



THRESHOLDS FOR NET DEBT-TO-EBITDA LEVELS

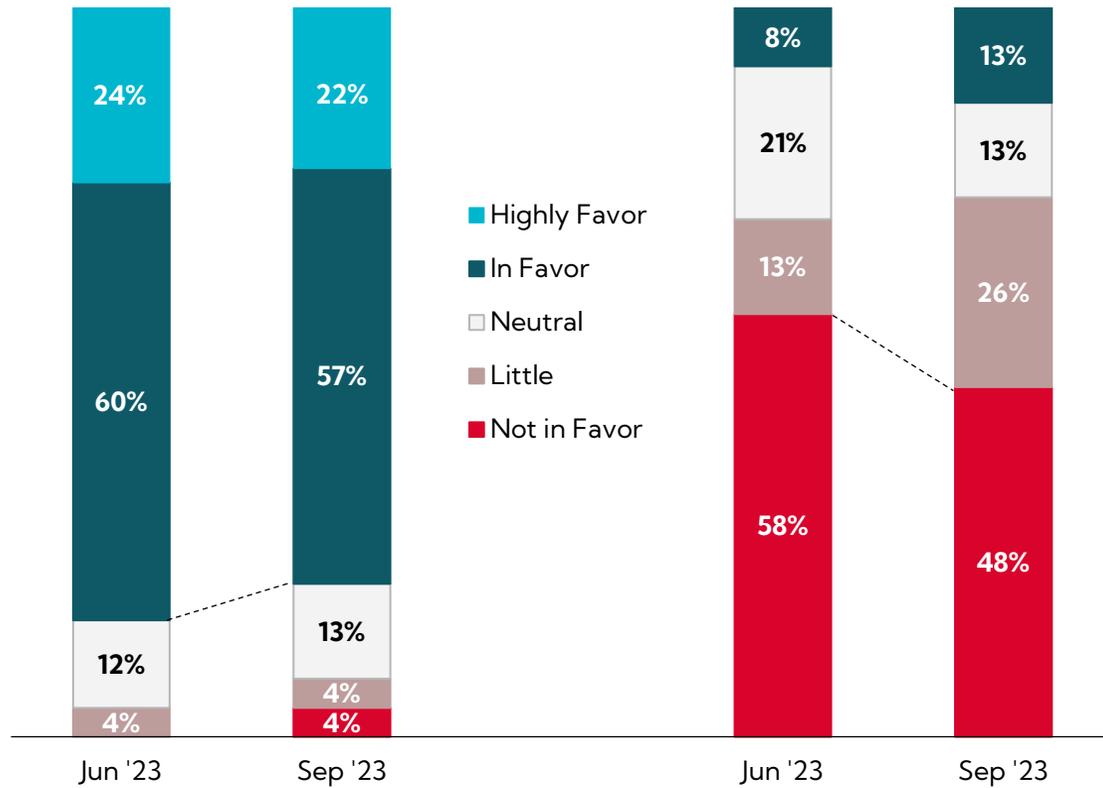


Bolt-on Acquisitions Still In Favor (Albeit Waning), While Outright Negative Views Toward Large Deals Recedes from Q2 Highs

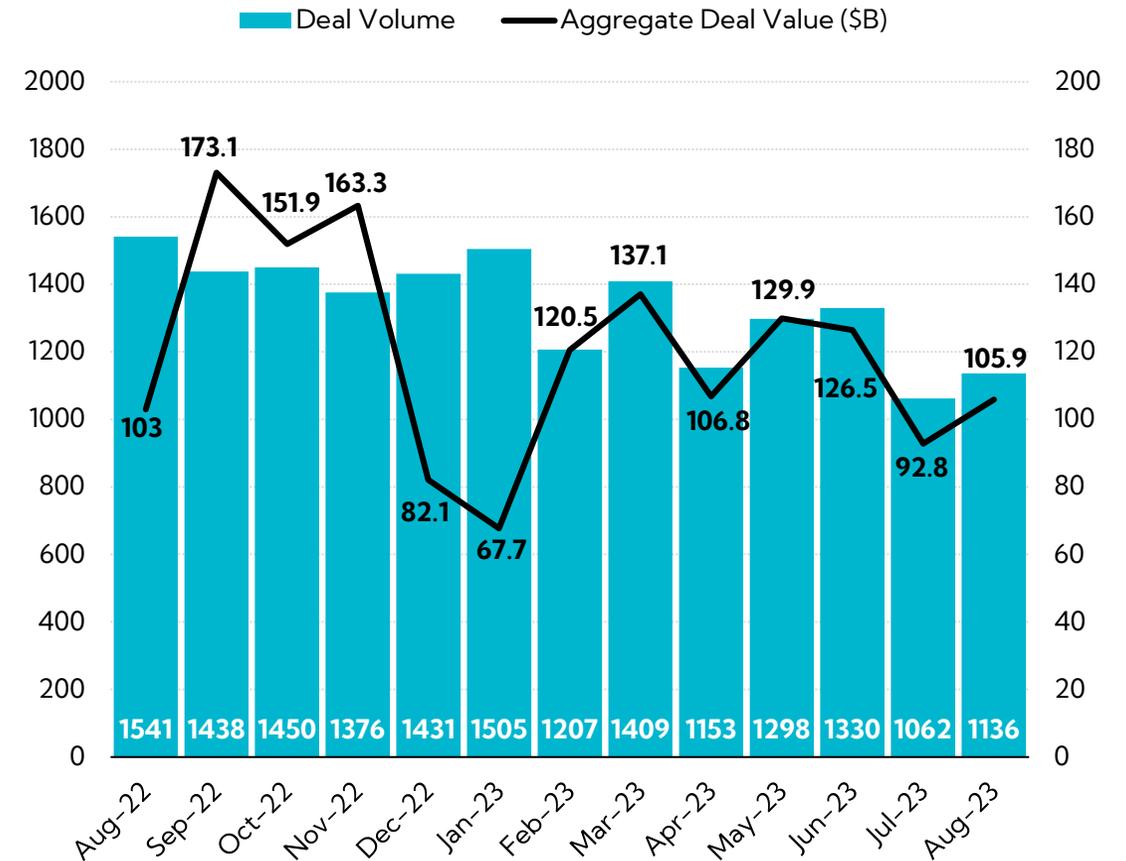
Most prefer a combination of funding mechanisms over only cash, stock, or debt

BOLT-ON ACQUISITIONS

LARGE / TRANSFORMATIONAL ACQUISITIONS



U.S. MERGERS & ACQUISITIONS¹

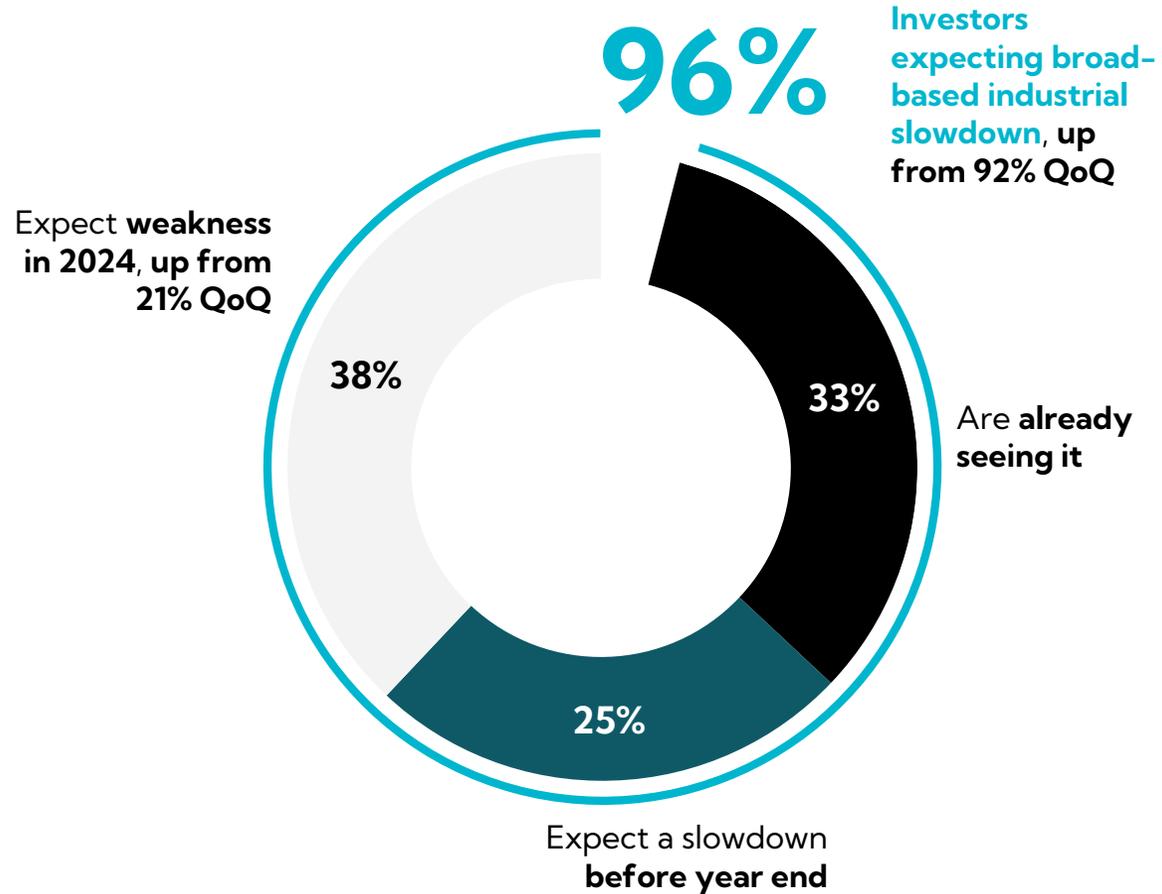


¹Source: FactSet

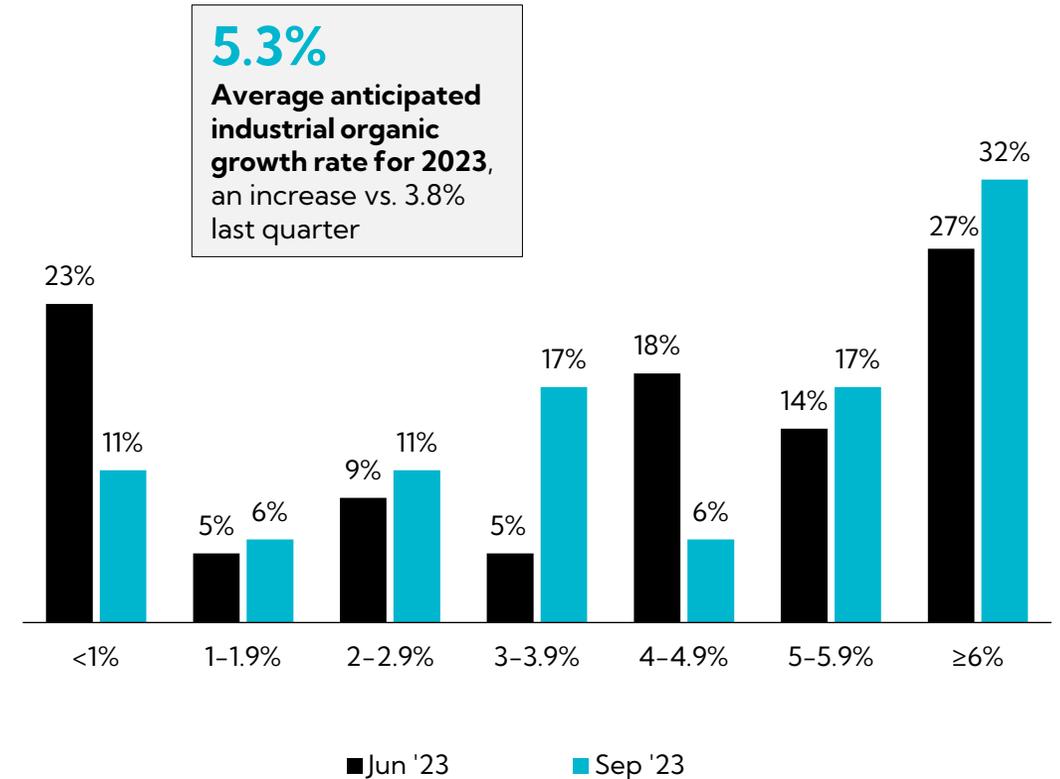
Nearly All Respondents Already See Or Anticipate an Industrial Slowdown, While Growth Expectations Are Widely Scattered for the Remainder of 2023, Suggesting Confusion

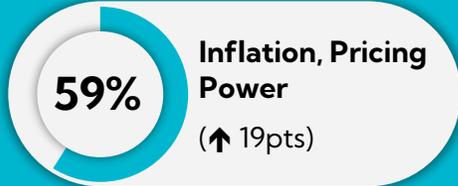
Expectations are for an organic growth rate of 5.3%, up 150 bps QoQ

BROAD-BASED INDUSTRIAL WEAKNESS



INDUSTRIAL ORGANIC GROWTH EXPECTATIONS FOR 2023





59%

Inflation, Pricing Power
(↑ 19pts)



45%

Demand, Order Trends
(↓ 30pts)



31%

Supply Chain
(↑ 23pts)



30%

Margins
(↓ 33pts)



28%

Inventory, Destocking
(↑ 20pts)



25%

Labor
(↑ 17pts)

Topics of Interest for Upcoming Earnings Calls

Inflation/Pricing Power regains the top spot for the first time since our Q2'22 survey, while Demand/Order Trends falls to second; supply chain and inventory destocking see a rise in focus QoQ

Views from N. America

*"Impact of economic macro on outlook, impact of inflation on outlook, impact of supply chain on outlook." **Buy Side, Industrials***

*"Year-end exit rate for backlogs, impact of infrastructure stimulus." **Buy Side, Industrials***

*"China, destocking, price vs. cost." **Buy Side, Industrials***

*"Orders and backlogs, pricing." **Buy Side, Industrials***

*"Supply chain and executing in a supply constrained environment. These days it is all about executing and trusting that they have people in place to execute. Are they getting the material they need to execute?" **Buy Side, Industrials***

*"Impact of strong dollar, labor situation, logistics, inventory and supply management." **Buy Side, Generalist***

*"Organic growth, operating margin leverage." **Sell Side, Generalist***

*"Industrial production, share gains / losses, pricing." **Sell Side, Generalist***

*"Inflation impact on their business, ability to obtain adequate work force size, what their key customers are doing." **Sell Side, Generalist***

Views from Europe

*"Order patterns – are they seeing normalization? Working capital – are we looking at structurally higher levels post-COVID? Pricing power." **Buy Side, Generalist***

*"Climate investment, M&A, cost control." **Sell Side, Industrials***

Top Concerns from Around the Globe

Demand is the leading identified concern for the second consecutive quarter as caution over destocking grows; interest rates and geopolitical risks rise QoQ and now are neck-and-neck among top concerns globally, with 93% of the latter explicitly citing China

1	53% (↓ 27pts)	Demand	2	51% (↑ 13pts)	Interest Rates	3	49% (↑ 28pts)	Geopolitical Risks
4	33% (↑ 12pts)	Slowing Economy	5	29% (↑ 7pts)	Inflation	6	19% (↓ 8pts)	Margins

Views from N. America

"Peak margins, slowing organic growth, catalysts for demand acceleration." Buy Side, Industrials

"My number one concern is slowdown of higher interest rates globally. We are coming off high levels of activity post-COVID and supply chain constraints. Two is geopolitical rising risks, which ripples through with China and then also with Europe. Three is inventory digestion of all this activity post-COVID." Buy Side, Industrials

"China, destocking, slowing macro." Buy Side, Industrials

"Operating margins, orders." Buy Side, Industrials

"Interest rates – we are going to see them much higher for longer. China and its impact on the global economy." Buy Side, Industrials

"Supply chain and the ability for companies to hit the targets they put out. Can companies deliver on the demand and can they do so on a profitable level?" Buy Side, Industrials

"Inventory destocking, backlog deceleration, general economic growth." Buy Side, Industrials

"Slowing order growth, lower volumes, negative operating leverage." Buy Side, Industrials

"A broader macro slowdown that starts to impact the industrial economy and we get to this period where backlogs get depleted and there's not a lot of true demand, the health of the consumer, particularly for consumer-facing industrials, geopolitical issues, particularly the risk of China and if anything with Taiwan having broader implications with U.S. relations." Buy Side, Industrials

"Strong dollar, supply impacts, fiscal policy." Buy Side, Generalist

"Interest rates, inflation, China / Taiwan." Buy Side, Generalist

"Interest rates, slowdown in demand, elevated credit data." Sell Side, Industrials

"Industrial production, labor costs, normalization from COVID." Sell Side, Generalist

"U.S. budget deficits, cumulative us government debt, inflation." Sell Side, Generalist

Views from Europe

"End market demand, pricing reversals, Chinese competition." Buy Side, Industrials

"The war in Ukraine will escalate, China-U.S. tensions, interest rates." Buy Side, Industrials

"Economic headwinds, China is a concern broadly speaking, but from the economic point of view, for some, it's still inflation and as a result of that, interest rates as well." Buy Side, Industrials

"We are seeing a slowdown in orders, pricing is starting to stabilize now that we no longer see as much inflation and there will be more negative competition which will impact margins, balance sheet for companies if we enter a recessionary environment." Buy Side, Generalist

"Valuations remain still fairly high, we still haven't seen the full effect of pressure on consumer wallets, some market participants have leaned too much into declining rates starting into next year." Buy Side, Generalist

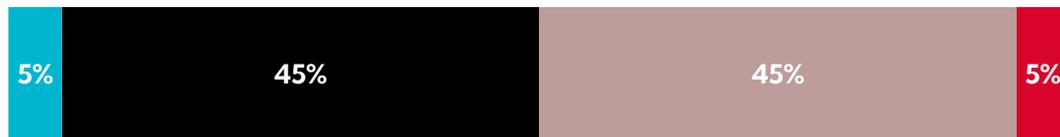
"Slowing economy, margin erosion, costs." Sell Side, Industrials

Most Investors Are Incorporating Some Level of Impact Related to Labor Strikes in Investment Decisions

Meanwhile, union mentions across public calls and press releases have proliferated since 2020, with 20% of commentary originating from Industrials

IMPACT OF LABOR UNIONS ON INVESTMENT DECISIONS

■ No Impact ■ Low Impact ■ Rising Impact ■ High Impact



"Unions are something we are more mindful of, particularly in industries that have a larger unionized workforce, like the auto space with what is going on now. That is impacting the whole industry and potential suppliers and is something that we look at. Companies that tend to be non-union tend to have higher margins, do not have legacy pension liabilities, and tend to screen better with investors." **Buy Side, Industrials, N. America**

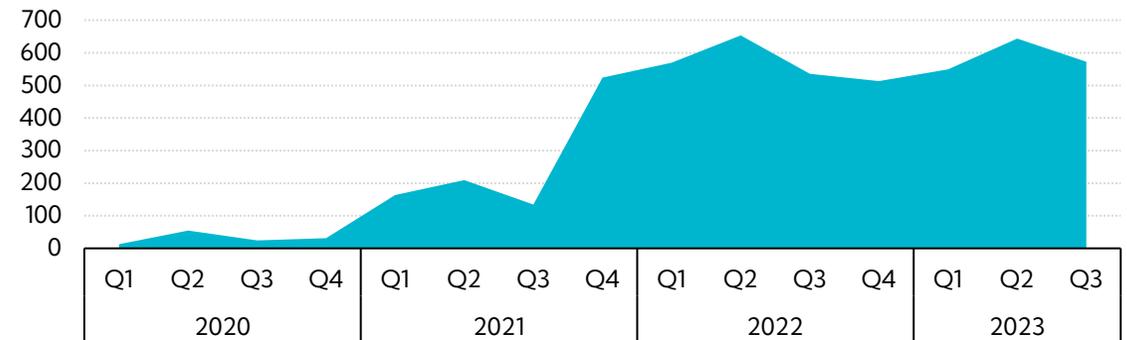
"We have always considered it; we typically have a pretty decent investigation into labor and culture, and it is part of our management and long-term focus. It is definitely rising now in terms of the dynamics shifting over the last few years in terms of employer labor relations and where the negotiating leverage lies. So we are definitely highlighting it more these days." **Buy Side, Generalist, N. America**

"The issue is not unions as such; in and of themselves, they are not good or bad. In the post-COVID era, in the context of inflationary pressures, there are more labor availability complications and strikes, which is related to unions but in and of itself, nothing has changed in the nature of union structures." **Sell Side, Industrials, N. America**

"It's always there, I don't think they are any more or less powerful than they are, it's just that we have inflation to deal with. Most of my companies don't have big unions but it doesn't make a difference because they are going to have to pay the workers more or the workers won't work; they will go work somewhere else. So I don't think the unions are actually changing things, it's just cost inflation and working through the labor market." **Sell Side, Industrials, Europe**

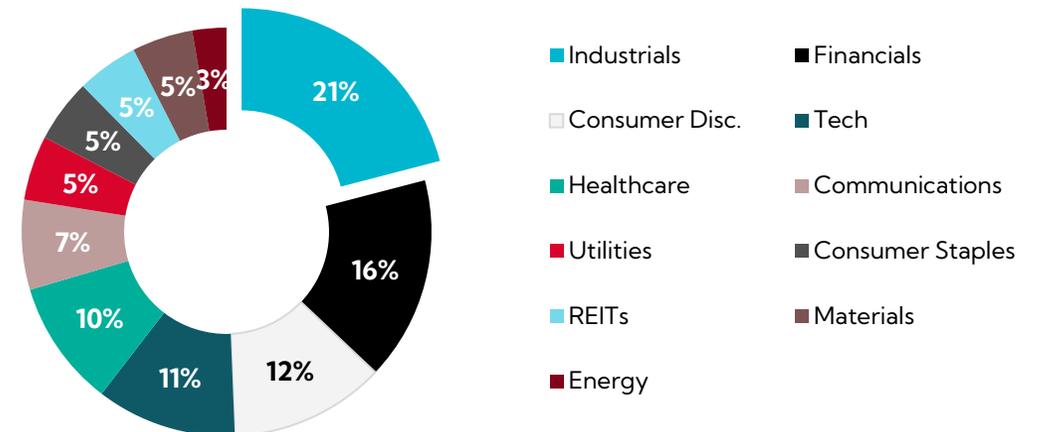
"UNION" COMPANY MENTIONS

U.S. Companies, >\$500M Market Cap, Transcripts & Releases, n=1,601



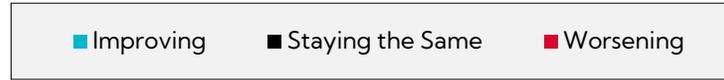
"UNION" COMPANY MENTIONS, BY SECTOR

U.S. Companies, >\$500M Market Cap, Transcripts & Releases, n=1,601

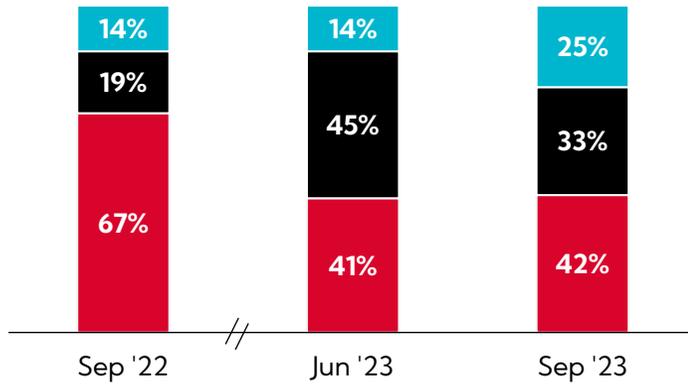


Views on Key Economic Indicators Over the Next Six Months

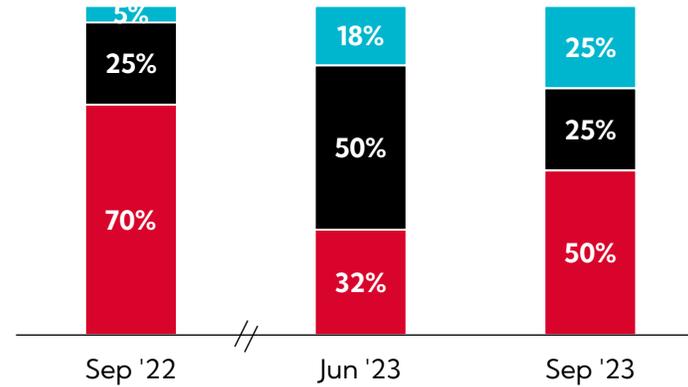
More than half continue to expect U.S. Consumer Confidence to worsen, despite consistent views on an improving inflation outlook



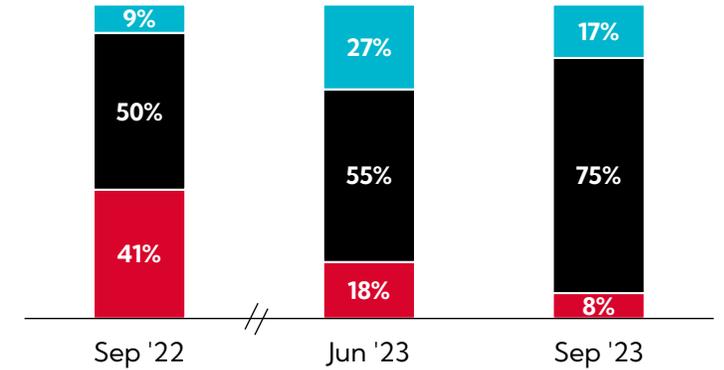
GLOBAL CAPEX



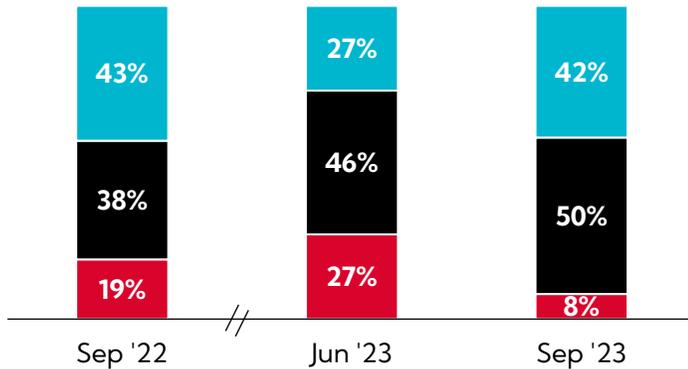
GLOBAL PMI



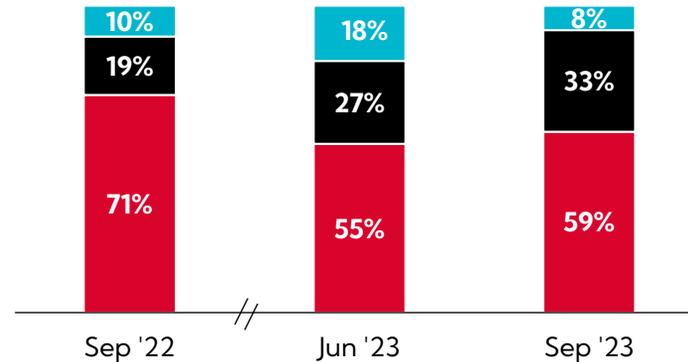
FX HEADWINDS



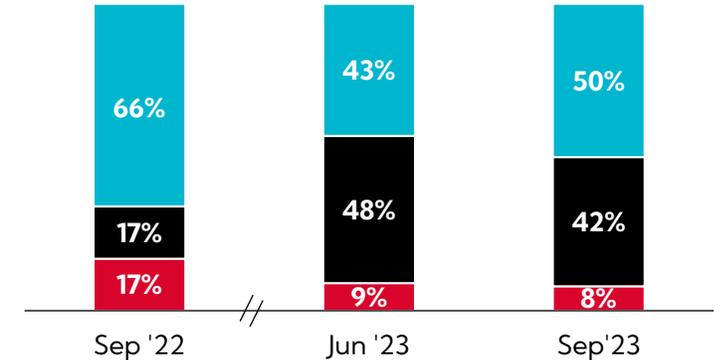
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



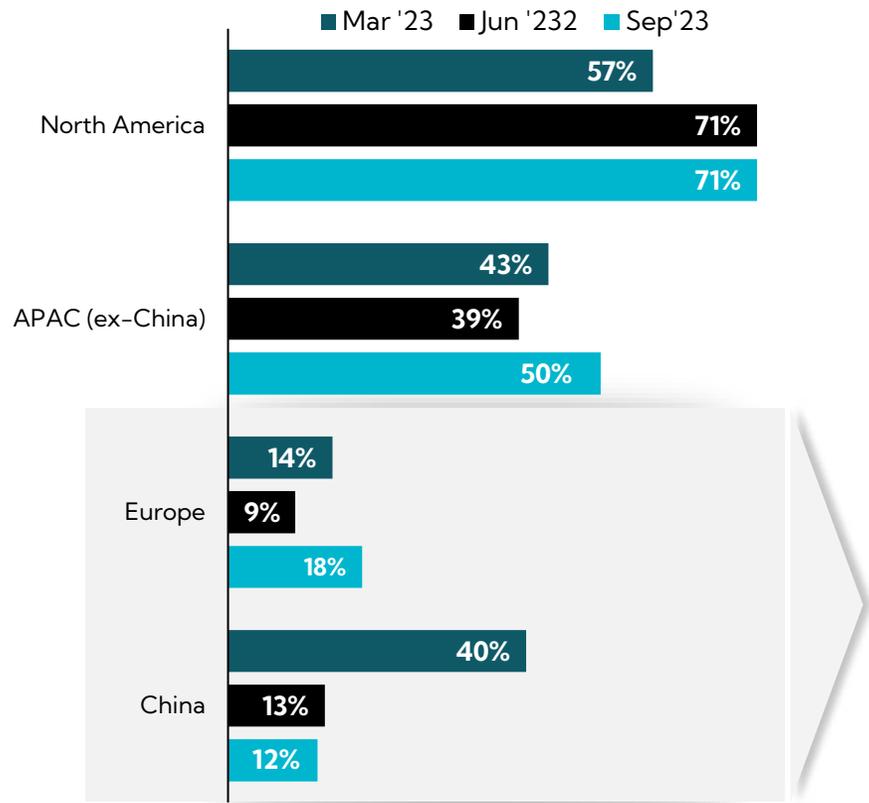
INFLATION



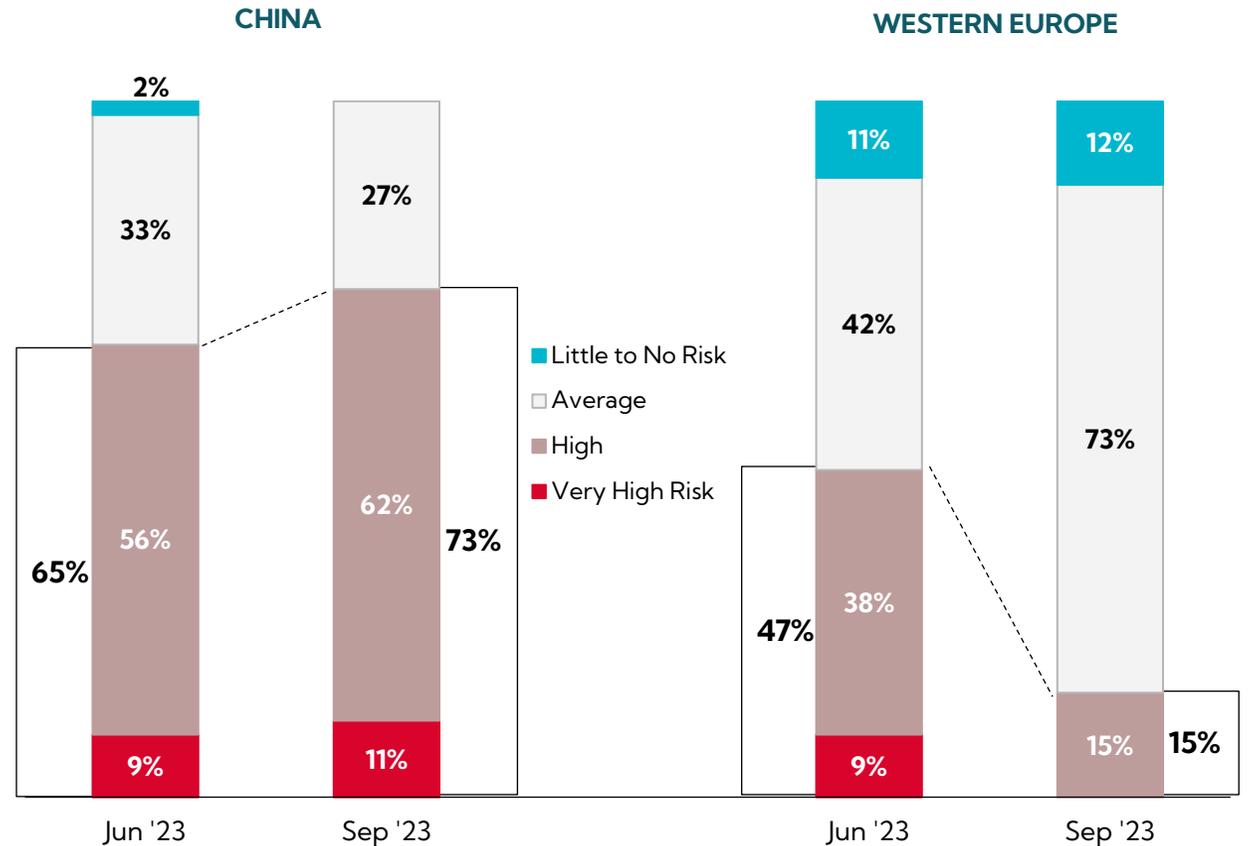
North America Holds the Crown Within the Industrial Universe, while China Sees Growing Apprehension; Meanwhile, Western Europe Exposure Concerns Taper QoQ

Interest in APAC ex-China expands to its highest level in four quarters, while 73% assign High or Very High level of risk to China-exposed companies

MOST COMPELLING REGIONAL EXPOSURE WITHIN INDUSTRIAL UNIVERSE



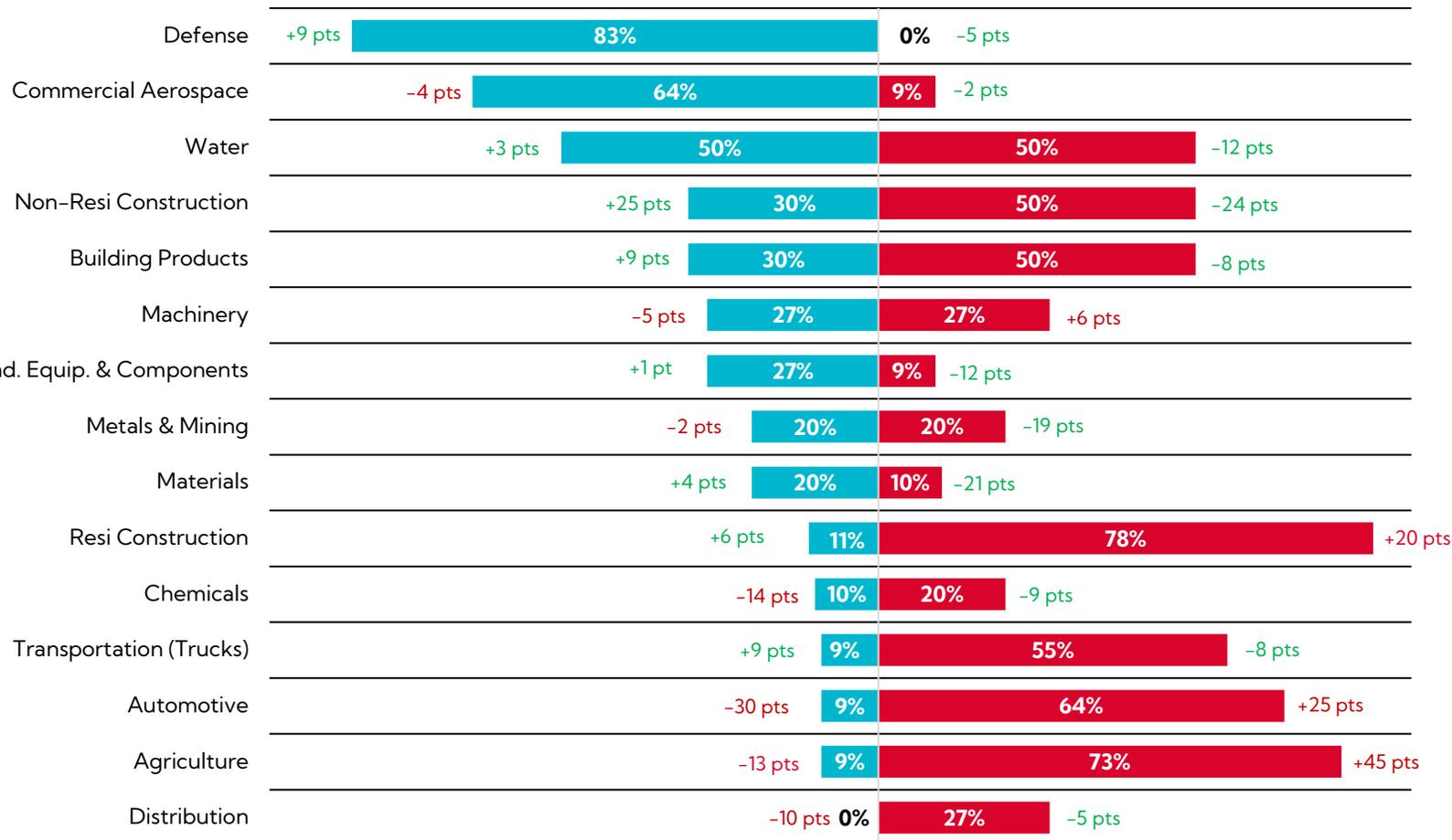
LEVEL OF RISK ASSIGNED TO COMPANIES WITH BUSINESS/OPERATIONAL EXPOSURE TO:



Defense Continues to Dominate Amid Escalating Geopolitical Concerns; Biggest Sequential Jumps Seen in Non-Resi Construction (Bullish) and Ag (Bearish)

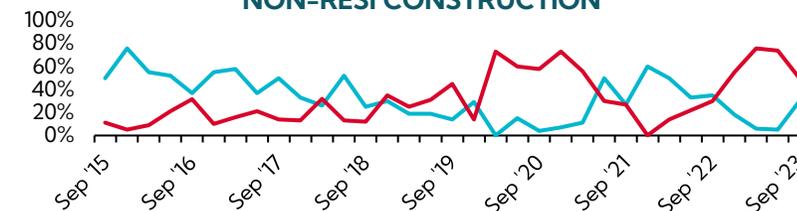
INDUSTRY VIEWS

■ Bulls ■ Bears

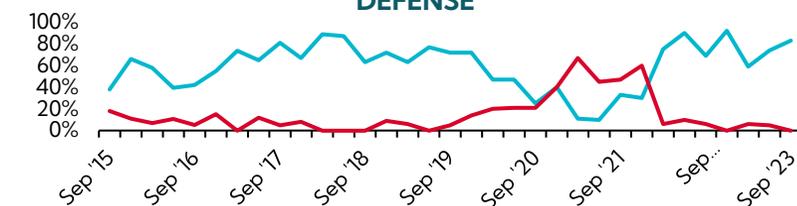


LARGEST BULL AND BEAR SENTIMENT GAINERS

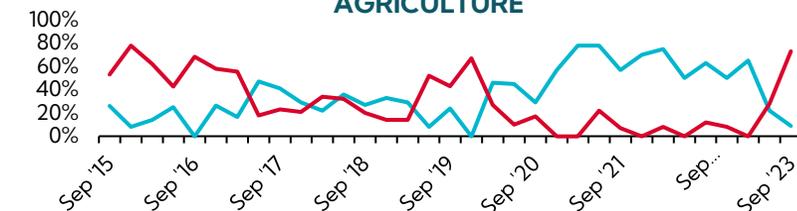
NON-RESI CONSTRUCTION



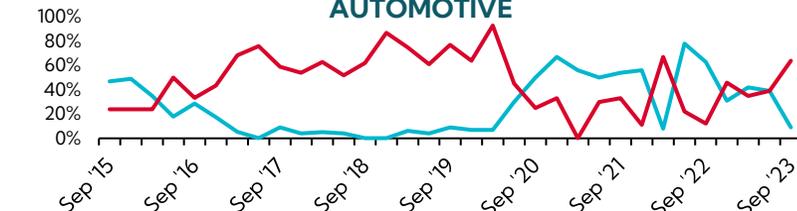
DEFENSE



AGRICULTURE



AUTOMOTIVE



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