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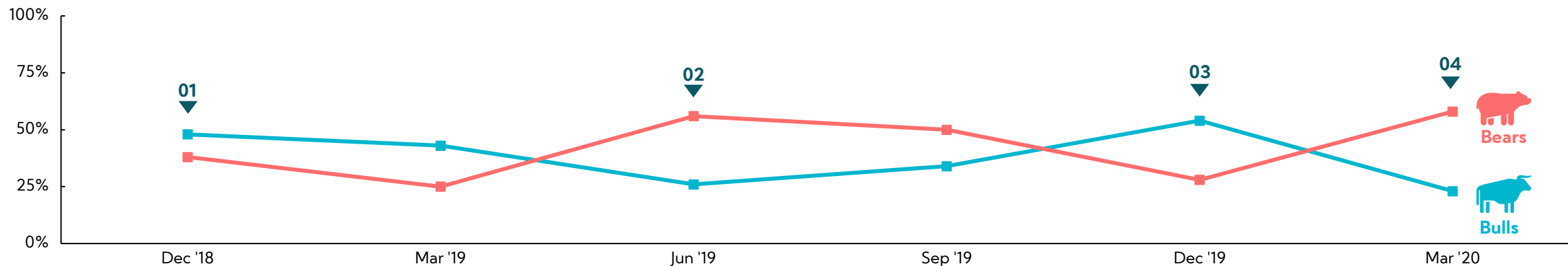
Q1'20

Industrial Sentiment Survey

April 23, 2020



# Industrial Investor Sentiment – How the Last Year Has Unfolded



## 01 December 2018

- Survey reveals investors continue to grasp reality of slowing global growth; positive sentiment ebbs
- 2019 industrial organic growth forecasts are for 3.0–4.0% vs. 5.0%+ in 2018
- Nearly 30% believe the cycle has peaked, while 42% forecast the peak will occur in 2019

## 02 June 2019

- Bearish sentiment spikes amid tariff impact and continued concerns around slowing growth
- 65% note the U.S. economy is *Losing Steam*
- 2019 industrial organic growth forecasts are now for 2.5% or lower, on average
- 81% express *High* concern with the U.S./China trade dispute and 64% believe a favorable resolution over the next six months is only *Somewhat* likely

## 03 December 2019

- With pervasive downbeat views amid industrial performance in 2019, investor sentiment rebounds heading into 2020 on the heels of Phase 1 tariff deal
- While 48% predict sequential earnings deceleration following a number of Q4 guide-downs, 54% now expect Q1 results to come *In Line* with consensus, more than doubling QoQ
- Despite continued slowing growth, two-thirds expect 2020 Guidance Outlooks to be *In Line* or *Better Than* 2019 performance

## 04 March 2020

- 58% describe themselves as *Bearish* or *Neutral to Bearish*, the highest level registered since Dec. 2015 due to COVID-19 impact
- 76% predict sequential earnings deceleration and 79% expect results to be *Below* consensus
- More than 90% expect EPS, Revenue Growth and Operating Margins to register *Worse Than* expectations, all record lows

# Inside The Buy-side® Q1'20 Industrial Sentiment Survey

For over a decade, we have surveyed global industrial 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.

In June 2015, we introduced the *Industrial Sentiment Survey*.

Leveraging our deep understanding of capital markets, proprietary research, 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:** 30 sector-dedicated investors and analysts globally; buy-side firms manage ~\$761 billion in assets and have ~\$101 billion invested in Industrials

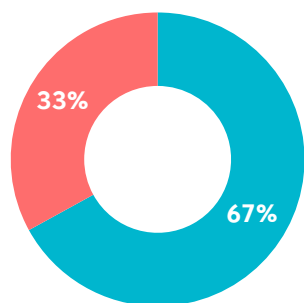
**Survey Timeframe:** Mar. 17, 2019 – Apr. 15, 2020

**Issue: 20**  
**Date: April 23, 2020**

MARKET PERFORMANCE	Q1'20	YTD <sup>1</sup>
DJIA	(23.2%)	(17.7%)
NASDAQ	(14.2%)	(5.3%)
S&P 500	(20.0%)	(13.4%)
S&P 500 Industrial	(18.0%)	(10.5%)
Russell 2000	(30.9%)	(28.0%)

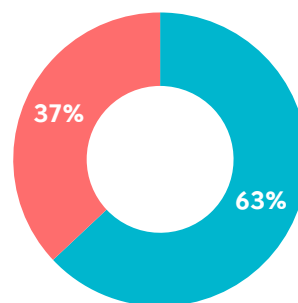
<sup>1</sup> As of Apr. 22, 2020

ROLE



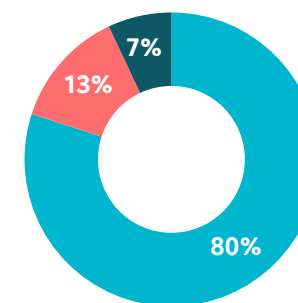
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION

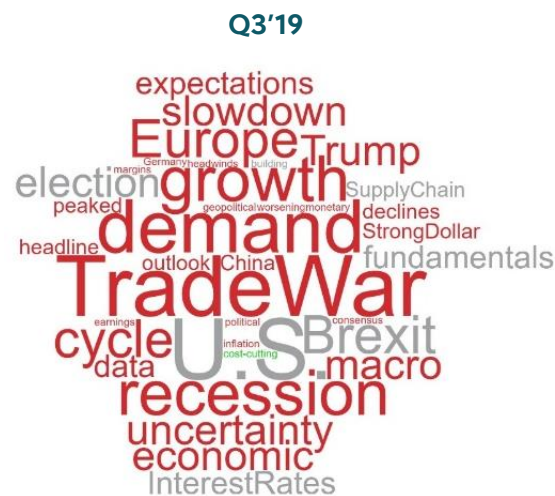


■ North America ■ EMEA ■ APAC

# Word Cloud: Frequency of Occurrence

We developed a word cloud to visually demonstrate the investment community's focus areas, trends in frequency of word occurrence, as well as the underlying tone

## FOLLOWING A REBOUND IN SENTIMENT LAST QUARTER, COVID-19 REVERSES THE COURSE



TOP MENTIONS	Q2'19	Q3'19	Q4'19	Q1'20	Q/Q
COVID-19	0	0	0	37	↑ 37
Economy	7	5	2	8	↑ 6
Crisis	0	0	0	7	↑ 7
Recession	6	7	2	8	↑ 6
U.S.	6	12	3	7	↑ 4

### Key: Underlying Sentiment

- Positive
- Neutral
- Negative

# Survey Findings Reveal Downbeat Industrial Investor Sentiment with Widely Varying Views on the Extent of Organic Growth Deceleration

## With Clear Expectations for Deteriorating Performance, Investors Seek to Measure Early Downside Risk

- 58% describe themselves as *Bearish* or *Neutral to Bearish*, the highest level registered since Dec. 2015, though this is well below the level of bearishness (77%) captured in our *Earnings Primer Survey*, which comprises views from 89 investors globally, 61% of which are Generalists
  - 39% of industrial investors describe themselves as outright Bearish, up from 3% last quarter and more than double that of the previous record in Dec. 2015 (18%)
- 76% of investors and analysts predict sequential earnings deceleration and 79% expect results to be *Below* consensus
- More than 90% expect EPS, Revenue Growth and Operating Margins to register *Worse Than* expectations, all record lows
- Similarly, more than 90% believe the U.S. and Eurozone will *Worsen* over the next six months, followed closely by Latin America, Mexico and Brazil; China is the lone region expected to improve, a view held by nearly 50%, despite two-thirds not expecting a 'Phase 2' U.S./China trade agreement this year
- 86% expect the U.S. to enter a recession in 2020; full-year U.S. industrial organic growth predictions average an 8.1% contraction, though more than one-third expect a 10% or greater contraction

## Investors Have Specific Expectations and Await Clarity from Executives

- Top areas of interest for upcoming earnings calls include liquidity and cost management levers, demand trends and capital allocation reprioritization; margin outlooks emerge as the leading sell side question across earnings calls already occurring
- Debt reduction is overwhelmingly cited as the top capital deployment preference by 62%; those favoring cash conservation also increased more than five-fold to 54% from 10% last quarter
  - 58% are in favor of companies drawing on their revolver at this time, while 33% note "it depends" on the company and only 9% are against
  - 50% report a preferred Net Debt-to-EBITDA ratio threshold below 2.0x, in line with last quarter
- Only 21% favor dividend growth, while fewer than 20% prefer buybacks or M&A at this point

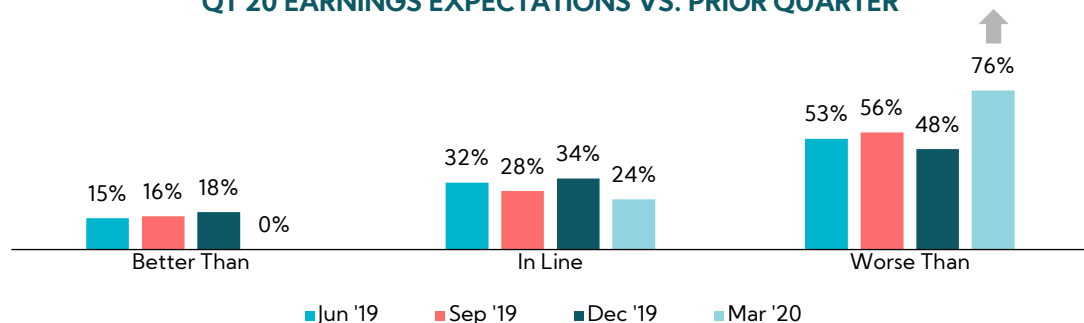
## Few Pockets of Optimism Exist with a Tough Year ahead for Most Industrials... Sellers Nearly Outpace Buyers 3:1

- Despite more than 50% classifying industrial equities as *Undervalued*, 35% report *Net Selling*, compared to 13% *Net Buying* and 17% *Rotating*; the most compelling investment themes include cost-cutting initiatives and aftermarket exposure, while mid-caps and companies with oil exposure are out-of-favor
- Despite a significant pullback, Defense remains the top pick among industries for the 10th consecutive quarter, with Ag and Water the only other industries with more bulls than bears; Commercial Aerospace sees record 100% bearishness

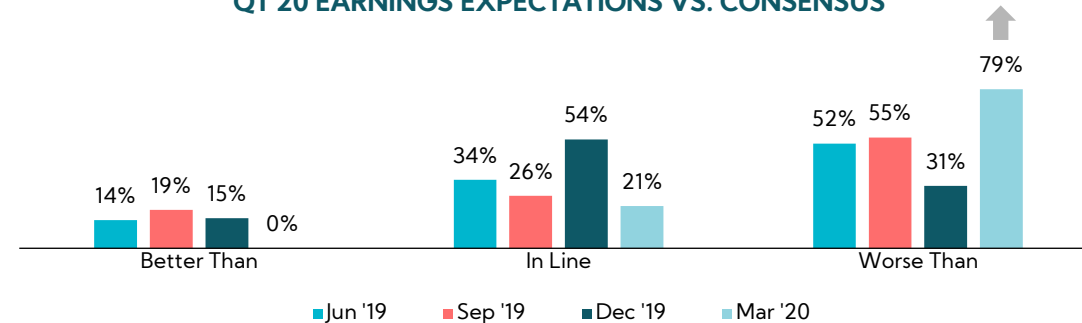
# Investors Expect Earnings Misses Relative to Consensus

*Sell Side Has Yet To Materially Adjust for COVID-19 Impact, While Nearly Two-Thirds of Industrials Reporting to Date Have Withdrawn Guidance*

Q1'20 EARNINGS EXPECTATIONS VS. PRIOR QUARTER

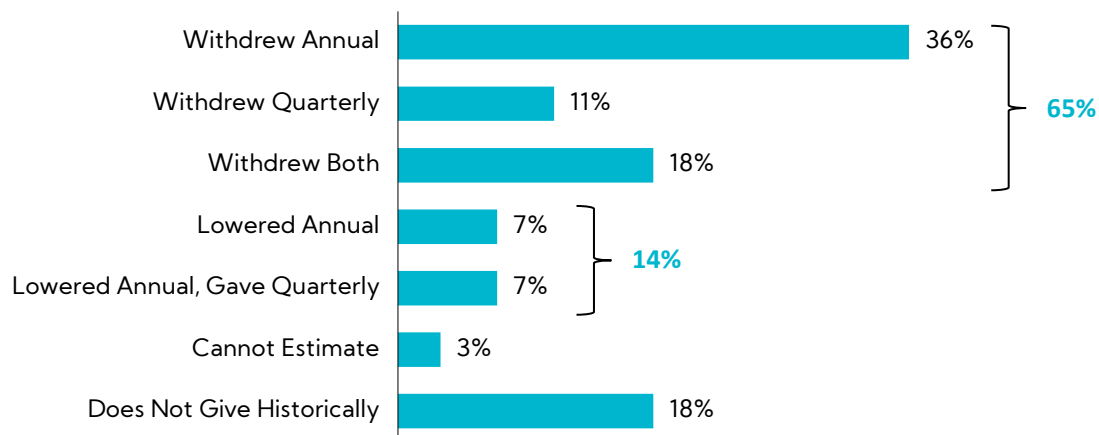


Q1'20 EARNINGS EXPECTATIONS VS. CONSENSUS



INDUSTRIAL GUIDANCE ACTIONS DURING Q1'20 EARNINGS TO-DATE

*n = 28*



## Worse Than

*"Severe worldwide drop-off in March." Buy Side, Industrials, N. America*

*"World ended mid-March and many estimates have not been adjusted for it." Buy Side, Industrials, N. America*

*"March cratered in U.S. and Europe and Asia was very weak." Sell Side, Industrials, N. America*

*"Q1 typically seasonally weaker, plus COVID-19." Sell Side, Industrials, N. America*

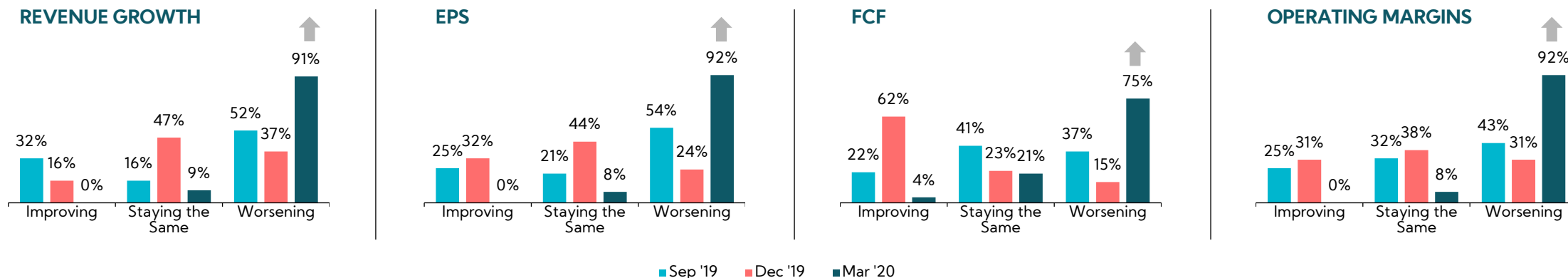
*"Coronavirus." Sell Side, Industrials, Europe*

*"Coronavirus and the unknown extent of its toll." Sell Side, Industrials, Asia*

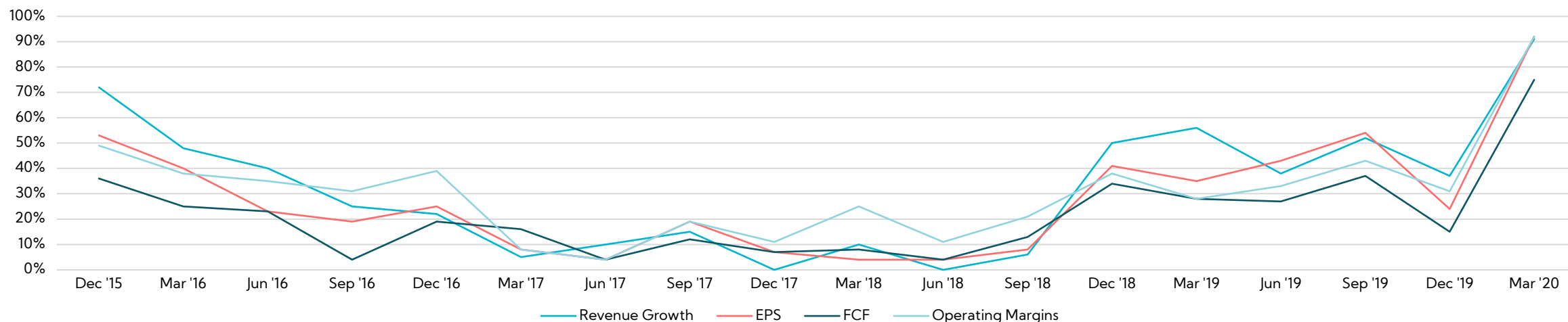
*"The coronavirus crisis is going to hit the global economy with full force in Q1'20. Although economic activity in the U.S. will only be severely curtailed in Q2'20, the impact is already being felt today." Sell Side, Generalist, Europe*

# All KPIs See Record Low Expectations, More than 20pts Above Previous Record Lows Set in Dec. 2015

After a rebound in sentiment last quarter, COVID-19 wipes out optimism



## RESPONDENTS EXPECTING WORSENING KPIS



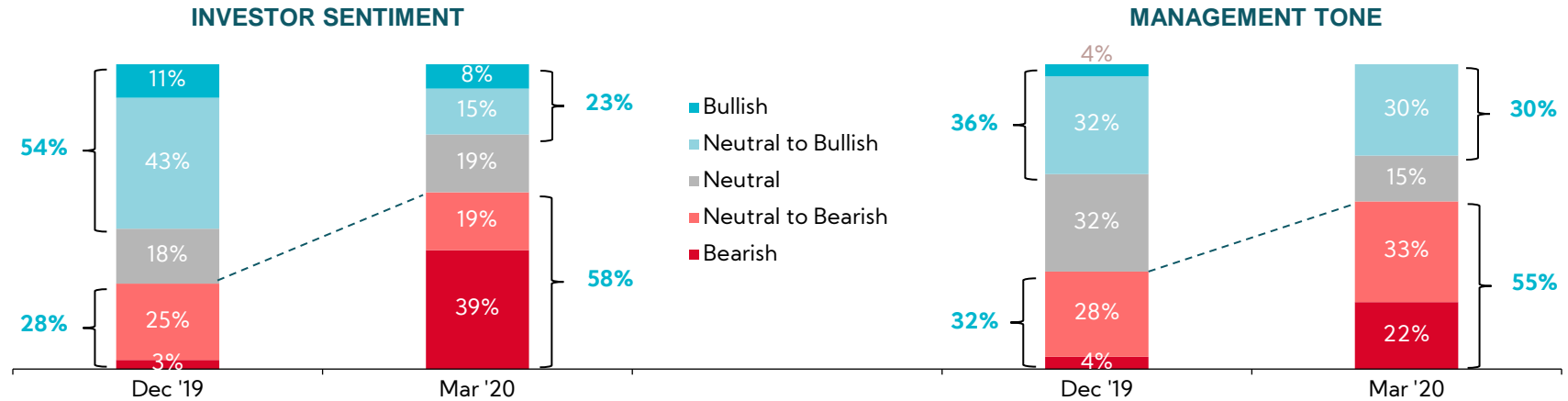


# Sentiment and Perceived Management Tone Largely Downbeat, though a Segment of Bulls Remain

Investor sentiment and perceived management tone the most closely aligned since Dec. 2016

## Earnings Call Topics

1. Liquidity and cost management levers
2. Demand trends and outlook
3. Balance sheet strengthening and liquidity preservation
4. Supply chain challenges
5. Oil price exposure
6. Recovery plan



### Views from N. America

"State of end demand and financial condition." Buy Side, Generalist

"Liquidity." Buy Side, Industrials

"Virus impact and outlook." Buy Side, Industrials

"What's next after the downturn and why is their company going to lead or participate in the changes ahead?" Sell Side, Industrials

"Fixed vs. variable costs." Sell Side, Industrials

"Supply chain challenges." Sell Side, Industrials

"Sales and orders." Sell Side, Industrials

### Views from EMEA

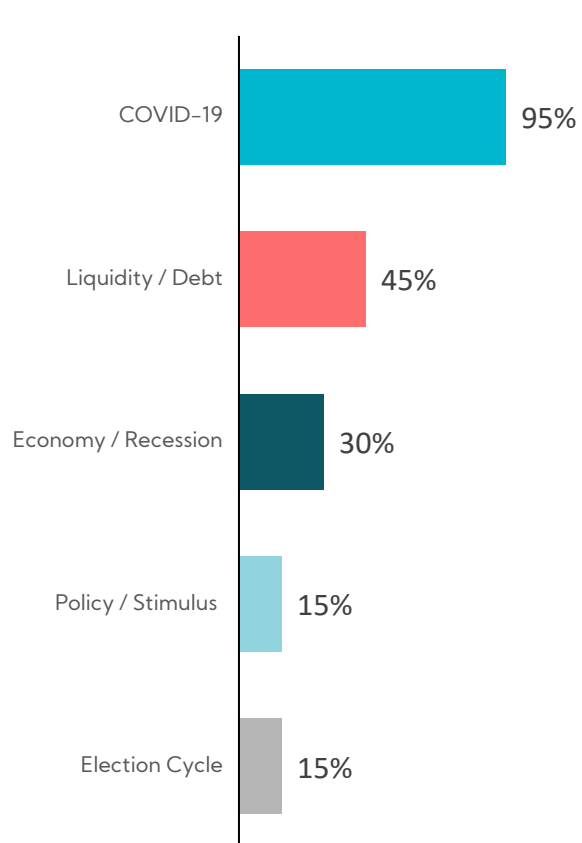
"Supply chain viability, readiness for second COVID-19 wave and swift recovery." Buy Side, Generalist

"Accuracy of coronavirus impact. What risk measurements can help prevent from pandemics in the future? How can corporations survive in such a calamity?" Sell Side, Industrials



# Top Concerns from around the Globe

COVID-19. Period.



## Views from N. America

*"Excessive credit leading to a credit crisis, poor understanding of policy responses, general complacency."* **Buy Side, Generalist**

*"Corporate earnings, U.S. debt levels."* **Buy Side, Generalist**

*"Recession, recovery-related inflation, election cycle."* **Buy Side, Generalist**

*"Second wave of COVID-19, massive increase in unemployment, ballooning budget deficits."* **Buy Side, Generalist**

*"COVID-19, oil, banks failing."* **Buy Side, Industrials**

*"Duration of virus-related shutdowns."* **Buy Side, Industrials**

*"Virus, post-virus recession, post-virus balance sheets."* **Buy Side, Industrials**

*"Virus, Trump."* **Buy Side, Industrials**

*"Adequate liquidity, unburdened by poor businesses that are about to be eclipsed in the accelerating shift to a digital economy, poised and ready to be opportunistic."* **Sell Side, Industrials**

*"Estimates, expectations for a V recovery."* **Sell Side, Industrials**

*"Employment, capital spending, consumer confidence."* **Sell Side, Industrials**

*"COVID-19 curve, yield curve, depth of recession."* **Sell Side, Industrials**

*"Unable to restart the economy, financial stress, crushing bear market."* **Sell Side, Industrials**

*"COVID-19 bankruptcies, COVID-19 lasts longer, democrats."* **Sell Side, Industrials**

## Views from EMEA and APAC

*"Second wave of COVID-19, war, emerging market debt worries."* **Buy Side, Generalist**

*"Market behavior (herd), spread of COVID-19, politics in the U.S."* **Buy Side, Multi**

*"Overcrowded tech, extremely low yields in corporate, zombification of economy."* **Buy Side, Generalist**

*"Growth, Trump, China, Russia and Turkey."* **Buy Side, Generalist**

*"Fiscal mistakes, COVID-19."* **Buy Side, Generalist**

*"US-election, fail of COVID-19 vaccine, trade war for US-China."* **Buy Side, Generalist**

*"COVID-19, U.S. elections, Brexit."* **Sell Side, Materials**

*"COVID-19 second wave/no vaccine, unemployment kicking in as furlough/temp payment schemes end, Trump re-election."* **Sell Side, Multi**

*"New conflict between U.S. and China, Brexit, government debt."* **Sell Side, Generalist**

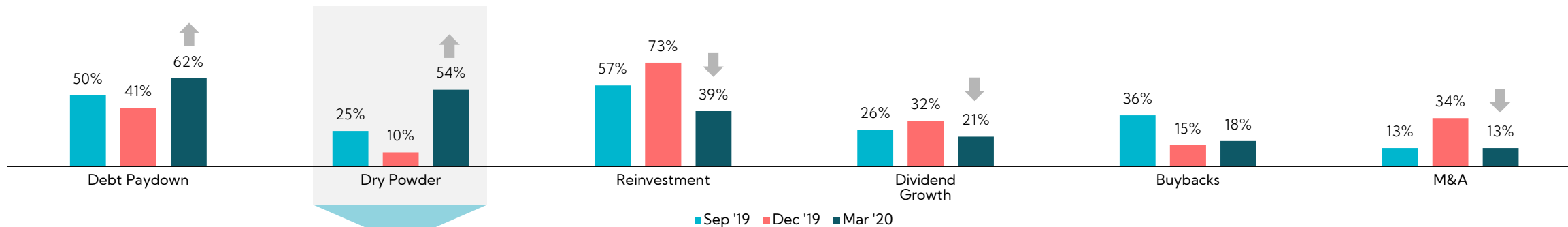
*"Second wave of COVID-19 cases in Europe and U.S., escalation of the U.S./China trade war."* **Sell Side, Multi**

# Debt Reduction Overwhelmingly Cited as the Top Capital Deployment Preference

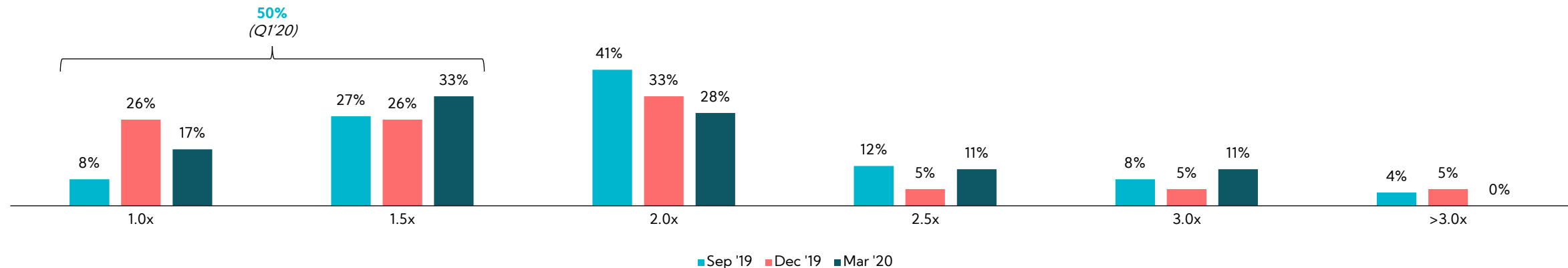
Those favoring cash hoarding (“dry powder”) increased more than five-fold; dividend growth, buybacks and M&A are out-of-favor, while preference for reinvestment decreases significantly; half favor a Net Debt-to-EBITDA level below 2.0x, in line with last quarter

## PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



## IDEAL NET DEBT-TO-EBITDA LEVELS FOR INDUSTRIALS

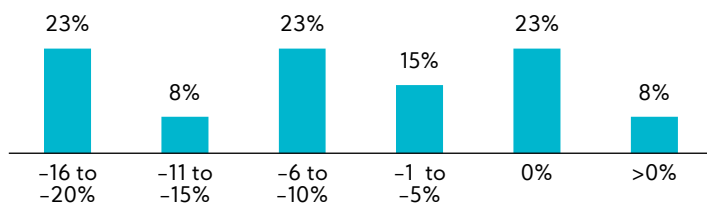


**58%** Are in Favor of Companies Drawing on their Revolver; 33% Note “It Depends” on the company

# 2020 U.S. Industrial Organic Growth Expectations Average 8.1% Contraction

86% expect a U.S. recession in 2020, with 2020 U.S. organic growth expectations widely varying with a midpoint of 8.1% contraction, compared to the 1.1% average growth expected prior to COVID-19

## 2020 U.S. INDUSTRIAL ORGANIC GROWTH/CONTRACTION EXPECTATION



## PROPRIETARY RESEARCH

According to our survey, investors are most focused on the following economic indicators

1	Manufacturing ISM <sup>®</sup>	76%
2	Unemployment	39%
3	Consumer Confidence	18%
4	Yield Curve	18%
5	Commodity Prices	15%
6	CPI	9%
7	GDP	9%
8	CFI	6%
9	Housing Market	6%
10	Stock Market	6%

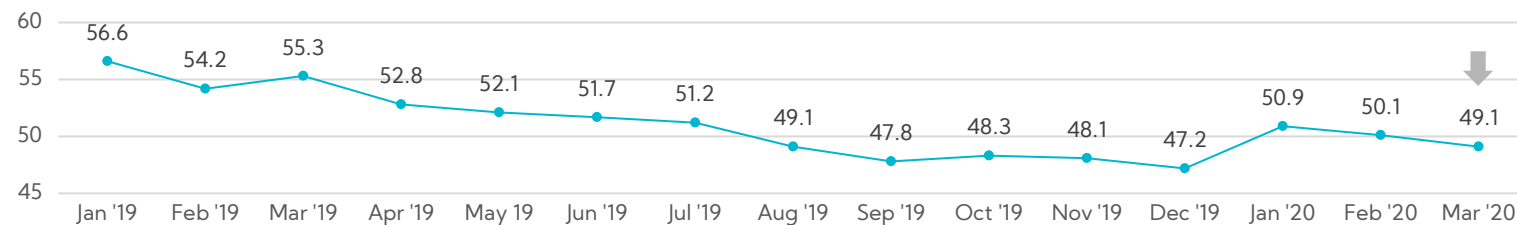
<sup>1</sup> Source: Institute for Supply Management;

<sup>2</sup> Source: U.S. Bureau of Labor Statistics;

<sup>3</sup> Source: The Conference Board

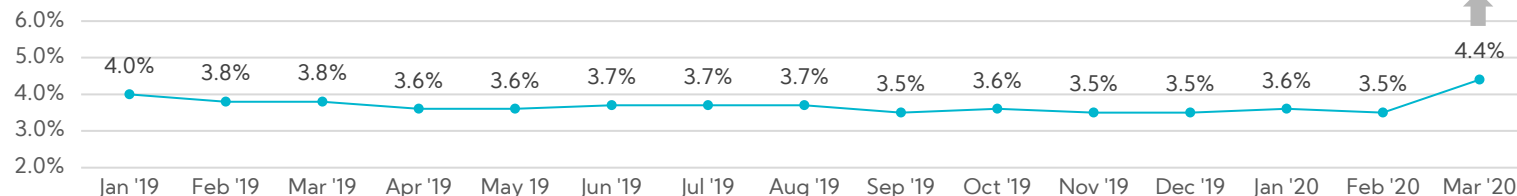
## MANUFACTURING ISM<sup>®</sup> REPORT ON BUSINESS<sup>1</sup>

Great Recession Low: 33.3 (Dec. 2008)



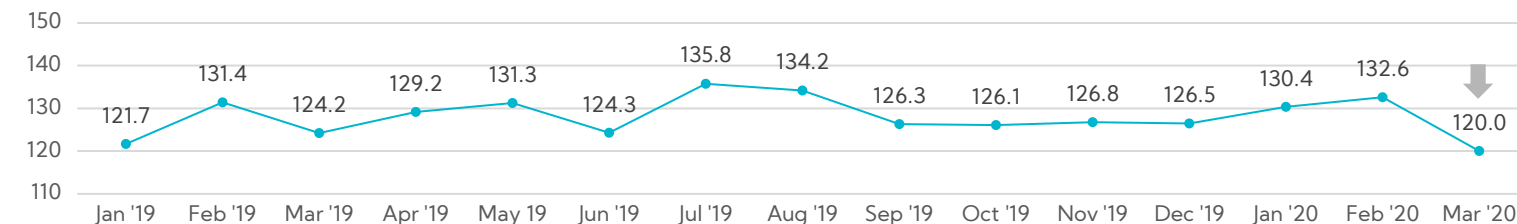
## U.S. UNEMPLOYMENT RATE<sup>2</sup>

Great Recession Peak: 10.1% (Oct. 2009)



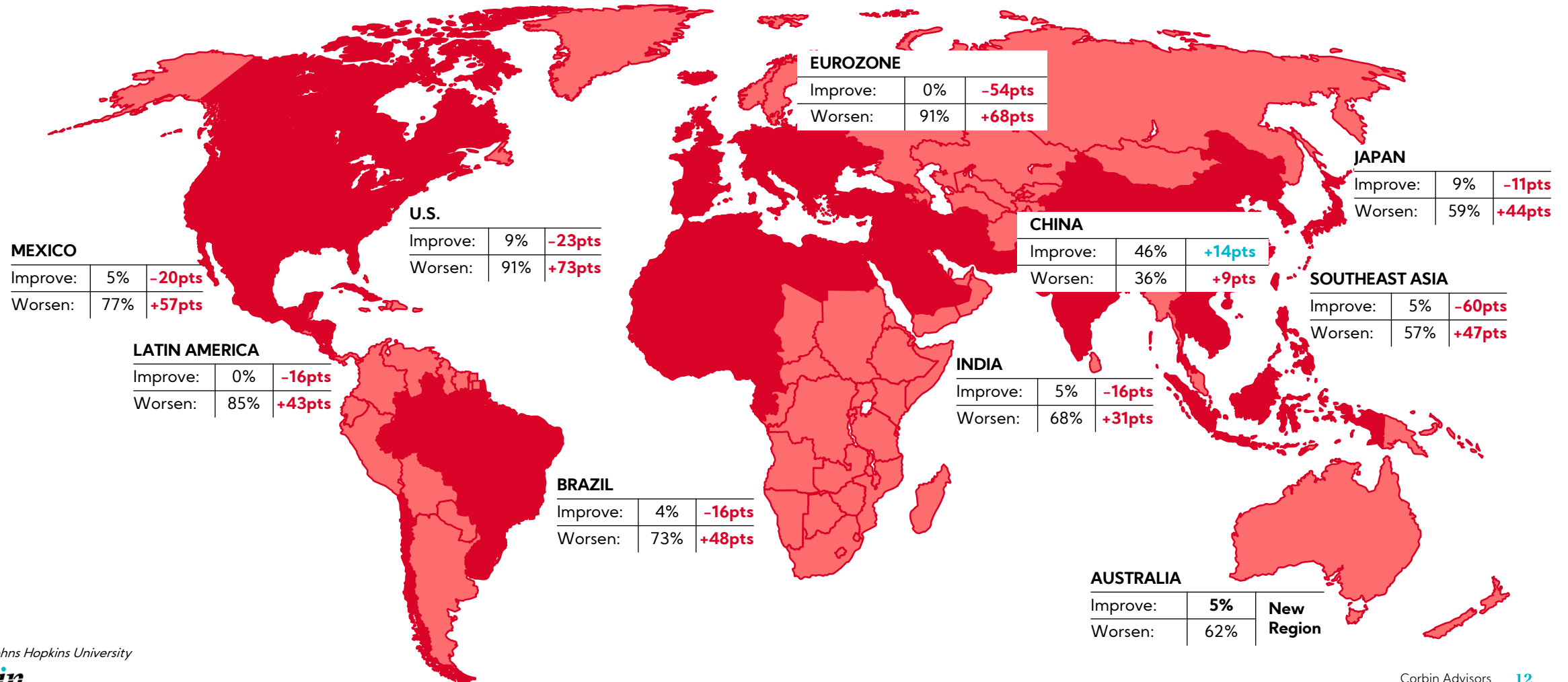
## CONSUMER CONFIDENCE<sup>3</sup>

Great Recession Low: 25.3 (Feb. 2009)



# Draconian Outlooks Pervasive across the Globe, with the Exception of China

More than 90% expect the U.S. & Eurozone to Worsen over the next six months; China is the only region expected to improve, a view held by nearly 50%

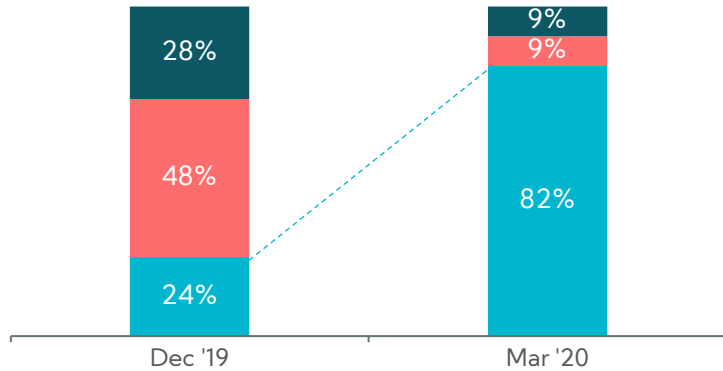


# Views on Key Economic Indicators Over the Next Six Months

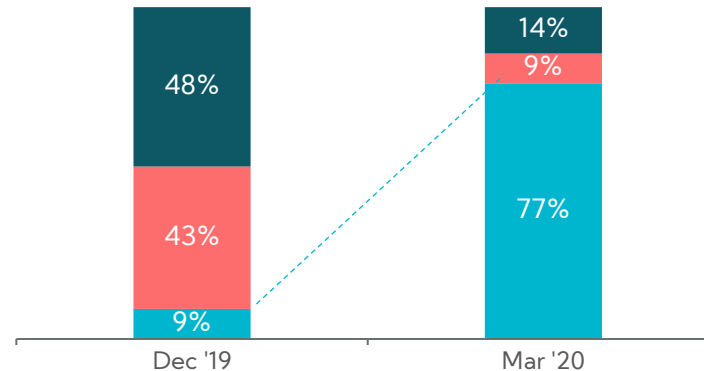
Shadow cast on nearly all indicators, with the exception of company input costs; Global PMI, U.S. unemployment and U.S. consumer confidence, the top three indicators watched closely by investors, all see deteriorating expectations

- Improving
- Staying the Same
- Worsening

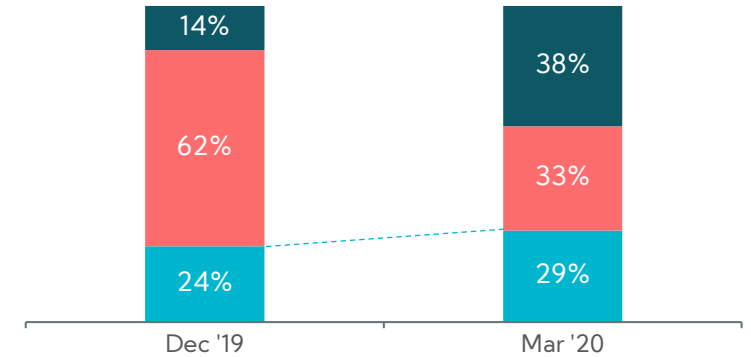
GLOBAL CAPEX



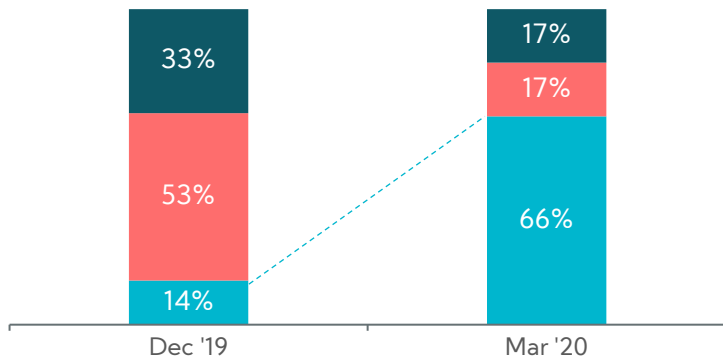
GLOBAL PMI



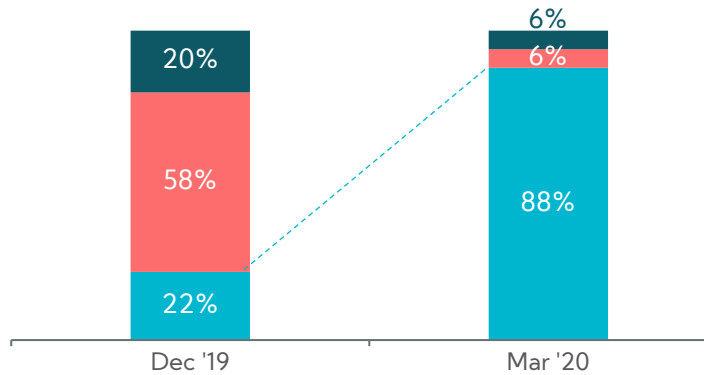
COMPANY INPUT COSTS



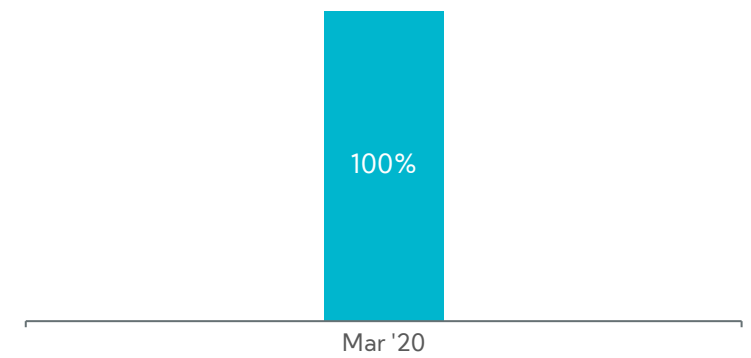
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



U.S. UNEMPLOYMENT RATE<sup>1</sup>

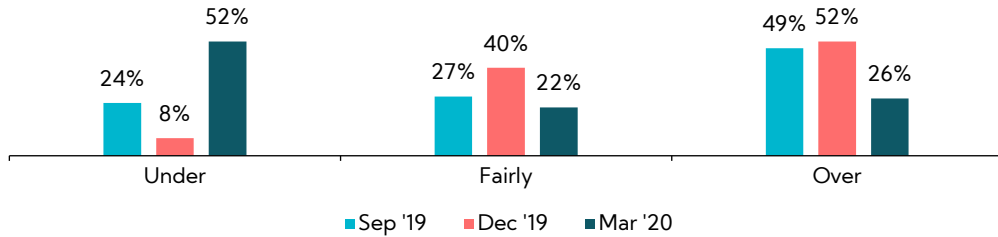


<sup>1</sup>New measure

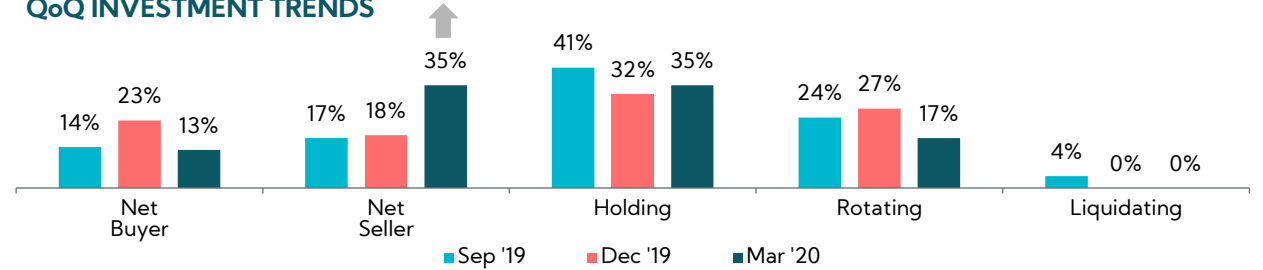
# Despite Global Industrial Valuations Generally Being Viewed as Undervalued, Net Sellers Double QoQ

35% report being Net Sellers, compared to 30% Net Buyers or Rotating; cost-cutting initiatives and aftermarket components viewed as the most compelling investment themes, while mid-caps fall out of favor

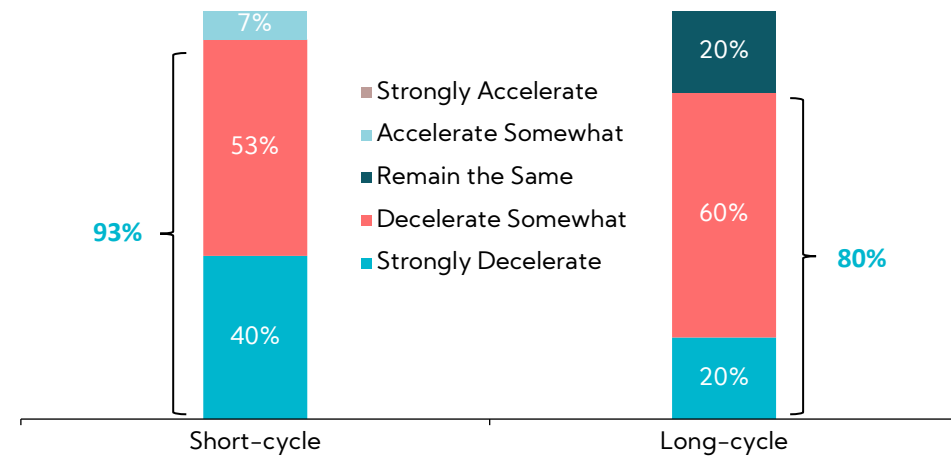
## GLOBAL INDUSTRIAL VALUATIONS



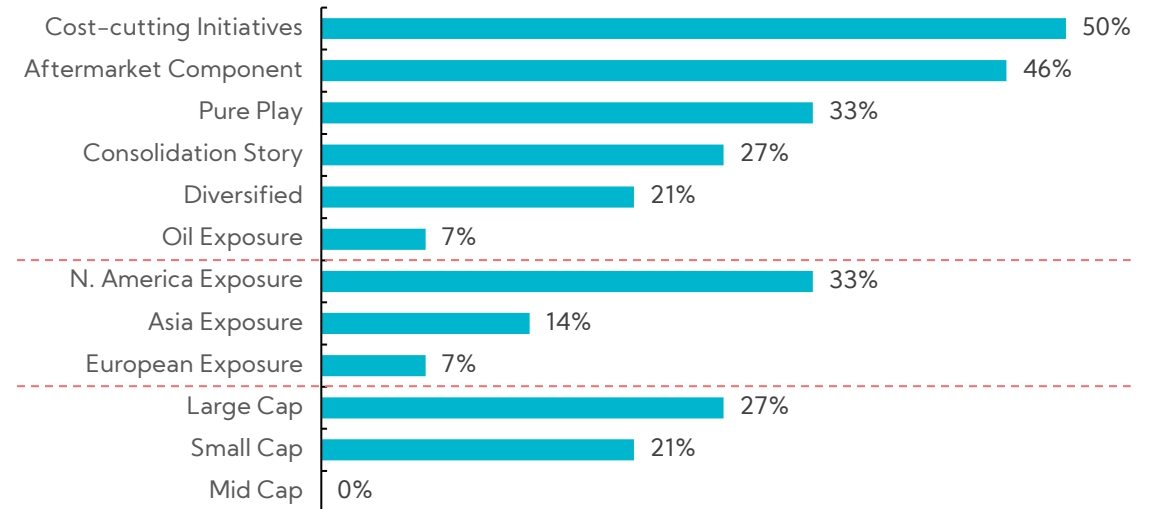
## QoQ INVESTMENT TRENDS



## 2020 INDUSTRIAL ORDER RATES EXPECTATIONS OVER THE NEXT SIX MONTHS

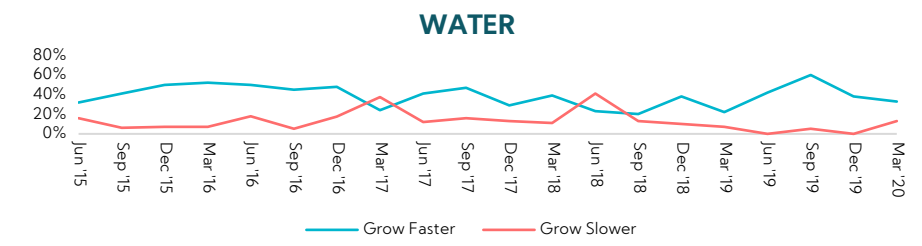
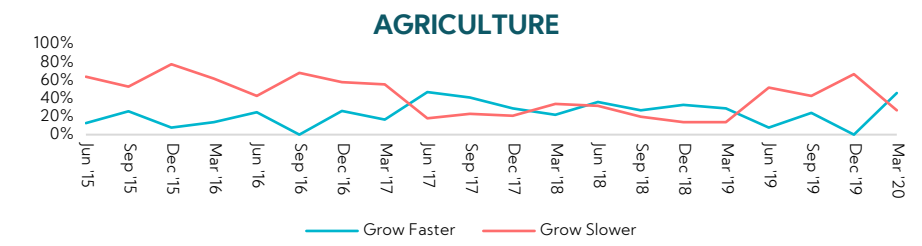
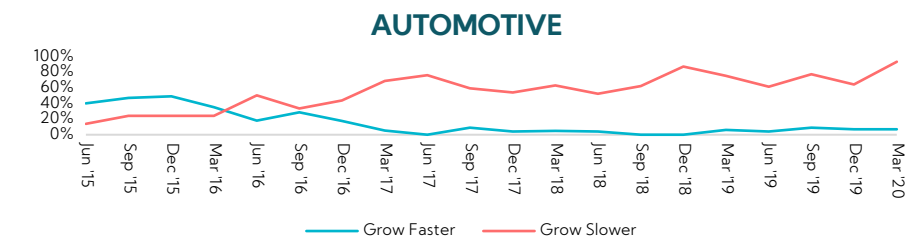
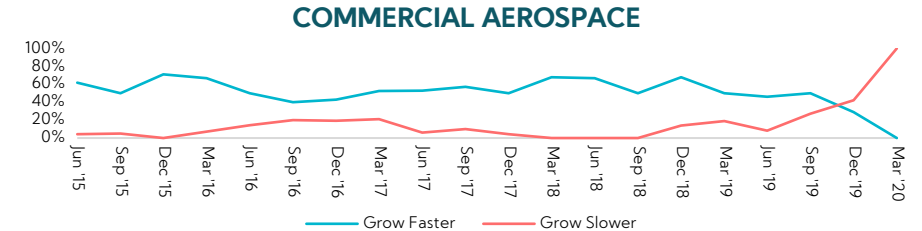
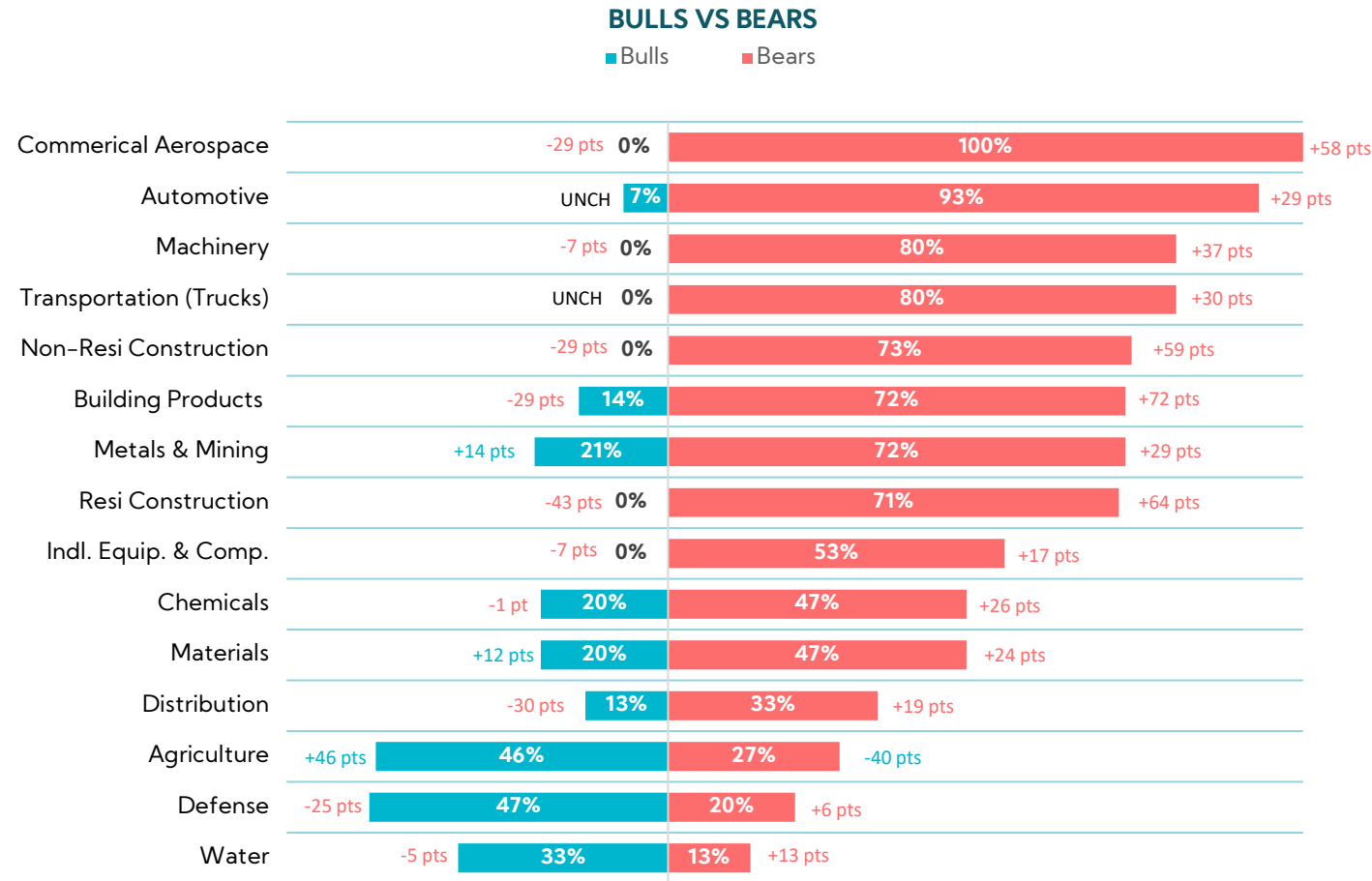


## MOST COMPELLING INDUSTRIAL INVESTMENT THEMES



# All Industries Except Ag See Influx of Bears

Despite a significant pullback, Defense remains the top pick among industries for the 10th consecutive quarter, with Ag and Water the only other industries with more bulls than bears; Commercial Aerospace sees record 100% bears



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

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