

corbin

Q2'20

Industrial Sentiment Survey

July 21, 2020



Inside The Buy-side® Q2'20 Industrial Sentiment Survey

For 13 years, 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 and the industrial sector, 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: 43 sector-dedicated investors and analysts globally; buy-side firms manage ~\$1.5 trillion in assets, including ~\$130 billion invested in Industrials

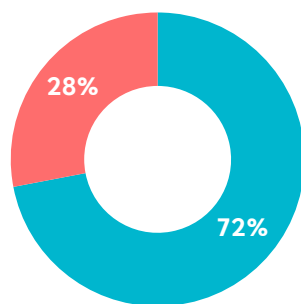
Survey Timeframe: Jun. 12 – Jul. 9, 2020

Issue: 21
Date: July 21, 2020

MARKET PERFORMANCE	Q2'20	YTD ¹
DJIA	17.8%	(9.6%)
NASDAQ	30.6%	12.1%
S&P 500	20.0%	(4.0%)
S&P 500 Industrial	16.4%	(15.5%)
Russell 2000	25.0%	(13.6%)

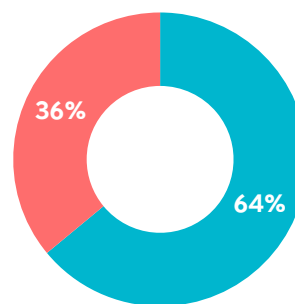
¹ As of Jun. 30, 2020

ROLE



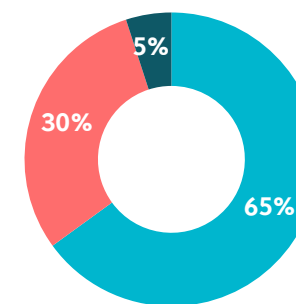
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION

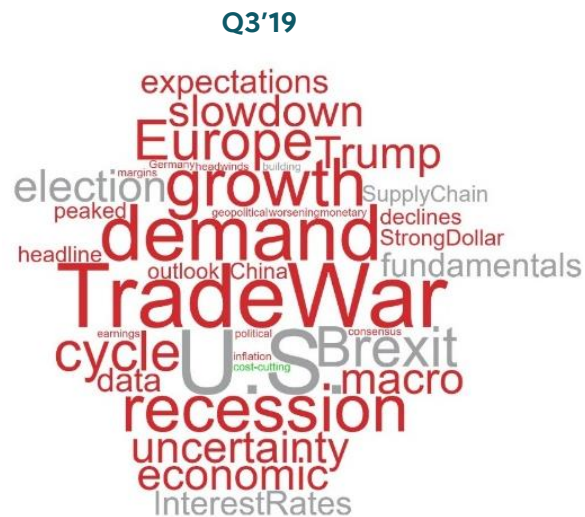


■ North America ■ EMEA ■ APAC

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

WITH THE WORST PERCEIVED TO BE BEHIND US, ATTENTION TURNS TO RECOVERY



TOP MENTIONS	Q2'19	Q3'19	Q4'19	Q1'20	Q/Q
COVID-19	0	0	37	16	↓ 21
Recovery	0	0	0	10	↑ 10
Demand	6	2	2	7	↑ 5
Cost	4	2	0	5	↑ 5
Risk	0	0	0	5	↑ 5

Key: Underlying Sentiment

- Positive
- Neutral
- Negative

Survey Finds Industrial Phoenix Rises from the Ashes as Investor Sentiment Rebounds

Near-universal Expectations for Q2 to be the Trough as Industrials are Expected to “Reset at the Bottom”

- 77% of surveyed investors and analysts expect *Worse Than* sequential earnings, consistent with last quarter, which nearly 50% report was *Better Than* their expectations heading into Q1
- Marking record lows, more than 90% expect EPS, Revenue Growth and Operating Margins to have *Worsened* sequentially
- Nearly 40% describe themselves as *Neutral to Bullish* or *Bullish*, up from 23% last quarter, while fewer than one-quarter are *Neutral to Bearish* or *Bearish*, marking the least bearish sentiment in over two years; this is despite management tone primarily being described as mixed to downbeat
- ~60% believe the U.S., China and Eurozone economies will improve over the next six months; Brazil, Latin America and Mexico are expected to *Worsen*
- Still, the rising number of COVID-19 cases is cited as the top concern and could temper exuberance; more than 30% cite U.S. unemployment, as well as fiscal and monetary policy as reasons to worry

Expectations for What Is and Isn't Expected this Quarter, Including a Notable Shift in Capital Deployment Preferences

- On guidance: 78% are not expecting industrial companies to reinstate annual guidance this quarter
- On earnings topics: Top areas of interest include demand trends and outlook, cost levers and long-term growth investments
 - Identified leading sustainable competitive advantages include balance sheet strength (50%), digital advancement (30%) and FCF generation capabilities (20%)
- On capital deployment generally: After increasing to a record high of 54% last quarter, fewer than 30% now prefer cash conservation; reinvestment and debt paydown are cited as the top preferences for cash by nearly half of investors
- On M&A specifically: The percentage of investors warming to M&A increased nearly four-fold this quarter to 46% from 13%; nearly 70% prefer bolt-ons, while 20% indicate an appetite for transformational acquisitions

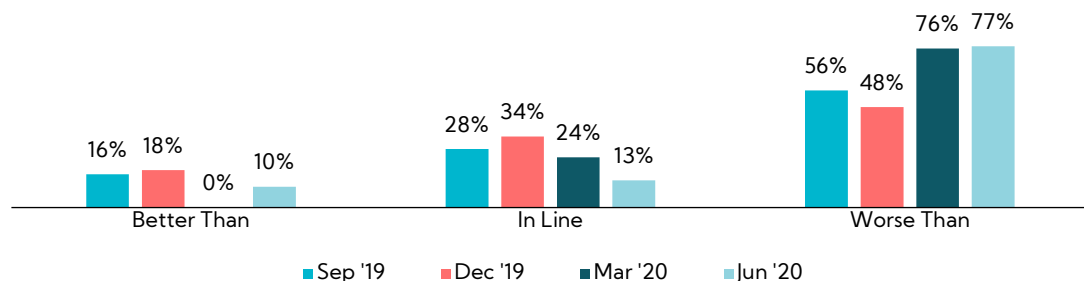
Not a Seller was Stirring...Not Even a One

- Despite nearly 50% classifying industrial equities as *Overvalued*, nearly 50% report being *Net Buyers* and another 35% Rotating; none report being a *Net Seller*; growth investments, digitalization and cost-cutting initiatives are identified as the most compelling investment themes
- For the first time in more than two years, Defense is no longer the top industry pick as bulls embrace Resi. Construction and Building Products, while Transportation and Auto also see a significant increase in bulls; bears remain prolific in some industries, particularly Commercial Aero and Non-Resi. Construction, but about half see more bulls than bears

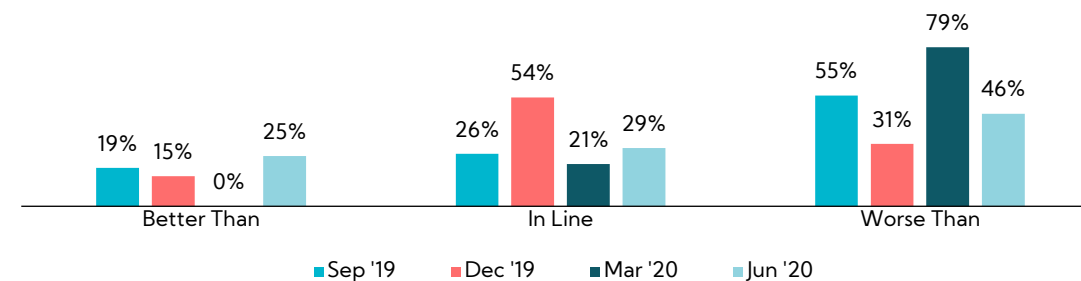
Q2 Trough Baked In as Investors Anticipate Improvement from April to July

Nearly 80% expect worsening results and 78% do not expect companies to reinstate formal guidance; investors expect an update on monthly trends and scenario analyses, the latter of which was considered Very Helpful last quarter

Q2'20 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Q2'20 EARNINGS EXPECTATIONS VS. CONSENSUS



Better Than

"Pent-up demand in the economy." **Buy Side, Generalist, North America**

"Outlook less bad on gradual re-openings." **Sell Side, Industrials, North America**

"May was not as bad as initially expected and some sell side have not adjusted numbers appropriately, so consensus is too low." **Sell Side, Industrials, North America**

In Line

"Expect that April was trough and May saw a rebound. Will be a tough earnings season as almost all firms pulled guidance and leaves plenty of room for interpretation for earnings." **Sell Side, Industrials, North America**

Worse Than

"High fixed cost, no volume, very bad combo." **Buy Side, Industrials, North America**

"They will be worse because it is a full three months of COVID-19 versus only one month before." **Buy Side, Industrials, North America**

"Sell side analyst estimates have neither historical precedent on which to rely nor reliable signaling by management that their published estimates are either too high or too low." **Buy Side, Generalist, North America**

"Unfounded, prevalent optimism." **Buy Side, Generalist, Europe**

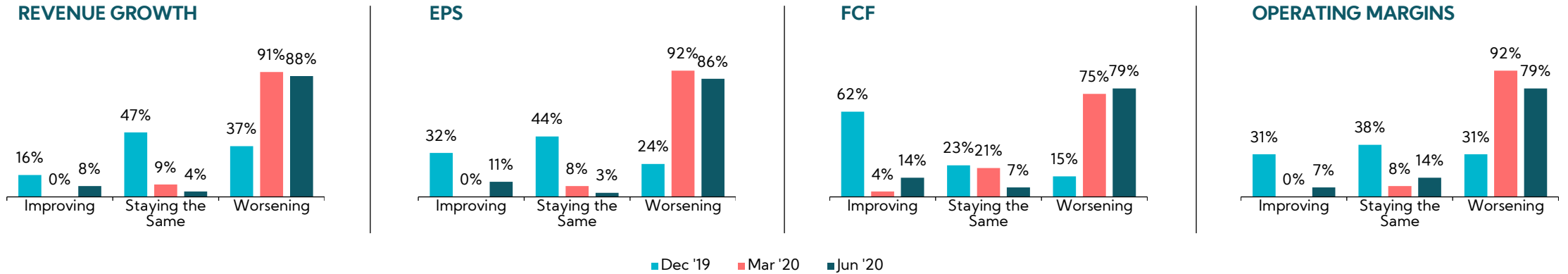
"Sudden impact of COVID-19." **Buy Side, Generalist, Europe**

"COVID-19 disruptions and demand collapse hit areas that are deemed 'safe' after the experience from the financial crisis of 2008-09. This time is significantly different. Aftermarket earnings being decimated, rubbish companies that should disappear are kept alive with state subsidies, unemployment rates comparable with the Great Depression a hundred years ago, and so on. This will hurt." **Buy Side, Generalist, Europe**

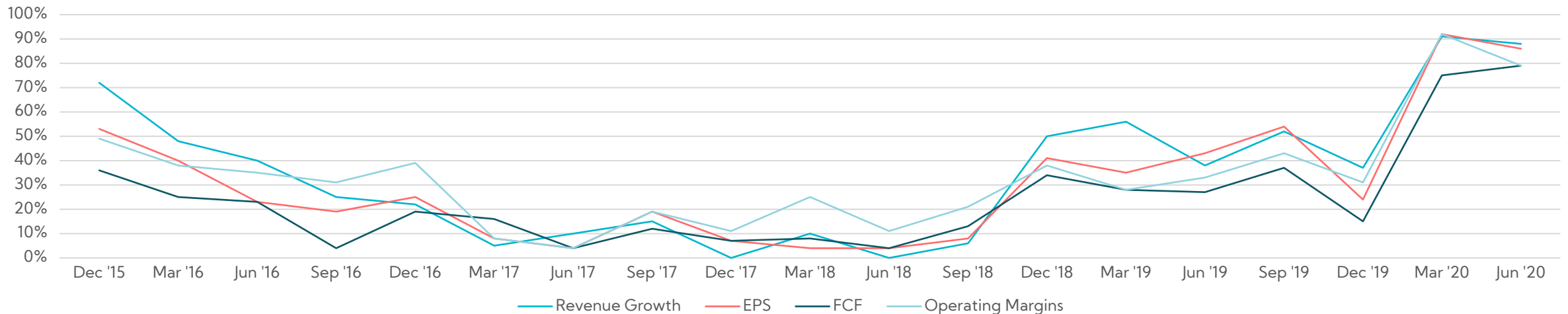
"Corporate earnings will be hurt by the economic crisis caused by the coronavirus." **Sell Side, Generalist, Europe**

The Bar is Low As KPI Expectations Remain Near-record Lows... Next Quarter's Survey Will be Interesting

Q2 will demonstrate the resiliency of management teams and prove out cash preservation actions



RESPONDENTS EXPECTING WORSENING KPIS





Topics of Interest for Upcoming Earnings Calls

Demand trends, cost actions and liquidity remain in focus but a newly emerging emphasis on growth investments identified; 89% report that management teams that provide high levels of transparency when communicating with investors trade at a premium

- 1. Demand trends and outlook
- 2. Cost actions and levers
- 3. Long-term growth investments
- 4. U.S./China trade war implications
- 5. Financial state
- 6. Recurring revenue

Views from N. America

"Cost take-outs." Buy Side, Industrials

"Broad market conditions, up-to-date trends that they are seeing, not just on the quarter but new trends." Buy Side, Industrials

"Long-term vision and goals." Buy Side, Industrials

"Pricing, re-shoring, restructuring, M&A pipeline." Buy Side, Industrials

"Proactive investments for growth." Buy Side, Industrials

"Set expectations." Buy Side, Industrials, North America

"Visibility, sales, margins." Buy Side, Industrials

"What they are seeing in the business pipeline." Buy Side, Industrials

"What trends they are seeing in July, more real-time data is useful because it is changing so quickly. How they feel about inventory levels." Buy Side, Industrials

"12-month outlook." Buy Side, Generalist

"Execution." Buy Side, Generalist

"Liquidity, 12-month outlook." Buy Side, Generalist

"Re-evaluation of business post-COVID-19." Sell Side, Industrials

"Ability to flex workforce down if demand remains impacted and what level of revenue can current staffing levels support." Sell Side, Industrials

"Shape of recovery so far: April>>May>>June." Sell Side, Industrials

Views from EMEA/APAC

"Cash flow, cost savings, new order intake, cash at hand." Sell Side, Industrials

"Long-term growth investments." Sell Side, Industrials

"Are you prepared for a possible new trade war between the U.S. and China?" Sell Side, Generalist

"Business opportunities after COVID-19." Sell Side, Generalist

"Forward order books, margins, debt, recurring revenues." Buy Side, Generalist

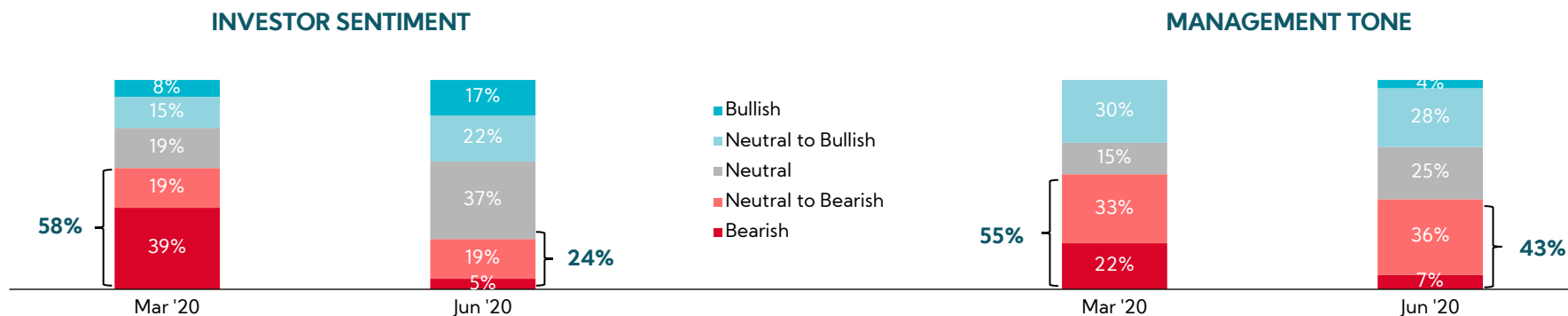
"General outlook on market and product." Buy Side, Generalist

"Long-term impact of unemployment on their top and bottom line; possible further COVID-19 related disruptions and their impact; flexibility of cost structure and speed of possible re-scaling in the case of a V-shaped recovery." Buy Side, Generalist

"5G-related demand strength, U.S. Department of Commerce regulations for Huawei, consumption from staying at home." Sell Side, Industrials

Summer Hibernation? The Fewest Bears in More than Two Years

After a record number of bears last quarter, fewer than one-quarter describe themselves as downbeat and nearly 40% are optimistic; investors reading past perceived overly conservative management tones



Bullish/Neutral to Bullish

"Industrials tend to do well once you reach a cyclical bottom." Buy Side, Industrials, N. America

"Industrials tend to perform well at tail-end of slowdown." Buy Side, Industrials, N. America

"Runway due to reset in economic cycle." Buy Side, Industrials, N. America

"There are opportunities, but the stocks have come back pretty strong. Management teams were more scared in April. Talking to them recently, they are starting to sound optimistic, but they are not quite there. They know it's going to be a tough time." Buy Side, Industrials, North America

"Due to cycle and contrarian standpoint." Buy Side, Industrials, North America

"It depends on the company, end markets and financial strength." Buy Side, Industrials, N. America

"No new lockdown. Catch up in several sectors." Sell Side, Industrials, Europe

Neutral

"Some areas are doing well, and some are not. It depends." Buy Side, Industrials, North America

"Reopening of global economy." Buy Side, Generalist, North America

"Cycles." Sell Side, Industrials, North America

Bearish/Neutral to Bearish

"Many conference calls." Buy Side, Industrials, North America

"The restart will take time." Buy Side, Generalist, North America

"A material portion of employment being lost permanently." Buy Side, Generalist, Europe

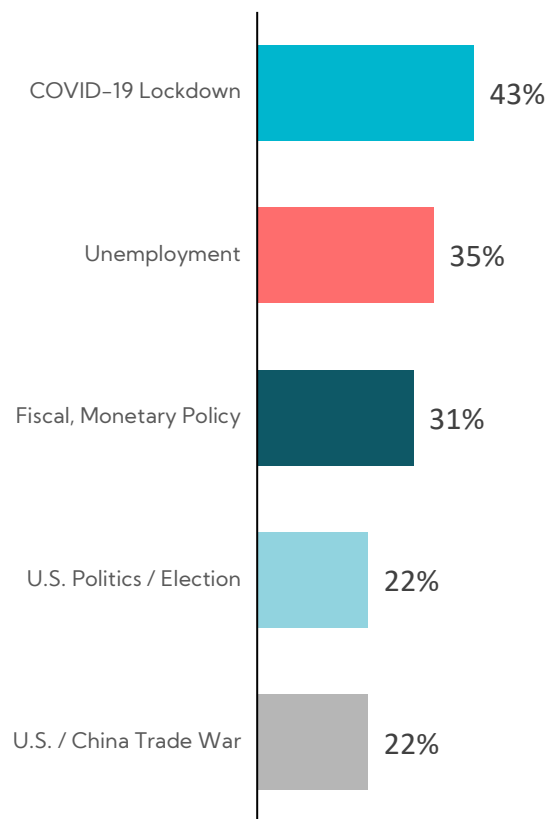
"Uncertainty because of the coronavirus." Buy Side, Generalist, Europe

"Depends on return of capex spending. Firms have cut costs but if revenue doesn't return..." Sell Side, Industrials, North America

"We are at the trough of the COVID-19 collapse. Now follows the COVID-19 induced recession." Buy Side, Generalist, Europe

Top Concerns from around the Globe

No shortage of concerns as markets continue to ascend...fasten your seatbelts upon exiting Q2 earnings season



Views from N. America

"Liquidity/cash, volume recovery, supply chain health." **Buy Side, Industrials**

"Virus supply chain disruptions, customer disruptions, unabsorbed overhead costs." **Buy Side, Industrials**

"De-stocking, second wave, protectionism." **Buy Side, Industrials**

"COVID-19, election, global debt." **Buy Side, Industrials**

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

"Municipal bond market will crack, structurally high 10%, unemployment." **Buy Side, Generalist**

"Trump, Brexit, Hong Kong." **Buy Side, Generalist**

"Second wave, high unemployment, trade." **Buy Side, Generalist**

"Capex demand, price pressure, margins." **Sell Side, Industrials**

"Overall management confidence, supply chain issues, commodity pricing." **Sell Side, Industrials**

"Recession, jobs, election." **Sell Side, Industrials**

Views from EMEA and APAC

"Impact of lockdown, corporate solidity, corporate and government debt." **Buy Side, Industrials**

"Second lockdown, employment." **Buy Side, Industrials**

"Long-term underlying demand, political unrest." **Buy Side, Industrials**

"Second wave, high unemployment, trade." **Buy Side, Generalist**

"Unemployment, rise in savings, long-term inflation (money supply on steroids)." **Buy Side, Generalist**

"Funding, governmental measures, demand." **Buy Side, Generalist**

"U.S. relations to China, COVID-19, U.S. government debt." **Buy Side, Generalist**

"Pandemic is still well alive, re-confinement in some U.S. states, long-term investment freeze." **Sell Side, Generalist**

"U.S. employment statistic, FOMC monetary policy stance, Fed asset size." **Sell Side, Industrials**

"No pick-up in demand, asset price inflation, trade wars." **Sell Side, Industrials**

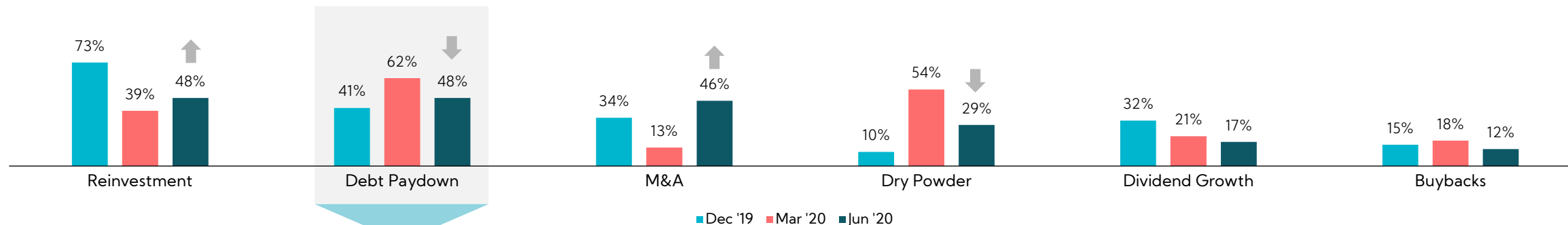
"Trade war with China, second wave, too much optimism." **Sell Side, Generalist**

A Clear Pivot from Hoarding Cash to Investing for Growth; Preserving the Balance Sheet Still En Vogue

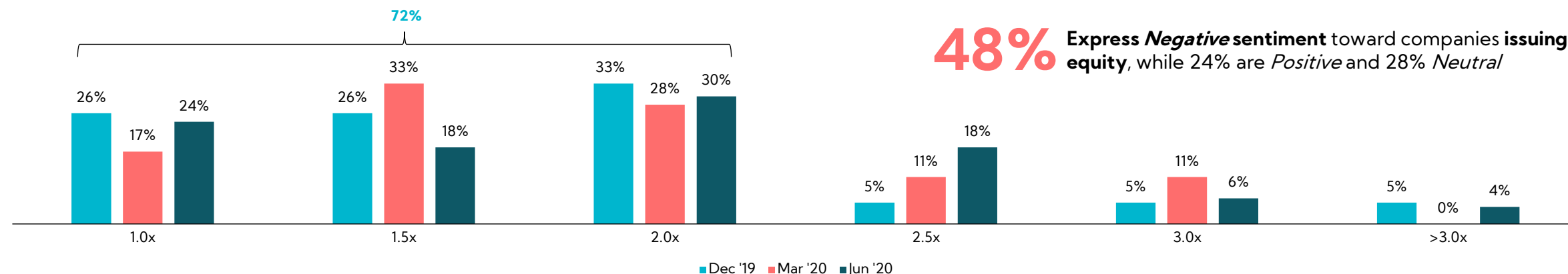
After those favoring dry powder increased more than five-fold last quarter, M&A now sees a nearly four-fold increase in support

PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



IDEAL NET DEBT-TO-EBITDA LEVELS FOR INDUSTRIALS



60% Express **Neutral** sentiment toward companies issuing debt, while 32% are *Positive* and only 8% *Negative*

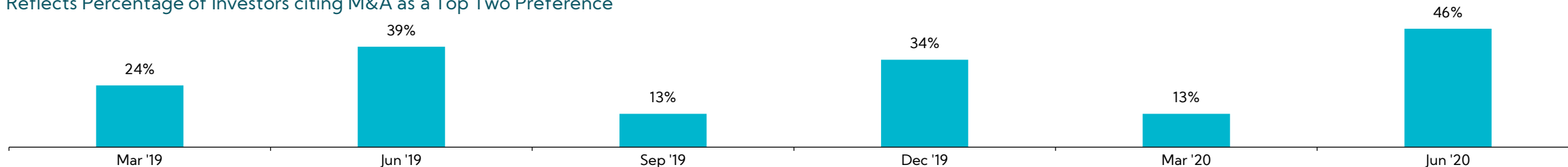
48% Express **Negative** sentiment toward companies issuing equity, while 24% are *Positive* and 28% *Neutral*

Preference for M&A at the Highest Level in More than Six Quarters, with a Bias for Bolt-ons

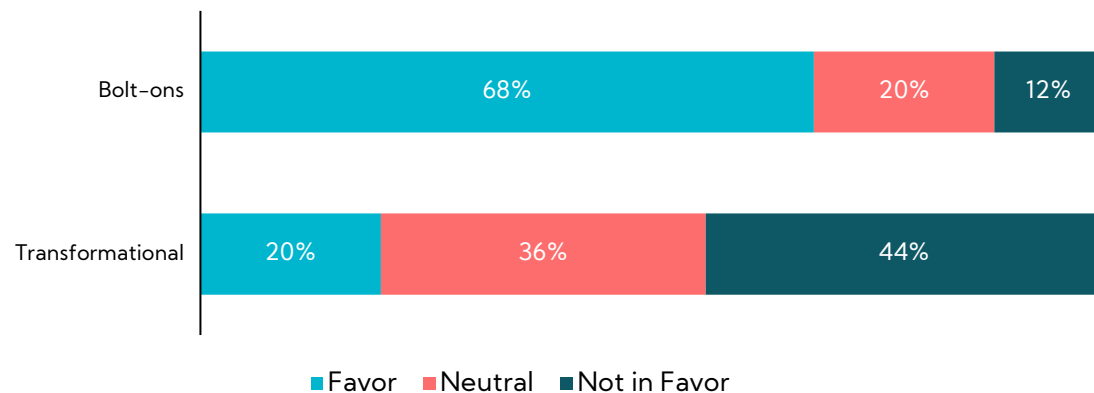
Nearly 70% of investors prefer bolt-ons; up to 3.0x to 3.5x Net Debt-to-EBITDA considered reasonable when funding a deal

M&A AS A PREFERRED USE OF CASH FOR INDUSTRIALS

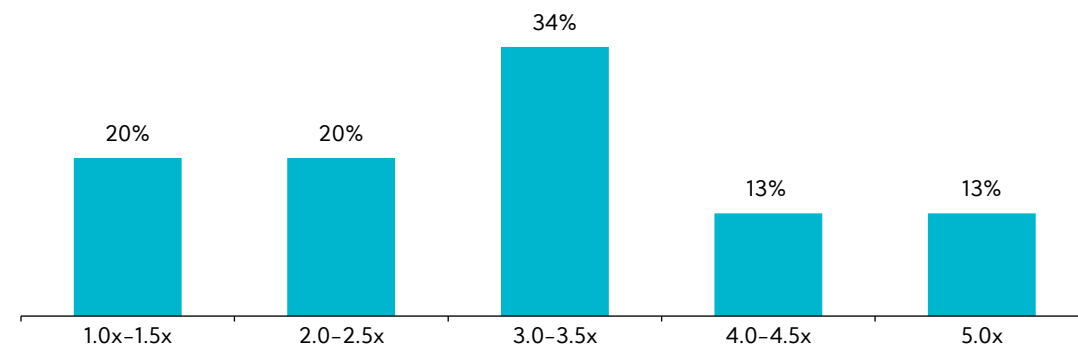
Reflects Percentage of Investors citing M&A as a Top Two Preference



VIEWS ON INORGANIC GROWTH INITIATIVES



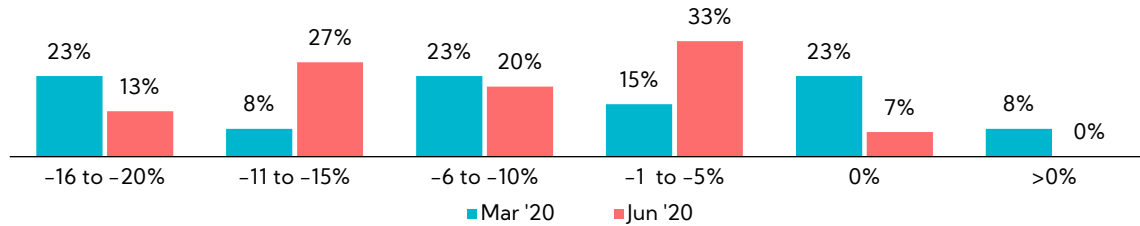
IDEAL NET DEBT-TO-EBITDA LEVELS FOR COMPANIES FUNDING DEAL WITH DEBT (Assuming a Compelling Transaction)



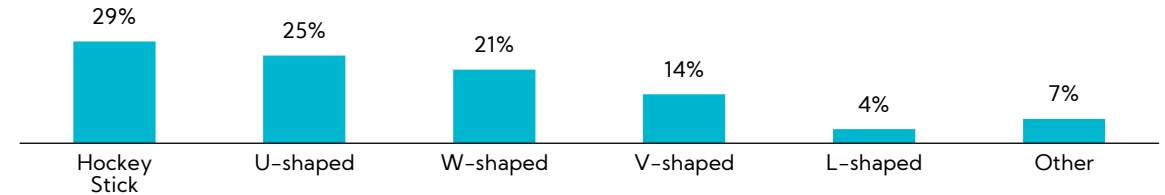
All Early Economic Indicators Point to a Rebound with a Hockey Stick or U-shape Expected

While 2020 U.S. organic growth expectations vary widely again this quarter, most falling between 5% to 15% contraction

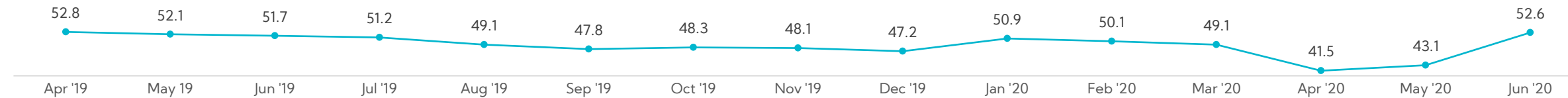
2020 U.S. INDUSTRIAL ORGANIC GROWTH/ CONTRACTION EXPECTATION



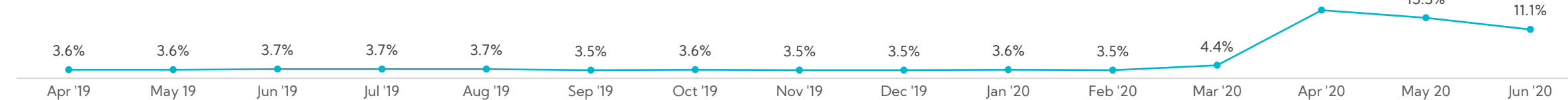
TYPE OF RECOVERY EXPECTED FOR GLOBAL INDUSTRIALS



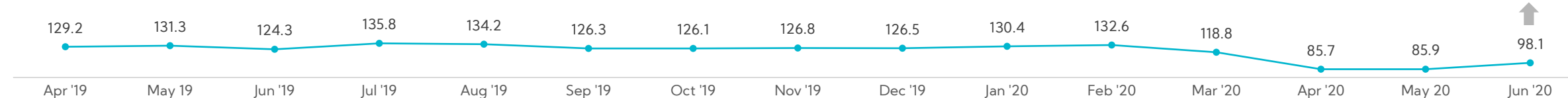
MANUFACTURING ISM® REPORT ON BUSINESS¹



U.S. UNEMPLOYMENT RATE²



CONSUMER CONFIDENCE³



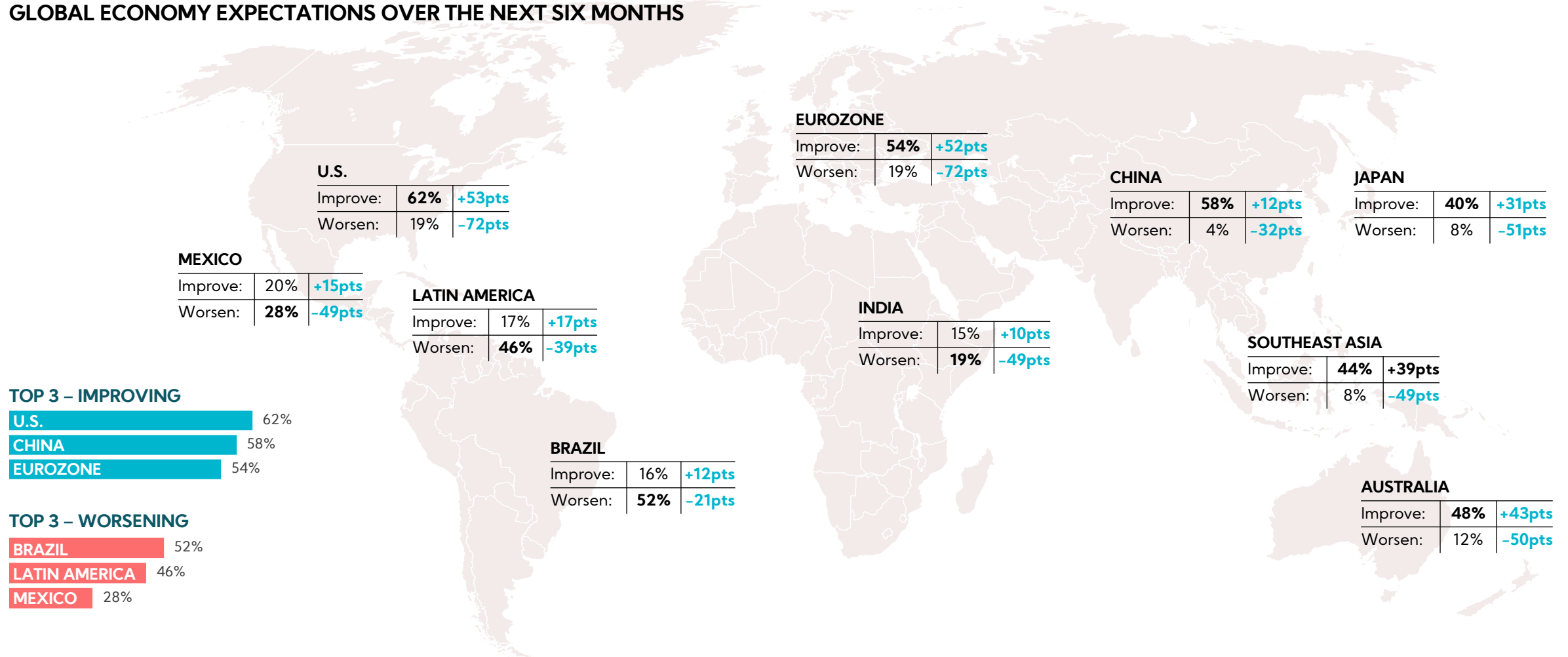
¹Source: Institute for Supply Management; ²Source: U.S. Bureau of Labor Statistics; ³Source: The Conference Board

Latin America and India Cool Further

While the Rest of the World is Believed to Have Turned the Corner

More than 50% expect the U.S., China and Eurozone economies to Improve over the next six months

GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS

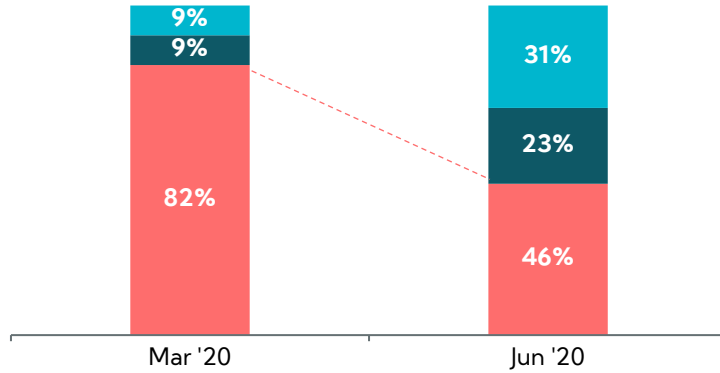


Views on Key Economic Indicators Over the Next Six Months

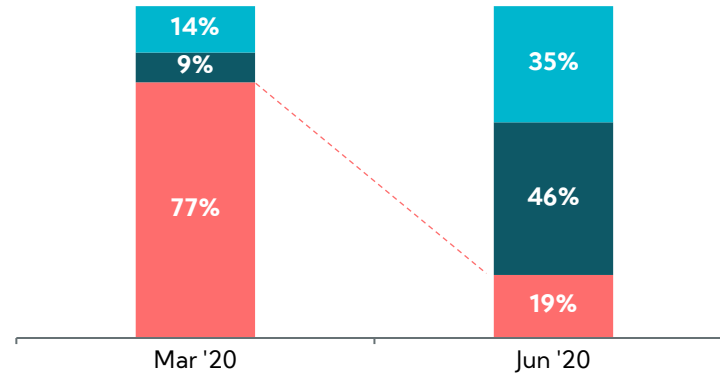
Less downbeat, more neutral views; U.S. unemployment and Oil & Gas expected to improve, while global capex the only measure seeing outsized negative views

- Improving
- Staying the Same
- Worsening

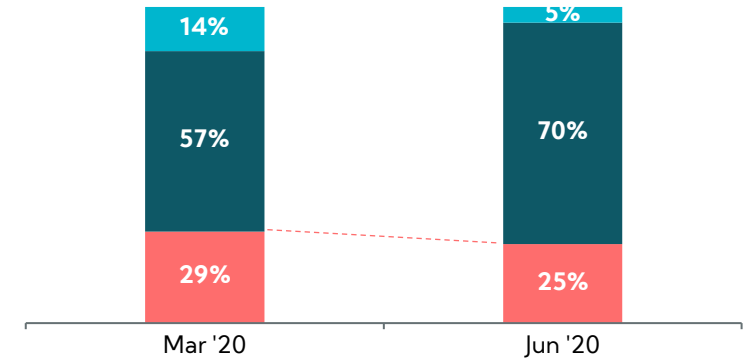
GLOBAL CAPEX



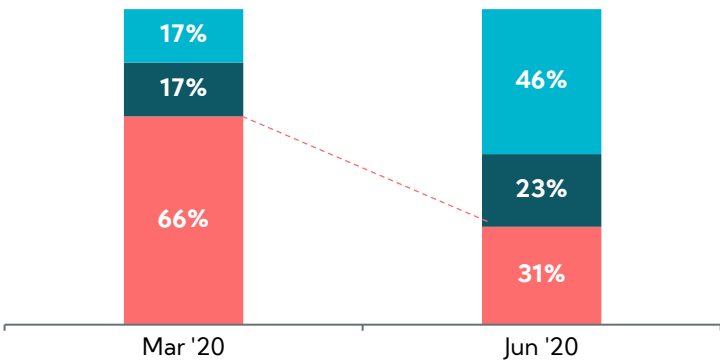
GLOBAL PMI



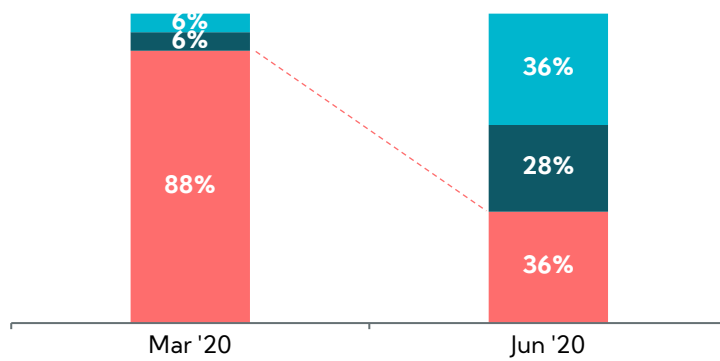
FX HEADWINDS



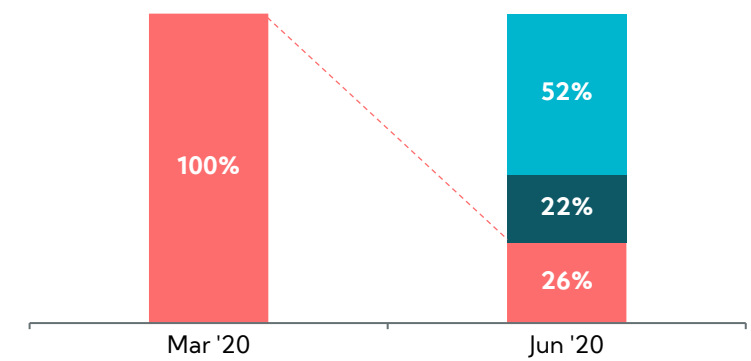
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



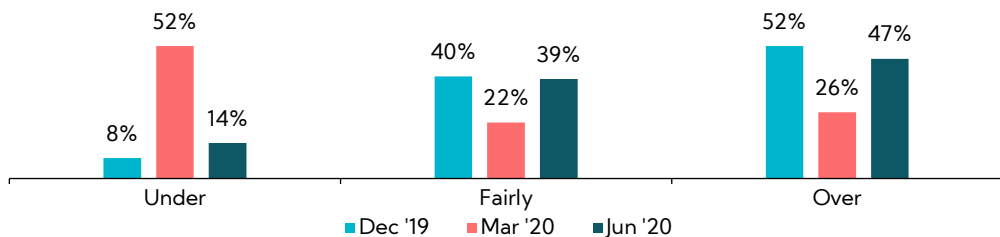
U.S. UNEMPLOYMENT RATE



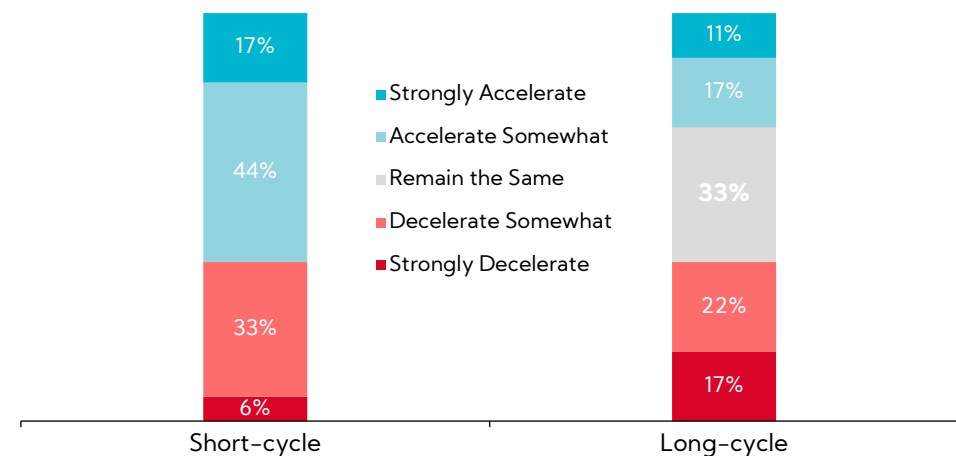
Record Number of Buyers. Period.

Nearly half of industrial investors confirm being Net Buyers, and more than one-third report Rotating; themes are growth, digital leadership and cost reduction

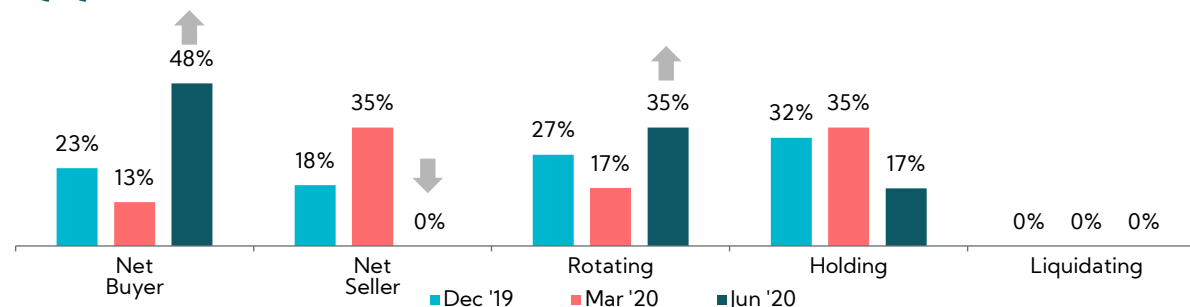
GLOBAL INDUSTRIAL VALUATIONS



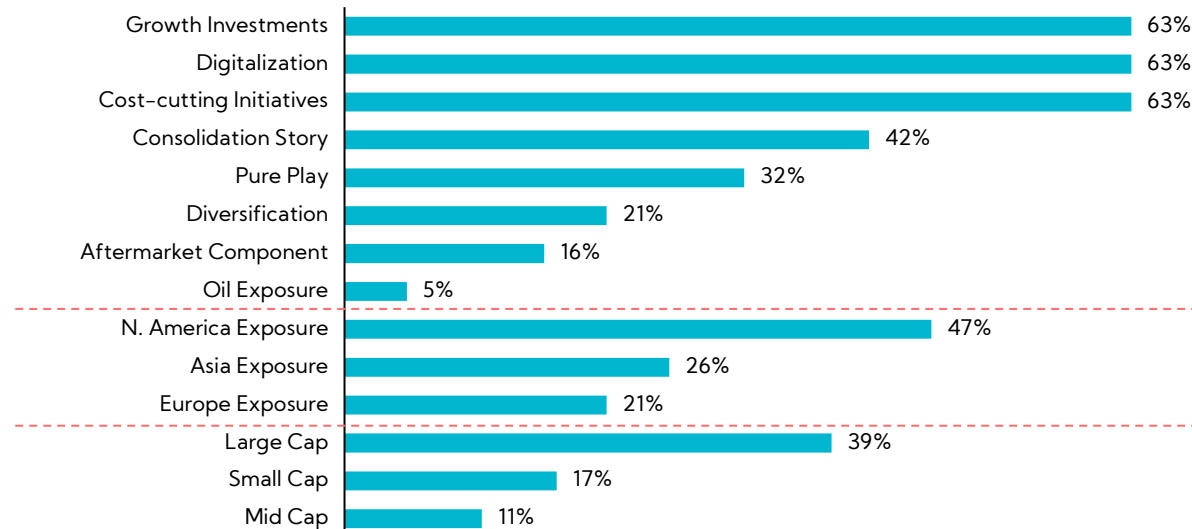
2020 INDUSTRIAL ORDER RATES EXPECTATIONS OVER THE NEXT SIX MONTHS



QoQ INVESTMENT TRENDS



MOST COMPELLING INDUSTRIAL INVESTMENT THEMES

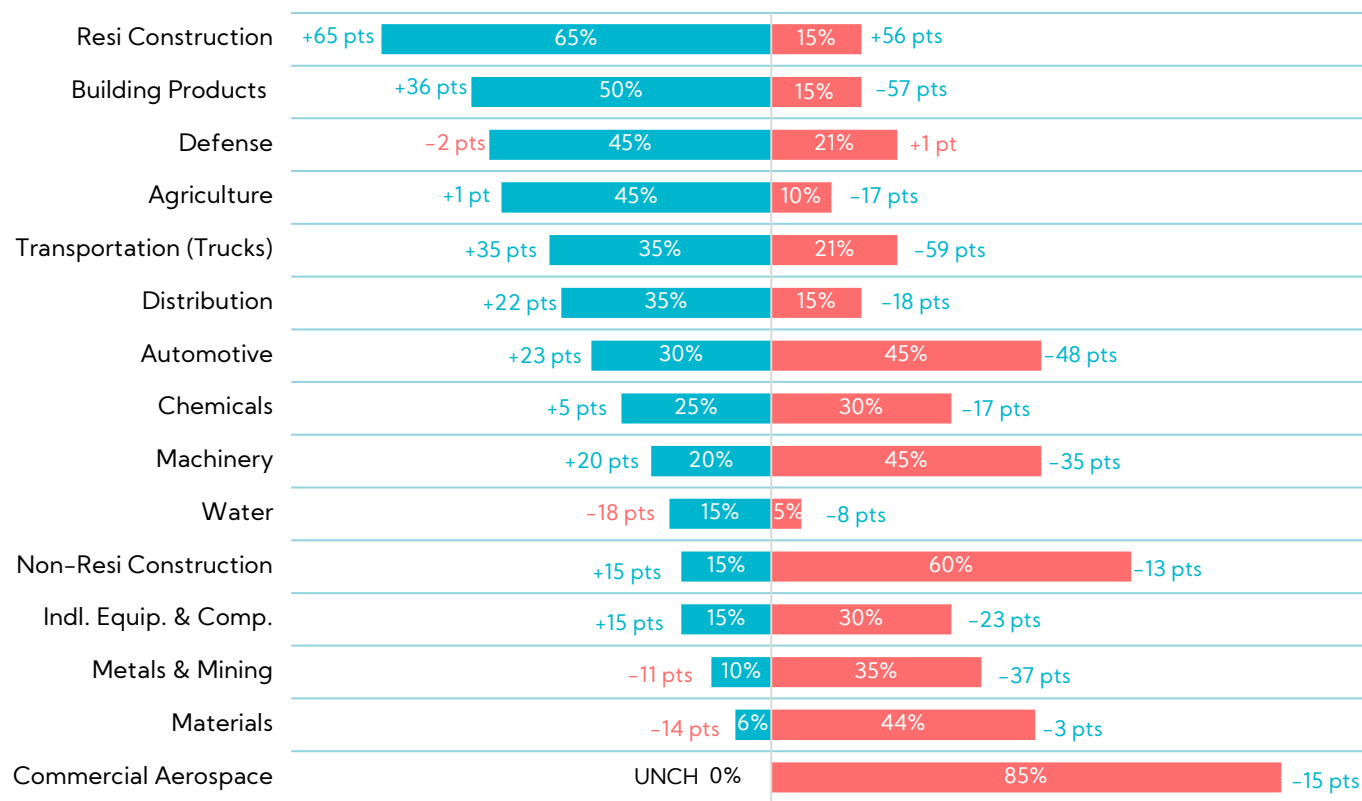


Industrial Investors Place their Bets on the Residential Construction Market

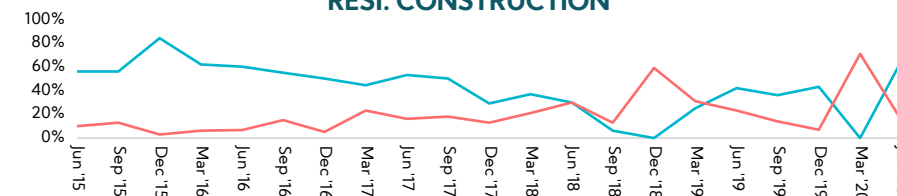
Defense no longer the top pick for the first time in 10 quarters, as buyers flock to “on fire” housing market; nearly all industries see a pullback in bears, with commercial aerospace and non-resi construction feeling the impact of COVID-19

BULLS VS BEARS

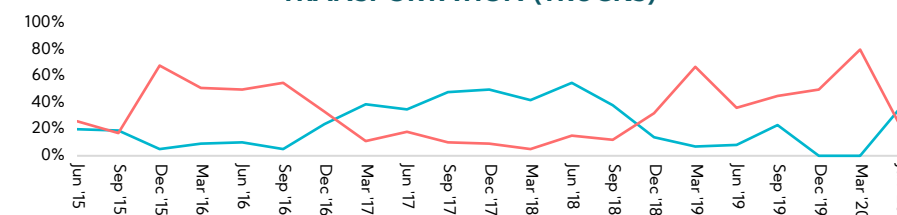
■ Bulls ■ Bears



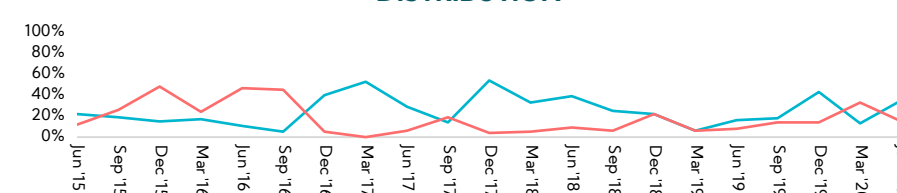
RESI. CONSTRUCTION



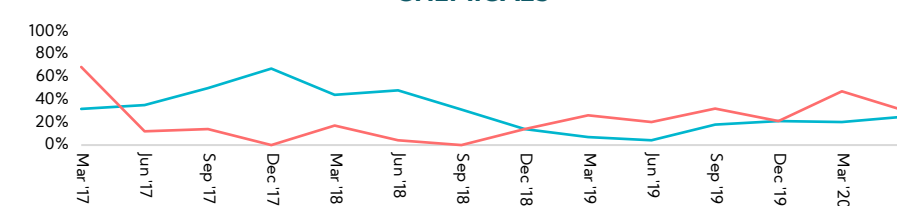
TRANSPORTATION (TRUCKS)



DISTRIBUTION



CHEMICALS



Sustainable Competitive Advantages on Which Investors Are Placing More Emphasis amid COVID-19

Deux Royal: Balance Sheet Strength and Digitalization Acceleration

Views from N. America

"Automation, ability to use software skills to grow, balance sheet capacity for acquisitions." **Buy Side, Industrials**

"B2C, purpose raison d'être, decarbonization." **Buy Side, Industrials**

"High after-market mix, strong recurring revenue base (large installed base), low leverage for M&A." **Buy Side, Industrials**

"Lower cyclicality, high recurring revenues, ability to adjust operating costs quickly." **Buy Side, Industrials**

"Remote monitoring capabilities, automation." **Buy Side, Industrials**

"Strong management teams, self-help stories, effective capital allocation." **Buy Side, Industrials**

"Debt levels, cash flow." **Buy Side, Generalist**

"Digitalization, HR reorganization." **Buy Side, Generalist**

"Liquidity, participation in growth markets, leadership." **Buy Side, Generalist**

"Product differentiation, margin structure, industry structure." **Sell Side, Industrials**

"Cash generation, recurring revenue, liquidity." **Sell Side, Industrials**

"E-commerce, residential exposure." **Sell Side, Industrials**

Views from EMEA and APAC

"Businesses that were not locked down due to COVID-19, net cash position going into lockdown, business model that works no matter what." **Buy Side, Industrials**

"Margin resilience." **Buy Side, Industrials**

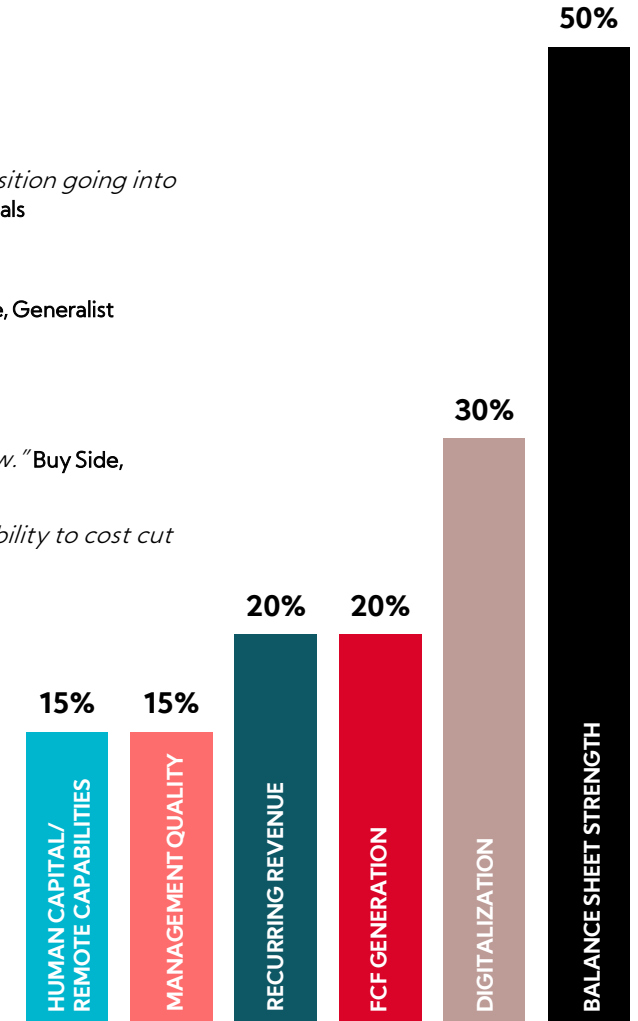
"Risk management, ample liquidity, availability of bank credit." **Buy Side, Generalist**

"Digitalization, risk management, liquidity." **Buy Side, Generalist**

"Reaction, demand, drive." **Buy Side, Generalist**

"Low Net Debt-to-EBITDA, strong balance sheet, strong free cash flow." **Buy Side, Generalist**

"Digitalization (and general ability to adapt business model quickly), ability to cost cut quickly, ability to quickly re-scale." **Buy Side, Generalist**



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A photograph of a cave interior, likely a sea cave, with blue lighting. The cave walls are wet and have a wavy, textured appearance. A person is visible in the distance, standing near a bright opening. The floor is covered in dark, wet rocks.

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