

# INSIDE THE **Buy • Side**

INDUSTRIAL SENTIMENT SURVEY®



***corbin***

**Q2'24**

ISSUE: 37  
July 18, 2024



# INSIDE THE Buy-Side®

## INDUSTRIAL SENTIMENT SURVEY®

### Survey Scope:

37 sector-dedicated investors and analysts globally; buy side firms manage ~\$320 billion in assets, including ~\$47 billion invested in Industrials

### Survey Timeframe:

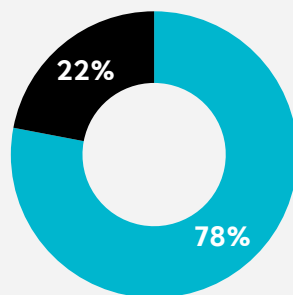
June 14 – July 12, 2024

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 *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.

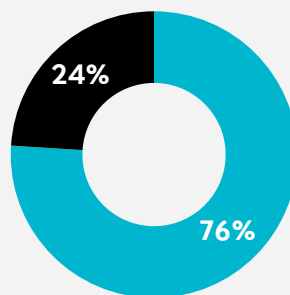
Market Performance <sup>1</sup>	Q2'24	YTD <sup>2</sup>
DJIA	(1.7%)	6.1%
NASDAQ	8.3%	22.6%
S&P 500	3.9%	17.7%
S&P 500 Industrial	(3.3%)	8.9%
Russell 2000	(3.6%)	6.0%

BY ROLE



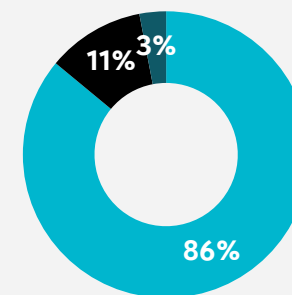
■ Buy Side ■ Sell Side

BY SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

BY REGION



■ North America ■ Europe ■ Africa

<sup>1</sup>Source: FactSet; <sup>2</sup>As of 7/12/24







# Precipitous Decline in Industrial Investor Optimism amid Renewed Demand Concerns; Those Expecting Broad-Based Softness Doubles QoQ

## Optimistic Investor Sentiment and Perceived Executive Tone Captured in Q1 Pulls Back Hard and Converges in Neutral Territory; While Q2 Expectations Moderate Somewhat, Annual Outlooks Largely Expected to be Maintained

- **31%** characterize current sentiment as *Bullish* or *Neutral to Bullish*, down from 68% captured last survey; more investors, **47%**, say view is *Neutral*, up from 19%
- Similarly, just **16%** describe executive tone as *Bullish* or *Neutral to Bullish*, down from 66% QoQ, with 63% now perceiving talk tracks as *Neutral*, up 40 pts
- Taken together, the combined level of outright *Bullishness* is at its lowest level in 20 quarters, though *Bearishness* remains limited at this time
- **57%** and **44%** expect Q2'24 results to be *In Line* with consensus and prior quarter results, respectively; more, **54%**, expect performances to be up YoY
- Across Revenue, EPS, Margins, and FCF, most contributors expect *Stable* to *Improving* sequential performances; concern regarding *Worsening* top-and-bottom-lines ticks higher
- The majority anticipate companies to *Maintain* annual guides across all KPIs
- Top areas to address on earnings calls include Margins/Pricing Power, Demand and Order Rates, and Growth

## Broad-Based Industrial Weakness Concerns Reignite as 2024 Organic Growth Expectations Deteriorate; Further, while Growth Investment Continues to Receive Meaningful Support and M&A Interest Increases, Dry Powder Endorsement Gains Ground

- **94%** expect broad-based industrial weakness, double the concentration registered last quarter
  - **60%** now expect 2024 Industrial Organic Growth to be *Lower* than 2023, up from 27% QoQ; those expecting a *Higher* growth rate declines from 46% to **20%**
  - As for order rates over the next six months, more contributors anticipate decelerating conditions, particularly for long-cycle products
  - **63%** believe the U.S. Presidential election is delaying and/or negatively impacting larger capex projects
- Recession/Slowdown, Geopolitical Risks, and Margins are the leading identified concerns this quarter
- *Reinvestment* remains the preferred use of cash, with **65%** in support of *Maintaining* growth capex
- M&A continues to see increased backing in the #2 position, preferred by **51%**; this represents an increase from 44% last quarter and 36% in Q4
- Those supporting Dry Powder (hoarding cash) soars from 5% to 32% QoQ

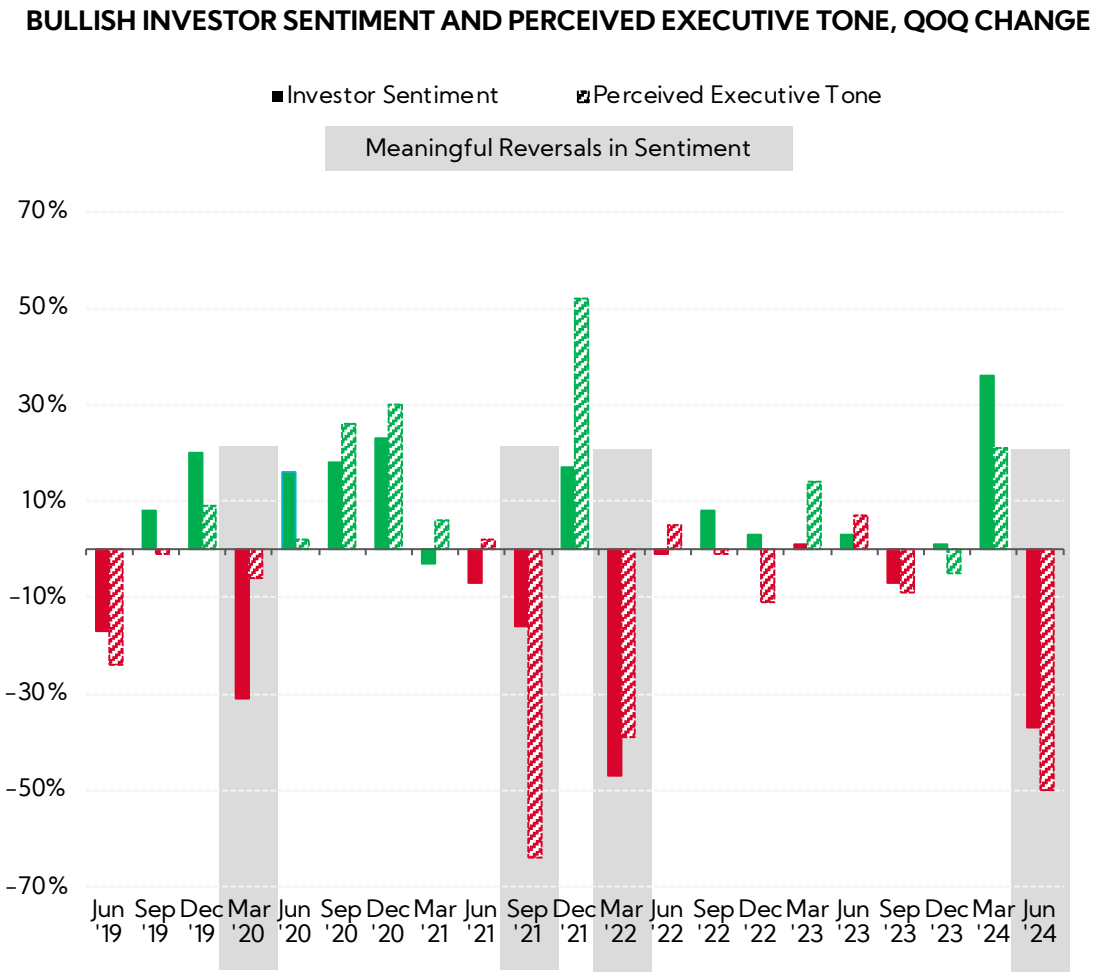
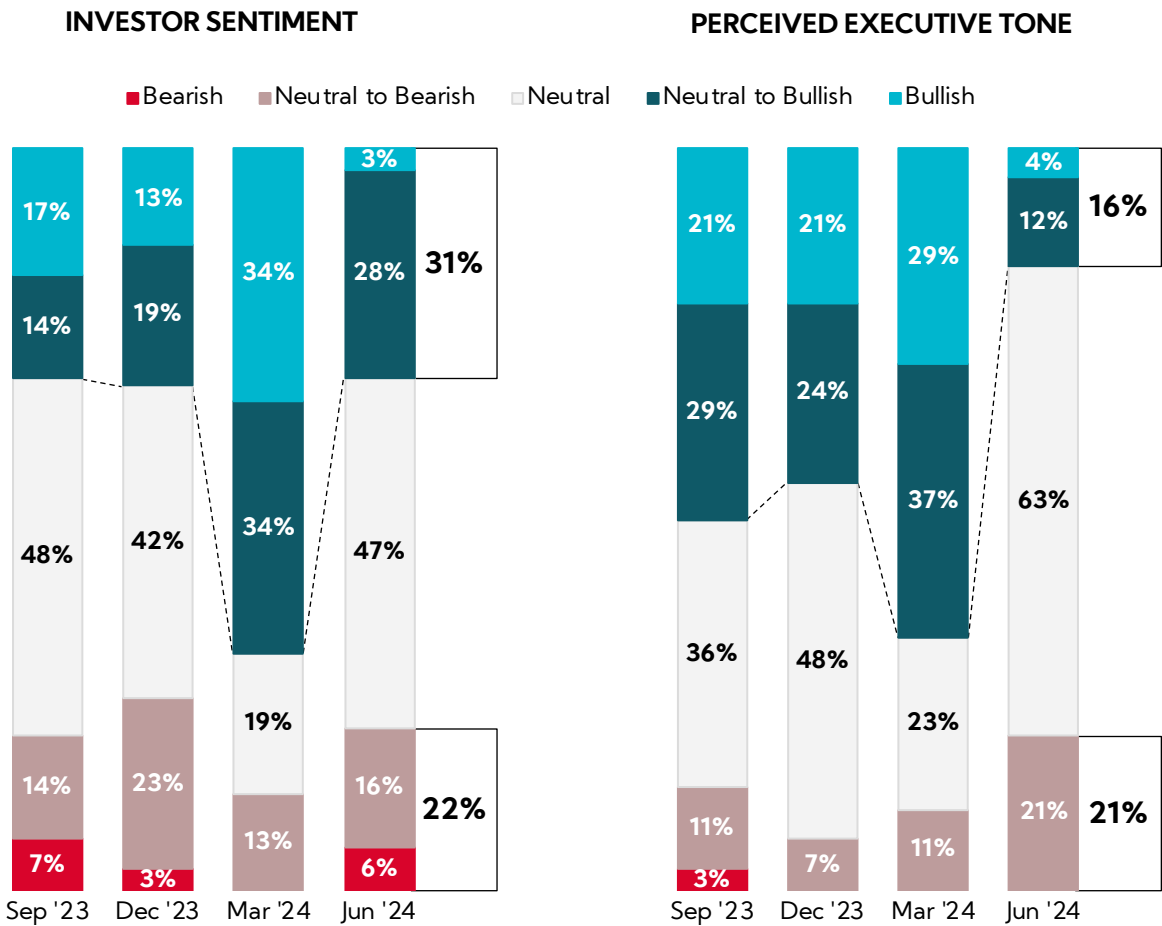
## Nearly All Sub-Sectors See a Steep Rise in Bears; North America Remains the Most Compelling Region, Albeit at Lower Levels QoQ

- North America remains the regional darling for the ninth consecutive quarter, followed by APAC (ex-China) and Europe
- China as a compelling region garners zero support for the second consecutive quarter as risk aversion remains elevated
  - **64%** continue to assign a *High* or *Very High* level of risk to companies with operational exposure, albeit down from **80%** QoQ
- Pronounced bearish sentiment exists across nearly all industries, led by **Transportation, Ag, Autos**, and **Building Products**, while **Defense** and **Commercial Aero** are the only sub-sectors to retain bulls QoQ



# Temporary Jolt of Optimism Observed Last Quarter Recedes in Favor of More Neutral Views Overall; Shift in Sentiment Among Largest QoQ Pullbacks in Last Five Years

Despite outright *Bullishness* falling to its lowest level in 20 quarters, *Bearishness* remains at bay





# While Prolific Bullish Sentiment Has “Deteriorated” Somewhat, Views Do Not Skew Bearish

## Bullish / Neutral to Bullish

*“Management were neutral to bullish coming out of their Q1 reports and there has not been any change.”*

**Buy Side, Generalist, N. America**

*“I and executive teams are cautious about the short-cycle industrial activity and more cautious on margins.”*

**Buy Side, Industrials, N. America**

*“I am in between neutral and bullish. With the list I have, it is hard to say why I am positive. It is on a more company-specific, case-by-case basis. I am more bullish on those that have aerospace and defense exposure as well as those with a decent amount of self-help or transformational opportunity.”*

**Sell Side, Industrials, N. America**

## Neutral

*“Positive fiscal stimulus, weaker economic backdrop.”*

**Buy Side, Industrials, N. America**

*“There are pockets of the industrial space that make sense and are good values and others that are too expensive. The multiple of the entire industry might be a little elevated for where I am comfortable with. There are some headwinds and tailwinds, but there is nothing super exciting about the industrial sector overall. We always have to pay attention to where we are in the economic cycle and with interest rates, as that can slow down customer activity. For areas of the industrial sector like transports, the cycle has already rolled over. It depends on where you are within industrials that tells you whether the worst of the economic cycle has already hit or has not hit at all yet. The nature of the industrial sector is there are a whole bunch of different subsectors within it that act differently.”*

**Buy Side, Industrials, N. America**

*“There is not as much of a potential for strong organic growth in many industrial markets as there is in other industries. The Q1 2024 earnings had a neutral impact on my sentiment toward the space.”*

**Buy Side, Generalist, N. America**

*“My sentiment has deteriorated a little from earlier in the year as the persistent higher interest rates seem to finally be influencing activity on a negative note. We’ve begun to see negative pre-announcements and/or that pricing is eroding from enough companies to know the environment is less robust.”*

**Buy Side, Industrials, N. America**

*“Consumer cyclicals are weak, but capital goods are better.”*

**Sell Side, Industrials, Europe**

*“Valuations are high, political uncertainty is high, business momentum is solid.”*

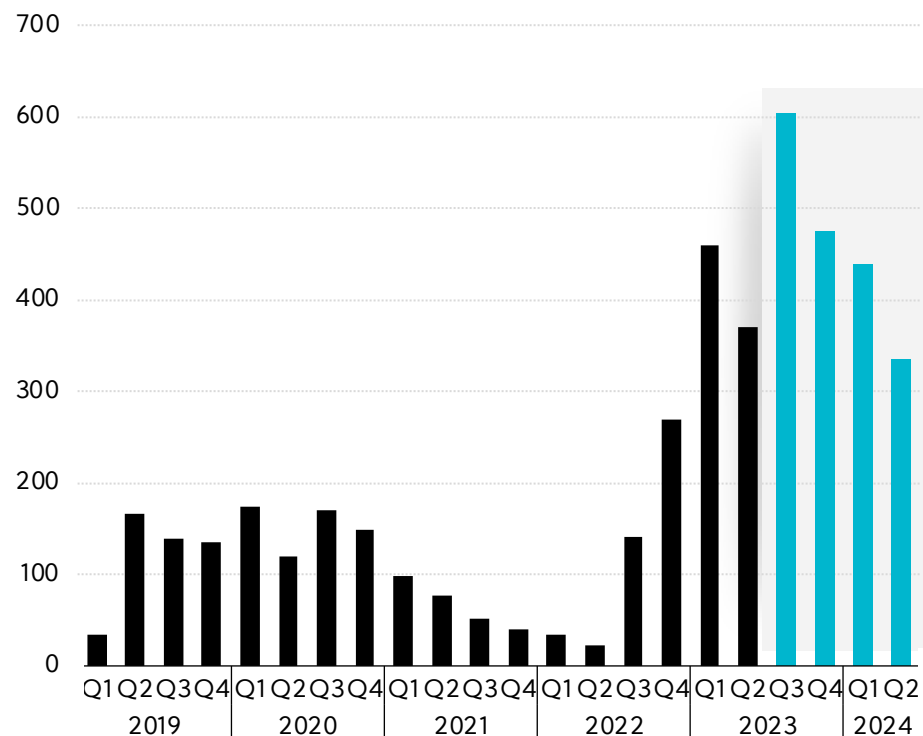
**Sell Side, Industrials, Europe**



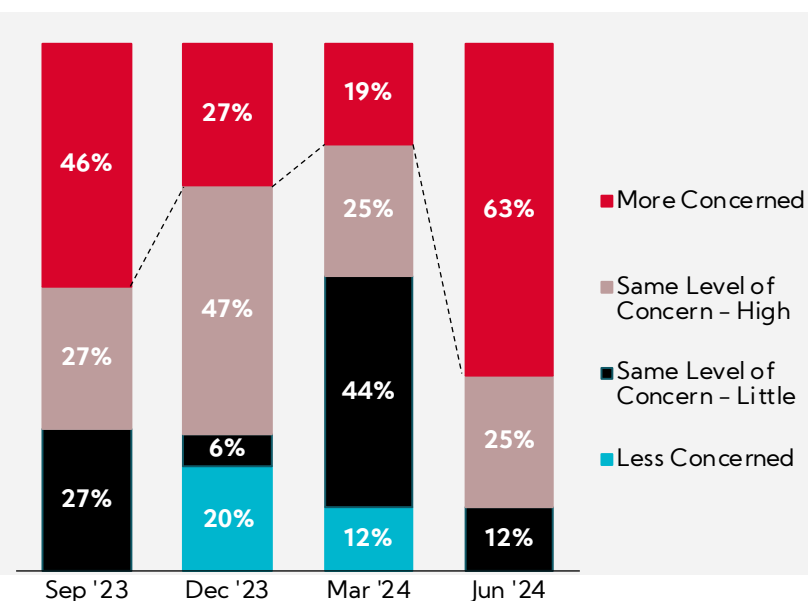
# While Destocking is Largely Behind Us, More are Exhibiting Concern toward Underlying Demand

Destocking mentions among Industrials, while still elevated, continue to fall from the Q3'23 high; to that end, a majority of investors, 57%, believe we have moved past destocking, though 71% are seeing only *minimal* restocking activity

**"DESTOCKING" MENTIONS AMONG INDUSTRIALS**  
Public Company Earnings Transcripts, Global Industrials >\$1B Market Cap



**CONCERN TOWARD DEMAND**  
Aided



*"Regarding inventory build, my level of concern is about the same to a little less. I do not feel there is a lot of excess building within the sector. Maybe I will get surprised on the calls, but it seems manageable. As for demand, I am incrementally more concerned. We are getting later in the economic cycle and unemployment has ticked up, so from a macro standpoint, things could roll over for some of these companies. I do not know that it is imminent but at the same time, I do not know that demand is going to accelerate. It seems like a stretch."*

**Buy Side, Industrials, N. America**

*"Destocking is generally coming to a close, but there will be a lower for longer recovery."*

**Sell Side, Industrials, N. America**

*"I think there's pockets which have moved past destocking and pockets which haven't, like the industrial companies exposed to healthcare. The digestion of excess inventory is probably taking a bit longer than anticipated. It also depends on where in the value chain we're looking at. If it's a business which is a couple steps removed, then their visibility tends to be much, much more limited. It makes it harder to gauge when you see a complete recovery. Overall, it's definitely a mixed bag. So, whether it's a 2024 recovery we are looking at or 2025, I'm not entirely sure."*

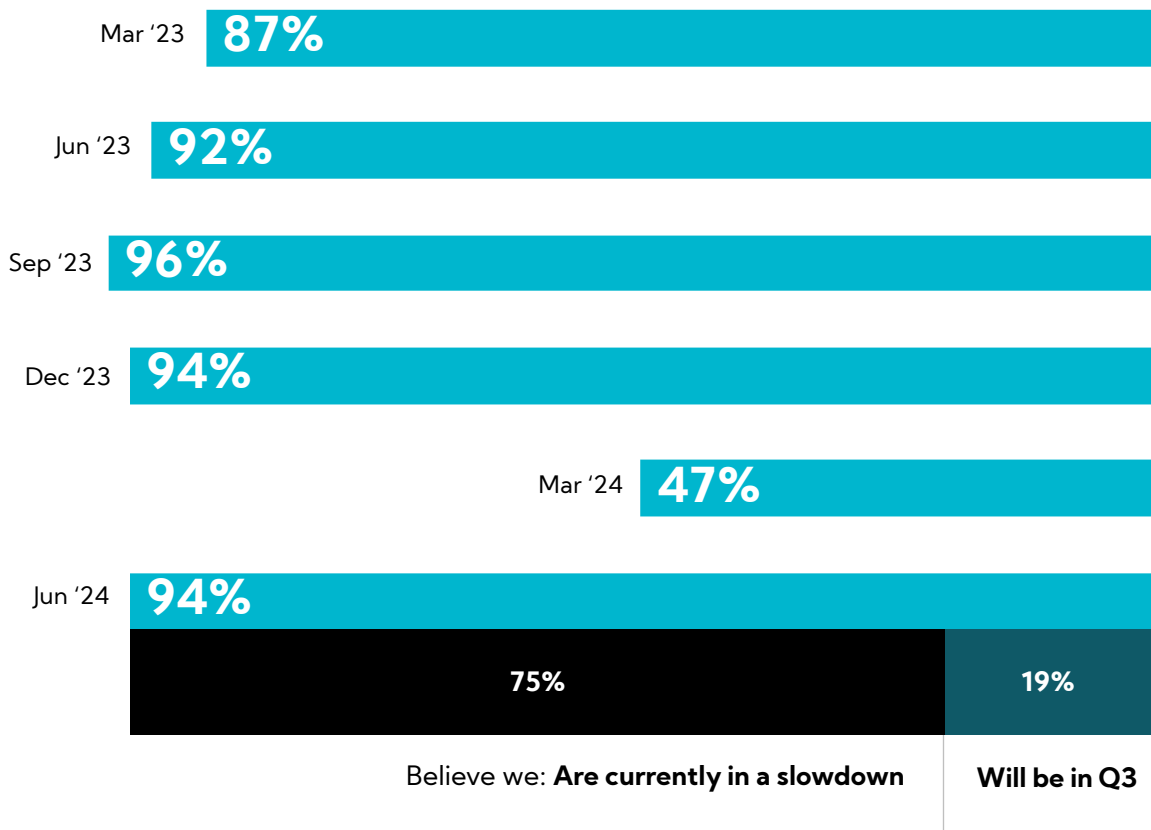
**Buy Side, Industrials, Europe**



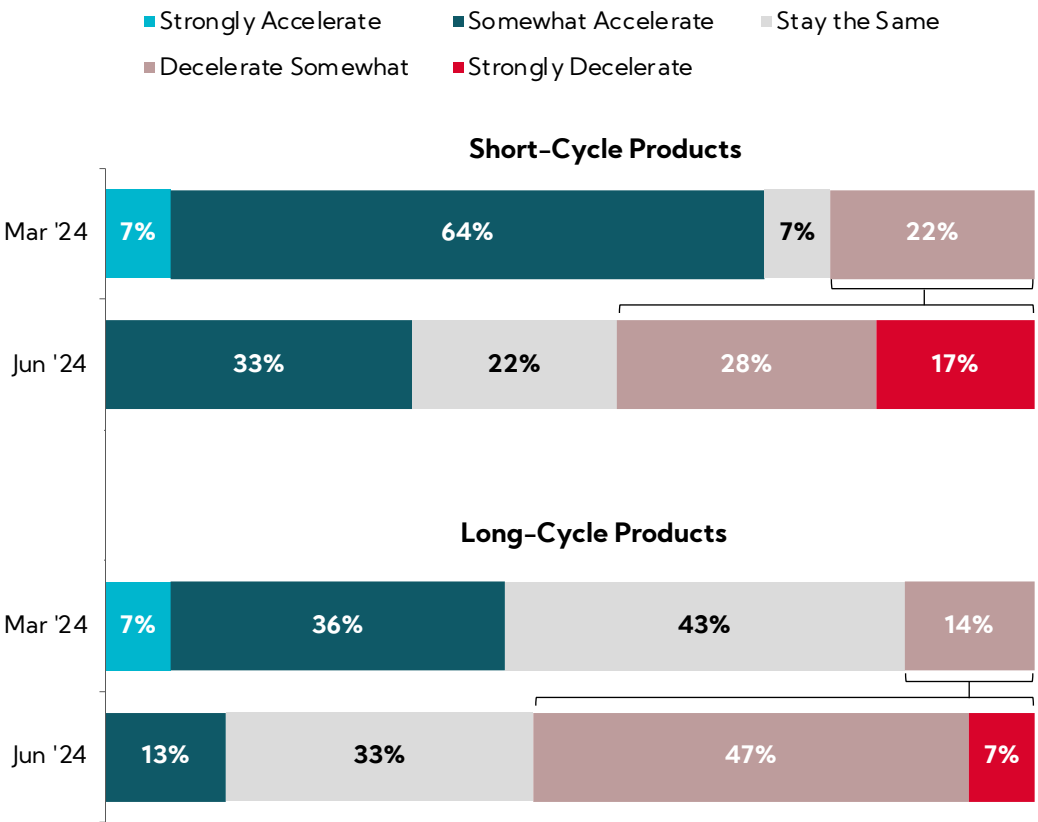
# Broad-Based Industrial Weakness Expectations Double After a Relative Reprieve Last Quarter

Views toward short- and long-cycle order rates over the next six months deteriorate meaningfully QoQ

BROAD-BASED INDUSTRIAL WEAKNESS, QoQ EXPECTATIONS



INDUSTRIAL ORDER RATE EXPECTATIONS OVER THE NEXT SIX MONTHS



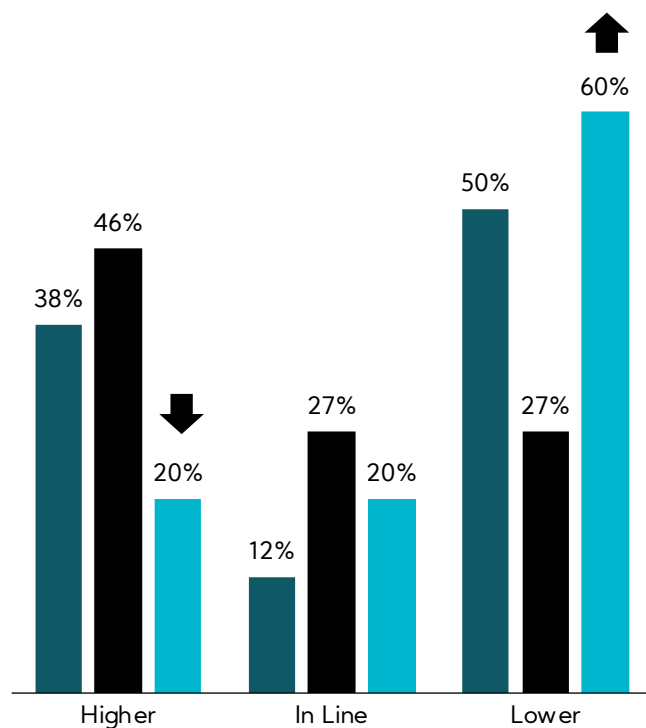


# A Majority Now Expect 2024 Industrial Organic Growth To Be Lower than Prior Year, 3.7% on Average

Margins and growth prioritizations are roughly split; meanwhile, fewer investors, 47%, report industrial companies within their coverage universe are still passing on cost, down from the 76% observed last survey

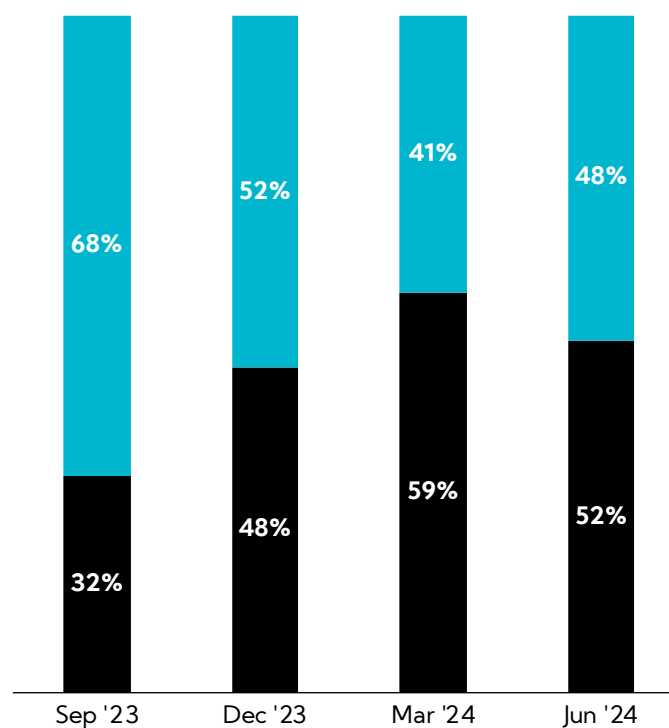
2024 INDUSTRIAL ORGANIC GROWTH  
RELATIVE TO 2023

■ Dec '23 ■ Mar '24 ■ Jun '24



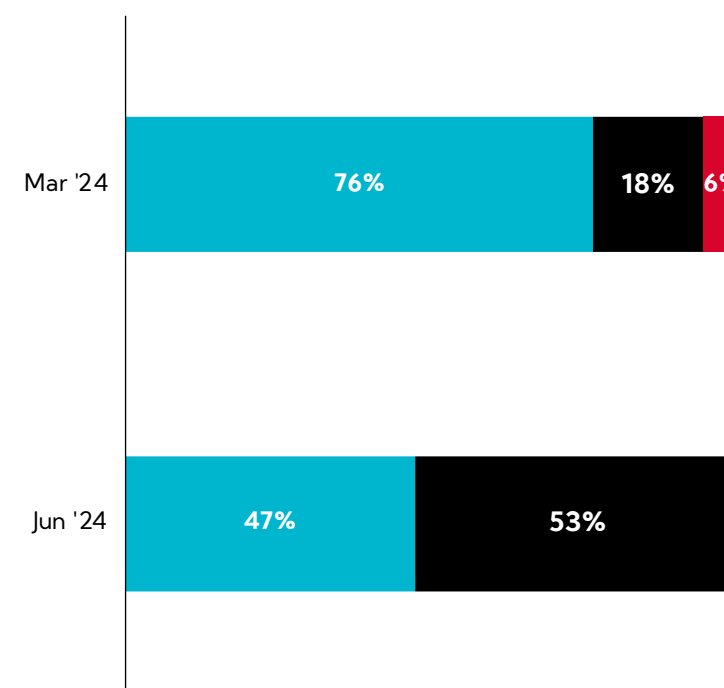
KPI PRIORITIZATION AT THIS POINT  
IN THE CYCLE

■ Growth ■ Margins



INSTANCES OF COMPANIES  
PASSING ON COST / INCREASING PRICE

■ Largely in Tact ■ Mixed ■ Largely Not in Tact





# Top Concerns from Around the Globe

Concerns over a recession/industrial slowdown surge to the top of the list, while apprehension over geopolitical risks more than triple; margins, monetary policy, and inflation continue to weigh on sentiment

QoQ Change	Unaided								
	1	50% New	Recession / Slowdown	2	34% (↑ 23pts)	Geopolitical Risks	3	30% (↓ 8pts)	Margins, Pricing Power
	4	29% (↓ 1pt)	Monetary Policy	5	29% (↑ 4pts)	Inflation	6	21% (↓ 7pts)	Global Macro

## Views from N. America

"Macro slowdown with rates elevated, U.S. election, ability to hold price in soft demand environment." **Buy Side, Industrials**

"The short cycle – there have been very clear signs of deceleration from a number of folks." **Buy Side, Industrials**

"Macro – I am concerned about the lagging impact of interest rates on the back half of this year; PMIs, which started to perk up earlier in this year and are stalling out a little; and what the cadence of the back half is going to look like from a macro perspective in the U.S. and Europe. It is all about the progression of the way rates are going to work out through the back half of this year and into next year and the setup for next year on the macros. I am less concerned about escalation in the wars." **Buy Side, Industrials**

"Broader economic slowdown, eroding price as costs remain, orders collapse." **Buy Side, Industrials**

"Sustainability of margins, interest rates and inflation, geopolitical risks." **Buy Side, Industrials**

"Fed, executive branch of government, other central banks around the world." **Buy Side, Industrials**

"Slowing global economy, amount of leverage in financial systems, amount of malinvestment in specific industries." **Buy Side, Industrials**

"Recession, inflation, war." **Buy Side, Generalist**

"Revenue, costs, margins." **Buy Side, Generalist**

"Macro environment, interest rates, labor costs." **Buy Side, Generalist**

"Overall weakness, slower economy, supply chain." **Buy Side, Generalist**

"Volumes, China, interest rates." **Sell Side, Industrials**

"China/Europe weakness, project deferrals/cancellations, material inflation." **Sell Side, Industrials**

"Inflation, U.S. budget deficit, global political crisis." **Sell Side, Industrials**

## Views from Europe

"Recently in certain sectors you're still seeing some profit warnings come through. Maybe that's linking back to limited visibility or management teams being fairly confident and things not working out in that way. As we're now coming into the season of when companies will start to report their quarterly results again in July and August, that's one thing which is definitely a concern, whether we're going to get another wave of profit warnings because not everyone is completely out of the woods yet. Linked to that is all of these destocking issues and the health of demand. In certain markets it's a much murkier picture. China, there's a lot of questions there. In the EV space, things are moving a lot slower than people thought it would be." **Buy Side, Industrials**

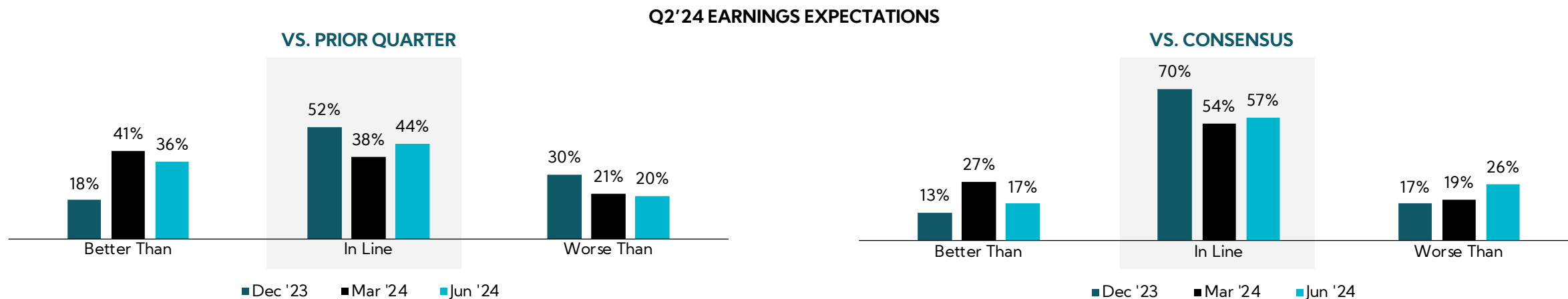
"Increased China competition, political policy swings, lack of cyclical recovery." **Sell Side, Industrials**

"Impact of geopolitics on supply chain, slowing growth, high debt." **Sell Side, Industrials**



# Despite Fewer Bulls and Elevated Concerns, In-Line Performances Expected; Albeit Below the 68% Observed Last Quarter, 54% Anticipate Q2'24 Performance Will Outpace Prior Year Prints

Investors largely anticipate quarterly results to be in line sequentially and with consensus



## In Line

*"End market environment remains mixed at best."* **Buy Side, Industrials, N. America**

*"Positive economic growth though some deceleration may be priced in. Costs are still a small problem and pricing may not be as robust."* **Buy Side, Industrials, N. America**

*"Orders starting to improve more broadly but backlogs are down, and projects are getting pushed into 2025."* **Sell Side, Industrials, N. America**

*"Strong momentum in the U.S."* **Sell Side, Industrials, Europe**

*"Companies seem okay with the Q2 trend."* **Sell Side, Industrials, Europe**

## Worse Than

*"QoQ and versus the prior year, I anticipate results to be flat to slightly lower."* **Buy Side, Generalist, N. America**

*"Q1 earnings were fine but the world has obviously changed since then. In Q1, January to February to March was better sequentially. April started out okay but got weaker as the month went on. May and June are disappointing, so I am very surprised if anything good comes out of Q2 earnings."* **Buy Side, Industrials, N. America**

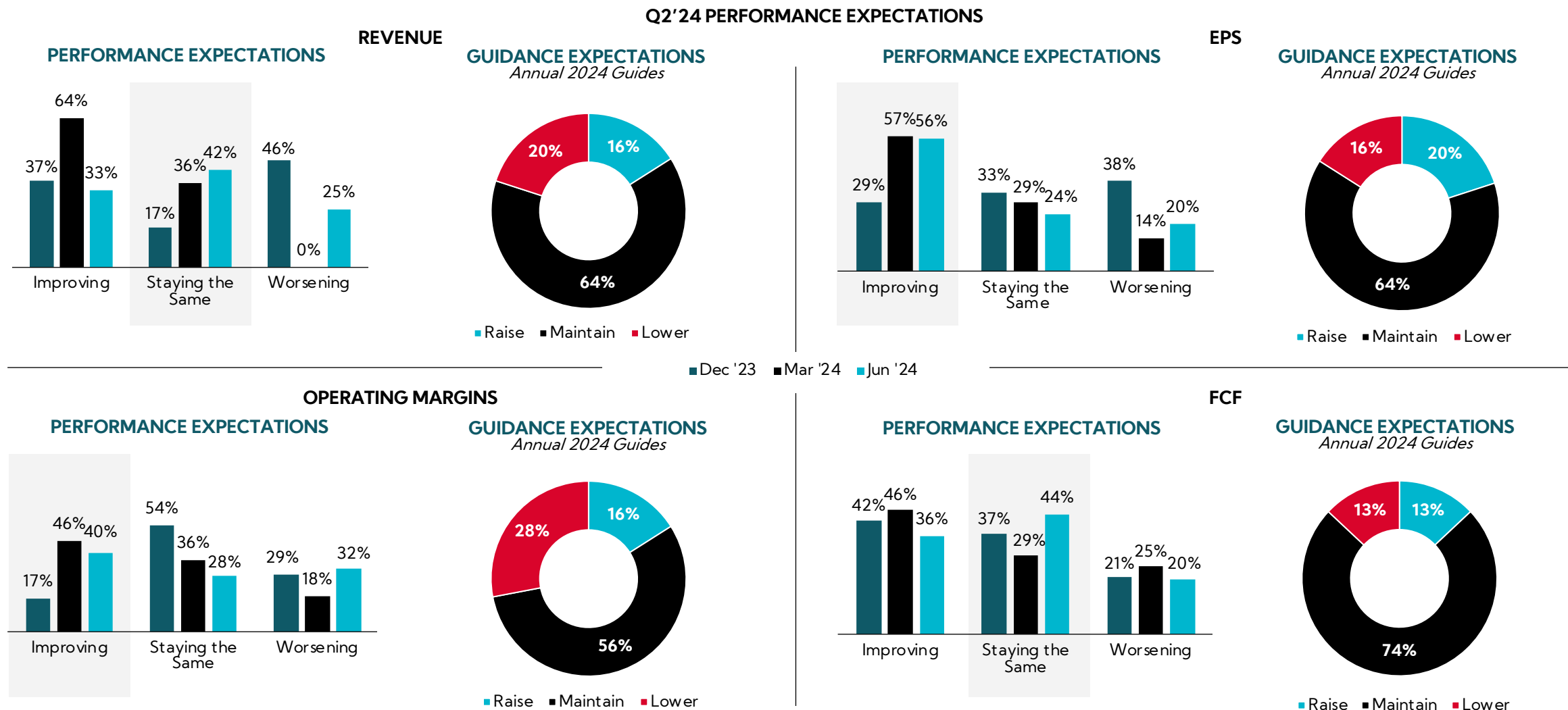
*"The number of short cycle indicators showing relative slowdown in economic momentum."* **Buy Side, Industrials, N. America**

*"Inflation has impacted their costs but consumers are pushing back on price increases by reducing their purchases. This all means lower profits."* **Sell Side, Industrials, N. America**



# Across the Board, KPI Improvement Expectations Ease In Favor of More Moderate Perspectives, Particularly for Top Lines; Still, a Majority Expect Annual Guides to Hold Firm

Those expecting *Worsening* performances ticks higher across metrics, while channel checks indicate FCF “will not be a great story” this quarter; notably, more, 28%, are bracing for margin guides to be lowered relative to other KPIs

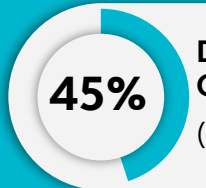







48%

**Margins,  
Pricing Power**  
(↑ 7pts)



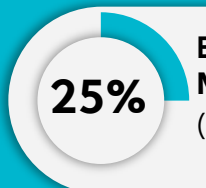
45%

**Demand,  
Order Rates**  
(↓ 11pts)



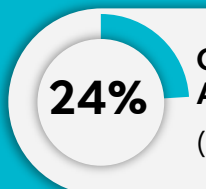
30%

**Growth**  
(↓ 4pts)



25%

**Expense  
Management**  
(↑ 9pts)



24%

**Capital  
Allocation**  
(↓ 6pts)



17%

**Economy, Macro**  
(↑ 11pts)

## Topics of Interest for Upcoming Earnings Calls

Margins and pricing power top the list while demand remains a consistent focus; expense management and the macroeconomic environment garner the largest QoQ increases in mindshare

### Views from N. America

*"We are looking for companies that can pivot and be part of the secular drivers, data centers, grid, and infrastructure. Those are the types of markets that are getting money."* **Buy Side, Industrials**

*"Order flow."* **Buy Side, Industrials**

*"Macro environment, price versus cost trends, destocking."* **Buy Side, Industrials**

*"Strategy, growth, and reinvestment."* **Buy Side, Industrials**

*"Margins, free cash generation, and use of free cash flow."* **Buy Side, Industrials**

*"Geographic trends, price/cost, order trend."* **Buy Side, Industrials**

*"Current conditions in underlying KPIs, positioning assuming weakness accelerates, ability to sharply improve liquidity and leverage."* **Buy Side, Industrials**

*"Outlook, costs."* **Buy Side, Generalist**

*"Margins, revenue, cost control."* **Buy Side, Generalist**

*"Where is the growth going to come from? What is happening with volumes?"* **Buy Side, Generalist**

*"Incremental exposure to the Inflation Reduction Act and how that is reflected in the current numbers and going forward."* **Buy Side, Generalist**

*"Sustainability of margins, including prospect for enhancement and input costs; trends and expectation toward unique drivers of firm for future success."* **Buy Side, Generalist**

*"When does destocking end? What areas are strong? Any M&A opportunities?"* **Buy Side, Generalist**

*"Spring order rates, project pipeline/activity, organic/productivity initiatives."* **Sell Side, Industrials**

*"Short-cycle order trends, margins, capital deployment."* **Sell Side, Industrials**

*"How much have their costs increased? Do they have adequate number of workers or too few/too many? Are they seeing softness in sales?"* **Sell Side, Industrials**

### Views from Europe

*"Outlook, impact of geopolitics on supply chain, pricing power."* **Sell Side, Industrials**

*"China and U.S. demand developing, pricing trends, rising competitive tensions."* **Sell Side, Industrials**

### Views from APAC

*"War in Israel."* **Buy Side, Industrials**

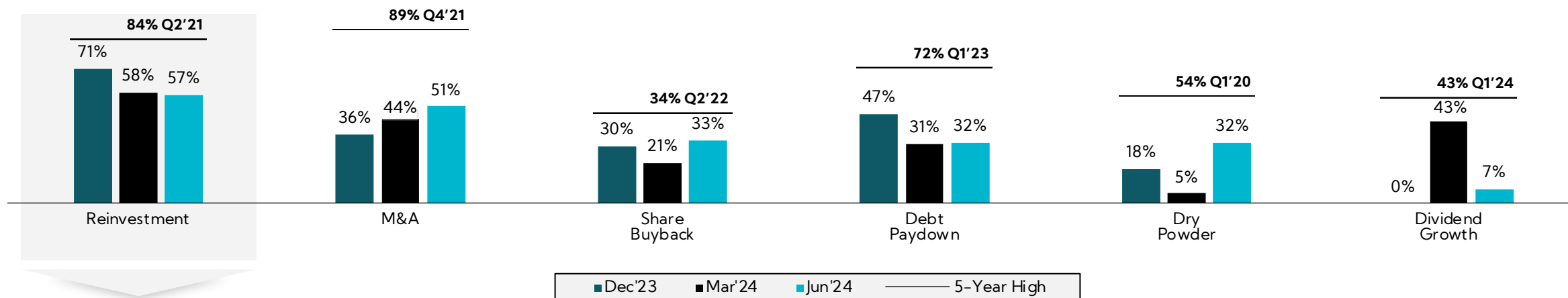


# Capital Allocation Preferences Reflect Continued Support for Reinvestment and Flowing M&A Interest; However, Dry Powder Endorsement Surges Amid Increased Uncertainty

A majority, 65%, encourage companies to *Maintain* current levels of growth capex, while 70% cite 2.0x or lower as the ideal net debt-to-EBITDA threshold

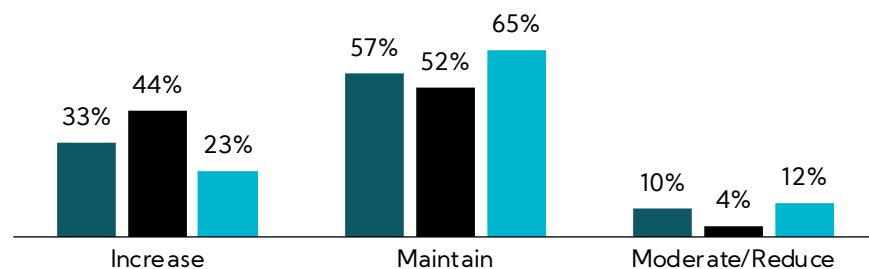
## PREFERRED USES OF CASH

In Descending Order of Top Two Preferences



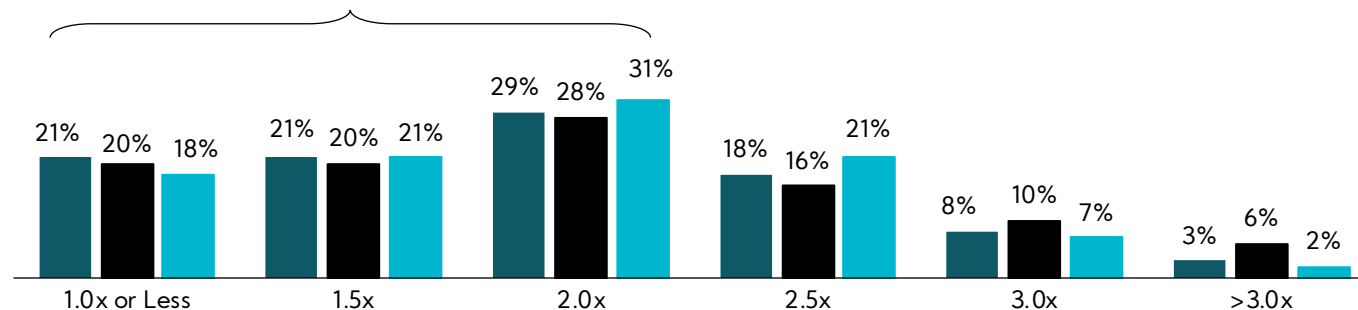
## GROWTH CAPEX PREFERENCES

■ Dec '23 ■ Mar '24 ■ Jun '24



## THRESHOLDS FOR IDEAL NET DEBT-TO-EBITDA

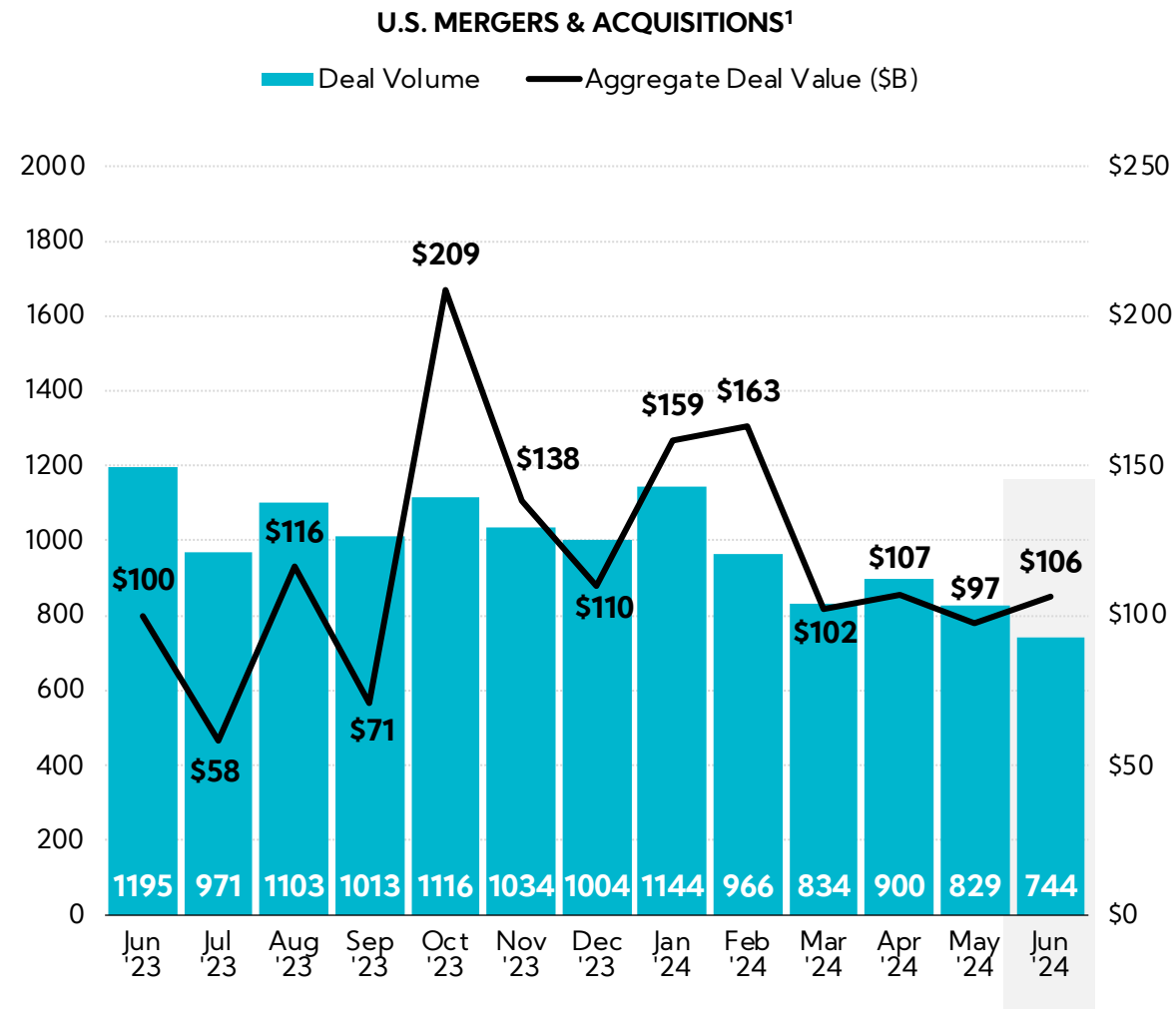
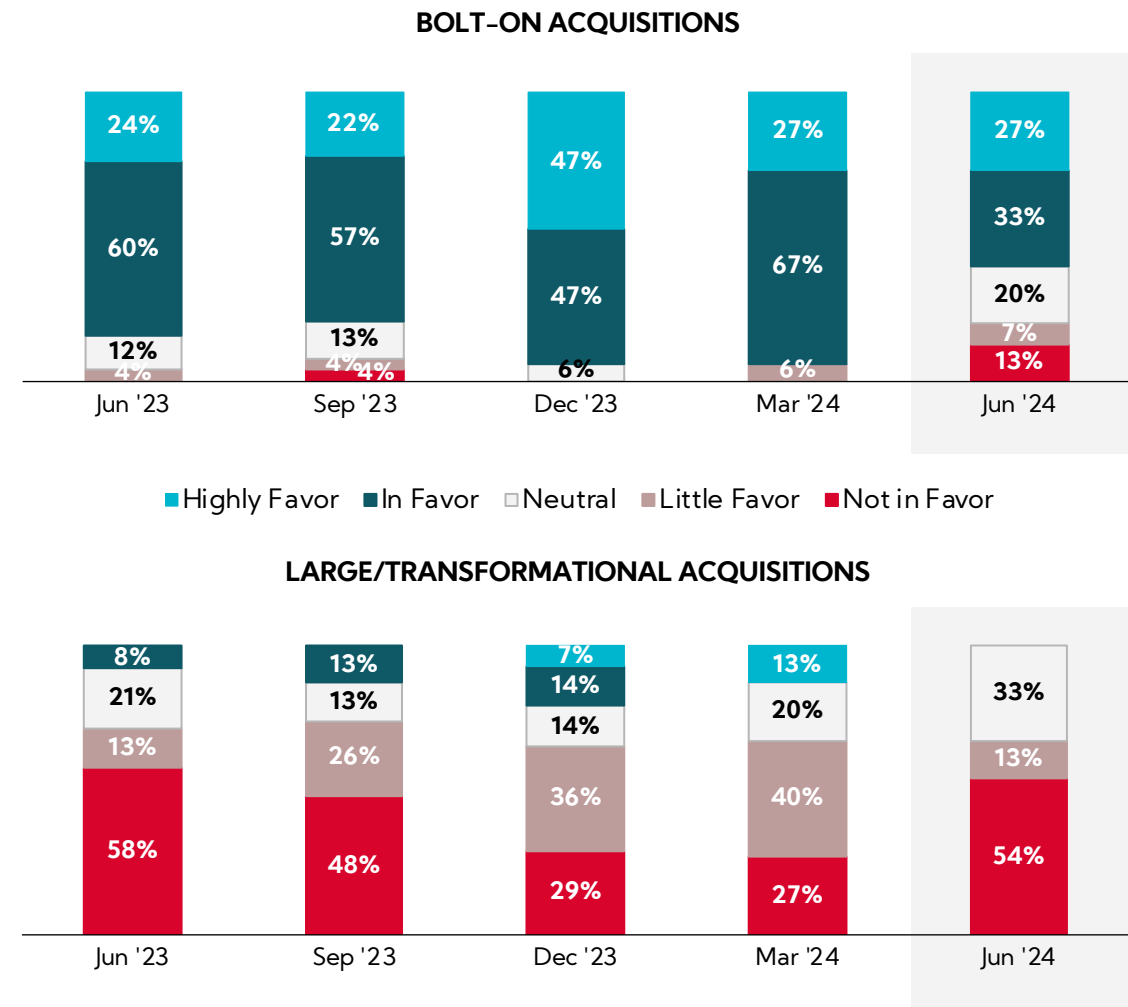
70% prefer ≤2.0x, up slightly from 68% QoQ





# Bolt-ons Remain In Favor though the Current Growth Picture Is Weighing On Overall Sentiment, Especially Toward the Large Varietal

June 2024 U.S. deal volumes slumped to their lowest level over the past 12 months

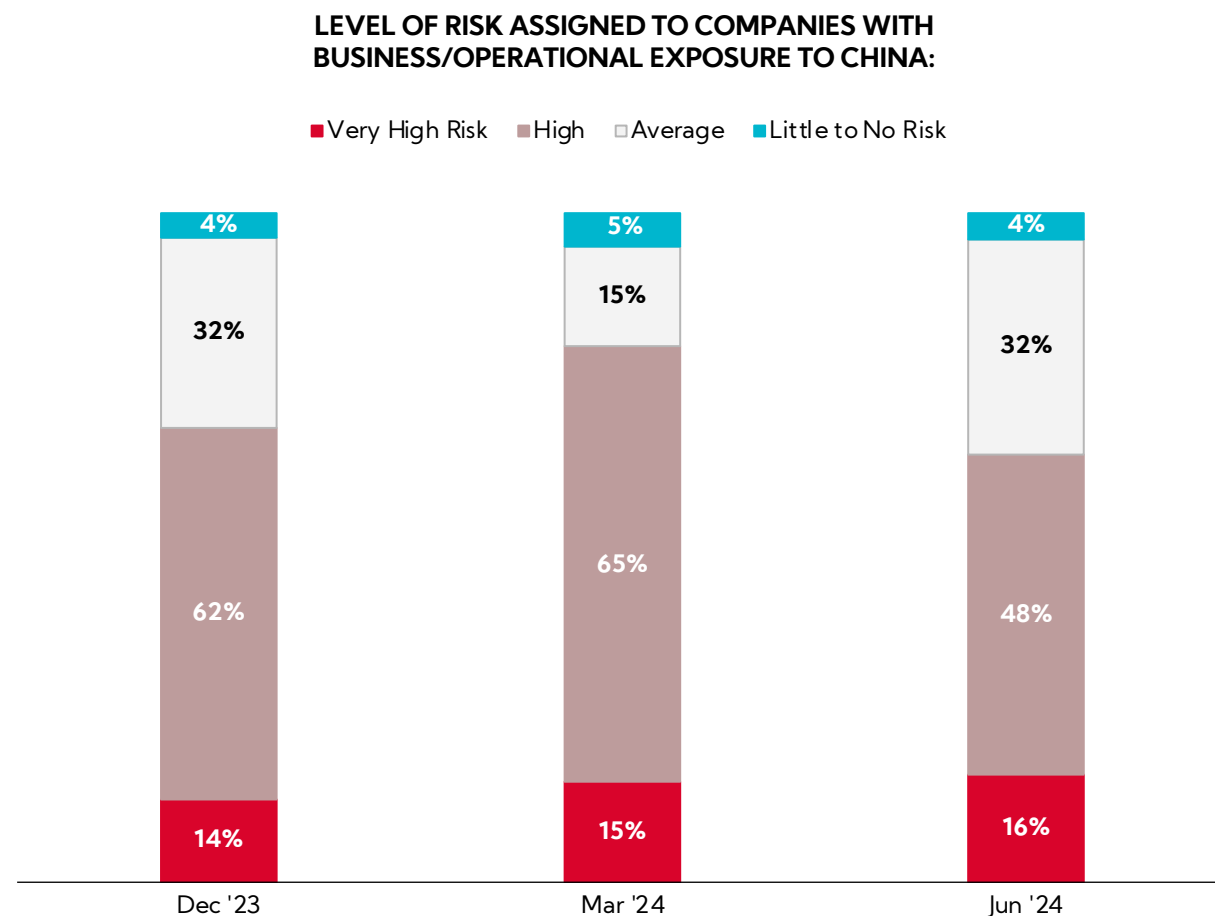
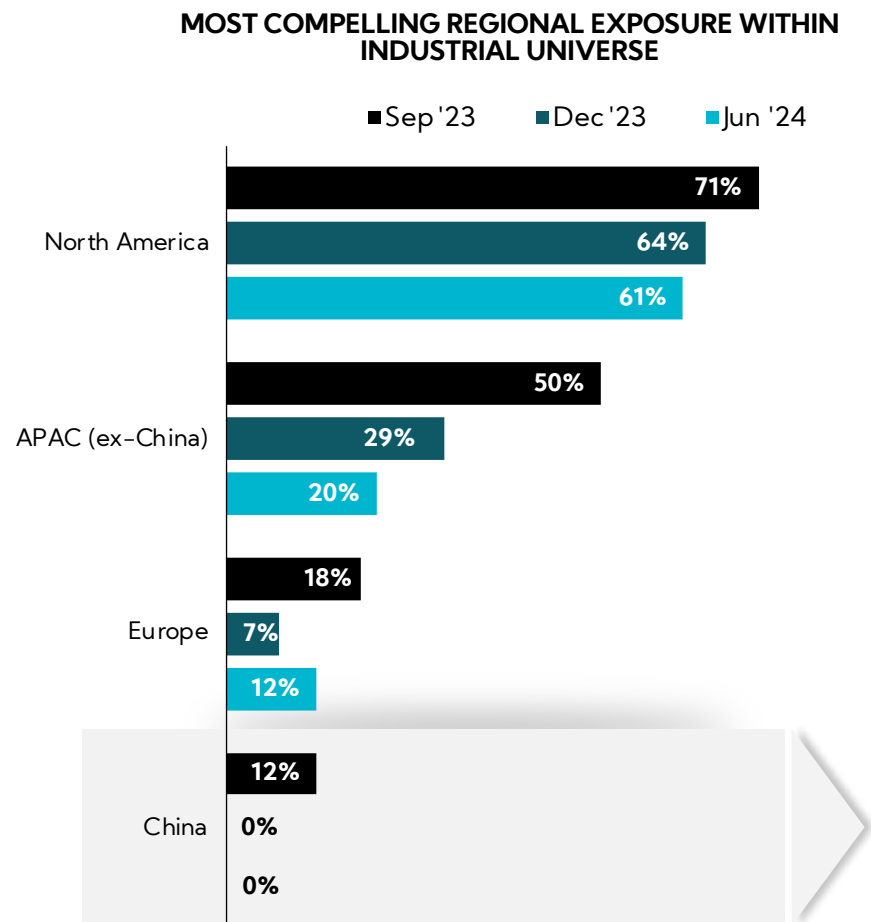


<sup>1</sup>Source: FactSet



# While North America Persists as the Most Compelling Region, Overall Bullish Sentiment Continues to Ebb; China Remains Out of Favor

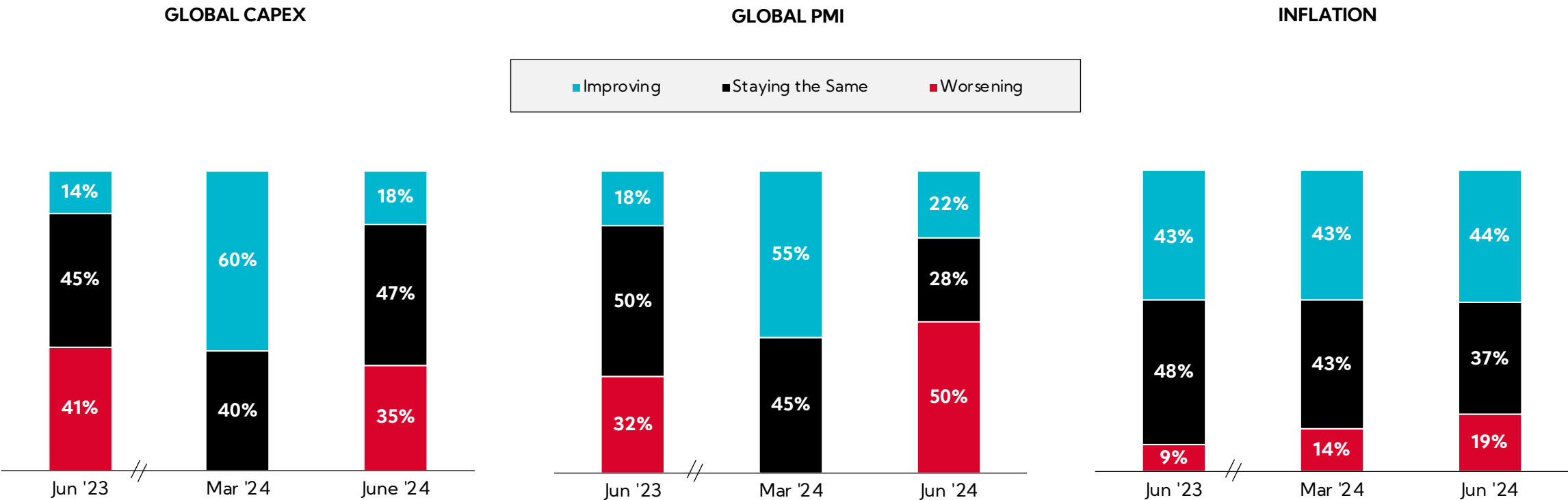
“On the ground” channel checks indicate China remains challenged; promotional activity is prevalent





# Views on Key Economic Indicators Over the Next Six Months

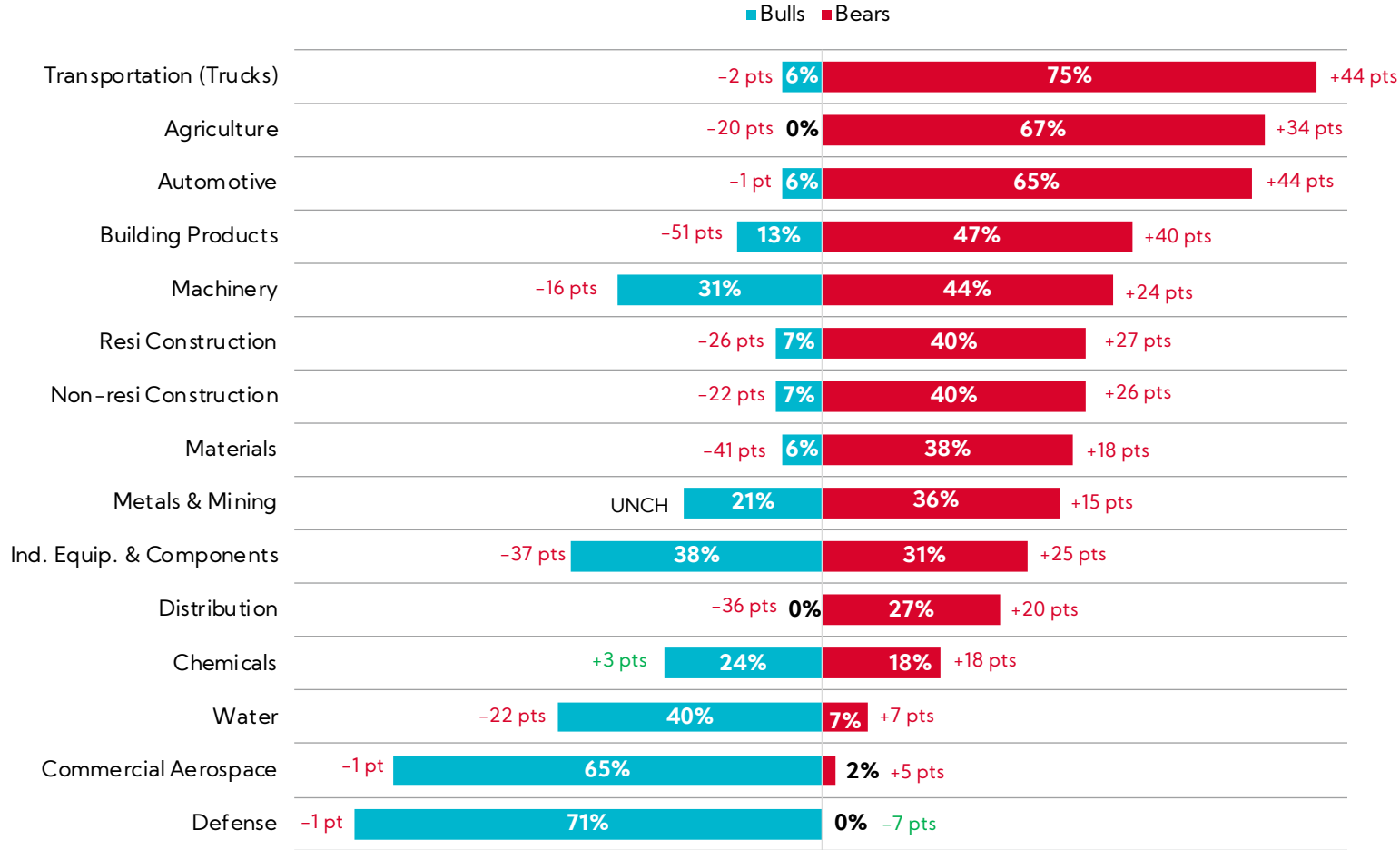
More downbeat views identified across all measures, particularly global PMI and global capex; to that end, 63% believe the U.S. Presidential election is delaying and/or negatively impacting larger capex projects – channel checks indicate it is





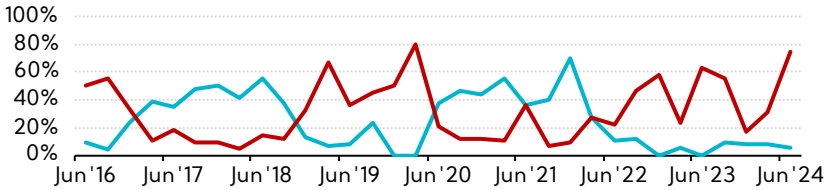
# Pronounced Bearish Sentiment Across Nearly All Industries, Led by Transport, Ag, Autos, and Building Products; Only Defense and Commercial Aero Hold onto Bulls

BULLS VS BEARS

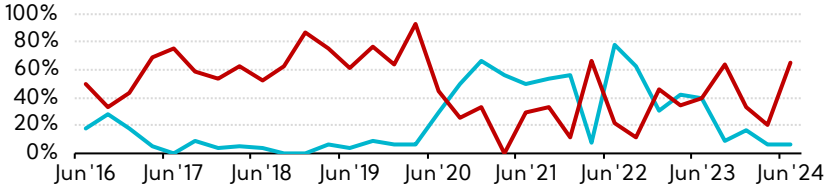


LARGEST BEAR SENTIMENT GAINERS

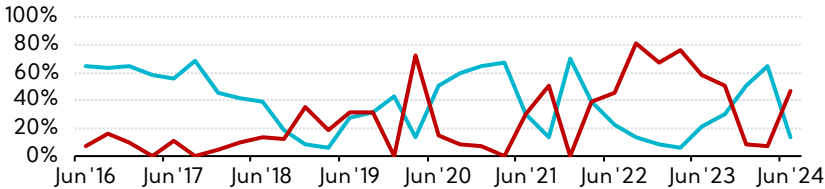
TRANSPORTATION (TRUCKING)



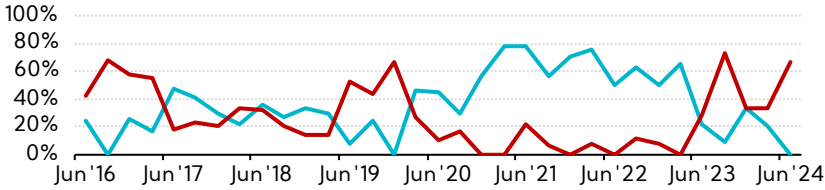
AUTOMOTIVE



BUILDING PRODUCTS



AGRICULTURE







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