

corbin

Q3'20

Industrial Sentiment Survey

October 20, 2020



Inside The Buy-side® Q3'20 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, and best practice, our research demonstrates the value we add by remaining at the forefront of global market trends, investor sentiment and value realization strategies.

Survey Scope: 38 sector-dedicated investors and analysts globally; buy side firms manage ~\$3.4 trillion in assets, including ~\$269 billion invested in Industrials

Survey Timeframe: Sep. 15 – Oct. 14, 2020

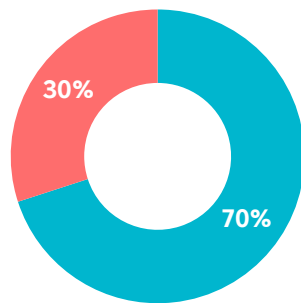
Issue: 22

Date: October 20, 2020

MARKET PERFORMANCE	Q3'20	YTD ¹
DJIA	7.6%	(2.7%)
NASDAQ	11.0%	24.5%
S&P 500	8.5%	4.1%
S&P 500 Industrial	12.0%	(5.4%)
Russell 2000	4.6%	(9.6%)

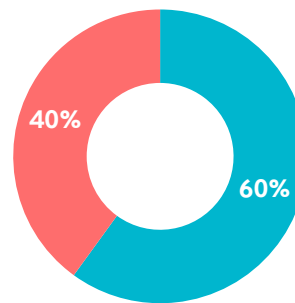
¹ As of Oct. 30, 2020

ROLE



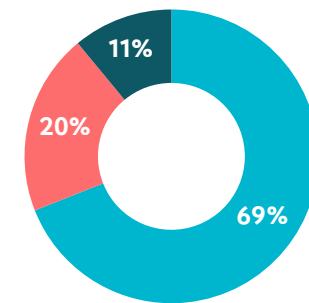
■ Buy Side ■ Sell Side

SECTOR FOCUS



■ Industrials ■ Multi-Industry Incl. Industrials

REGION

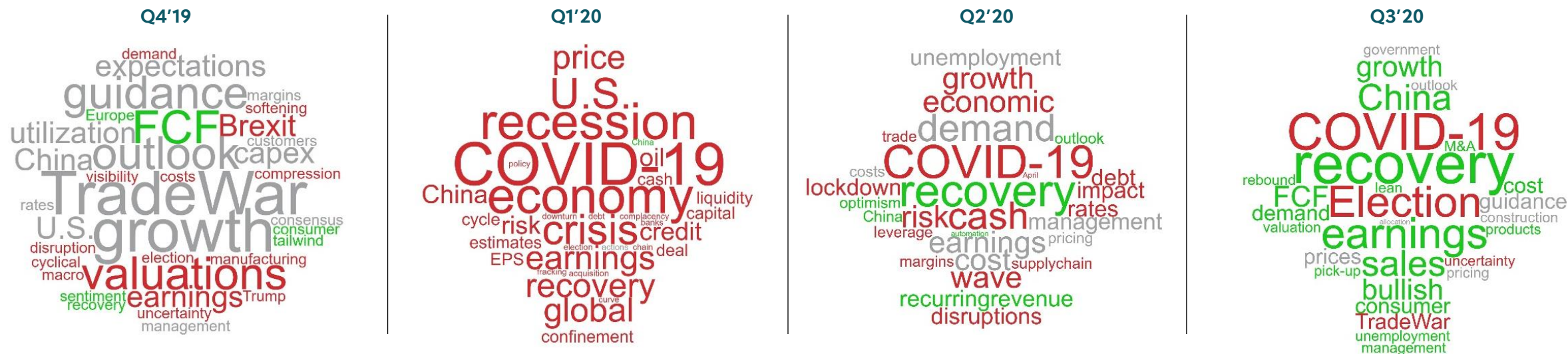


■ North America ■ EMEA ■ APAC

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

"RECOVERY" SURPASSES "COVID-19" AS THE TOP INVESTOR BUZZ WORD



TOP MENTIONS	Q2'19	Q3'19	Q4'19	Q1'20	Q/Q
Recovery	0	3	10	13	↑ 3
COVID-19	0	37	16	11	↓ 5
Election	0	0	3	10	↑ 7
Earnings	4	3	5	6	↑ 1
Sales	7	3	4	6	↑ 2

Key: Underlying Sentiment

- Positive
- Neutral
- Negative

Survey Finds the Highest Level of Bullish Industrial Sentiment Since September 2018

Near-universal Expectations for Sequential Improvement in Q3 as All Signs Point to the Positive

- 64% of surveyed investors and analysts affirm last quarter's earnings were *Better Than* expectations, the highest percentage ever recorded; after 77% expected *Worse Than* sequential earnings last quarter, 85% now believe earnings will *Improve* QoQ
- Greater than half anticipate Q3 earnings beats, more than doubling sequentially, indicating elevated expectations
- Similarly, after registering record lows last quarter in which more than 90% expected EPS, Revenue Growth and Operating Margins to *Worsen*, greater than 85% believe revenue growth will *Improve*, and the same for EPS (68%), Operating Margins (62%) and FCF (58%)
- Nearly 60% describe themselves as *Neutral to Bullish* or *Bullish*, up from 39% last quarter and the highest level registered since September 2018, while only 20% are *Neutral to Bearish* or *Bearish*; management tone is also perceived as more upbeat

With a Rebound in Industrial Activity, Draconian Views Have Nearly Vanished as 80%+ Believe We Are in a Recovery

- 81% of industrial investors and analysts believe we are in an economic recovery, though views on shape are divergent
- 2020 industrial organic growth expectations average 2.9% contraction, compared to a forecast of ~8% contraction registered in our April and July surveys
- Nearly all economies saw an increase in positive sentiment, most notably India, Latin America and Brazil; developed economies – the U.S., China and Eurozone – are expected to see the most improvement over the next six months, though the U.S. Presidential election, COVID-19 resurgence and U.S./China trade war are identified as the top concerns
- Another sign of optimism, more than 60% believe U.S. consumer confidence and unemployment will *Improve* over the next six months, while FX and Oil & Gas markets are forecasted to *Stay the Same*
- With more upbeat views on the economy, *Reinvestment* has reemerged as the preferred top use of capital followed by *Debt Paydown*, as balance sheet strength remains in focus; M&A remains in the top three preferred uses

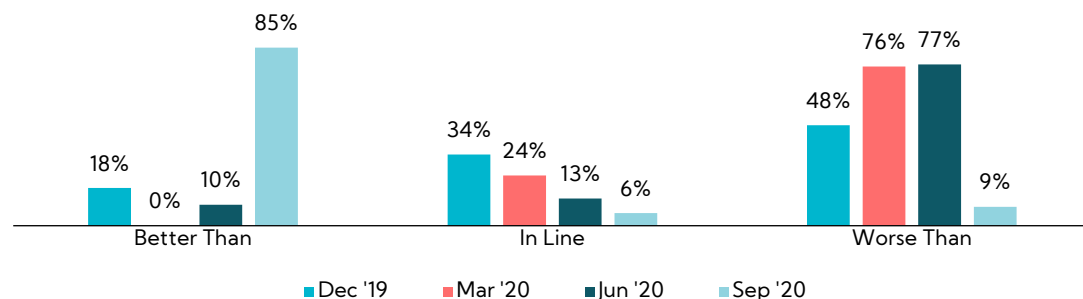
Industrials Believed to Be Undervalued as Momentum Continues to Build

- More than 50% consider industrials *Undervalued*, in stark contrast to last quarter in which nearly half believed industrials were *Overvalued*; nearly 60% report being *Net Buyers*, a record for the second consecutive quarter, while fewer than 10% report being a *Net Seller*; cost-cutting initiatives, aftermarket and digitalization are considered the most compelling investment themes
- Nearly all industries see improving sentiment, with Materials, Industrial Equipment & Components and Automotive see the biggest swings in bullish views; Commercial Aero and Non-Resi Construction remain out-of-favor, while Defense registers its lowest level of bulls in five years

Near-Universal Expectations for Sequential Earnings Growth with Big Beats Expected

After two consecutive quarters of earnings coming in Better Than expected, more than half of industrial investors and analysts now anticipate beats this quarter, the highest percentage recorded in two years

Q3'20 EARNINGS EXPECTATIONS VS. PRIOR QUARTER



Better Than

"Cost-cutting will lead to better profitability. Revenues should surprise to the positive." Buy Side, Industrials, North America

"Some end markets have started to improve, notably auto and residential construction." Buy Side, Industrials, North America

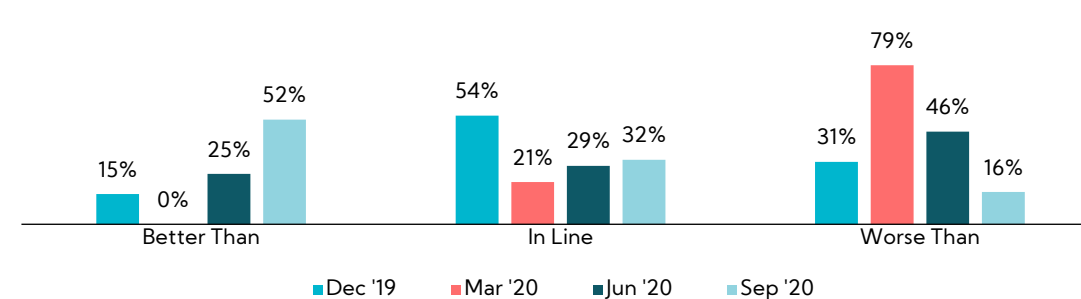
"Increased consumer spending above expectations." Buy Side, Generalist, North America

"The bar was so low last quarter, it will become increasingly harder to beat it; however, there has been a lack of guidance provided by companies such that we will see expectations exceed consensus again but by less, and then with each successive quarter, I expect that to be a harder barrier/obstacle." Buy Side, Generalist, North America

"I see a stronger-than-expected rebound in cyclical activity in my region, particularly automotive." Buy Side, Generalist, Europe

"Better demand and cost savings." Sell Side, Industrials, Europe

Q3'20 EARNINGS EXPECTATIONS VS. CONSENSUS



In Line

"Global momentum started to increase." Buy Side, Generalist, Europe

"Some pick-up in activity is select markets." Sell Side, Industrials, North America

"The economic recovery will help firms to generate higher earnings." Sell Side, Generalist, Europe

"Resumption in economic activity." Sell Side, Industrials, Asia

Worse Than

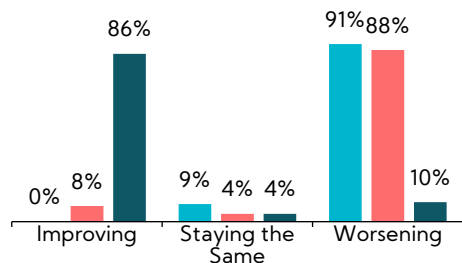
"Volatile end product demand for B2B industrial sales." Buy Side, Industrials, North America

"Weak underlying economic conditions." Buy Side, Generalist, North America

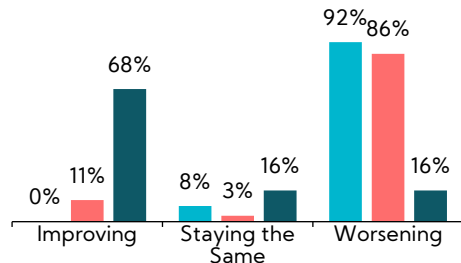
All KPIs Boomerang with Most Investors Expecting Improvement QoQ, Led by Revenue Growth

With cost-cutting actions bearing fruit and demand recovering in many industries, views for improving KPI performance are widespread

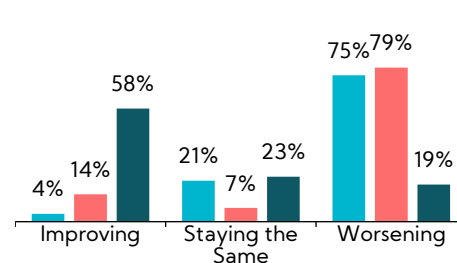
REVENUE GROWTH



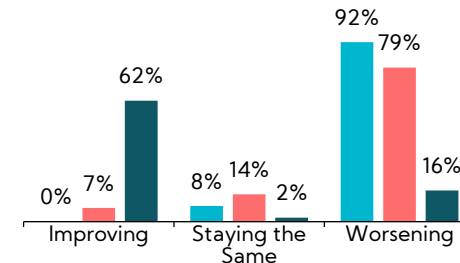
EPS



FCF

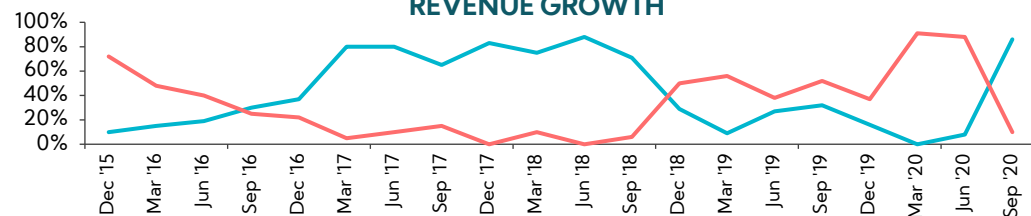


OPERATING MARGINS

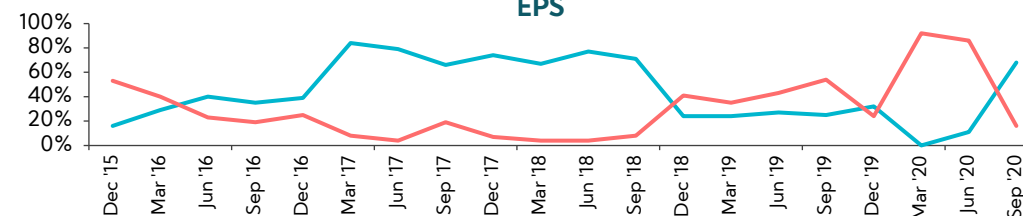


■ Mar '20 ■ Jun '20 ■ Sep '20

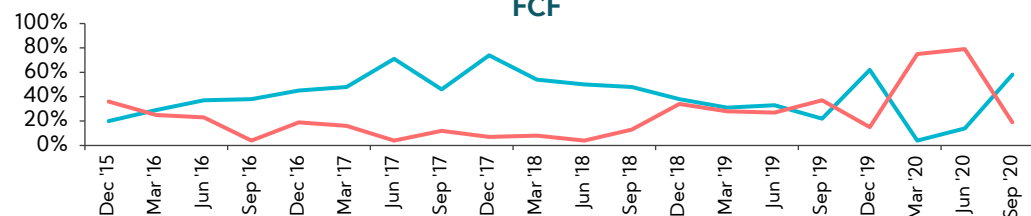
REVENUE GROWTH



EPS



FCF



OPERATING MARGINS



— Improving — Worsening



1. Demand trends and outlook
2. Margin outlook
3. FCF generation and uses
4. Impact of rise in COVID-19 cases
5. Impact from geopolitical events
6. Digitization initiatives

Topics of Interest for Upcoming Earnings Calls

Liquidity no longer a top focus as demand trends, margin performance and FCF generation garner the lion's share of feedback

Views from N. America

"Update on how the pandemic has impacted the business. Thoughts on the election and tax rate scenarios." **Buy Side, Industrials**

"New growth initiatives, new ideas." **Buy Side, Industrials**

"Pace of monthly sales growth." **Buy Side, Generalist**

"Impact of another COVID-19 wave – not whether it will happen but the effect on their business if it does." **Buy Side, Generalist**

"Margins." **Buy Side, Generalist**

"Capital redeployment to grow accretively on inorganic basis." **Sell Side, Industrials**

"Price leverage, cost controls." **Sell Side, Industrials**

Views from EMEA

"End market demand, FCF and impact from geopolitical events." **Buy Side, Industrials**

"Expected impact of rise in COVID-19 cases; orders outlook for the next 3–6 months; margin sustainability; digitization initiatives." **Buy Side, Generalist**

"Business outlook." **Buy Side, Generalist**

"Organic growth versus M&A." **Sell Side, Industrials**

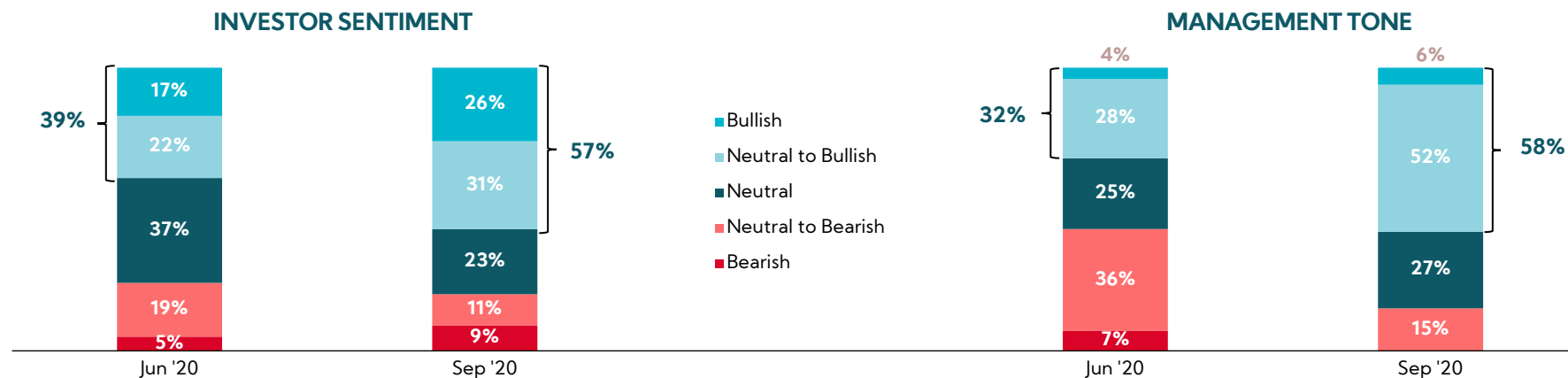
Views from APAC

"Capital allocation." **Buy Side, Generalist**

"Oil prices." **Sell Side, Industrials**

Most Bullish Investor Sentiment Registered in Two Years and Twice that of the COVID-19 Low

After a record number of bears in March, industrial investor sentiment continues to rebound for the second consecutive quarter, with nearly 60% noting they Bullish or Neutral to Bullish, while perceived management tone is also viewed as more upbeat



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 is 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

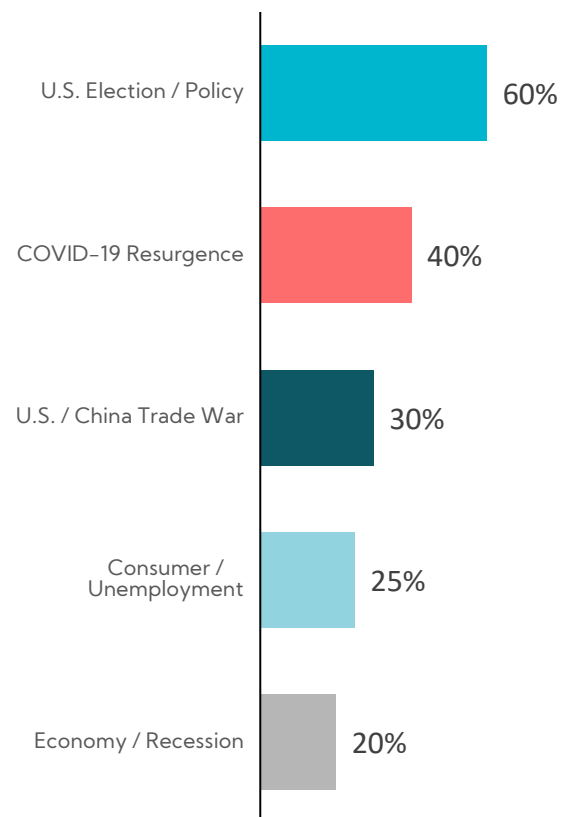
"Uncertainty because of the coronavirus." Buy Side, Generalist, Europe

"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

Dark clouds – U.S. Presidential election, COVID-19 resurgence and U.S./China trade war tensions – loom



Views from N. America

"COVID-19, China, election." Buy Side, Industrials

"Macro; COVID-19." Buy Side, Industrials

"Unemployment, consumer spending, leverage." Buy Side, Industrials

"Democrats, taxes, government spending." Buy Side, Generalist

"Election uncertainty, China/trade, inflation." Buy Side, Generalist

"Election, redistribution of wealth, election, tax increases." Buy Side, Generalist

"Pandemic, economy, earnings." Buy Side, Generalist

"Poor growth, weak consumer spending, China trade issues." Buy Side, Generalist

"Trump losing election, Republicans losing Senate." Buy Side, Generalist

"COVID-19 resurge, election chaos, recovery fades." Sell Side, Industrials

"COVID-19, education." Sell Side, Industrials

"Politicians, consumer engagement, housing cycle." Sell Side, Industrials

"Pricing, channel inventory, LT market shifting." Sell Side, Industrials

"Raw material prices rising, persistent challenging pricing, extended downturn end markets, like commercial aero and O&G." Sell Side, Industrials

Views from EMEA and APAC

"COVID-19, U.S. election, U.S./China trade war." Buy Side, Generalist

"U.S. election chaos, sustained COVID-19-related unemployment, stagflation." Buy Side, Generalist

"U.S. election, fail of COVID-19 vaccine, trade war U.S.-China." Buy Side, Generalist

"Slowing recovery, COVID-19 outbreaks, market valuations." Sell Side, Industrials

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

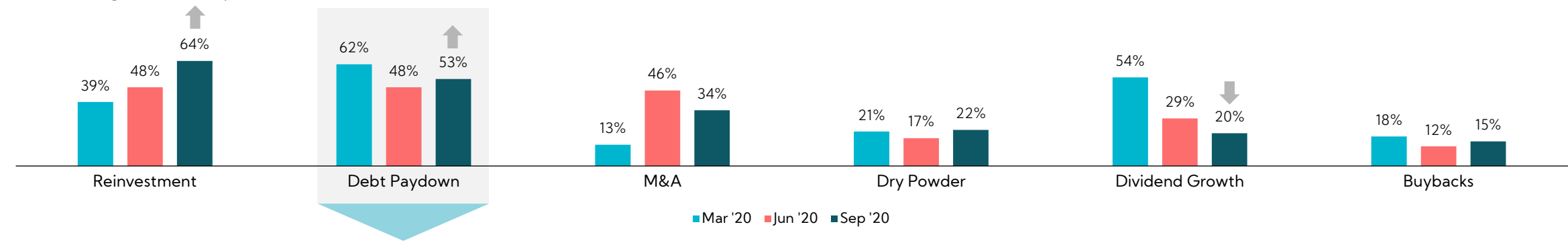
"U.S. Fed, leverage." Sell Side, Industrials

Organic Growth...Organic Growth...and Strong Balance Sheets

Nearly two-thirds favor Reinvestment as the leading use of cash, followed by Debt Paydown and M&A; while still conservative, preferred leverage levels ease slightly, with most preferring 1.5x to 2.0x Net Debt-to-EBITDA

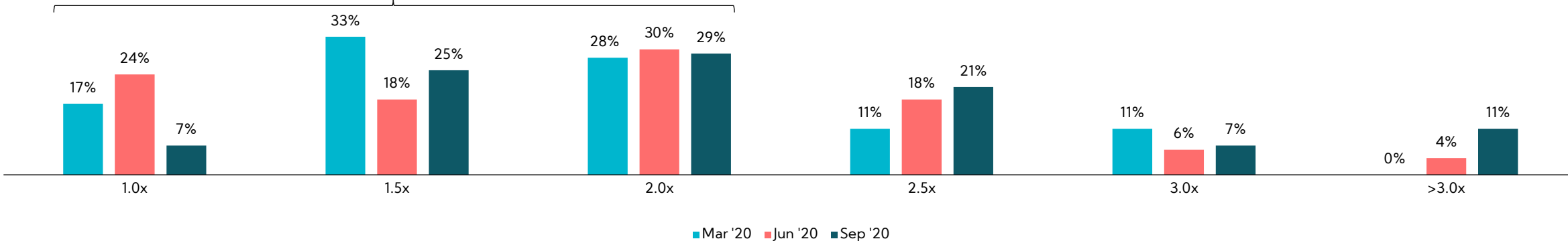
PREFERRED USES OF CASH FOR INDUSTRIALS

In Descending Order of Top Two Preferences



IDEAL NET DEBT-TO-EBITDA LEVELS FOR INDUSTRIALS

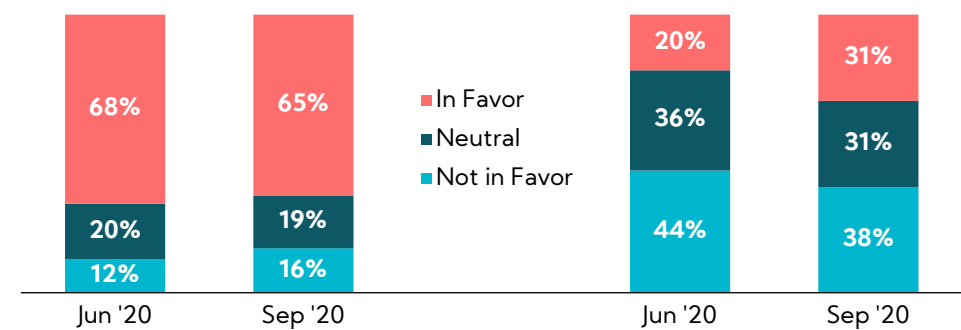
61%
(vs. 72% in Q2 '20)



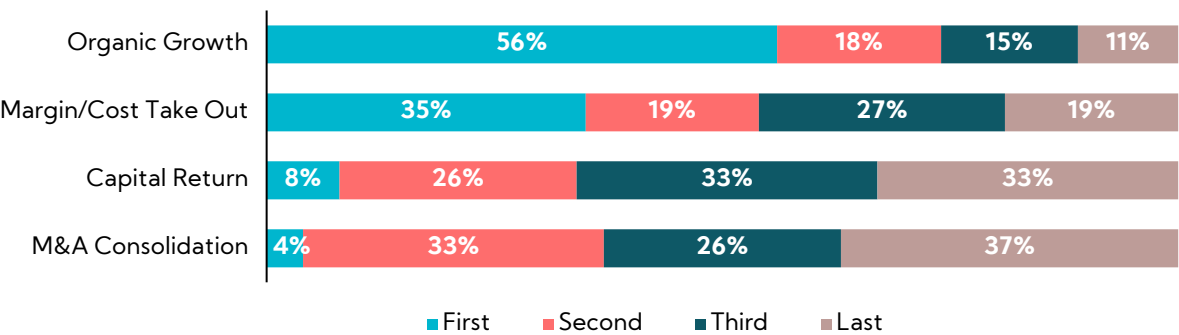
Organic Growth Stories Indeed Seen as the “Crown Jewel” but M&A Appetite Remains Healthy

While acquisitions are not seen as the most compelling investment theme, more than 60% are open to bolt-ons and nearly one-third to transformational deals; investors prefer a combination of transaction funding mechanisms

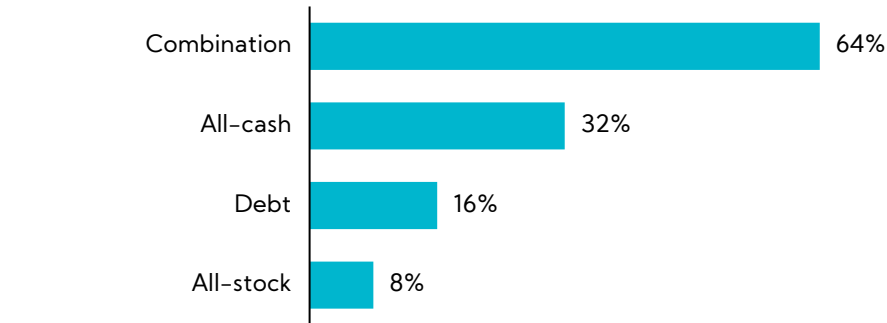
Views on Inorganic Growth Initiatives



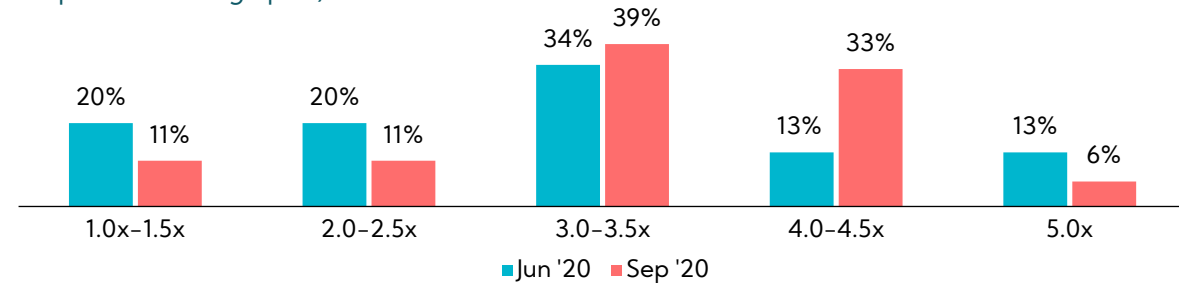
Most Compelling Themes When Evaluating Potential Investments



Preferred M&A Funding Mechanism (Participants Could Select Multiple Options)



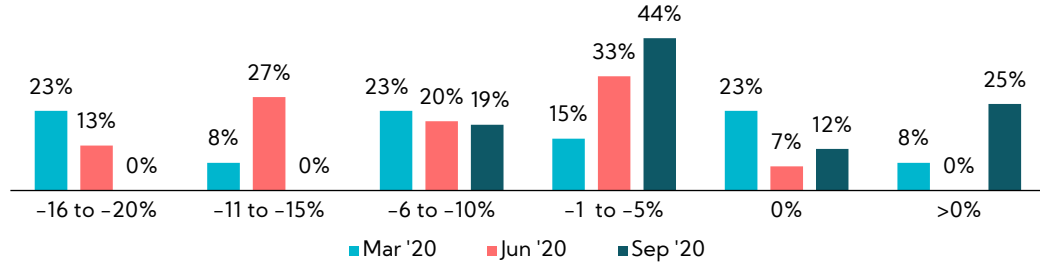
Comfort Level with Leverage for Companies Funding Deal with Debt (Assuming a compelling transaction, the level at which investors would be comfortable companies leveraging up to)



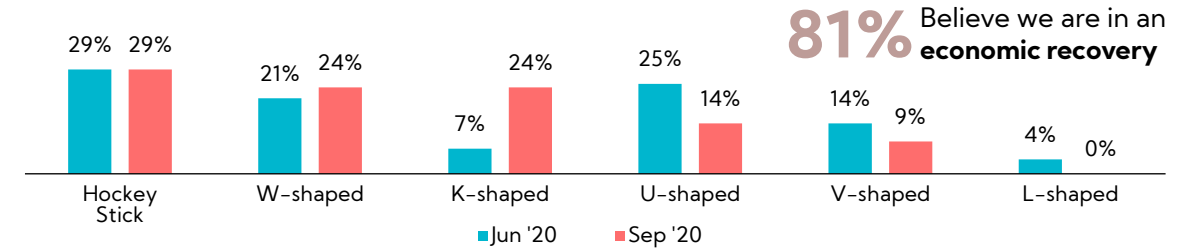
Four in Every Five Industrial Investors Believe We Are in an Economic Recovery

As we approach year end, 2020 U.S. organic growth expectations have settled in the 1% to 5% decline range, a marked improvement from anticipation for more than 10% declines at the onset of COVID-19

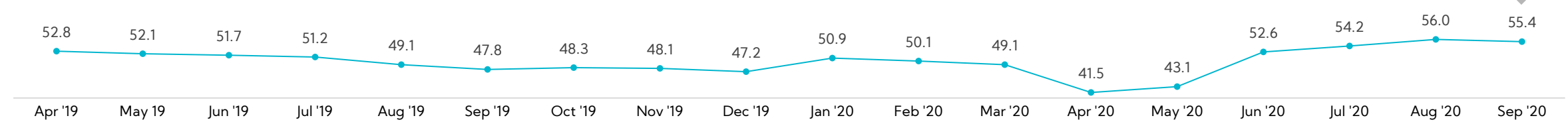
2020 U.S. INDUSTRIAL ORGANIC GROWTH/ CONTRACTION EXPECTATION



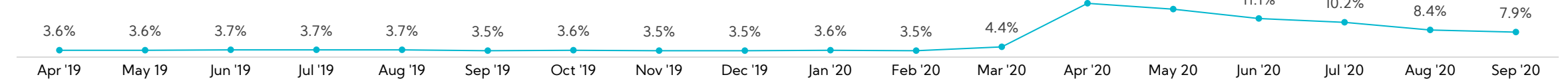
TYPE OF RECOVERY EXPECTED FOR GLOBAL INDUSTRIALS



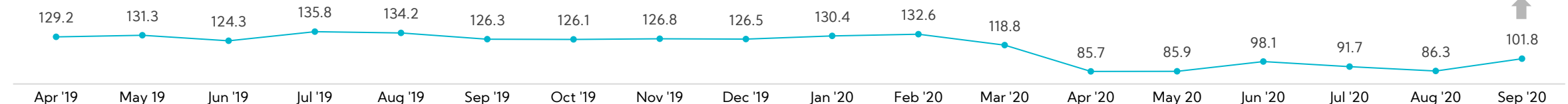
MANUFACTURING ISM® REPORT ON BUSINESS¹



U.S. UNEMPLOYMENT RATE²



CONSUMER CONFIDENCE³

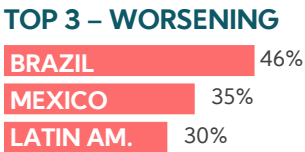
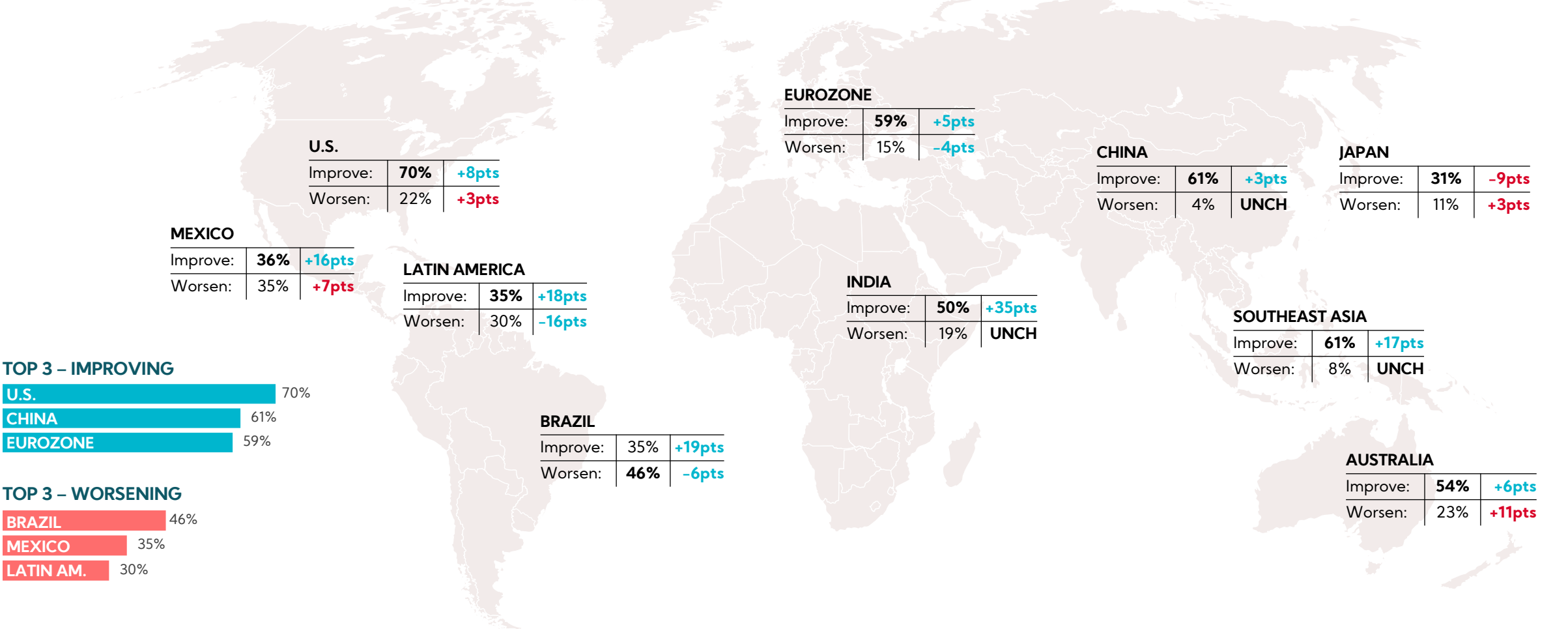


¹ Source: Institute for Supply Management; ² Source: U.S. Bureau of Labor Statistics; ³ Source: The Conference Board

All Economies, Except for Brazil, Are Believed to Have Turned the Corner

More than 55% expect the U.S., China and Eurozone economies to Improve over the next six months, while India, Latin America and Brazil are seeing the most positive shifts in sentiment

GLOBAL ECONOMY EXPECTATIONS OVER THE NEXT SIX MONTHS

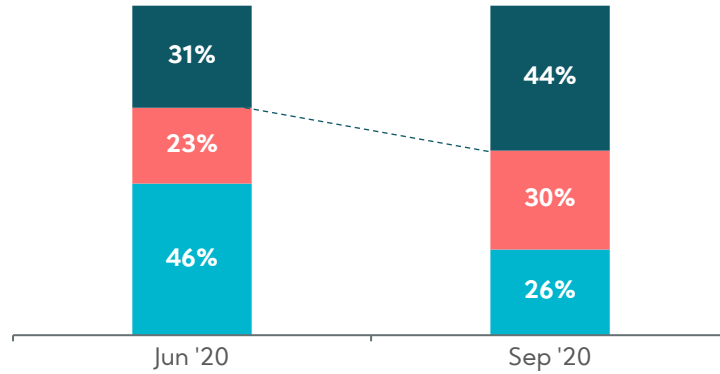


Views on Key Economic Indicators Over the Next Six Months

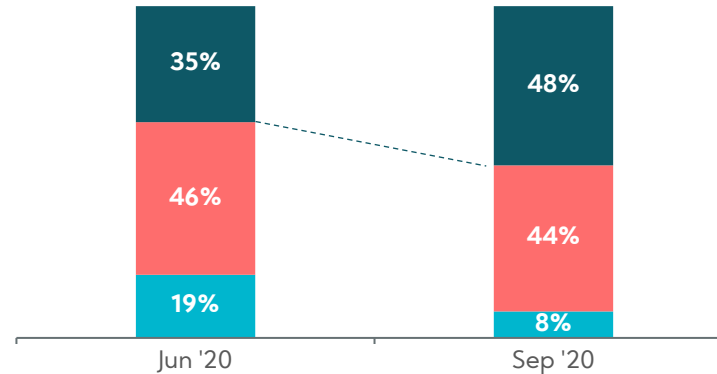
U.S. Consumer Confidence and Unemployment are expected to Improve and, to a lesser extent, Global Capex and PMI; FX and Oil & Gas markets are anticipated to Stay the Same

■ Improving
■ Staying the Same
■ Worsening

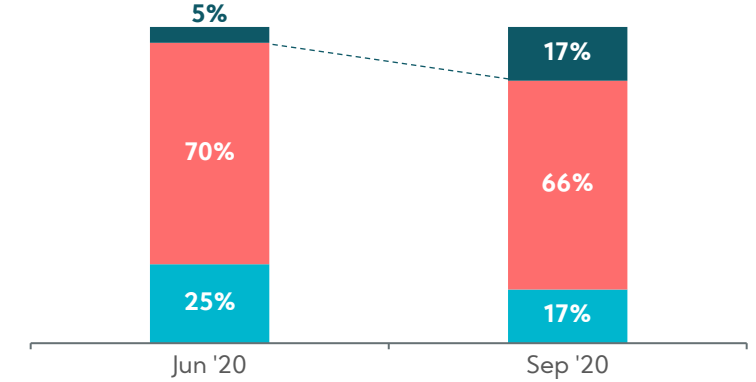
GLOBAL CAPEX



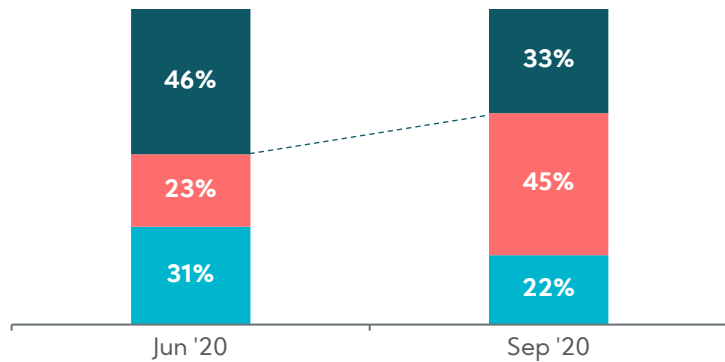
GLOBAL PMI



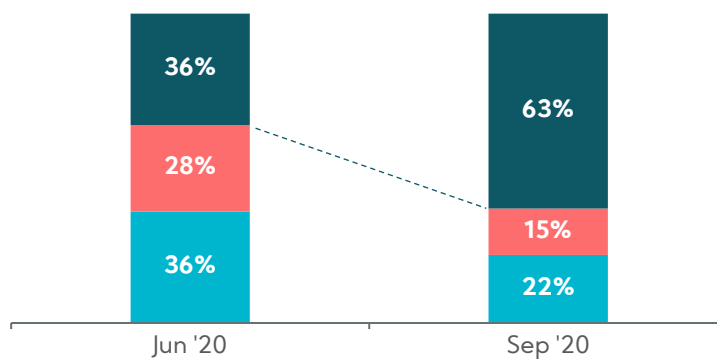
FX HEADWINDS



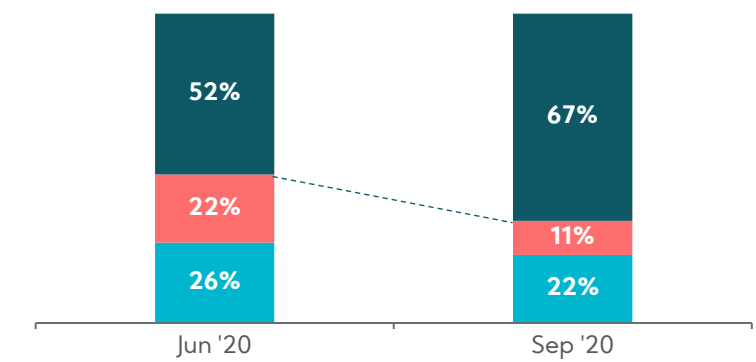
OIL & GAS MARKETS



U.S. CONSUMER CONFIDENCE



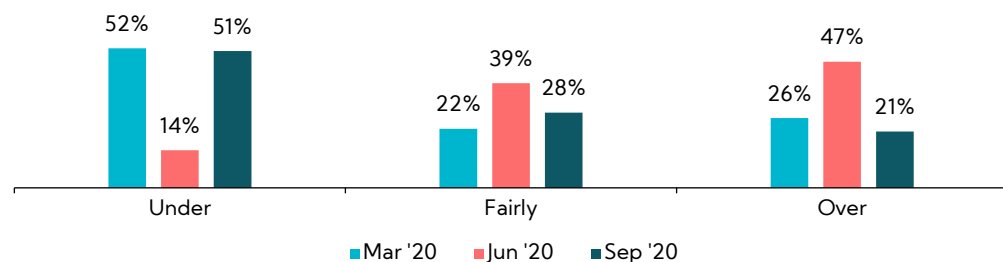
U.S. UNEMPLOYMENT RATE



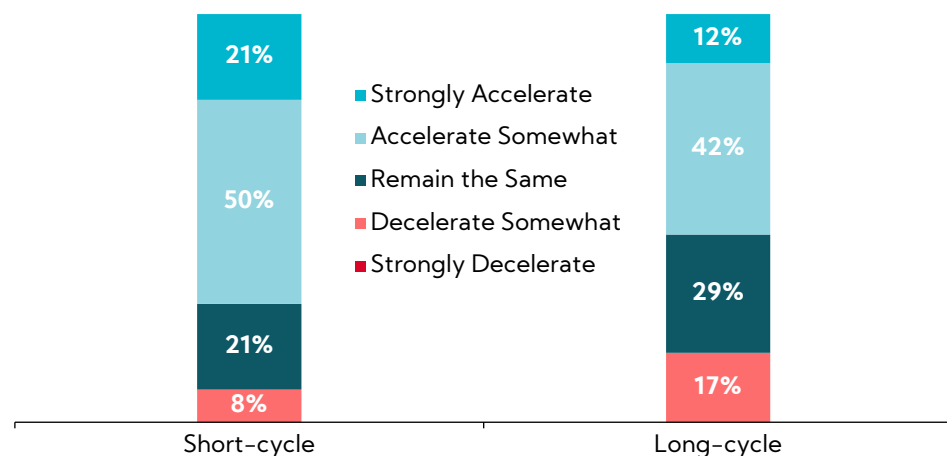
Industrials En Vogue...Record Number of Buyers for the Second Consecutive Quarter

Nearly 60% of industrial investors confirm being Net Buyers with more than half classifying industrials as Undervalued; cost-cutting initiatives and aftermarket seen as the most compelling themes, while 75% are placing High importance on working capital management

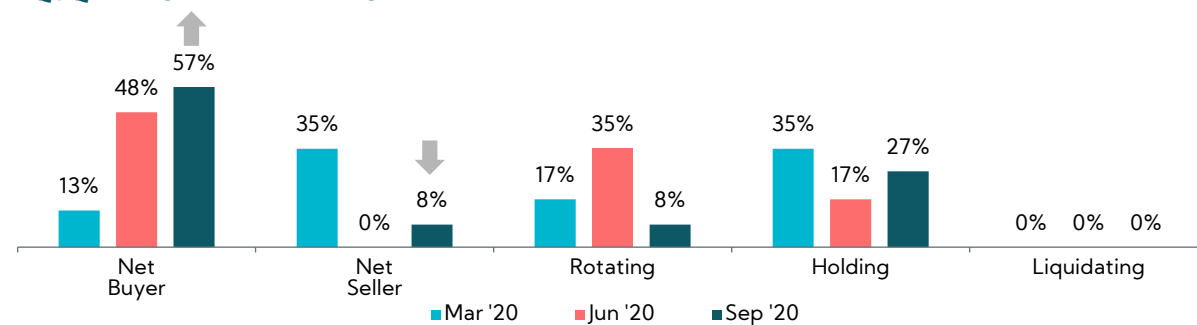
GLOBAL INDUSTRIAL VALUATIONS



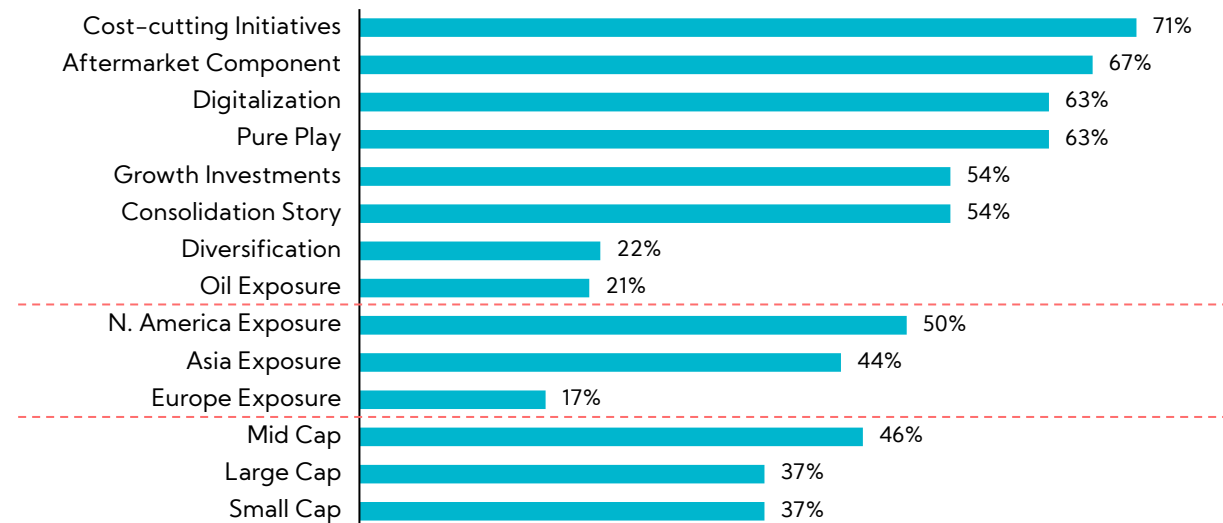
2020 INDUSTRIAL ORDER RATES EXPECTATIONS OVER THE NEXT SIX MONTHS



QoQ INVESTMENT TRENDS



MOST COMPELLING INDUSTRIAL INVESTMENT THEMES

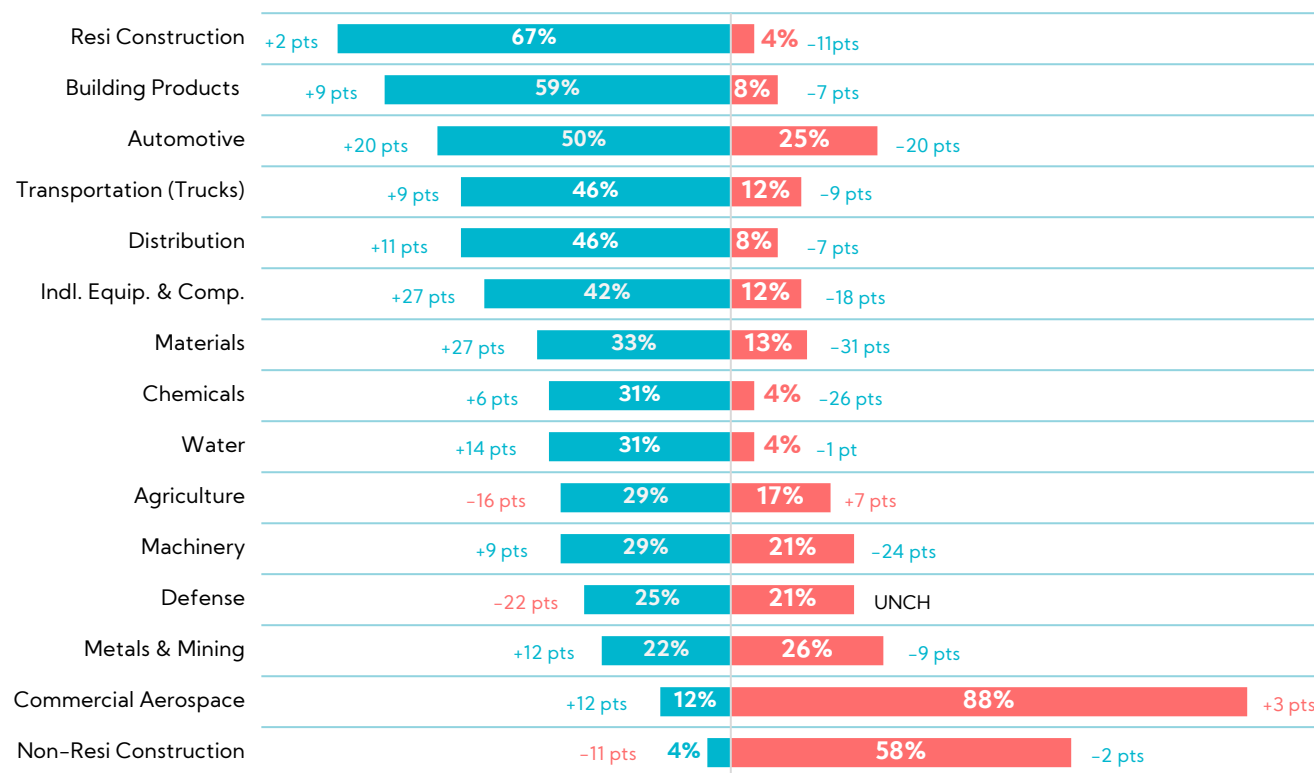


Broad-based Improvement Seen across the Majority of Industries

Materials, Industrial Equipment & Components and Automotive see the biggest swings in positive sentiment, while Commercial Aero and Non-resi Construction remain out-of-favor; Defense registers its lowest number of bulls in five years

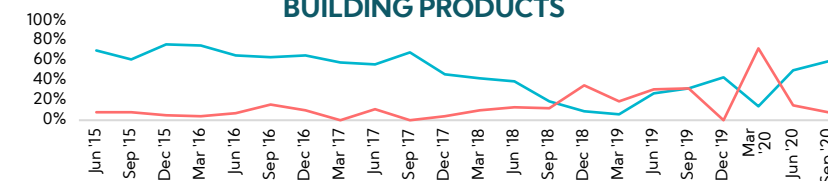
BULLS VS BEARS

■ Bulls ■ Bears

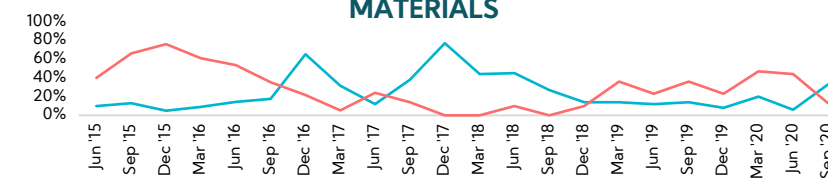


NOTABLE SHIFTS IN SENTIMENT

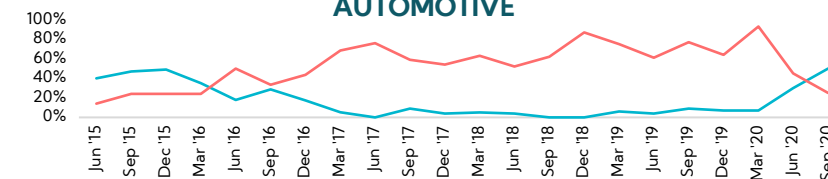
BUILDING PRODUCTS



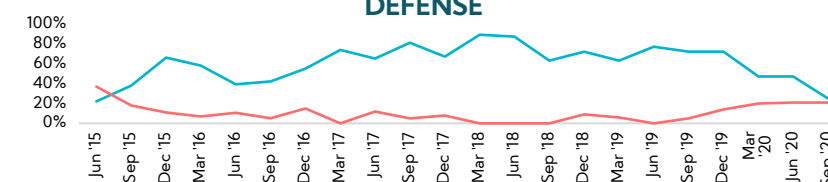
MATERIALS



AUTOMOTIVE



DEFENSE



We are a specialized research and advisory firm focused on helping public companies realize their value



TRANSFORMATIONAL INSIGHT

We are data-driven
and generate research-
based insights.



TRUSTED PARTNERS

We are an A-Team
of specialists with
an all-in mentality,
committed to client
success.



IMPACTFUL EXECUTION

We simplify the
complex and deliver
positive outcomes –
with precision and
excellence.



PURPOSEFUL CANDOR

We give explicit,
straightforward
counsel and believe
an authentic, ground
truth approach
enables greatness.

For more information, client case studies and best practice research

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

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